THE UNITED NATIONS OIL-FOR-FOOD PROGRAM: SADDAM HUSSEIN'S USE OF OIL ALLOCATIONS TO UNDERMINE SANCTIONS AND THE UNITED NATIONS SECURITY COUNCIL

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON ENERGY AND
COMMERCE
HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

MAY 16, 2005

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THE UNITED NATIONS OIL-FOR-FOOD PROGRAM: SADDAM HUSSEIN'S USE OF OIL ALLOCATIONS TO UNDERMINE SANCTIONS AND THE UNITED NATIONS SECURITY COUNCIL

MONDAY, MAY 16, 2005

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 2123, Rayburn House Office Building, Hon. Ed Whitfield (chairman) presiding.

Members present: Representatives Whitfield, Stearns, Burgess, Blackburn, Barton (ex officio), Stupak, Inslee, and Waxman.

Also present: Representative Norwood.

Staff present: Mark Paoletta, chief counsel; Andrew Snowdon, majority counsel; Tom Feddo, majority counsel; Chad Grant, clerk; Edith Holleman, minority counsel; Voncille Hines, research assistant; and Alec Gerlach, minority staff assistant.

Mr. WHITFIELD. At this time the committee will come to order. Today's hearing for the Subcommittee on Oversight and Investigation of the Energy and Commerce Committee is the United Nations' Oil for Food program, Saddam Hussein's use of oil allocations to undermine sanctions, and the United Nations Security Council.

At this time I would like to ask unanimous consent to move documents contained in the binder into the record. And, without objection, so ordered.

I will begin the hearing with an opening statement, and then we will proceed with opening statements.

The United Nations Oil-for-Food program was initiated to ease the suffering of the Iraqi people. As we have learned in recent months from various reports, this program became a mechanism for the former Iraqi regime of Saddam Hussein to siphon off billions of dollars in illicit revenues, money that rightfully should have gone to the citizens of Iraq. Saddam's regime used oil contracts to influence foreign officials and well-connected individuals in an effort to undermine international economic sanctions, thereby keeping him in power.

These allegations are not new, but the picture of how this could have happened under the oversight of the United Nations Security Council has been murky. Today the subcommittee will hear testimony and examine a variety of documents, many of which have

been recently translated for the committee, to better understand the abuses of the Oil-for-Food program. The hearing will allow members to see how Hussein used oil allocations to undermine U.N. sanctions and manipulate political divisions within the Security Council and better understand the weaknesses in the U.N. Oversight of the program.

The hearing will also serve the committee's longstanding interest in the workings of the United Nations. We will learn more today about the inner workings of the U.N.'s operation, and how France, Russia, and China in the 661 Committee supported the Hussein regime to the detriment of the Iraqi people. Saddam Hussein and his supporters found ways to exploit loopholes in the Oil-for-Food program to enrich themselves and to strengthen Iraq's military capabilities.

Surcharges and kickbacks, both on oil and humanitarian goods contracts soon became the norm under the program. For instance, the committee has uncovered a handwritten form agreement signed by Iraq's former oil minister which shows that, beginning sometime after June 2000, each oil purchaser in the program had to agree to pay kickbacks to the regime, either in cash or by wire, into an Iraqi bank account outside of the program. Equally troubling are the allegations that Saddam Hussein may have been able to use the Oil-for-Food program to exploit divisions within the U.S. Security Council.

We will hear today from Dr. Robert Smego, an outside consultant retained by the committee to review and translate numerous documents, including documents from the Iraqi Intelligence Service and State Oil Marketing Organization. Mr. Smego will present a series of documents that suggests a calculated strategy on the part of the regime to target influential businessmen, companies, and government officials who could advance Iraq's interests.

When the names of many prominent political figures, most notably those of Russia and France, appeared in the Duelfer Report last fall, there were cries of outrage and denial. However, the documents presented here today appear to confirm that some of these individuals were indeed using the Oil-for-Food program for their own purposes. I can think of no legitimate reason for any politician or government official of any nation to receive oil from Saddam Hussein.

Ironically, every dollar that these people took out of the program was money that should have gone to help the Iraqi people.

Could these abuses have been prevented? Perhaps not entirely, but there's little doubt that lax oversight on the part of the U.N. Secretariat and internal divisions within the so-called 661 Committee permitted them to continue.

Let me note here that I can only imagine the political and logistical difficulties involved in running such a massive program. However, these difficulties do not justify the failures in oversight responsibilities.

We will also hear today from John Fawcett who, for the past decade, has been tracking the financial assets of major human rights abusers, such as Slobodan Milosevic, Saddam Hussein, and the al Qaeda network.

Finally, we will hear from Mr. Gerald Anderson of the U.S. State Department who will provide some insights into the inner workings of the 661 Sanctions Committee, the committee within the U.N. That ran the Oil-for-Food program.

Let me welcome all the witnesses, and thank them for what promises to be a most informative hearing.

[The prepared statement of Hon. Ed Whitfield follows:]

PREPARED STATEMENT OF HON. ED WHITFIELD, CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

The United Nations (U.N.) Oil-for-Food Program (Program) was set up to ease the suffering of the Iraqi people. But unfortunately, it also may have prolonged their suffering. As we've learned in recent months from various reports, this Program became a mechanism for the former Iraqi regime of Saddam Hussein to siphon off billions of dollars in illicit revenues—money that rightfully should have gone to the citizens of Iraq. Saddam's Regime also used oil contracts to influence foreign officials and well-connected individuals in an effort to undermine international economic sanctions, thereby keeping him in power.

None of these allegations are new, but the picture of how this could have happened under the oversight of the United Nations Security Council has been murky. Today, the Subcommittee will take testimony and examine a variety of documents—many of which have been recently translated for the Committee—to gain a clearer view into the abuses of the Oil for Food Program. The hearing will allow members to examine how Hussein used oil allocations to undermine U.N. sanctions and manipulate political divisions within the Security Council and apparent weaknesses in U.N. oversight of the Program.

The hearing will also serve the Committee's long-standing interest in the workings of the United Nations—particularly at the intersection of national security and world energy markets and trade. We will learn more today about the inner workings of the U.N.'s operations, and how actions there might have prevented such abuses.

There is no doubt at this point that Saddam Hussein and his cronies found ways to exploit loopholes in the Oil-for-Food Program to enrich themselves and to strengthen the Iraq's military capabilities. Surcharges and kickbacks, both on oil and humanitarian goods contracts, soon became the norm under the Program. For instance, the Committee has uncovered a handwritten form agreement, signed by Iraq's former Oil Minister, which shows that, beginning sometime after June 2000, each oil purchaser in the Program had to agree to pay kickbacks to the Regime, either in cash or by wire into an Iraqi bank account outside of the Program.

Equally troubling are the allegations that Saddam Hussein may have been able to use the Oil-for-Food Program to exploit divisions within the U.N. Security Council. We will hear today from D. Robert Smego, an outside consultant retained by the Committee to review and translate numerous documents gathered from various Iraqi sources, including documents from the Iraqi Intelligence Service and State Oil Marketing Organization, or SOMO. Mr. Smego will present a series of documents that suggest a calculated strategy on the part of the Regime to target influential businessmen, companies, and government officials who could advance Iraq's interests—particularly within the Security Council.

When the names of many prominent political figures, most notably those of France and Russia, appeared in the Duelfer Report last Fall, there were cries of outrage and denial. However, the documents presented here today appear to confirm that some of these individuals were indeed using the Oil-for-Food Program for their own purposes. I can think of no legitimate reason for any politician or government official—of any nation—to get oil from Saddam Hussein. Ironically, every dollar that these people took out of the Program was money that should have gone to help the Iraqi people—the very people that they claimed to be helping.

Could these abuses have been prevented? Perhaps not entirely, but there is little doubt that lax oversight on the part of the U.N. Secretariat, and internal divisions within the so-called 661 Committee, permitted them to continue. Let me note here that I can only imagine the political and logistical difficulties involved in running such a massive Program. However, these difficulties do not justify the failures in oversight responsibilities.

We will hear today from John Fawcett, who, for the past decade, has been tracking the financial assets of major human rights abusers, such as Slobodan Milosevic, Saddam Hussein, and the al Qaeda network. Mr. Fawcett will provide some perspective how these problems could have been avoided, including (1) vetting all contracts

for price and quality, and (2) performing due diligence on the parties that Saddam was contracting with, and (3) increasing transparency in the hiring of inspectors.

Finally, we will hear from Mr. Gerald Anderson of the U.S. State Department, who will provide some insights into the inner workings of the 661 Sanctions Committee, the Committee within the U.N. that ran the Oil-for-Food Program. Let me welcome all of the witnesses and thank them for what promises to be a most informative hearing.

Much of the dispute today involves a lack of transparency in the oversight deployed by the United Nations. If we are going to restore some trust in that institution as it delves into other matters affecting our international energy markets, public health, and welfare, the United States—and indeed the entire international community—deserves a clearer picture of precisely how those important matters are being handled. Today's hearing should help us understand how some trust might be restored.

Mr. WHITFIELD. At this time I will call on the ranking minority member, Mr. Stupak, for his opening statement.

Mr. STUPAK. Well, thank you, Mr. Chairman. This is an unusual hearing for an investigative subcommittee. In fact, it seems to me that this is a hearing in search of an investigation. If you take a look at this morning's Washington Post, the lead article gave an astounding level of detail from documents collected by the Senate Committee on Saddam Hussein's use of oil allocations to influence Russian politicians. This story is not new. In September 2002, The New York Times stated, "Baghdad owes Moscow $8 billion in debt incurred before the Gulf War, and has used trade under the Oil-for-Food program to curry Moscow's favor." Last year, the Duelfer Report gave the names of Russian politicians who received oil allocations. But the level of detail about these deals obtained after months of investigation is new, and that is what was intriguing about this Washington Post story. It involves weeks of overseas travel, interviews with former Iraqi officials, and international businessmen, and a review of U.S. Government investigative documents.

Frankly, Mr. Chairman, this committee has done—has not done anywhere near that level of work and has very little to add. There are four other congressional committees focused on the United Nations and the Oil-for-Food program. They are all far ahead of this committee in their level of investigation and knowledge. But there are areas that this committee can investigate and no one else seems to want to look at. No one seems to want to talk about the United Nations' sanctions and oil trading regime which was approved by the Security Council of which the United States is a member, or the role of the Sanctions Committee, another committee the U.S. was part of that oversaw the program and what it knew about the manner in which the oil allocations were used by Iraq.

No one seems to want to know about the relationship of U.S. oil companies to the shady middlemen and the oil traders who actually lifted oil from Iraq.

This is not a simple criminal or ethical matter as it is often portrayed. It was a system built by geopolitical realities that everyone was aware of and either condoned or chose to ignore at the time.

Seventy-five percent of Iraqi oil, regardless of who initially purchased it and whether or not they paid illegal surcharges, ended up in the United States at U.S. refineries. How did it get there? What did the U.S. companies know about the illegal surcharges

and when did they know it? Some small U.S. oil dealers have been indicted. But despite this requests from this side of the minority to subpoena documents from those companies, it has not been done.

Some bigger U.S. Oil companies are also being investigated, but once again, this committee hasn't even talked to them despite staff requests from the minority. No one seems to want to talk about the massive smuggling of oil through Jordan, Turkey, Syria, and Egypt that was going on. Both the Volcker and the Duelfer reports found that the largest sum of the illegal revenue obtained by Saddam Hussein came through these well-known illegal oil purchases. These oil purchases were openly discussed in the press at the time. The Sanctions Committee—again, the U.S. was a member of that committee—discussed it frequently but refused to stop it.

The International Relations Committee of both the House and the Senate received notice every year stating that it was in the national interest of the United States to continue foreign aid to Jordan and Turkey, even though they were in violation of the U.N. Sanctions. Why hasn't the committee looked at the United States' role in this massive violation of U.N. Sanctions?

It seems that many in Congress are comfortable with just calling this foreign aid and bashing the U.N. But are not interested in holding those in the U.S. who may have violated these sanctions accountable. Press reports in January of this year indicated that the office of foreign assets in the United States Treasury actually promised that they would not prosecute a U.S. company for breaking the sanctions in early 2003 to provide oil to a Jordanian company. Minority staff drafted letters to the U.S. Company in February requesting documents and interviews, but again, we couldn't get a signature or approval from the majority.

I would ask, Mr. Chairman, instead of joining in the chorus of the committees howling at the United Nations to obtain diplomatically protected documents, that we head in a different direction. This subcommittee should investigate the U.S. oil companies who allegedly and knowingly worked around the U.N. Sanctions to supply oil to certain countries with the apparent knowledge and consent of the U.S. Government.

Mr. Chairman, we have a choice. We can waste taxpayer dollars by duplicating the work of other committees in Congress that they have already done by investigating foreign sources, or we can be leaders and investigate and expose the domestic abuses of the Oil-for-Food program here at home. It is my hope that, under your leadership, we will do the latter. With that, Mr. Chairman, I would yield back the balance of my time.

Mr. WHITFIELD. At this time, the Chair will recognize the chairman of the full committee, the full energy and commerce committee, Mr. Barton of Texas.

Chairman BARTON. Thank you, Mr. Chairman. I want to commend you for holding this hearing. I think we need to put in the record that this is the first subcommittee to hold a hearing on the U.N. Oil-for-Food scandal, and we did it when I was subcommittee chairman back in the Clinton Administration. We were also the first subcommittee to hold a hearing in this go-around, and we have been at the full committee level investigating this for the last several years and will continue to do so.

In the last year, we have learned much about the program's mismanagement and its manipulation. We know today, for example, that Saddam Hussein's officials deliberately underpriced Iraq oil so that the middleman and oil traders could kick back profits into Saddam's personal bank accounts. We also know the regime would overpay merchants for humanitarian goods so that the excess money could be diverted to those bank accounts. This is something that we learned on a trip that I personally led to Iraq last fall and met with some of the Iraqi officials in person that were responsible for those particular bank accounts.

We now know that the U.N. Oil overseers identified these activities, brought them to the attention of the program's leadership, and even proposed mechanisms to prevent the illicit activity. Yet nothing was done. Finally, we know that the regime perverted the program to influence politicians around the world and leaders inside the United Nations by giving them personally valuable oil vouchers.

Today's hearing will examine new documents that illuminate influence peddling. Undoubtedly, Saddam's regime hoped that these bribes would erode and eliminate the sanctions. I would not be surprised if we eventually uncover evidence of quid pro quos directly related to these vouchers.

It seems clear that under Saddam, Oil-for-Food became oil for influence. This mismanagement mess, if you will, is a stain on the United Nations and its current leaders. If the U.N. Leadership had its way, this mess would have been swept under the rug. But the U.N. Is not going to have its way today. The U.S. Government funds most of the U.N.'s operating budget. We are the largest contributor to the U.N. Operating budget. And at this moment, our soldiers are risking and giving their lives to defend the fledgling democracy in Iraq.

We must not forget that, if the U.N. Had had its way, Saddam Hussein would still be in power, Saddam Hussein would still be dispensing bribes, Saddam Hussein would still be controlling his Army, Saddam Hussein would still be threatening his people, and Saddam Hussein would still be threatening to invade his neighbors in the Middle East. But before Iraq was liberated, the only program that was meant to bring relief to the Iraqi people instead brought Saddam Hussein the key to unlocking the greatest threat to his power, economic sanctions.

We will hear today how the Oil-for-Food program allowed Saddam Hussein to enrich his regime, bribe world leaders, and begin to build an infrastructure that could 1 day be used to reconstruct an arsenal for intimidation and aggression.

In the meantime, the suffering of the average Iraqi family continued. The U.N. 661 Committee watched this scam unfold but was paralyzed by bureaucratic infighting. In the end, the Oil-for-Food program was a profound and dangerous failure.

I look forward to hearing from our witnesses today. I wish to thank them for their attendance. This committee—and I want to reiterate. This committee, the Energy and Commerce Committee, is not opposed to anything that the other committees of the House and Senate are doing. I think collectively all the efforts of this committee and the other committees in both bodies will get to the bot-

tom of this scandal, but this committee is going to be a part of that and in many ways is going to lead that effort.

I also want to begin to investigate the possibility of recovering as much of the billions and billions of dollars that was looted from the Oil-for-Food program and use that money to reinvest in the Iraq of today to try to help the Iraqi people today as they fight for their freedoms.

Thank you again, Mr. Chairman, for your leadership on this issue. I look forward to working with you and others of this subcommittee to continue this investigation.

[The prepared statement of Hon. Joe Barton follows:]

PREPARED STATEMENT OF HON. JOE BARTON, CHAIRMAN, COMMITTEE ON ENERGY AND COMMERCE

Thank you Chairman Whitfield. This afternoon we continue this Committee's examination of the United Nations Oil-for-Food Program.

Since last year, we have learned much about both the program's mismanagement and manipulation. We know, for example, that Saddam Hussein's officials deliberately under-priced Iraqi oil so that middlemen and oil traders could kick back profits into Saddam's bank accounts. Also, the regime would *overpay* merchants for humanitarian goods so that the excess money could be diverted to those bank accounts, outside UN scrutiny. We now know that UN "oil overseers" identified these activities, brought them to the attention of the program's leadership, and even proposed mechanisms to prevent this illicit activity. And yet nothing was done.

Finally, the regime perverted the program to influence politicians around the world and leaders inside the United Nations by giving them valuable oil vouchers. Today's hearing will examine new documents that illuminate influence peddling. Undoubtedly, Saddam's regime hoped these bribes would erode and eliminate the sanctions. I would not be surprised if we eventually uncover evidence of quid pro quos directly related to these vouchers. It seems clear that under Saddam, oil-for-food became oil-for-influence.

This mismanagement—this mess—is a stain on the United Nations and on its leaders. If the UN leadership had its way, this mess would have been swept under the rug, but the UN is not going to have its way today. Americans fund most of the UN's operating budget, and at this moment, America's warriors are risking and giving their lives to defend the fledgling democracy in Iraq. We must not forget that if the UN had its way, Saddam would still be dispensing bribes, building his army, threatening his people, and invading his neighbors.

But before Iraq was liberated, the only program that was meant to bring relief to the Iraqi people instead brought Saddam Hussein the key to unlocking the gravest threat to his power—economic sanctions. We will hear today how the Oil-for-Food Program allowed Saddam Hussein to enrich his regime, bribe world leaders, and begin to build an infrastructure that could one day be used to reconstruct an arsenal for intimidation and aggression. In the meantime, the suffering of the average Iraqi family continued. The UN's 661 Committee watched the scam unfold, but was paralyzed by bureaucratic infighting. In the end, the Oil for Food Program was a profound and dangerous failure.

I look forward to hearing from our witnesses today, and thank them for their attendance. We intend to get to the bottom of this scandal.

Thank you, Mr. Chairman. I yield back the remainder of my time.

Mr. WHITFIELD. Thank you, Mr. Chairman.

At this time, I will recognize Mr. Waxman of California.

Mr. WAXMAN. Thank you very much, Mr. Chairman. And I appreciate you calling the hearing today. I support the committee's investigation and believe Congress should determine the full extent of Saddam Hussein's efforts to divert humanitarian Oil-for-Food funds that were intended for the benefit of the Iraqi people. Although I support the committee's goal, I do have a concern with its approach. Today's hearing is the 13th congressional hearing about the Oil-for-Food program.

Tomorrow's hearing by Senator Coleman will be the 14th. My concern is that while Congress is actively investigating the Oil-for-Food program, we are ignoring our Nation's own actions on the development fund for Iraq, the successor to the Oil-for-Food program run by the Bush administration. The administration has failed to properly manage and account for billions of dollars in the Iraqi funds, and the committee is doing nothing to investigate this.

I would like to have in the record two charts. The first one shows the finding of our own auditors and investigators looking into the DFI. First, in January, the special inspector general for Iraqi reconstruction, a U.S. Government official, concluded that the Bush administration failed to properly account for $8.8 billion of Iraqi oil proceeds in the DFI. The inspector general concluded that the administration did not implement adequate managerial controls, did not implement adequate financial controls, and did not adequately control DFI contracting actions.

Second. Just 2 weeks ago the inspector general found that the administration failed to account for $96.6 million in cash from the Iraqi funds that were supposed to go to local reconstruction projects. The IG found that, instead of helping the Iraqi people, U.S. officials tried to launder these funds. The IG referred these officials for criminal prosecution.

And, third. The defense contract audit agency, the Pentagon's own auditors, concluded that Halliburton has overcharged by at least $212 million under its oil contract in Iraq. The Bush administration awarded Halliburton's no bid monopoly oil contract in secret, and then funded it with Iraqi oil proceeds from the DFI.

My other chart shows findings by U.S. Government officials and other independent auditors who conclude that the administration has not complied with U.N. Security Council Resolution 1483, which requires the administration to use Iraqi funds in a transparent manner for the benefit of the Iraqi people. On January 30, 2005, the special inspector general for Iraq reconstruction concluded that the administration violated Resolution 1483 requirement to use DFI funds in a transparent manner.

On April 29, 2005, the international advisory and monitoring board, which is charged with monitoring the administration's compliance under the resolution, concluded that, "use of DFI resources that is not for the benefit of the Iraqi people is in conflict with U.N. Security Council Resolution 1483." and members can also review a series of official Pentagon audits that the administration submitted to the United Nations after blacking out more than 460 references to overcharges to the DFI.

Mr. Chairman, Congress should investigate allegations about the Oil-for-Food program, but we should also investigate our own administration's failure to properly account for Iraqi funds. Our commitment in both cases is the same: To ensure that the Iraqi people who have been oppressed for decades receive the full benefit of their own Nation's funds. Thank you, Mr. Chairman.

Mr. WHITFIELD. Mr. Waxman, were you asking unanimous consent that those documents be entered into the record?

Mr. WAXMAN. Yes, I would like to ask unanimous consent.

Mr. WHITFIELD. I asked a minute ago to enter some documents into the record that were made available to your side last Wednes-

day, about 6, 7 days ago. I have not had an opportunity to see that. Could I see this document that you are referring to?

Mr. WAXMAN. Sure. If you prefer, Mr. Chairman, why don't I withhold that unanimous request consent until later in the hearing so you would be able to see it.

Mr. WHITFIELD. And I would also like to ask, was this a study conducted by the Federal Government? Who conducted this study?

Mr. WAXMAN. We are talking about six reports that are all cited in my statement.

Mr. WHITFIELD. And who conducted those studies?

Mr. WAXMAN. Let me go through. The special inspector general for Iraq reconstruction is one. The International Advisory and Monitoring Board, two. The Defense Contract Audit Agency, which is the Pentagon's own auditors. And there are multiple reports by each of them.

Mr. WHITFIELD. If you would give me a copy of that. And I would just like to reserve a point of order. But, in the meantime, I am going to go on and call on——

Chairman BARTON. Mr. Chairman, could you yield to me on that point?

Mr. WHITFIELD. Yes.

Chairman BARTON. This subcommittee always works in a bipartisan fashion. And if the gentleman from California shared the documents so that we know before the fact what is in them, we are almost always willing to put them into the record. My understanding is they have not been shared with the staff. And I am sure he is willing to share those so we can look at them.

Mr. WAXMAN. Well, let me point out, these are not hidden documents. They were furnished to all the committees by the Inspector General. But I would be happy to have you look at them. I wasn't trying to withhold any documents from you. These are documents that have been submitted to the Congress, and they have been out in the public domain. And so we would like to have them as part of the record after you feel comfortable enough to admit them into the record.

Mr. WHITFIELD. Well, I think that this would probably be fine. But what I think we ought to do is just submit the entire report, reports in their entirety.

Mr. WAXMAN. I have no problem with that. There are multiple reports. I think there are six separate reports. If you want to have all of them in their entirety, then that is certainly fine.

Mr. WHITFIELD. I would prefer that we just submit the entire report rather than just excerpts from the reports. So, if there is no objection to having the entire reports placed into the record, that would be fine.

[The material referred to is retained in subcommittee files.]

Mr. WAXMAN. Okay.

Mr. WHITFIELD. At this point I would call on Mr. Norwood of Georgia for his opening statement. I am sorry. Mr. Burgess, you are on the subcommittee. Go ahead.

Mr. BURGESS. Mr. Chairman, I have an opening statement I will just submit for the record in the interest of time so we can get on to examining the witnesses.

Mr. WHITFIELD. Thank you. Ms. Blackburn, do you have an opening statement? Mr. Norwood?

Mr. NORWOOD. Thank you very much, Mr. Chairman.

I must admit that this stuff that has just been handed out, it looks to me like they are headlines out of The New York Times rather than any report that anybody has produced. But I think it equally important we find out exactly who produced it and consider the source.

I thank you today for allowing me to join you. I sincerely appreciate the courtesy. I have been very concerned about this issue of corruption at the United Nations, and that as I understand is what this hearing is about. Though there are those who would divert it to another subject, I think today is about the corruption at the U.N., and with the Oil-for-Food program in Iraq. I wanted to be here simply to learn more.

I would like to start by commending you for continuing to focus some attention on the corruption at the U.N. Oil-for-Food program. There is plenty to discuss and scrutinize as we have seen, and there is plenty being discussed back home in all of our districts. I think the American people want to have an understanding of this. It is no secret that during my tenure in Congress, I have not particularly been a fan of the U.N. I think there are some pretty good reasons for that. And this committee needs no reminder that for a decade the U.N. allowed Saddam Hussein to blatantly defy 18 U.N. Resolutions. The United States spends millions, if not billions, of dollars a year on U.N. programs and policies that are often totally contrary to the principles of freedom that most Americans hold dear. That is why people back home where I am from want to know what is going on.

It is truly unfortunate that we do not have the opportunity today to question a representative of the U.N. Perhaps that opportunity will present itself in the future, Mr. Chairman. Regardless, the U.N. is not the topic of the hearing today; the U.N. Oil-for-Food program is. As we all know, the Oil-for-Food program was established in 1995, April, to strike a balance between enforcing compliance of all relevant U.N. Security Council resolutions, and alleviating hunger, suffering, human suffering in Iraq. Unfortunately, what we all now know is that the program was riddled with corruption in many ways.

What should have been a humanitarian program ended up funding Saddam Hussein's dictatorship and possibly terrorist groups. The GAO estimates that from 1997 through 2002, the former Iraqi regime acquired $10.1 billion in illegal revenues. This includes $5.7 billion from oil smuggling and $4.4 billion from illicit surcharges on oil sales and after-sale charges on suppliers. Numerous United Nations, independent, and Iraqi investigations have been directed into these illicitly diverted funds. As has been pointed out earlier, major doubts exist about the U.N.'s ability to investigate this level of fraud, and I am highly suspicious of their resistance to the facts. After all, it was under their watch that their own program was abused.

I look forward to the hearing. I look forward to hearing the testimony of the witnesses today. And, again, I thank you for the opportunity to join you.

Mr. WHITFIELD. Thank you. Is there anyone else wishing to give an opening statement at this time? If not, then we will call panel one, the witness Mr. John Fawcett, Mr. Robert Smego, and Dr. Joy Gordon.

I want to thank the three of you for being with us this morning. We look forward to your testimony. You are aware that the committee is holding an investigative hearing, and, when doing so, has had the practice of taking testimony under oath. Do any of you this morning or this afternoon have any objection to testifying under oath? Okay. The Chair then advises you that, under the rules of the House and the rules of the committee, you are also entitled to be advised by counsel. Do you desire to be advised by counsel during your testimony today? In that case, if you would please rise and raise your right hand, I will swear you in.

[Witnesses sworn.]

Mr. WHITFIELD. You are now under oath, and you may give your 5-minute summary of your written statement. And, Mr. Fawcett, we will begin with you.

TESTIMONY OF JOHN FAWCETT, AUTHOR, REPORT FOR SOURCES OF REVENUE FOR SADDAM AND SONS; D. ROBERT SMEGO, ARABIC LINGUIST, ONE OF THE AUTHORS OF THE DUELFER REPORT; AND JOY GORDON, PROFESSOR OF PHILOSOPHY, FAIRFIELD UNIVERSITY

Mr. FAWCETT. Thank you for inviting me here before the committee in today's hearing. I have worked internationally——

Mr. WHITFIELD. Would you turn your microphone on, please.

Mr. FAWCETT. Okay. I have worked internationally for the past 25 years, I spent 10 years in oil exploration in the Middle East and Africa, after which I spent the next 10 years involved in humanitarian and human rights work largely in the Balkans and Iraq. Over the last 5 years I have been tracking the financial assets of major human rights abusers, including Slobodan Milosevic, Saddam Hussein, and al Qaeda. I began looking at the Oil-for-Food program in 1998 and was a co-author with Susan Blaustein of Sources of Revenue for Saddam & Sons. The paper was published in 2002 by the Coalition for International Justice, and they graciously agreed to sponsor my appearance today.

The Oil-for-Food program cannot be viewed separately from the history of corruption under Saddam Hussein. Saddam Hussein began his financial rip-offs in the late 1960's with the establishment of his first shell companies in Milan and Lugano, and continued until he was toppled in 2003. My written statement goes into more detail on this topic.

When the U.N. Began negotiating with Iraq in 1991 to establish the Oil-for-Food program, and the first negotiations were led by then Assistant Secretary General Kofi Annan, no one dealing with Iraq could credibly say they were not aware of the potential for corruption. U.N. Secretary General Perez de Cuellar knew. His successor Boutros Boutros Ghali knew. Kofi Annan knew. The members of the Security Council certainly knew. All the permanent members, with the exception of China, had been active participants in arms embargo busting with Saddam throughout the previous decade, that is, the 1980's.

By the time the program began in late 1996, the U.N. Had ceded to Saddam the authority to choose his business partners from both the sale of Iraqi oil and the purchase of humanitarian supplies. This crucial decision laid the groundwork for the ensuing corruption.

There were two major methods of illicit profiting: Oil vouchers were given to favored individuals or organizations that provided Iraq with political support. The vouchers were then sold to official U.N. Approved contractors. The illicit profit in this scheme amounted to up to $1 million per tanker load.

Two Oil-for-Food contractors who were very adept at this were the shady Swiss Liechtenstein firms of Alcon and Fenar. These companies were created in the haven of corporate secrecy, Liechtenstein, for the sole purpose of doing illicit business with Saddam Hussein's Iraq. Aside from kickbacks, the political services they provided to Saddam are as yet unknown.

To this point, the Swiss and Liechtenstein authorities have failed to publicize the beneficial owners of either company despite these firms having been identified as suspicious as early as January 2001. Between them, Alcon and Fenar did nearly $2.5 billion worth of business under the program, of which some $400 million was done in the last few months of Saddam's reign. One wonders whether this money is funding the car bombs that are tearing apart men, women, and children in Iraq on a daily basis.

The other major scam in the Oil-for-Food program involved overcharging or invoice padding for goods sold to Iraq. One commodity in which this practice took place was baby formula. It normally sells for about $2,000 per ton, but a corrupt supplier under the Oil-for-Food program would charge the U.N. On behalf of Iraq 2,500. The difference was, again, split with Iraqi officials.

While the U.N. Children's agency UNICEF and others mounted public campaigns decrying the suffering and deaths of Iraqi children due to sanctions, price gouging was taking place on the very product that could help these children. If there is anything that UNICEF knows how to do, it is to procure, transport, and distribute baby formula. They do so in war zones and disasters worldwide. While UNICEF continually published Iraq government statistics on child mortality related to sanctions, not once did they raise a voice about the baby formula rip-off.

The inspection procedures for oil exports as well as for humanitarian imports were toothless from the beginning. The inspectors had no mandate to prevent smuggling of oil out of Iraq or smuggling of goods into Iraq. The inspectors have no mandate to check the quality of food or medicines entering Iraq, and usually failed to check even the quantity of goods being imported. At the Jordanian, Syrian, and Turkish border crossings, hundreds of trucks entered Iraq daily with sanctions-busting goods and left Iraq carrying sanctions-busting oil. The inspectors could do nothing more than tip their hat and wave their clip board, and literally that is what they did.

Knowing the nature both in cruelty and corruption of the regime they were dealing with, why would international officials allow such a system to come into place? First, there is a certain anti-American predisposition that has built up over decades within the

U.N. Second, there was a perception that it was a catastrophic humanitarian situation in Iraq, and that the population was on the verge of starvation. Third, international officials also stood to gain financially. Officials of over 100 countries either profited illicitly from the Oil-for-Food program, failed in their oversight duties to prevent corruption, or both.

What made the graft under the Oil-for-Food program different from other international financial scandals was the use of the illicit gains by Saddam Hussein. He did not just fatten the Jordanian and Swiss bank accounts of his family and cronies, though there was plenty of that; the illicit funds were also used to create a political slush fund of global proportions. He bought presidents, prime ministers, legislators, Ambassadors, media, and NGO officials, and actively funded the anti sanctions campaign.

Mr. WHITFIELD. Mr. Fawcett, you are about a minute and 30 seconds over.

Mr. FAWCETT. All right. Maybe in the questioning I could go in, then, to what I think the U.N. Could have done in the midst of all of these problems. Though I would like to say, the primary importance for the U.N. To act was that it had to be led by honest and courageous officials. And I will leave it at that.

[The prepared statement of John Fawcett follows:]

PREPARED STATEMENT OF JOHN FAWCETT

INTRODUCTION

Thank you for inviting me to appear before the committee at today's hearing. I have worked internationally for the past 25 years. I spent ten years in oil exploration in the Middle East and Africa. The following ten years I was involved in humanitarian and human rights work largely in the Balkans and Iraq. Over the last five years I have been tracking the financial assets of major human rights abusers, including Slobodan Milosevic, Saddam Hussein, and al Qaeda. I have contracted to a variety of governmental, non-governmental, and for profit organizations. I began looking at the Oil for Food program in 1998, and was a co-author with Susan Blaustein of Sources of Revenue for Saddam and Sons. The paper was published in 2002 by the Coalition for International Justice and they have graciously agreed to sponsor my appearance today.

HISTORY OF SADDAM'S CORRUPTION

The Oil for Food program can not be viewed separately from the history of corruption under Saddam Hussein. Saddam began his financial rip-offs in the late 1960s with the establishment of his first shell companies in Milan and Lugano. In the mid 70s he instituted a 5% rake-off on all Iraqi oil exports, with the proceeds being sent to Swiss bank accounts via major US banks in New York City. Shortly after seizing the Iraqi presidency in 1979 he invaded Iran and an arms embargo was imposed. He actively violated the embargo with the assistance of many countries in what came to be known as Iraqgate. Within days of his invasion of Kuwait in August 1990, comprehensive international sanctions were imposed. Within hours an energetic campaign of sanctions busting began. After surviving the first Gulf War, he directed that the sanctions busting be greatly expanded.

When the UN began negotiating with Iraq in 1991 to establish the oil for food program, (and the first negotiations were led by then Assistant Secretary General Kofi Annan) no one dealing with Iraq could credibly say they were not aware of the potential for corruption. UN Secretary General Perez de Cuellar knew. His successor Boutros Boutros Ghali knew. Kofi Annan knew. The members of the Security Council certainly knew. All the permanent members, with the exception of China, had been active participants in embargo busting with Saddam throughout the previous decade. The embargo busting involved both kickbacks to Saddam as well as invoice padding, two methods of illicit activity that were later widely used during the Oil for Food Program.

TWO TYPES OF RIP-OFFS

By the time the program began in late 1996, the UN had ceded to Saddam the authority to choose his business partners for both the sale of Iraqi oil and the purchase of humanitarian supplies. This crucial decision laid the groundwork for the ensuing corruption. There were two major methods of illicit profiting by the regime and a host of minor schemes.

Oil vouchers were given to favored individuals or organizations that provided Iraq with political support. The vouchers were then sold to an official UN approved contractor. This contractor received the oil at a discount and then sold it on to other traders and eventually to major refiners. The illicit profit in this scheme amounted to up to $1 million per tanker load. Two oil for food contractors who were very adept at this were the shady Swiss-Liechtenstein firms Alcon and Fenar. These companies were created in the haven of corporate secrecy, Liechtenstein, for the sole purpose of doing illicit business with Saddam Hussein's Iraq. Alcon and Fenar were official UN contractors as well as voucher recipients. Aside from kickbacks the political services they provided to Saddam are as yet unknown. To this point the Swiss and Liechtenstein authorities have failed to publicize the beneficial owners of either company, despite these firms having been identified as suspicious as early as January 2001. The Liechtensteiners, who for a fee, put their names to the corporate registry documents were; for Alcon, Rainer Marxer and Martin Batliner; for Fenar, Patrick Hilty and Horst Buchel. Between them, Alcon and Fenar did nearly $2.5 billion worth of business under the program, of which some $400 million was done in the last few months of Saddam's reign. One wonders whether this money is funding the car bombs that are tearing apart men, women and children in Iraq on a daily basis.

The other major scam in the oil for food program involved over charging or invoice padding for goods sold to Iraq. One commodity in which this practice took place was baby formula. It normally sold for about $2000 per ton, but a corrupt supplier would charge the UN on behalf of Iraq, $2500. The difference was again split with the Iraqi officials. While the UN and others mounted public campaigns decrying the suffering and deaths of Iraqi children, price gouging was taking place on the very product that could help these children. If there is anything that UNICEF knows how to do, it is to procure, transport and distribute baby formula. They do so in war zones and disasters worldwide. While UNICEF continually published Iraqi government statistics on child mortality related to sanctions, not once did they raise a voice about the baby formula rip-off.

SHAM INSPECTIONS

The inspection procedures for oil exports as well as for humanitarian imports were toothless from the beginning. The inspectors had no mandate to prevent smuggling of oil out of Iraq, or smuggling of goods into Iraq. The inspectors had no mandate to check the quality of food or medicines entering Iraq and usually failed to check even the quantity of goods being imported. At the Jordanian, Syrian and Turkish border crossings, hundreds of trucks entered Iraq daily with sanctions busting goods and left Iraq carrying sanctions busting oil. The inspectors could do nothing more than tip their hat and wave their clipboard. This was an exercise in futility and many inspectors sunk into frustration or inebriation.

After studying and thinking about this program for several years, I have come to the conclusion that the inspections regime established by the UN was window dressing only. To be clear, I believe that UN officials set up the procurement as well as the inspection regime of the Oil for Food program in such a manner as to allow Saddam Hussein to personally profit from it. The Security Council was fully aware of the potential for corruption under the program at every step of the negotiations.

WHY WAS IT ALLOWED TO HAPPEN?

Knowing the nature, both in cruelty and corruption of the regime they were dealing with, why would these international officials allow such a system to come into place? First there is a certain anti-American predisposition that has built up over decades within the UN. This tends to look skeptically at US positions on issues and more sympathetically at US opponents. This is not an unhealthy posture by itself. Second, there was a perception that there was a catastrophic humanitarian situation in Iraq and that the population was on the verge of starvation. All of the data upon which the assessments of the humanitarian situation in Iraq were made was generated by the Iraqi government. It was also in the financial interest of the UN humanitarian agencies to increase the amounts of funds allocated to Iraq. These factors contributed towards fostering an international public perception of impending disaster. The third reason why international officials would agree to a system that

profited Saddam Hussein is that they also stood to gain financially. Officials of over 100 countries, either profited illicitly from the Oil for Food program, failed in their oversight duties to prevent corruption, or both.

What made the graft under the oil for food program different from other international financial scandals was the use of the illicit gains by Saddam Hussein. He did not just fatten the Jordanian and Swiss bank accounts of his family and cronies, though there was plenty of that. The illicit funds were also used to create a political slush fund of global proportions. He bought presidents, prime ministers, legislators, ambassadors, media and NGO officials, and actively funded the anti-sanctions campaign.

COULD THE UN HAVE DONE ANYTHING?

With an Iraqi regime very experienced in corruption, a weak Security Council, and officials and businessmen from dozens of countries eager to put their hands into Saddam's pockets, was it possible for the United Nations to do anything except acquiesce to corruption? The answer is yes. In the face of all these cards stacked against it, there was one essential ingredient to assist the Iraqi people as well as battle corruption. The UN had to be lead by honest and courageous officials.

From 1996 to the end of the program in 2003, had the UN been led by honest and courageous officials, they would have done the following.

- Instead of awarding the first major monitoring and banking contracts via a secretive back-door process, senior UN officials would have insisted on adhering to their own competitive bidding regulations and opened the process to public scrutiny. Had they done so the weak monitoring effort would have been exposed before the program began and the allegations of conflict of interest by the Secretary General and his son would have been addressed.
- An aggressive effort would have been made to vet all contracts for price and quality. The Security Council had instructed the UN to do so, but they made token efforts at best. Even the few contracts which UN officials found to be overpriced were never acted upon by the Security Council. However, UN officials did not have to be satisfied with just passing the buck to the Security Council. There was nothing stopping them from releasing all contract data publicly. There would have been some embarrassed businesses and member states, but the practice of invoice padding would have been nipped in the bud.
- The whole process of selecting oil buyers should have been exposed to the light of scrutiny with the public release of oil contract information and an insistence by the UN that all oil purchasers publish shareholder or beneficiary lists. UN officials again excused themselves by claiming that Iraq could choose its own customers as long as those customers were also approved by the relevant member state. As a result the UN found itself involved in financial transactions with weapons dealers, money launderers, organized crime and terrorists. This was inexcusable.
- UN monitors should have acted like the weapons inspectors and been far more aggressive. UN personnel had the right and obligation to monitor any distribution of goods inside Iraq. The great majority of them never left their office and relied exclusively on the government of Saddam Hussein to tell them where and to whom the goods were distributed.

WE WILL BE PAYING FOR THIS FOR A LONG TIME

Even though the oil for food program was shut down nearly two years ago, the scandal is not receding into history. The oil for food program took place during the former Soviet Bloc's transition from a command to a competitive economy. It took place during a generational change in many of the ruling families in the Middle East. It took place during the emergence of new economic powerhouses China and India. During times of political and economic ferment, these countries were major players in the oil for food scandal. Officials from all of these countries, who may be in power for decades to come, took away a clear lesson. The ground rules of the new global economy have not yet been written in stone. While some argue for transparency, accountability and a level playing field, others maneuver for insider advantage and see bribery and corruption as acceptable business tools. The oil for food program gave a tremendous boost towards the institutionalization of corruption within the global economy, the repercussions of which have barely begun to emerge.

Mr. WHITFIELD. Thank you very much.

Mr. Smego.

TESTIMONY OF D. ROBERT SMEGO

Mr. SMEGO. Good afternoon, Mr. Chairman. My name is D. Robert Smego. I was retained by the House Energy and Commerce Committee earlier this year to review, identify, and translate documents it provided to me. I am an Arabic linguist knowledgeable—excuse me. I'm a linguist knowledgeable in the Arabic language.

The House Energy and Commerce Committee's majority counsel asked me to identify by topic and translate documents regarding Oil-for-Food, in particular, Iraqi State Oil Marketing Organization documents that had been scanned on to DVDs and memoranda prepared by the Iraqi Intelligence Service.

With the assistance of a native Iraqi linguist, I translated 49 documents from more than 23,000 pages that I have reviewed for this committee. The translated documents presented today accurately reflect the original text. I have not corrected the English translations of grammatical errors such as run-on sentences, indefinite pronouns, and sentence fragments that result from the melodious flow and verbose nature of Arabic. I avoided summarizing, paraphrasing, or making analytic substitutions for the original language. Any redactions in the original documents were maintained in the translations.

I was asked to translate and interpret specific documents; I was not tasked to perform any broader analysis or develop a professional judgment about the broader context of these documents. The guidance of the majority counsel was to sift through large volumes of material looking for references to particular topics and to translate the documents selected for presentation to the committee. The documents presented here today provide useful insight into the activities of the former Iraqi regime.

Thank you, Mr. Chairman. I am pleased to appear before this subcommittee, and will be glad to address the questions within the scope of the work I performed for the committee. This concludes my opening statement.

[The prepared statement of D. Robert Smego follows:]

PREPARED STATEMENT OF D. ROBERT SMEGO

Good afternoon, Mr. Chairman. My name is D. Robert Smego. I was retained by the House Energy and Commerce Committee earlier this year to review, identify and translate documents it provided to me. I am a linguist knowledgeable in the Arabic language.

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Committee. The documents presented here today provide useful insight into the activities of the former Iraqi regime.

Thank you, Mr. Chairman. This concludes my opening statement. I am pleased to appear before this Subcommittee and will be glad to address questions within the scope of the work I performed for the Committee.

Mr. WHITFIELD. Thank you, Mr. Smego.

Dr. Gordon, you are recognized for 5 minutes.

TESTIMONY OF JOY GORDON

Ms. GORDON. I appreciate the opportunity to speak before this committee. My background is in political philosophy and law. I have been doing research on economic sanctions for 7 years. Over the last 5 years, I have published on the Iraq sanctions in the Yield Journal of International Human Rights Law, Ethics and International Affairs, Middle East report, Le Monde Diplomatique, and Harper's Magazine. I am currently completing a book on the Iraq sanctions regime for Harvard University Press.

I would like to begin by mentioning a crucial distinction between the U.N. Taken broadly and the Security Council. Many of the accusations that have been lobbied against the United Nations regarding the Oil-for-Food program, in fact, go to decisions on the part of the Security Council itself or actions or failures to act on the part of the member states of the Security Council. I would like to briefly address a common misconception. It is often said that there was no oversight or monitoring or accountability in the Oil-for-Food program. That's incorrect. There were, by my count, seven levels of oversight and monitoring. All of these are publicly available. At the first level was something called distribution plan; before Iraq could contract for a single item, it had to submit an itemized list of every single item it wished to contract for in the next 6 months. Those distribution plans are and have always been posted on the OIP Web site. They are not a secret. Every item was approved.

The next thing was that once Iraq contracted, the contract initially went through the OIP and then to every single member of the Security Council. Every single member of the 661 Committee had the right to block or delay or question any contract indefinitely for any reason. In those cases where there were concerns, for example, the U.S. was primarily concerned with security issues, the U.S. could block a contract, and it did so for $5.4 billion of contracts. The U.S. and to some extent the U.K. Could delay contracts by asking for information, and in many cases those requests for information delayed contracts by as much as 2 years. So it was more than possible for the United States to intervene in blocking or delaying any contract that raised any concern to the U.S. in any form.

Next, once the goods were purchased, all funds went directly through an escrow account. There were no legal funds that went through the Iraqi government at all. Funds were—oil proceeds went to an escrow account; contracts were paid from the escrow account. There were onsite inspectors Cotecna and Lloyds Register, for the goods' arrival. And, finally, there were hundreds of U.N. Staff on the ground in Iraq to document of the distribution of goods, the use of goods, whether they arrived at the end user, whether they were consumed by the end user correctly.

Oil sales similarly had multi levels of supervision. The Iraqi government it is sometimes said was free to pick prices and to set prices low. That is patently incorrect. It had no such authority. SOMO had the authority to propose a price. The pricing formula for each month period was reviewed by the oil overseers. If the oil overseers found it to be consistent with fair market value, it recommended approval to the 661 Committee. The 661 Committee, again, every member had the right to block the approval of that formula at any time. It did not require consensus, it did not require agreement of any others.

The companies who were contracting for oil sales similarly went through the same process. Every company had to be registered. Registration did not mean that OIP reviewed them; it meant simply that the permanent nation—the permanent mission of that nation to the United Nations submitted a list, information about that company, its name and address. Once it did that, then any member of the 661 Committee could refuse to have that company on the list. If the price was approved by the 661 Committee and the company had been approved by the 661 Committee, then the oil overseers went forward with the approval of the oil contract. Any member of the 661 Committee, including the U.S., could stop the pricing if it ever looked unfair or for any other reason. And it could block any company if that company looked corrupt or for any other reason.

Let me address some of the concerns that have come up repeatedly over the last year. There have been a lot of discussion about the kickbacks, that contracts were routinely inflated by 5 to 10 percent, and that that amount was received in cash under the table by the Iraqi government. In fact—and it is often—the U.N. Is often charged with a failure to supervise or negligence in permitting this to take place.

That is not correct. In those cases where the price irregularities were clear, U.N. Staff, the OIP staff went to the 661 Committee and said: Here is a contract where the pricing is clearly improper. Do you want to block it? It was not within the authority of the United Nations' personnel to stop the contract; it was only within their authority to provide information to and to advise the members of the 661 Committee.

It was the responsibility of the members of the 661 Committee to block a contract for that reason or for any other reason. On those more than 70 occasions where OIP staff identified such extreme price irregularities as to clearly indicate kickbacks, it went to the 661 Committee. On none of those occasions did any member state, including the United States, choose to take action to block that contract. In cases where the—and those were in cases where the irregularities were glaring. In cases where the irregularities were 5 to 10 percent, they were difficult to detect, but even if they had been detected we have to assume that the members of the Security Council would not have been inclined to act any differently for minor increases of 5 to 10 percent if they were not prepared to block contracts where the price irregularities were very extreme.

Let us look quickly at oil surcharges.

Mr. WHITFIELD. Dr. Gordon, you are also about a minute and 15 seconds over. So if you could summarize, we would appreciate it.

Ms. GORDON. Okay. As I said before, for the oil surcharges, what's—it is the case that for all oil sales—I'm sorry. Again, it was the oil overseers, it was the staff of the U.N. That brought the oil surcharges to the attention of the 661 Committee as soon as they became apparent. That was in the fall of 2000. In that case, unlike with the import contracts, the Security Council chose to respond and to put in place a very Draconian measure. However, you cannot lay blame on the U.N. Staff. In both cases, they advised the Committee correctly. In one case, the committee chose to take action; in the other case, it did not.

I would like to emphasize that the smuggling was by far the largest amount of the illicit funds that went to Iraq by any measurement, whether it is the GAO, the Volcker report, or the Duelfer Report. And of the smuggling, about three quarters was through Jordan and Turkey combined. That again, we now well know was with the approval and full knowledge of the United States in particular. And I—and I will just end my statement there.

[The prepared statement of Joy Gordon follows:]

PREPARED STATEMENT OF JOY GORDON, PROFESSOR OF PHILOSOPHY, FAIRFIELD UNIVERSITY

Mr. Chairman and distinguished members of the committee: Thank you for this opportunity to testify before this committee. In taking on the difficult endeavor of unraveling the complexities of the Oil for Food Program, this committee is undertaking a tremendously important task, and it is a pleasure to be invited to contribute to that work. This program, its successes and its failures, has broad implications for future US foreign policy, as well as for the future of the United Nations.

My testimony today is based on the research I have done in the field of economic sanctions over the last seven years, including a close study of the Iraq sanctions process from 1990 to 2003. In the course of my research I have become familiar with the scholarly work on economic sanctions in general and on the Iraq sanctions in particular, as well as much of the extensive body of documents generated in the course of the Oil for Food Program. Over the last five years I have also interviewed many of those involved in the 661 Committee—the committee of the Security Council charged with overseeing the sanctions regime imposed on Iraq—and the OFF program.

Over the last year we have heard much about the failures of the Oil for Food Program. A great deal has been blamed on the Secretary-General for what is seen as an institutional failure on the part of the United Nations. As many have noted, there have been failures on the part of nearly everyone involved with the program. Most recently the Volcker Committee has explored the ethical problems involving Cotecna; the possibility of serious improprieties on the part of Benon Sevan, the director of the program; and a critical concern about the scope of the program's audits.

But in recent months there has been growing recognition of the extent to which the Oil for Food Program, as well as much of the oversight, was in fact in the hands of the Security Council and its member states—including the United States—not the Secretariat.

In my testimony today I'd like to address a number of issues concerning the Oil for Food Program and the accusations against it:

1. The effectiveness of the program
2. The magnitude of the accusations
3. Transparency and oversight
   - Monitoring of import contracts
   - Monitoring of oil sales
   - Transparency
4. Sources of illicit funds
   - Overland smuggling
   - Maritime smuggling
   - Kickbacks on import contracts
   - Oil surcharges
   - Iraq's freedom to choose its trade partners
5. The Volcker Committee reports

6. Who was responsible?
   - The consensus decision making rule
   - The US role
   - The State Department's defense of US support for Iraq's illicit trade of Jordan and Turkey
7. Conclusions

1. The effectiveness of the program

I think it is important to begin by recognizing that the Oil for Food Program, and the UN staff involved, were in fact tremendously successful at raising the quality of life for the Iraqi population, in very measurable ways. The nutritional intake nearly doubled, and acute malnutrition in children dropped by half. The health care system was much better able to meet the population's needs—surgical operations increased by 40%; polio was eliminated, and communicable diseases were substantially reduced. Water and sanitation improved considerably, and electricity became much more reliable.

We should be particularly conscious of the significance of these accomplishments as we see how difficult it is been in the last two years for the US occupation authority and the interim Iraqi government to achieve similar standards. This has been particularly true as the security situation has deteriorated, and will probably worsen as funds for reconstruction are reallocated to security costs.

The fundamental goal of the Oil for Food Program was to improve the lives of the Iraqi population through the import of critical humanitarian goods, and that was unquestionably achieved.

The magnitude of the accusations

While it is common to hear that Saddam Hussein's regime received $11 billion in illicit funds through the Oil for Food Program (or more recently, $21 billion), in fact the credible accusations are much more limited: that the former Iraqi regime obtained somewhere between $2 billion and $4.4 billion through oil surcharges and import contracts.

According to both the GAO reports from 2004 and the CIA's report from last September, the bulk of the illicit funds that entered Iraq came from oil smuggling—which took place prior to the Oil for Food Program, and after 1996 occurred entirely outside the program. As earlier congressional hearings have made clear, Iraq had ongoing trade with Jordan, Turkey, and Syria for many years.

The major GAO report maintained that from 1997 through 2002, the former Iraqi regime acquired $10.1 billion in illegal revenues related to the Oil for Food Program."[1] $5.7 of this came from oil smuggling and $4.4 billion from illicit surcharges on oil sales and commissions on imports.[2] The report of the CIA's Iraq Study Group maintains that the bulk of Iraq's illicit funds came from "government to government protocols"—ongoing trade agreements between Iraq and other countries, in violation of the sanctions. Iraq's income from these, according to the report, came to some $8 billion, while kickbacks from import contracts were estimated to be $1.5 billion, surcharges from oil sales were $229 million, and private sector smuggling was estimated at $1.2 billion.[3]

Thus, the most credible accusations—the GAO and ISG reports—maintain that the Iraqi regime illicitly received at most $4.4 billion via some aspect of the Oil for Food Program.

3. Transparency and Oversight

I'd like to address some common misconceptions about the program. Over the last year we've heard people say many times that the Oil for Food program had no system of oversight or monitoring, and that there was no transparency. It in fact had an elaborate system of oversight, and there was an enormous amount of information about the program and its operations that was not only available to the UN and the member states, but in fact was maintained for the public on the web site of OIP (Office of Iraq Programme), the agency established within the UN to house the Oil for Food Program and the UN's other Iraq programs.

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[1] "United Nations: Observations on the Oil for Food Program," Statement of Joseph A. Christoff, Director, International Affairs and Trade. Testimony before the Committee on Foreign Relations, U.S. Senate. GAO-04-65IT, p. 2.

[2] "United Nations: Observations on the Oil for Food Program," Statement of Joseph A. Christoff, Director, International Affairs and Trade. Testimony before the Committee on Foreign Relations, U.S. Senate. GAO-04-65IT, p. 2

[3] "Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD," 30 September 2004, *Regime finance and procurement section,* p. 23.

It is important to understand that to the extent there were kickbacks or improprieties within the program, this occurred not because of a lack of systematic monitoring; but rather took place in spite of an elaborate monitoring system. This monitoring system involved detailed oversight by members of the Security Council, including extensive participation by the United States and the United Kingdom, each of which received copies of all contracts made by the government of Iraq for every purchase of humanitarian supplies and oil spare parts.

It was OIP staff—customs officers—who notified the 661 Committee of possible kickbacks on import contracts, on more than seventy occasions. No member of the 661 Committee, including the US, then exercised its right to block or delay the contract.

It was OIP staff—the oil overseers—who notified the 661 Committee of oil surcharges in October 2000. The US and UK then began withholding pricing approval in response.

A. Monitoring of import contracts

Briefly, the multi-tiered monitoring structure for south/center Iraq[4] was:

1. **Distribution plan:** Before an application could be submitted that would allow Iraq to import goods, Iraq was required to submit an exhaustive list of every single item it wished to import, identifying quantities and sectors where goods would be used, and the justification for prioritizing these goods. The Distribution Plan then had to be reviewed and approved by UN staff, often with modifications.
2. **OIP review:** Once a contract was negotiated between the Iraqi government and the supplier, it was submitted to OIP. OIP staff reviewed it to see that it contained all the information required by the 661 Committee, and corresponded to the Distribution Plan
3. **UNSCOM/UNMOVIC:** The contract was also sent to UNSCOM (later UNMOVIC) and IAEA, to determine if there were any military or dual use goods
4. **661 Committee review:** The contract was circulated to every member of the 661 Committee.[5] Each member had the option of delaying the contract, asking for more information, or simply vetoing it.
5. **Escrow account:** Under the terms of the program as designed, no program funds ever went directly through the hands of the Iraqi government. All proceeds from legal oil sales went into a UN-held escrow account, and all import contracts were paid for from this account.
6. **On-site inspectors:** Upon arrival in Iraq, the goods were inspected by Lloyd's Register (later Cotecna) to see that the quantities conformed to the contract
7. **End use monitors:** Once the goods were in Iraq, staff from the UN agencies conducted thousands of site visits, surveys, and spot checks to determine if the goods were being distributed equitably and efficiently, and to gauge the adequacy of the program.

B. For oil sales:

1. The Iraqi government proposed pricing formulas, which were then reviewed by oil overseers and submitted to the 661 Committee for approval.
2. Every oil contract, including the prices, delivery specifications, and all contract terms, was reviewed by "oil overseers"—consultants from the oil industry, hired by the Secretary General, with the approval of the members of the Security Council. They advised the 661 Committee of any irregularities.
3. Every member of the 661 Committee had the opportunity to review any contract. Any oil contract could be vetoed by any member of the 661 Committee.

C. Transparency

In many ways the program was highly transparent. There was a considerable amount of information easily available to the general public at all times, and there was even more information available to the members of the Security Council, which was overseeing the program.

- The Distribution Plans, showing every item that the UN permitted Iraq to contract for, for every phase of the program, were (and for phases 5-13 continue to be) posted on the OIP web site

[4] Note that in northern Iraq the UN executed the program on behalf of the government of Iraq, and in that capacity took over some governmental functions. In south/center Iraq, the Iraqi government continued to perform normal governmental functions, but was monitored.

[5] Some goods that the Security Council considered uncontroversial were eventually put on a "green list" that bypassed the committee (pursuant to Security Council Resolution 1409) but went through all the other monitoring stages. However, where OIP staff found irregularities in "green list" contracts, they then presented those to the 661Committee.

- The Secretary General provided reports every ninety days on the program, including detailed information on both oil sales and import contracts, and on the situation in every sector of the Iraqi economy and society, including health, agriculture and nutrition, education, electricity production, telecommunications, transportation, de-mining. All of these reports were (and still are) posted on the OIP web site
- For every 6-month phase, OIP posted charts showing the status of both oil contracts and import contracts: for every sector of the economy, how many contracts had been submitted, how many approved, how much had been delivered, etc. All of these were posted for each phase on the OIP web site.
- OIP issued weekly updates with details of oil liftings, status of holds on particular contracts, and other items. All of these were (and are) posted on the OIP web site.
- The OIP web site also listed every Security Council resolution, Secretary-General report, and every other major report on the program. These were (and still are) posted on the OIP web site.

The transparency of the Oil for Food Program stands in marked contrast with the way that the sanctions program had operated in the first half of the 1990s. From 1990-1995, Iraq was permitted to apply to the 661 Committee for permission to purchase humanitarian goods (although it could not sell oil to generate funds). However, the 661 Committee was extremely inconsistent in what items it would permit and what it would not; refused to generate any guidelines or criteria that would allow suppliers or the government of Iraq to know what was permitted and what was not; was often inconsistent, permitting a contract for certain goods, such as ambulance tires, on one occasion, and then a few months later denying a contract for similar goods; and once it denied a contract, it would not provide the government of Iraq or the supplier with any information as to why the goods were denied.

4. Who was responsible?

For many months now we've heard accusations leveled against "the UN" for allowing Saddam Hussein to garner illicit funds through the Oil for Food Program. There are some in Congress and elsewhere calling for Kofi Annan's resignation. Yet the Secretariat had no decision making role in setting the terms of the Oil for Food Program. The program itself was a product of a Security Council resolution; all subsequent modifications to the program were established through Security Council resolutions; and implementation of the program, including OIP, was overseen by the 661 Committee, which made the decisions regarding implementation.

Under Article 41 of the UN Charter, it was the responsibility of the Security Council, not the Secretariat, to enforce the sanctions regime. The role of the Secretariat was limited to execution of the program, as the program had been designed by the Security Council; as well as providing the Council members with information, and performing administrative functions. The Security Council and its members, including the United States, played critical roles in allowing smuggling and kickbacks to take place.

A. Smuggling

The bulk of Iraq's illicit income, according to the GAO and the CIA's Iraq Study Group, was from smuggling: $5.7 billion according to the GAO, and $8 billion according to the ISG.

According to the ISG report, the majority of this trade—$4.4 billion—was with Jordan. A significant amount of illicit trade ($710 million) was with Turkey. According to the ISG report, in 1991 Jordan informed the Council of its intention to continue trading with Iraq, and the Council "took note," but took no measures to reprimand or prevent Jordan from going forward with large-scale, prohibited trade. Similarly, in the case of Turkey, the Council turned a blind eye to large-scale illicit trade. This included the US, which had a strategic alliance with Turkey. All three US administrations over the course of the sanctions regime sent waivers to Congress, asking that aid be continued to Jordan and Turkey despite their illicit trade with Iraq.

B. Maritime smuggling

In addition to overland smuggling, there was substantial maritime smuggling as well. The Multinational Interception Force (MIF) was charged with interdicting ships engaged in illegal trade with Iraq. The MIF was created by Security Council Resolution 665, which called upon member states with naval forces in the area to intervene to enforce the sanctions.

According to its reports, the MIF was quite active, boarding hundreds of ships each year,[6] and there is no reason to suggest that it was incompetent or poorly run. However, it makes little sense to blame the UN for failing to stop Iraq's illicit oil smuggling. There was no authorization for any UN entity to take actions to intervene; SCR 665 only invited member states to take these measures.

The MIF involved some participation, at various points, from twenty or so different nations. But it was overwhelmingly dominated by US naval forces. The commanders at every point in the MIF's history were US naval rear admirals or vice admirals in the US Fifth Fleet.[7] The force itself consisted overwhelmingly of US ships. In 2000, for example, the US contributed 86 vessels; the UK seven vessels; Canada contributed one vessel for two months, and the Netherlands contributed one vessel for one month.[8] MIF commanders periodically reported to the 661 Committee.

Kickbacks on import contracts

OIP has been accused of failing to stop illegal kickbacks. However, OIP had no authority to block improper contracts. It was authorized to request clarification in the case of irregularities, and provide that information to the 661 committee. Only the members of the Security Council had the power to block contracts. Where price irregularities were clear, the customs officers of the OIP staff did in fact inform the 661 Committee, giving each member the opportunity to block the contract, or to ask for further information before approving. On over 70 occasions, this was done. On none of those occasions did any member of the Council—including the US—seek to delay or block the contract for pricing irregularities.

D. Oil surcharges

In October 2000, while reviewing Iraq's proposed pricing formulas, the oil overseers noted that the proposed formulas did not reflect fair market value. In their contacts with potential oil buyers, they learned that the Iraqi authorities had started requesting payment of a surcharge of up to 50 cents per barrel. The oil overseers reported both of these facts to the 661 Committee. In March 2001, the Secretary General drew attention to this problem in a public report to the Security Council.

In response to this information, the US and UK implemented a "retroactive pricing policy." The normal practice in the industry, and for the Oil for Food Program, was to set the price for the coming month. Under retroactive pricing, the US and the UK withheld their approval for the price until the month had passed. This meant that buyers literally were required to sign contracts for oil purchases without knowing what the price was until after they were committed. The US and UK took the position that this allowed the committee to determine retroactively what the fair market value of the oil had been the previous month, and charge buyers accordingly. Thus, the argument went, Iraq was receiving no more nor less than fair market value; that eliminated the premia that went to middlemen; and consequently eliminated the possibility that the middlemen would pay Iraq illicit surcharges.

The new pricing policies did in fact eliminate any margin for surcharges. But it had another result as well: that oil sales were substantially compromised. Predictably, few buyers were prepared to purchase Iraqi oil without knowing the price. It did not help much to provide assurances that the price they were ultimately charged would be "fair market value," as determined by the 661 Committee. As a result, the retroactive pricing mechanism created a financial crisis in the OFF program from 2001-2003. In 2001, oil exports averaged 1.7 million barrels per day. In 2002, the average was 1.1 million BPD. By September 2002, that number had dropped to 400,000 BPD. The result was a dramatic shortfall in funding for humanitarian contracts. As of February 2002, there were nearly 700 fully approved contracts, with a value of $1.6 billion, for which there was no funding; and another $5.3 billion of contracts on hold, awaiting approval; for a total potential shortfall of $6.9 billion. One member of the 661 Committee noted that "exports are now so low that the pro-

[6] From 1994 to 2001, there were several hundred boardings per year; in 2002 and 2003, there were over 3000 boardings per year.

[7] The commanders of the MIF were Rear Admiral A.K. Taylor (1991-1992); Vice Admiral D.J. Katz (1992-1994); Vice Admiral J.S. Redd (1994-1996); Vice Admiral T.B. Fargo (1996-1998); Vice Admiral C.W. Moore Jr. (1998-2002); and Vice Admiral T.J. Keating (2002-2003).

[8] In 2001, the US contributed 90 vessels, the UK contributed four, and all other participating countries contributed one or two. In 2002, the US contributed 99 vessels, five nations contributed ten or more, and several other countries contributed less than ten.

gram is on the verge of collapsing."[9] Income remained at this reduced level for the duration of the program.[10]

E. Iraq's freedom to choose its trade partners

The CIA's report makes much of the "secret oil voucher" system, by which Iraq designated oil purchasers. However, this appears for the most part to be simply Iraq's record-keeping system for exercising the rights it had under the terms of the OFF program to select its trading partners. While it may be said that particular purchasers should not have been approved, the fundamental decision to allow Iraq to choose its oil buyers and import contractors—and the political leverage that accompanied that—was a decision made by the Security Council, with the participation and agreement of the United States. It may be that the Council felt that the elaborate system of monitoring and the multi-tiered approval process would serve as a sufficient mechanism of oversight. But the decision to allow Iraq to select its trading partners was not a failure of judgment or oversight on the part of the Secretariat. It was a decision of the Security Council, with the agreement of the United States.

5. The Volcker Committee Reports

In its February report, the overall finding of the Volcker Committee regarding the account discussed (the 2.2% account) was that it was run carefully and well. The reports generated by the Independent Inquiry Committee chaired by Paul Volcker have been by far the most rigorous and careful studies of the accusations against the Oil for Food Program to date. Of the accusations addressed in the IIC's reports thus far, some concern the operation of the program; some concern individual acts which did not have significant effects on the program; some improprieties served the interests of the Iraqi government, and some did not.

- The most significant issue concerning the program's structure was the claim that the OFF program should have conducted internal audits. This issue raised by the Volcker Committee goes to one of the fundamental problems in the basic structure of the program: that it was a program created, designed, and enforced by the Security Council under its powers in Chapter VII, but administered by the Secretariat. There is no provision in the UN Charter for the Secretariat to override or modify any decision by the Security Council, in any form.

  Under the terms of the program's mandate, contained primarily in Security Council Resolution 986 and the Memorandum of Understanding, only external audits were authorized. According to the February report of the Volcker Committee, these were conducted and submitted to the Security Council, as required. Under standard UN practice, contracts to which the UN is a party are audited; but the import and export contracts in the OFF program took place between Iraq and commercial enterprises. While we may now say that internal audits should have been conducted, or that the import and export contracts should have been audited, that was not how the Security Council chose to design the program, and the Secretariat did not have authority to override the Security Council on these or any other aspects of the OFF program.

The other major issues discussed in the Volcker Committee reports released to date do not indicate that program's basic structure or operations were fundamentally compromised:

- A great deal has been said about the claim that Kofi Annan's son may have been involved in the decision to award an inspection contract to Cotecna. But while this issue has gotten enormous attention from the media, it is not a significant factor in the operation of the Oil for Food Program. The Cotecna contract involved a minor part of the program (the 2.2% account). Further, the accusation is that the contract was improperly awarded to Cotecna; not that Iraq's humanitarian imports were compromised by any practices of Cotecna.
- The improprieties in contracting identified by the Volcker Committee in the February report indicate that the program was subject to a series of manipulations for political purposes, but that these generally did not in fact serve the interests of the Iraqi government. The report of February 3 notes that of the three major

[9] In June 2001 Iraq stopped producing oil in protest against a US proposal to modify the sanctions regime, and in April 2002 Iraq again declared a moratorium, to protest Israel's treatment of Palestinians. However, the retroactive pricing mechanism was by far the major factor in the financial crisis of the OFF program from 2001-2003.

[10] Income from oil exports increased steadily for the first eight phases, from $2.1 billion in Phase 1 to $9.6 billion in Phase 8, which ended in December 2000. For Phase 9, the oil exports fell to $5.6 billion; Phase 10, $5.4 billion; Phase 11, $4.6 billion; Phase 12, $5.6 billion; Phase 13, $4.4 billion.

contracts under the 2.2% account, only one (the banking contract) was awarded with the agreement of the Iraqi government; and that arrangement had the support of the US and UK. The Saybolt contract was improperly awarded to a Dutch company, on the grounds that the Netherlands supported the enforcement of sanctions against Iraq. The inspection contract to Lloyd's Register was improperly awarded to a British company, through the influence of the British Mission to the UN.

- The Volcker Committee gives evidence for serious concerns that Benon Sevan improperly received $160,000 through his involvement with one company that bought Iraqi oil through the program. If true, Sevan's actions would clearly be improper and may be illegal as well. However, it is not clear that Sevan in fact used his position to serve illicit interests on the part of the Iraqi government. The Volcker report indicates that the Iraqi government wanted Sevan to use his influence to persuade the Security council members to lift holds on oil spare parts and equipment. The Volcker report notes that the Iraqi government was disappointed that Sevan did not do so, and cancelled further oil allocations. In fact, Sevan did argue for lifting holds on oil spares parts and equipment, on the grounds that these were necessary for oil extraction. But that was also the position held by the oil overseers, as well as most members of the Security Council.

6. Who was responsible?

A. The consensus decision making rule

Prior witnesses at these hearings have suggested that the consensus requirement of the 661 Committee made it difficult to establish effective oversight of the Oil for Food program. However, for the most part the consensus requirement in fact operated in exactly the opposite way: in the absence of consensus, the default position was *denial* of import or oil sales, not approval. In most contexts, the consensus requirement did not prevent unilateral US action. It was in fact the structure that **enabled** the US to impose many policies and decisions unilaterally.

- Import contracts: All contracts (except those eventually included on the Green List) were circulated to every member of the 661 Committee, and required the approval of every member of the Committee. Thus, any single member could block any contract, regardless of whether other members objected.

  The United States unilaterally blocked massive quantities of import contracts, citing security concerns. It was occasionally joined by the UK, but the overwhelming majority of the holds (typically 90-95% at any point in time) were imposed by the US and the US alone.
- Oil contracts: the US, joined by the UK, used the consensus rule to delay approval of oil pricing, and did so over the objections of others in the Council until October 2001, when the 661 Committee finally agreed to retroactive oil pricing.
- The negotiation of "rollover" resolutions (the Security Council resolutions extending the program for an additional six months) were occasions for dispute. On one hand, there was considerable controversy over US holds on humanitarian goods; on the other hand, the US and UK would raise the issue of smuggling, and seek to include stronger measures against smuggling in the rollover resolution. On these occasions, France and Russia opposed such measures, arguably because of their own interests. However, it appears that the US also had little credibility on this issue with the committee, since the US did not want to enforce such measures against its allies, Jordan and Turkey, but only against other nations.

B. What was the US role?

The history of the program does not support the claim that the US was concerned about illicit funds entering Iraq, or would have done more if it had not been stymied by other members of the council. By all accounts, and based upon the US policies and decisions, the US was singularly preoccupied with military concerns, in particular WMD.

- The US blocked billions of dollars of import contracts—$150 million as of November 1998, then growing to $5 billion as of July 2002. All of these were blocked on the grounds that they contained items that could have military applications, or else contributed to Iraq's infrastructure, thereby creating the possibility of rebuilding its military capacity.

  There was nothing in the 661 Committee's procedures that prevented the US from blocking questionable contracts, for either imports or oil sales. To the contrary, the consensus rule was the mechanism that allowed the US to impose far greater restrictions on import and oil sales than other members of the Security Council supported.

- The US declined to block any of the import contracts presented, on the more than seventy occasions on which the US and the other member states were explicitly informed by UN staff of pricing irregularities suggesting possible kickbacks.
- US officials did on occasion report rumors of kickbacks and ask for investigations. However, when asked to provide specifics that could be investigated, US officials failed to provide any information on which to base an investigation.
- All three US administrations explicitly permitted large-scale illicit overland trade between Iraq and Jordan, and between Iraq and Turkey, throughout the history of the sanctions regime.
- To the extent that there was maritime smuggling, this occurred not through failures on the part of the UN, but rather on the watch of the US Fifth Fleet. The MIF fleet was overwhelmingly made up of vessels from the US Fifth Fleet, and was at all times commanded by US naval officers.
- The US approved the hire of every oil overseer hired by the Secretariat
- When the oil overseers—UN staff—informed the 661 Committee of pricing irregularities in oil sales, the US and UK implemented a harsh policy of retroactive pricing. Far from being stymied by other members on the Council, this practice began despite the objections of others on the Council.
- The US voted for Security Council Resolution 986 and agreed to the Memorandum of Understanding, which gave the government of Iraq the right to select its trading partners. This was crucial in permitting Iraq to use the OFF program to generate political support.
- The US voted for Security Council Resolution 986, which only required the OFF program to be subject to external audits, not internal audits.

C. The State Department's defense of US support for Iraq's illicit trade with Jordan and Turkey

In the congressional hearings that have taken place over the last several months, it has become known publicly what research specialists have known for the entire Iraqi sanctions episode—that all three US administrations turned a blind eye to this smuggling, and in fact took efforts to prevent the imposition of penalties under US law.[11] Despite more than a year of harsh attacks on the United Nations—particularly the Secretariat—for claimed mismanagement of the Oil for Food Program, the fact is that the bulk of the illicit funds that the Iraqi regime acquired in fact had nothing to do with the Oil for Food Program.

It is clearly a matter of some embarrassment to the State Department that the United States itself knew, approved of, and took efforts to protect the ongoing smuggling which generated the majority of these funds, specifically in regard to Turkey and Jordan. The current response of the State Department is that *this* smuggling was legitimate and transparent, unlike that smuggling, done by Syria, or other corrupt practices such as kickbacks and bribery. Such a claim seems quite absurd in light of the actual history of US policy choices.

- In light of the research conducted by Dr. Paul Conlon, who testified before Congress last month, it is not correct to portray Jordan as being honest and aboveboard, when there was evidence from nearly the beginning that Jordan misrepresented its activities to the Committee on an ongoing basis. Indeed, it was Dr. Conlon himself who wrote the report informing the 661 Committee of this.[12]
- In the case of Turkey, it was precisely the fault of the United States that Turkey's ongoing illicit trade was not granted any legitimacy. Whereas other countries on the 661 Committee repeatedly asked that Turkey's appeal for relief under Article 50 be considered, and Turkey placed this on the Committee's agenda over a dozen times, it was the United States (occasionally joined by the UK) that blocked the Committee from considering Turkey's request.

The State Department's current position

In his testimony on April 12 before the House Committee on Government Reform, Thomas Schweich of the State Department maintained that the large-scale ongoing illegal trade that Iraq maintained with Jordan and Turkey was "in no way com-

[11] As Mr. Schweich explained in his testimony, since 1991, under federal law there have been restrictions on US assistance to countries not in compliance with Security Council sanctions against Iraq. However, all three administrations filed waivers with Congress throughout the history of the sanctions regime, finding that it was in the national interest to provide aid despite these violations.

[12] "Data on Iraqi Trade/Rev.3," memorandum dated 1 December 1993 from Paul Conlon to James C. Ngobi

parable to the kind of corruption, bribery, or kick backs" that have been investigated by congressional committees.[13]

According to Mr. Schweich, the 661 Committee's decision to turn a blind eye to Jordan's smuggling was "not a back room deal." Rather, he said, in 1991 Jordan sought relief under Article 50 of the UN Charter, and the Committee never acted. Consequently, Jordan informed the Committee that a loss of trade with Iraq would cause considerable damage to its economy, and simply notified the Committee that it intended to continue importing oil from Iraq. The Committee "took note" of this without objection, and asked Jordan to report on its trade. Thus, according to Mr. Schweich, "it wasn't really secretive." Similarly, according to Mr. Schweich, in 1996 Turkey requested Article 50 relief, also because of the consequences of sanctions on the economy. He stated:

> The Jordanian and Turkish protocols were done to alleviate economic hardship, it was an exception to the sanctions regime because of the severe consequences that a failing Jordanian and Turkish economy might have on the world, it was done transparently, openly with the knowledge of the entire 661 Committee and the international community and for a valid purpose.
>
> And to allow countries and individuals to equate that with the type of corruption that went on could seriously undermine our efforts to reform the UN that are going on now.

Other countries, such as Syria, did not receive similar relief, according to Mr. Schweich; Turkey and Jordan, by contrast, "came hat in hand, asked for Article 50 relief, and really did it by the book. Syria just engaged in massive fraud . . ."

Contrary to the State Department's claims, the open smuggling was never considered legal. There was clear favoritism based upon US strategic alliances, not altruism or international law; and the US in fact blocked attempts to grant proper, transparent, legal relief under Article 50.

Jordan

In his 1996 article "How Legal Are Jordan's Oil Imports from Iraq?"'[14], Dr. Paul Conlon wrote about this issue in great detail. He noted that:

- When India made a similar request, citing the Security Council's approval of Jordanian trade, it was rejected. In a formal opinion "of considerable precision and clarity" from the office of the UN's Legal Counsel, "the Committee concluded that an exemption would be illegal."[15]
- Although Jordan provided annual reports to the 661 Committee concerning its Iraq trade, by 1993 it was apparent that these reports were not truthful. Jordan's official reports to the UN data base on world trade reported much higher amounts.[16] An internal report regarding these discrepancies was circulated to multiple members of the 661 Committee, but the committee declined to discuss it.[17]
- Research conducted in 1994 indicated that "considerable manipulation was involved" in Jordan's reports to the 661 Committee: Jordan's actual oil imports from Iraq—according to Jordan's own reports to other UN bodies—were 81% greater (in dollar value) than the amount it reported to the 661 Committee.[18]
- There in fact was no transparency on this issue. Some countries believed that the committee had actually granted Article 50 relief.[19] While the illicit trade was widely known, "[o]riginally, the pseudo-agreement's existence was held to be a secret. It was never mentioned in any published UN document."[20]
- The practice of "taking note" of Jordan's practices, which occurred each year, had no basis in any relevant legal authority, either Article 50 or paragraph 23 of Resolution 687.[21]
- This arrangement continued well past any legitimate concerns with Jordan's inability to obtain substitute oil supplies. Far from seeking alternate sources of oil, Jordan actually increased its dependence on Iraqi oil during the sanctions regime.[22]

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[13] All quotes from Mr. Schweich are from the Federal News Service transcript of his testimony (unpaginated).

[14] *Florida State University Journal of Transnational Law & Policy,* vol. 6 (Fall 1996).

[15] Ibid., p. 112.

[16] Ibid., p. 115.

[17] Ibid., p. 116.

[18] Ibid., p. 117.

[19] Ibid., p. 118.

[20] Ibid., p. 115.

[21] Ibid., p. 114.

[22] Ibid., p. 116.

In the case of Jordan, there was no transparency. An open secret of improper activities is not "transparency." Nor could the 661 Committee view this as legal, in light of the legal opinion stating strongly that it was not.

Turkey

In a letter dated August 5, 1996, Turkey submitted a formal request to the 661 Committee for relief, citing the economic hardship due to trade disruption with Iraq resulting from the sanctions. Turkey sought permission to resume oil imports, and to in turn provide Iraq with goods for the civilian population. Far from supporting Turkey's appeal for Article 50 relief, the US delegate on the 661 Committee said in an August 1996 meeting (meeting no. 142) that Turkey's request would compromise the integrity of the sanctions regime, and that the matter should be postponed to a later time. The issue was raised again, and again, and again—in meeting 143 (August 28, 1996); meeting 144 (October 14, 1996); meeting 145 (December 3, 1996); meeting 146 (December 18, 1996); meeting 148 (January 28, 1997); meeting 150 (February 21, 1997); meeting 151 (March 17, 1997); meeting 152 (March 24, 1997); meeting 155 (May 14, 1997); meeting 157 (June 11, 1997); meeting 159 (July 17, 1997); meeting 160 (August 27, 1997); meeting 166 (January 4, 1998); meeting 171 (May 12, 1998); meeting 172 (June 18,1998); and meeting 176 (December 1, 1998).

As the issue dragged on for years, the US position remained unchanged. Again and again, the US delegate reiterated the same position: that the view of the United States had not changed, thus blocking any possibility of considering Turkey's appeal for relief in a public, legal, and transparent form.

It was the US who maintained that the Committee did not have authority to grant a sanctions exemption to Turkey—over the opposition of others on the 661 Committee. In one instance, the US objected to a French proposal that the Secretariat provide a report on the effects of the sanctions on neighboring states.[23] The delegates from China and Bahrain spoke in support of the proposal. However, the US (joined by the UK) refused to agree, thus preventing consensus (effectively vetoing) even a request to the Secretariat to provide information on the impact of sanctions on Turkey and other nations.

Conclusion

In the cases of Jordan and Turkey, the State Department currently maintains that the US did not approve of or participate in any impropriety, on the grounds that these arrangements were transparent and honest. They were not.

7. Conclusions

- The bulk of the illicit funds that arrived in Iraq over the course of the sanctions regime had no relation to the Oil for Food Program. They occurred through large-scale ongoing smuggling, which began well before the OFF program, and had no relation to the program at all.
- Contrary to common views, the Oil for Food Program did not "give Saddam Hussein a free hand" to use oil proceeds as he wished, without oversight or monitoring. Rather, the OFF program had multiple levels of oversight for both import contracts and oil sales, involving scrutiny by UN staff and by every member of the Security Council, of nearly every aspect of every transaction. To the extent that there were kickbacks or other improprieties in the program, these occurred not for lack of oversight; but rather occurred despite an elaborate system of oversight.
- Contrary to common views, the Oil for Food Program was not characterized by an absence of transparency. In many regards the program was highly transparent, not only to the members of the Security Council—which authorized and supervised the program—but to the general public as well.
- Contrary to common views, the UN Secretariat was not responsible for what are seen as the major failures of the program: the ability of Iraq to choose its trade partners; the kickbacks on import contracts; the surcharges on oil contracts; the large-scale smuggling. The design of the program, and the enforcement of the sanctions, was in the hands of the Security Council and its members, not the Secretariat.
- Contrary to common views, the US did not show significant concern regarding smuggling and kickbacks. Rather, the US was preoccupied with blocking military goods from entering Iraq. The US generally showed a lack of interest in stopping illegal funds from entering Iraq, and this was particularly true where US strategic allies were involved in illicit trade with Iraq.

[23] Meeting 171, May 12, 1998.

- It is not plausible to attribute the poor humanitarian situation in Iraq to the failures of oversight of the Oil for Food program. These kickbacks and oil surcharges are estimated to be at most $4.4 billion, over the seven-year course of the program. What was far more damaging to Iraq's economy and society were the limitations that compromised oil sales (including retroactive oil pricing) and large-scale holds on equipment and goods necessary for infrastructure and for the operation of an industrialized society—electricity production, water and sewage treatment, telecommunications, transportation, construction, industrial production, agriculture. These were imposed almost entirely by the United States. US holds on critical humanitarian and infrastructure supplies at just one point in time—July 2002—totaled some $5 billion. In the end, the total goods that actually arrived in Iraq from the program's inception through May 2003 came to only $4.6 billion per year, or about $191 per person per year. The extreme impoverishment of the Iraqi population would not have been significantly affected if that amount were increased to $200 per person per year, which is approximately the difference that $4.4 billion would have made.

  We may be shocked that as much as $4.4 billion in illicit funds slipped through the oversight structures of the Oil for Food Program. But the reality is that in the face of such severe, longstanding, and widespread impoverishment, the actual impact of the kickbacks and surcharges that have been denounced by many as a scandal of historic proportions was in fact negligible in comparison to the economic sanctions themselves, and the additional strictures imposed by the US and the UK.

Mr. WHITFIELD. Dr. Gordon, thank you very much. And I appreciate the testimony of all of you. I might say that Gerald Anderson will be testifying on the next panel, and I do know that in his testimony he is going to say that the U.S. and Britain made 40 attempts in formal and informal meetings with the 661 Committee to address the oil surcharge problem.

Now, Mr. Smego, you testified that you reviewed more than 23,000 pages of documents or DVDs equivalent of 23,000 pages. Is that correct?

Mr. SMEGO. That is correct, sir.

Mr. WHITFIELD. And these are documents from the Iraqi Intelligence Service or the state oil ministry?

Mr. SMEGO. The 23,000 pages were actually from a larger amount of 60,000 pages from the Iraqi State Oil Marketing Organization, otherwise known as SOMO.

Mr. WHITFIELD. And did you translate Iraqi Intelligence Service memos?

Mr. SMEGO. Yes. I also did translate nine documents from Iraqi Intelligence Service.

Mr. WHITFIELD. And, now, you were with the Iraqi survey group for a period of time. When was that?

Mr. SMEGO. That is correct. I was there from April 2004 to January 2005.

Mr. WHITFIELD. Now, it appears that in some point in 2000, Saddam Hussein began demanding a surcharge on Iraqi oil contracts. During the course of your work, did you uncover any documents pertaining to those oil surcharges?

Mr. SMEGO. Absolutely, sir.

Mr. WHITFIELD. And which exhibit is that?

Mr. SMEGO. Exhibit 1.

Mr. WHITFIELD. And what does that say?

Mr. SMEGO. Exhibit 1 is a handwritten document in English regarding contracts under the eighth phase of the Oil-for-Food program stating that the buyer—it is between the seller and the buyer—for the purchase of however many barrels of crude oil, and

that a payment of so much dollars per barrel would be charged as a surcharge.

Mr. WHITFIELD. And paid either directly in cash or to a SOMO bank account?

Mr. SMEGO. That is correct.

Mr. WHITFIELD. And who signed that document?

Mr. SMEGO. At the first page, at the top left of the document it is signed by Amer Mohammed Rasheed, who was the minister of oil at that time.

Mr. WHITFIELD. Okay. Now, during the course of your work for the committee, did you examine any documents that purport to show that Saddam Hussein and members of his regime used, or at least attempted to use oil allocations under the program to influence individuals and entities?

Mr. SMEGO. Absolutely. Certain documents within the Iraqi Intelligence Service, for example, document 3—excuse me, Exhibit 3 in 1998 states that Iraq was planning to take a portion of its oil during the phase and distribute it to friendly companies and distinguished personalities. Approximately 80 million barrels "to the friendly nations, companies, and political establishments," at the rates specified.

Mr. WHITFIELD. Okay. And that was Exhibit 2 or 3?

Mr. SMEGO. That was Exhibit 2. I stand corrected.

Mr. WHITFIELD. And Exhibit 2, does it also mention Russia, France, and China?

Mr. SMEGO. Yes. At the rates of Russia receiving 40 percent, France 15 percent, and China 11 percent of the approximately 80 million barrels.

Mr. WHITFIELD. And then on Exhibit 3, does it specifically mention those countries as being a part of the permanent membership of the Security Council?

Mr. SMEGO. Absolutely. Exhibit 3 is a disclosure of the oil allocations after the sixth phase. It is subtitled Special Orders.

Mr. WHITFIELD. Now, they refer I believe in that exhibit also to standard oil—standard orders and specific orders or special orders. What's the difference in those two?

Mr. SMEGO. Underneath special orders, the committee can see that certain entities and individuals are listed. They are nonstandard—they are not oil companies themselves. So one could certainly draw the conclusion that the standard orders were for the oil companies, whereas the special orders were for those entities that were not standard purchasers.

Mr. WHITFIELD. Now, is my understanding correct that, under a special order, you can literally walk away from the contractual obligation?

Mr. SMEGO. I would not be qualified to answer that.

Mr. WHITFIELD. Okay. Now, I want to ask you a few questions about this Iraqi Intelligence Service documents. You mentioned that you translated I think nine of those; is that correct?

Mr. SMEGO. Yes. Nine documents, sir.

Mr. WHITFIELD. Does it appear from those documents that Saddam Hussein attempted to implement a strategy of improving relations with the French government?

Mr. SMEGO. Certainly. By January 2002, under Exhibit 4, a memorandum from the Office of the Secretary of the President Abed Hamid al-Hattab, stated, and I quote: "the present leader, God bless him, ordered the improvement of dealing with France."

Mr. WHITFIELD. And did the IAS subsequently take steps to carry out that directive from Saddam Hussein?

Mr. SMEGO. Yes, sir. The Exhibit 5 states, with the subject of Iraqi-French relations, to prepare an Iraqi delegation to France in exchange for an invitation of French delegations to Iraq. And that specifically, under point number 5, economic privilege such as oil and trade was to be given to French political and economic individuals close to the center of political decisionmaking.

Mr. WHITFIELD. Okay.

Mr. SMEGO. There was also allegations of support—or at least, I should say, number 7 specifies the study, the possibility to support one of the candidates in the French Presidential elections.

Mr. WHITFIELD. Okay. Now, let me ask you. On exhibit 11—or I want to call your attention to that a minute. This document purports to show that the regime, the Saddam Hussein's regime subsequently refined their strategy on influencing French companies or delegations, et cetera. Could you discuss for us what that says?

Mr. SMEGO. Absolutely, sir. By April 2002, point 2 approves the granting of contracts to the French companies which are the most important and influential in the French field. However, point 3 of the document refines it in saying that: Regarding the subject of doing business with the small French companies, it is understood that the small companies are not beneficial to the country. Meaning Iraq.

Mr. WHITFIELD. So they focused on large French companies?

Mr. SMEGO. Absolutely. The small companies apparently did not pan out for them.

Mr. WHITFIELD. Now, did you find any documents during your work for the committee that identified specific individuals that the regime sought to target?

Mr. SMEGO. Yes, sir. Examples 6 and 7 are the best—Exhibits 6 and 7 are the best examples of such.

Mr. WHITFIELD. Now, Exhibit 6, what does it say in Exhibit 6?

Mr. SMEGO. The subject of the memorandum, it's dated in February 2002 from the assistant director of the Iraqi Intelligence Service to the director regarding Iraqi-French relations. They named 12 French individuals of influence, among them the former French president Valery Giscard d'Estaing, Charles Pasqua, Jean-Pierre Chevenement. Please forgive my pronunciation of French names. Jacques DeLors. And other individuals.

Mr. WHITFIELD. Now, did you find any documents showing that any payments were made, for example, to Charles Pasqua?

Mr. SMEGO. The documents that I have presented here today, I do not have anything that directly denotes a payment to Mr. Pasqua. However, there were several documents regarding—or that at least mentioned Mr. Pasqua in them. Among them, the first would be Exhibit 13.

Mr. WHITFIELD. And according to the Duelfer Report, Mr. Pasqua received allocations for 11 million barrels of oil, of which 10.75 was actually lifted. But would you walk us through Exhibit 13?

Mr. SMEGO. Certainly. Exhibit 13, the first bullet under which states that: First of all, the subject is the French individual or dignitary, Charles Pasqua, that Saddam Hussein personally approved designating 3 million barrels of oil to Charles Pasqua. And that the Frenchman Bernard Guyet, who represented Charles Pasqua also visited and requested the contract be under Genmar Company. It was a Swiss company. However, when the Iraqi side made it clear that it was necessary to choose a French company, apparently Mr. Bernard Guyet stated that it was not possible for political reasons.

Mr. WHITFIELD. And was there any additional information on that page?

Mr. SMEGO. Absolutely. When the Iraqi State Oil Marketing Organization requested from Mr. Guyet a letter of authorization from Mr. Charles Pasqua to Genmar for Genmar to lift the crude oil, Mr. Guyet refused and clarified that they could not provide that because of a fear of political scandal.

Mr. WHITFIELD. Okay.

Mr. SMEGO. Subsequently, a few days later, Exhibit 14, a letter from the office of the deputy prime minister reminds the SOMO executive director that Mr. Bernard Guyet is the diplomatic and political adviser for Mr. Pasqua, and he represents him to receive the oil allocation.

Mr. WHITFIELD. Okay. Now, are you familiar with a company called Ibex Energy?

Mr. SMEGO. Yes, sir, I am.

Mr. WHITFIELD. During the course of your work, did you find any documents relating to Ibex?

Mr. SMEGO. Yes, sir, I did.

Mr. WHITFIELD. Is Ibex a French company?

Mr. SMEGO. I would not be qualified to answer that.

Mr. WHITFIELD. Okay.

Mr. SMEGO. Exhibit 37, if you would, please. Now, the Iraqi document does specify that Ibex Energy is a French company, but I have not validated such.

Mr. WHITFIELD. Okay.

Mr. SMEGO. Exhibit 37 is a letter from the Iraqi vice president Taha Yassin Ramadan, who addressed the letter to the minister of oil approving the supply of Ibex with a quantity of 1.8 million—or, excuse me, 1.8 million barrels of oil to be included in phase 5 specifically "as the beginning of doing business with this company as well as to know the potential of advantage from their activities in other fields."

Mr. WHITFIELD. And then I notice on Exhibit 38 a payment of $19,700 was made to a Portuguese citizen named Armando Carlos for services rendered. Is that correct?

Mr. SMEGO. Yes, that is correct, it did appear on Exhibit 38.

Mr. WHITFIELD. And who is Mr. Carlos?

Mr. SMEGO. Mr. Carlos is apparently an oil inspector as reviewed in Exhibit 39.

Mr. WHITFIELD. And what does Exhibit 39 point out?

Mr. SMEGO. Exhibit 39 is a letter from the minister of oil in April 2002 to the deputy prime minister stating that two additional quantities of oil had been loaded from the Min al Bakar terminal with the coordination of the oil inspector, the agreement with the

oil inspector for his share of 2 percent of the profit of the additional quantity in exchange for his services. And point 3 specifically names that Armando Carlos has been paid $105,819 for both aforementioned shipments.

Mr. WHITFIELD. Okay. I see my time has expired. So at this point, I would recognize Mr. Stupak for 10 minutes of questioning.

Mr. STUPAK. Mr. Smego, in your testimony you were requested to look for documents that referred to particular topics. Is that correct?

Mr. SMEGO. That is correct, sir.

Mr. STUPAK. What were those topics?

Mr. SMEGO. The majority counsel specified that we would be searching the oil documents for transactions that would be from entities or regarding individuals or entities from the United Nations permanent Security Council member nations that did not appear to have an established history in the oil trading industry.

Mr. STUPAK. So if an oil company would be an established entity that had traded in the oil world market, you wouldn't look at those?

Mr. SMEGO. We generally went over the companies that did not have a specific influence or any signs of outside influence or use of oil for influence.

Mr. STUPAK. Well, did you look for things like Coastal Oil? Did you look for that entity.

Mr. SMEGO. Coastal Oil did appear. Coastal Oil documents were very lightly referenced in those pages.

Mr. STUPAK. But they were referenced.

Mr. SMEGO. But we do not have anything that was presented here today.

Mr. STUPAK. Why not?

Mr. SMEGO. It was not the discretion—or, excuse me; it was at the discretion of the majority counsel.

Mr. STUPAK. What about Bay Oil?

Mr. SMEGO. Again, that would be at the discretion of the majority counsel.

Mr. STUPAK. Did you see Bay Oil in there, though?

Mr. SMEGO. I do not recall any specific documents.

Mr. WHITFIELD. Mr. Stupak, I might just mention, in the binder there are some letters from Oscar Wyatt of Coastal that was translated by Mr. Smego. I just would point that out to you. It is Exhibits 40 and 41.

Mr. STUPAK. So the documents you looked at, you were really directed by the majority counsel to look at these documents and you didn't go much further than that?

Mr. SMEGO. There were 21 DVDs containing 60,000 pages. We certainly had our hands full with the amount of pages, and to quickly triage or at least have gone through 23,000, we hit what we could.

Mr. STUPAK. Okay. I guess what I am trying to focus on, how did you focus your investigation; on what majority counsel told you, or were you trying to get at companies that dealt with Iraqi Oil-for-Food program that looked questionable?

Mr. SMEGO. I brought documents to the attention of the majority counsel. It was upon his approval that documents would be translated and presented.

Mr. STUPAK. Okay. Besides looking at these documents as far as them being accurate, would you have any personal knowledge of them being accurate?

Mr. SMEGO. Would you be saying authentic, or the translation?

Mr. STUPAK. Authentic. I am sure your translation is correct. The authenticity.

Mr. SMEGO. I am not sure if I would be qualified to provide an answer, based that I have not inspected the original document itself.

Mr. STUPAK. Okay. Do you know whether the statements contained in these documents like Exhibit 4 and 5 and 11 and 6 and 7, do you know if they are true?

Mr. SMEGO. I can simply state that the documents were written by, or at least from the perspective of the Iraqi side, whether the author of the Iraqi document put fact in there I am not aware. I cannot confirm the facts. I can simply tell you what the document states.

Mr. STUPAK. Should we assume, then, that only the people who wrote them and those who received them can really testify as to their truthfulness or accuracy?

Mr. SMEGO. Well, I can simply tell you what the language states. Whether to be confirmed or not, no in-depth analysis was performed.

Mr. STUPAK. Okay. When you look at so many of these documents, some of these dates just seem to be off base. One date, and then it is a year later you see another date. Like, take document 2 and 3, the ones you pointed out here. Take a look at No. 2. The date on that document, if I am reading this right, is November 22, 1998. And then you look at document No.3 which you reference as part of it, and that is a year later.

Mr. SMEGO. Yes, those dates are accurate.

Mr. STUPAK. So how do you tie these two into each other is, I guess, what I am trying to figure out. On Document 2 you say Russia gets 40 percent, France 50, and China 11. And then you go to document No.3 here and it is a whole year later.

Mr. SMEGO. That is correct, sir. In November 1998 the decision was made to withhold a portion of the oil during that phase and split it as we have—the document states. Exhibit 3 shows that a year later, that the Iraqi State Oil Marketing Organization had put together a spreadsheet outlining No. 1, 2 and 3, being Russia, China and France, under the subheading of "countries of permanent membership."

Mr. STUPAK. Okay. In this whole deal here, when you talk about individual profits, these individuals again, this, for Mr. Pasqua and all that, whether they received that money you have no idea; right?

Mr. SMEGO. I do not have access, or I was not presented with any documents regarding that. I can simply have the documents from the State Oil Marketing Organization.

Mr. STUPAK. Okay.

Dr. Gordon, if I can ask you this question. In your testimony you seem to put all the blame on the problems with the Oil-for-Food

program on the Security Council and 661 sanctions committee. I call it the sanctions committee. Do you believe that the U.N. staff and the Office of Iraqi Programs were aggressive enough in identifying the problems and bringing them to the sanctions committee attention?

Ms. GORDON. Yes. From everything I have seen I think that is quite true. If you look at what is called the customs officer within the OIP, they absolutely did find several dozen instances of clear price irregularities and all of those occasions brought them directly to the 661 committee. In the case of the oil overseers it was the same. They noted very quickly when the oil prices were not consistent with fair market value, immediately brought these to the attention of the 661 committee. That is correct.

Mr. STUPAK. Mr. Fawcett, do you agree with that?

Mr. FAWCETT. No, I don't. I think out of the 20,000 contracts for the U.N. officials, to find 70 that were a problem, I think they could have done that by the end of breakfast. The fact that these were——

Mr. STUPAK. What would make a contract out of order, then, other than price?

Mr. FAWCETT. I think price, the fact that there was no competitive bidding, should have shown to anyone looking at this—to see a company from a country that is closely allied with Iraq would immediately raise the attention of an inspector or of a customs official. Also, the great majority of the goods going in were commodities. They were not difficult to price. It was not difficult to work out what was the standard world price for a commodity; therefore, what should the price actually be.

Mr. STUPAK. You said one of the things you look at is countries closely aligned with Iraq. But 75 percent of that oil ended up back here in the United States, and the United States really isn't closely aligned with Iraq.

Mr. FAWCETT. Correct. But we are talking about the contractor, the first contractor. The game with the oil purchases was to allow someone else to pay the kickbacks, not the major oil companies of the world, not the refiners. Clearly, the end user would know there is a problem, but they would not be the one paying the kickback themselves.

Mr. STUPAK. And everyone knew there were kickbacks going on.

Mr. FAWCETT. Absolute, without a doubt.

Ms. GORDON. Mr. Stupak, I wonder if I might address this notion that only 70 of the 20,000.

Mr. STUPAK. Sure.

Ms. GORDON. I understand Mr. Fawcett to be suggesting that they weren't working that hard to come up with that 70. I think what is important to understand is that the Iraqi Government was not stupid. If they had had extreme price irregularities and frequency, that would have been noted. What they did do was pad the contracts, for the most part, in fairly small amounts, 5 to 10 percent, where the result of padding was often in contracts that were made to order, that were built to specifications, for which there were not in fact standard oil prices.

I think what we see is not a failure to discern extreme pricing irregularity, but in fact consistence in finding those. And no one is seeing the irregularities when they were marginal, 5 to 10 percent.

I would also point out that by the history of what we have seen so far, there is no reason to think that the Security Council would have responded any differently if in fact OIP had presented more contracts with price irregularities.

Mr. STUPAK. Mr. Fawcett, let me ask you this. In your longer report, you stated that although the major oil companies stopped buying Iraqi crude from middlemen after Saddam imposed a surcharge, BP and Exxon began to buy again after just a couple of months and claimed they did not deal with companies that did pay surcharges. Do you think their claims should be investigated? And wasn't the surcharge just passed on to the end user, basically the American people?

Mr. FAWCETT. From all appearances, that is correct.

Mr. STUPAK. Do you think it should be investigated?

Mr. FAWCETT. I think someone should investigate, whether it's this committee or not. And if you do, I am glad to help.

Mr. STUPAK. Thank you. It looks like my time's expired Mr. Chairman.

Mr. WHITFIELD. Thank you Mr. Stupak.

At this time I will recognize the chairman of the committee, Mr. Barton, for 10 minutes.

Chairman BARTON. Thank you, Mr. Chairman. I have got some general questions. Then I am going to have some specific questions about the documents that are before the subcommittee this afternoon.

My first general question is to Mr. Fawcett. Do you have any estimation of how many billions of dollars were skimmed from the Oil-for-Food program?

Mr. FAWCETT. I think the estimates have continually risen. In 2002 we estimated it was about 2.1 or 2.2 billion. However, we have not looked at the humanitarian supply side. So clearly it is higher. I think the latest is up to 4, 4.5. And whether that is the end or not, I doubt it. The one thing I've seen about this program is it's always worse than you think.

Chairman BARTON. Well, let me ask you a question. Regardless of how many billions were taken off the top, how much of that money, say we got a—if it could be proven that one of these officials got a personal voucher—and the one that is referenced in one of the documents is this Mr. Pasqua—be allocated 3 million barrels, well at $15 a barrel, that is $45 million. At $20 a barrel that's $60 million. If we could locate those funds, could they be recovered and remitted to the current Iraqi Government?

Mr. FAWCETT. Well, the vast majority of that money actually went to the U.N. Account. We are only looking, on the kickback you're looking at maybe 50 cents a barrel, maybe less. So the type of money there would be $1 million, $1.5 million. However——

Chairman BARTON. So the fact that he got the voucher, he didn't get the total proceeds.

Mr. FAWCETT. No, not at all.

Chairman BARTON. Even if we could prove it, nobody alleges that he got the full value of those 3 million times whatever.

Mr. FAWCETT. Not at all.

Chairman BARTON. He got some sort of a commission.

Mr. FAWCETT. That's correct. However, to address your point of the bigger picture of recouping Iraqi assets, let's not forget that over history and over time, over the last three decades, Saddam has ripped off tens of billions of dollars, long beyond the Oil-for-Food. The highest estimate we have heard is $140 billion. The Oil-for-Food program is really only the latest, and that is what makes it important because it provides a window into Saddam's manipulation over the last 30 years. And the most recent information that we have, and this is why I think these investigations are very important, is they might lead us toward the money that he stole over time.

Chairman BARTON. Well that's my point. You made it better than I could through questioning. That at some point in time, all the investigations by all the various committees, various international bodies, not just the U.S. Congress, hopefully will result in an identification of recoverable assets.

Mr. FAWCETT. Absolutely. And that's—again, the Oil-for-Food is important because it is more recent. The old rip-offs have now been turned into investments, into real estate, into stocks, into bonds, into things that wealthy individuals invest in, much more difficult to find. But if we see in the Oil-for-Food, we find the same mechanisms, the same people involved that helped Saddam launder his money back in the seventies and eighties, so instead of separating this out and saying, well, he only ripped off this amount in the Oil-for-Food and he smuggled this amount, actually the stories should be merged in order to do the best for finding the ripped-off assets and returning them to the Iraqi people.

Chairman BARTON. Well, step one is to identify the theft. Step two is to recover the goods if we can identify where the stolen goods were. And unfortunately, and it is frustrating and I think members on both sides of the aisle share the frustration. We are still in step one. I'd rather be in step three, going after the goods and trying to get them back to the Iraqi people.

I want to ask Mr. Smego a question. The documents that you reviewed for this committee and that you have translated, is there any reputable authority that disputes your translation?

Mr. SMEGO. I would encourage that if there is any doubt about a personal—or a certain section of the translation, by all means you can certainly seek a second opinion.

Chairman BARTON. No. I am just saying since you have done the translations and they have been available, at least for review by staffs and I would assume others in official capacities, is there anybody out there that says you mistranslated them? Or can we stipulate that your translation is the correct translation?

Mr. SMEGO. There is no indication to me, no one has approached me to say that these translations aren't correct.

Chairman BARTON. As far as this subcommittee is concerned, your translation can be considered to be a correct translation.

Mr. SMEGO. That's correct. If another linguist were to translate the context or the substance, the message would not change.

Chairman BARTON. I know, Dr. Gordon, you are not a translation expert, but do you have any reason to doubt the veracity of the translations?

Ms. GORDON. No, sir. I don't speak Arabic.

Chairman BARTON. Okay. Well, I just wanted to try to assert that our translations are the correct translation.

Mr. SMEGO. One thing that I can suggest, sir, that with the assistance of the native Iraqi linguist, when you pair a native Iraqi speaker and a native English speaker and having actually two linguists work on the document, you produce a far superior translation than any one individual could produce.

Chairman BARTON. Okay. On document No. 5 in our binder, what—when we talk about the implications of this document, could you enlighten us a little bit on the implication of this document No. 5 that the present leader, Saddam Hussein—God bless him and protect him—has ordered the improvement of dealing with France, and then Iraq is going to send official political and social delegations to France; they are going to organize a roundtable in Baghdad and Paris to develop the relationship between both countries. The Foreign Minister is going to visit Paris, and tasking the International Council and Office of Foreign Relations of the party to approach the most influential parties in France and the French Parliament?

And then item No. 5 on the second page of this document, do not consider granting economic privilege, oil and trade, to those who are not effective or do not have leverage. However, these privileges will be given to French political and economic individuals close to the center of the political decisionmaking. What does that imply, this document taken as a whole, in your opinion?

Mr. SMEGO. Well, while I cannot specify as to what it implies, I can reassure you that these are recommendations from the assistant director of the Iraqi Intelligence Service, made to his boss, the director of the Iraqi Intelligence Service, on how possibly relations could be improved. Of note would be the director's margin note that is listed under the first margin note. The director questioned, how do we begin? Where do we go with this? He is basically questioning how to implement this plan and who the targets would be to influence. This memorandum followed subsequently Exhibit——

Chairman BARTON. Well, if I wanted to imply—having read the documents, if I wanted to imply that this would be considered an official document of Saddam Hussein's regime, that they wanted to find out the people that counted in France and try to bribe them, would that be a wrong implication? I'm not saying it's a fact, but if I were to read this document, do not consider granting economic privilege to those who are not effective or do not have any leverage, the fact that it says granting economic privilege would indicate to me that at least somebody was thinking about bribing somebody in the French Government if they thought they had leverage. Would I be wrong to imply that?

Mr. SMEGO. I wouldn't be qualified to judge that.

Chairman BARTON. Mr. Fawcett, would I be wrong to imply that?

Mr. FAWCETT. Well, without having seen the document it's hard for me to say. However, there is a lot of other corroborating evidence to show that that was——

Chairman BARTON. And I'm not saying it's a fact. I'm just saying a person of normal intelligence, if we assume that these documents are correctly translated—and nobody apparently is asserting that the gentleman to your left has improperly translated them—if you just read the language and the plain meaning of it, it would imply to me that Saddam Hussein was thinking about bribing people in France if they were in a position of power. That is my implication.

Mr. FAWCETT. They also publicly went on the record long ago, back in the late nineties, saying that they were going to skew the contracts toward those political supporters internationally. So this is not strange at all. This fits exactly in with their policy.

Chairman BARTON. Well, my time is about to expire. My last question on this document 13, where the French dignitary Charles Pasqua says the present leader, Saddam Hussein, God bless him, approved designating 3 million barrels to him, the French dignitary. Why in the world would the Iraqi Government give Mr. Pasqua the concession for 3 million barrels? He's not an oil trader, that I am aware of. I mean, Mr. Stupak has pointed that out. So why would they do that? Why didn't they pick Congressman Joe Barton, or you, or the good professor to your left? Why did they pick him?

Mr. SMEGO. Is that question directed to me, sir?

Chairman BARTON. It is a question, yeah. Just out of the blue, why did he get picked? Did he have any ability to influence things in the French Government or maybe be an influence maker himself? If I were trying to influence the French Government, might I pick him?

Mr. SMEGO. One might go back to Exhibits 6 and 7, No.2 of Exhibit 6, subparagraph (b). The French Charles Pasqua was the former Minister of the Interior and the French candidate for Presidential elections in the current period. And it references that it would be possible to approach Mr. Pasqua through the relationship of Tarik Aziz.

Chairman BARTON. So he might be able to influence the French decision on these sanctions, the position the French Government might take in the U.N. regarding these sanctions and regarding lifting the sanctions, mightn't he?

Mr. SMEGO. That is what Exhibit 6 might mean.

Chairman BARTON. It might be money well spent if you were Saddam Hussein. Might be. I think it would be. If I decided I wanted to bribe somebody in France, he'd be a good target.

Mr. Chairman, I yield back my time.

Mr. WHITFIELD. Thank you, Mr. Chairman. Mr. Waxman is recognized for 10 minutes.

Mr. WAXMAN. Thank you, Mr. Chairman. It seems that what we have here is a story of smuggling going on, even though there was an embargo and kickbacks, in the sale of oil, the proceeds of which were supposed to provide food for the Iraqi people. Mr. Fawcett, is that what we are looking at?

Mr. FAWCETT. Yes, that's right.

Mr. WAXMAN. Okay. And the kickbacks, from what we know from these documents and otherwise, were to whom? To countries, to individuals, to oil companies?

Mr. FAWCETT. The kickbacks were sent back to bank accounts in Jordan largely. And the accounts were, depending on the humanitarian side, the accounts were registered to the relevant ministry. And my understanding of the mechanism, that the signators from that ministry, as soon as the money was received, sent it on to another bank account of which they didn't know much about, implying that it was going to either Saddam's family or to the Iraqi intelligence.

Mr. WAXMAN. I see.

Dr. Gordon, was the U.N. supposed to be monitoring this whole program to provide some kind of transparency?

Ms. GORDON. The whole program meaning the Oil-for-Food program?

Mr. WAXMAN. The Oil-for-Food program.

Ms. GORDON. Again, I think you have to start by not speaking of the U.N. as a whole. I think that it is easy to not see how things function if you only look at, quote, the U.N. What is really important is to look at what were the obligations and responsibilities of the Secretariat, which included the OIP, the Office of Iraq Programs, and what were the responsibilities and obligations of the Security Council. Obviously both are within the United Nations, but as we talk these days about whether Kofi Annan should step down or what the failures were on the part of Secretariat or whether the U.N. as a whole needs to be reformed, what is really crucial is to say who exactly made what decisions, when. Who exactly had what oversight responsibilities?

Mr. WAXMAN. What was the committee, the 661?

Ms. GORDON. It was a committee of the Security Council that mirrored the Council. There were 15 members, one from each member state of the Security Council. It operated by consensus, so any member of 661 committee could veto any matter at any point for any reason.

Mr. WAXMAN. And so they were supposed to oversee the program.

Ms. GORDON. That's correct.

Mr. WAXMAN. And the U.S. was part of that?

Ms. GORDON. Yes, of course.

Mr. WAXMAN. And this committee signed off on all the deals?

Ms. GORDON. That's correct. More than signed off. Had full knowledge at every point. That was what the U.N. staff of the Secretariat did, and did very well. They provided information. They provided advising. If I could identify one particular decision of the Security Council, as the Congressman before was looking at Mr. Smego's documents—and we have heard a great deal about the vouchers that went to Russians, the vouchers that went to French officials, and it is as though this is new information or somehow surprising that Saddam Hussein would use oil sales to garner political leverage. In fact, that was an explicit decision on the part of the Security Council when it passed Security Council Resolution 986 on the memorandum of understanding, which is, it was an explicit decision to give Iraq the right to choose its trade partners both for import contracts and for oil sales. It was understood at that time that Iraq was likely to use that to get—for political leverage.

As we see, the memo consisted of vouchers and secret vouchers. In fact, as far as I can see, those vouchers are nothing other than the bookkeeping device by which the Iraqi Government exercised the right that the Security Council gave it to choose its trade partners.

Mr. WAXMAN. Would the U.S. have known about this?

Ms. GORDON. Of course.

Mr. WAXMAN. And so the U.S. Government, as part of the Security Council committee 661, was aware that they were giving Saddam Hussein the power to do the kinds of things he had done in the past: provide corruption and kickbacks and such.

Ms. GORDON. Of course. I mean——

Mr. WAXMAN. Let me just settle with that, of course, because I wanted to pursue another matter with Mr. Smego, and maybe someone else will follow up on this. Mr. Smego, the committee asked you to review several documents from SOMO, the Iraqi State Oil Marketing Organization. And I'd like to ask you to review another SOMO document which was handed to you by my staff, if I may. First, could you please verify for the committee that this document is on or purports to be on SOMO letterhead and is signed by the General Manager of SOMO, Mohammad al Jabari?

Mr. SMEGO. No, I cannot.

Mr. WAXMAN. You cannot. In looking at it, does it appear to be on SOMO letterhead?

Mr. SMEGO. I have never seen such letterhead.

Mr. WAXMAN. Okay. Have you ever seen SOMO letterhead?

Mr. SMEGO. Yes, I have.

Mr. WAXMAN. And this is different letterhead than SOMO company letterhead?

Mr. SMEGO. It is different from all of the other SOMO letterhead that I have seen.

Mr. WAXMAN. It is different. Okay. Could you look at the highlighted text of this letter and verify that it says, SOMO purchased gasoline to import into Iraq for approximately $1 per gallon. I believe the text reads quote, "U.S.D. 347 per metric ton delivered to Baghdad, which is about $0.98 per gallon," end quote.

Mr. SMEGO. I can verify that it is not in Arabic nor that I have translated the document. It is the first time that I have ever seen it.

Mr. WAXMAN. But you can verify that's what it says on this piece of paper.

Mr. SMEGO. In English, I see that; yes, sir.

Mr. WAXMAN. Okay. So SOMO, according to this document, was importing gasoline into Iraq for less than $1 per gallon. And, Mr. Chairman, I am going to ask that this letter be made part of the hearing record.

Mr. WHITFIELD. I would ask the gentleman where did this letter come from?

Mr. WAXMAN. Well, let me withdraw my request because I don't want to use up my time for questions.

Ms. Gordon, let me turn to you. Suppose a French company had a separate contract to bring gasoline into Iraq, that this French company was being paid out of Oil-for-Food funds and that that French company charged not $1 per gallon but more than $2.50 per

gallon. Would you agree that someone at least ought to examine that discrepancy and figure out why a French company was allowed to charge 250 percent higher than normal Iraqi price?

Ms. GORDON. I'm sorry. A French company to import——

Mr. WAXMAN. If we found out a French company was charging 250 percent higher than normal Iraqi price, wouldn't that discrepancy call out for some examination?

Ms. GORDON. I suppose so.

Mr. WAXMAN. If I also told you this French company got this contract in secret and that no other companies were allowed to bid on it, wouldn't that be a factor for someone to look into? Wouldn't that raise suspicion?

Ms. GORDON. I would expect so.

Mr. WAXMAN . Well, Mr. Chairman, this is not a hypothetical example I invented. This is a real case. But it didn't happen under the Oil-for-Food program. It happened under the Development Fund for Iraq under the Bush administration. And it wasn't a French company, it was an American company; it was Halliburton. The administration gave Halliburton its contract in secret, in a no-bid process. It excluded all other companies. The Pentagon's own auditors have now determined that Halliburton overcharged by more than $212 million under this contract. And even though the administration paid Halliburton with Iraqi funds from the DFI, it intentionally concealed these overcharges from the United Nations.

My point is not to detract from the Oil-for-Food investigation, but to demonstrate that if these actions had been committed by a French company or by the French Government under the Oil-for-Food program, we undoubtedly would have had dozens of hearings by now. But presumably because it is Halliburton and the Bush administration, we have had none. This hampers the legitimacy of all our efforts, and I hope the committee will remedy that disparity very soon.

Dr. Gordon, how would you compare the transparency of the American handling of the Iraqi oil funds with the transparency of the U.N. handling or the Security Council handling the Iraqi oil funds?

Ms. GORDON. Well, as I said earlier, there are seven levels of oversight just for import contracts, and another set of separate controls for oil sales. What is the case is that with the Oil-for-Food program, to the extent that there were improprieties, they happened not because of an absence of oversight or accountability, but, in fact as large as these numbers sound to us, they happened at a marginal level. They happened around the edges. They happened on isolated occasions and they happened despite an elaborate, consistently implemented system of oversight at least on the part of U.N. personnel.

By contrast, if you look at Security Council Resolution 1483, which is the resolution that recognized that the occupation authority systematically eliminates all of the forms of oversight that were in place under the Oil-for-Food program, it replaces them with certain other forms of transparency in some cases, and some forms of oversight are not replaced at all. And as I believe you mentioned earlier, we have already seen a huge spate of reports coming out from the inspector general of the CPA itself, from the Defense Con-

tract Auditing Agency, and from KPMG Bahrain, which is the auditor retained by the International Advisory Monitoring Board, all of which indicate a level of corruption and mismanagement that quite frankly dwarfs the most extreme of the accusations against the Oil-for-Food program.

Mr. WAXMAN. Thank you. Mr. Chairman, I want to renew my request to put the letter in. And you asked where I obtained the letter. The letter was——

Chairman BARTON. Mr. Chairman, I object.

Mr. WAXMAN. I thought the chairman of the full committee indicated that we work on a bipartisan basis and take documents——

Chairman BARTON. I will do that. But I am objecting to this request because it has not been done on a bipartisan basis.

Mr. WAXMAN. Well, we did furnish it to the majority staff. And if I might further tell you about this document, this was sent to the staff.

Chairman BARTON. You can tell me about it off the record. But I am going to object and I want to make a statement as soon as your time has expired.

Mr. WAXMAN. Well, if you want to make a statement, then I want to make a statement; because I don't know what you are going to say, but it sounds to me like a pretty negative one about even trying to find out that SOMO has indicated to us through a document they sent to us, that they were angry about Halliburton getting so much more money than they were in providing gasoline to Iraq.

Chairman BARTON. Mr. Chairman, I think the gentleman's time has expired.

Mr. WHITFIELD. I might also just add that on this document, in and of itself, I see no mention of Halliburton in here at all. I mean the name Halliburton does not appear anywhere in this document. And I guess because the chairman has objected, so——

Mr. WAXMAN. Well, Mr. Chairman, the other audits we provided DCAA, the auditor for the Pentagon, has indicated that Halliburton was paid from Iraq funds run by the U.S. administration in Iraq, and they also indicated that there may be as much as $200 million that have been overpaid in excess of what the gasoline would have charged.

Mr. WHITFIELD. The other reports have been entered into the record in their entirety and not by excerpt. But the gentleman's time has expired. And at this point I would call on the gentleman from Texas.

Mr. WAXMAN. Point of order, Mr. Chairman.

Mr. WHITFIELD. Yes.

Mr. WAXMAN. The gentleman from Texas has had his time for questioning. If he is going to be recognized, and I certainly don't object to it——

Mr. WHITFIELD. No, I was getting ready to recognize——

Mr. WAXMAN. If he is going make a statement that pertains to anything that I have asked about, are you going to out of order allow me to——

Chairman BARTON. Parliamentary inquiry, Mr. Chairman. Does the Chair have the right of recognition?

Mr. WHITFIELD. Yes.

Chairman BARTON. Has the Chair recognized the gentleman from Texas?

Mr. WAXMAN. I asked a point of order, which is a higher form of parliamentary inquiry.

Mr. WHITFIELD. Just a minute. I was getting ready to recognize Dr. Burgess of Texas for his question-and-answer period. So does anyone object? If not, I am going to call on Dr. Burgess for his 10 minutes.

Chairman BARTON. Well, Mr. Chairman I thought you had recognized me. Did you not recognize me?

Mr. WHITFIELD. I was recognizing the gentleman from Texas for his questions. But I would be happy to recognize the chairman of the committee.

Chairman BARTON. Okay. And I will yield to Mr. Waxman. But I have a statement that I want to make and then I will be happy to yield to the gentleman from California.

Mr. WHITFIELD. Okay.

Chairman BARTON. We have operated this subcommittee, as far as I know, for the last 20 years under both Democrat and Republican, in a bipartisan fashion when it came to document presentation. Now, I am told that the documents in the binder have been shared with the minority staff for at least a month. If that is in error, I need to be told that.

The documents the gentleman from California has twice tried to get into the record have not been shared with anybody until they showed up at this hearing. Now, if the gentleman from California has documents that he wishes to be put into the record, if he would share them with the majority staff in an appropriate fashion, in all likelihood they would be entered into the record. But showing up at a hearing and having these surprise documents asked to be put into the record by unanimous consent is not going to be tolerated. If you have got documents, share them with the majority staff and we will work it out and we will put them in the record.

That is what I am objecting to. I am not objecting that you have a document. And if it is a legitimate document, and is a part of the hearing record it will be put in. But this is the second time, Mr. Waxman, in one hearing that you have presented documents to go into the record that I am told we have not seen until hearing. That is what I am objecting to, and I will be happy to yield to my friend from California.

Mr. WAXMAN. Well, Mr. Chairman, I have no knowledge when you provided our staff with this binder, but we are told it was last Thursday. But that is not the point for me. We, as part of the investigation on the Government Reform Committee, received the documents from SOMO—which is of two pages—before this hearing was ever called. The other documents——

Chairman BARTON. Reclaiming my time. When did you share it with the majority staff?

Mr. WAXMAN. Well, when we walked into the hearing.

Chairman BARTON. Today?

Mr. WAXMAN. Yes.

Chairman BARTON. Today. And how long have you had it?

Mr. WAXMAN. Well, let me finish what I am saying to you, because I think you are misreading what we are doing here. I had

some questions about the other documents that I put into the record which are already out, and I am sure each of these witnesses has heard about them. And that is the Special Inspector General Stuart Bowen's report of maybe $9 billion having been lost from the Iraq funds since the U.S. took over the Oil-for-Food funds. This is not a surprise I have pulled on the committee. These are documents that have been well reported in the press. And maybe if the chairman would permit——

Chairman BARTON. Well, reclaiming my time.

Mr. WAXMAN. Let me finish my thought.

Chairman BARTON. I have the time. I have yielded to you because I believe in a full and fair debate.

Mr. WAXMAN. And you have cut me at least two times.

Chairman BARTON. But it's my time.

Mr. WAXMAN. You've cut me off two times.

Chairman BARTON. It's my time. Now, you have been a valued member of the full subcommittee since before I was even in the Congress, I think. Now I don't know how long you've been on the subcommittee, but you have been on the subcommittee a long time. You were a former subcommittee chairman of this committee when your party was in the majority. You, more than anybody, know that to have these investigations and these hearings, documents and materials need to be shared. You, more than anybody, should know that you don't walk into a hearing the day of the hearing, if you're trying to be cooperative, and spring documents.

Now, if they are legitimate documents, they deserve to be a part of the record. My objection is not whether these documents are good, bad. My objection is that twice in one hearing, a senior member of the minority, who's a former subcommittee chairman when you were in the majority, has tried to put documents in the record without vetting them through the normal process. That's my objection. If you're willing to stipulate that you'll use the normal procedure with the minority staff and Mr. Stupak and his staff on this subcommittee, we won't have a problem.

Mr. WAXMAN. Will the gentleman yield to me?

Chairman BARTON. I'll be happy to yield.

Mr. WAXMAN. I want to point out the essential point that I made in the very beginning. This is the 13th hearing on the Oil-for-Food program from Iraq. And I am critical of the fact that we have had zero hearings on the U.S. use of the Iraqi oil funds. And therefore, I have raised the issue because it is an investigation that I and my staff have been pursuing without any cooperation from this committee.

Now, I appreciate your berating me on an issue of whether I shared these documents in time, which are already in public record. But I am going to berate you because I think the Republican leadership should be looking into both issues, the Oil-for-Food mismanagement and the mismanagement by the U.S. Government of billions of dollars, $9 of which have been lost or laundered or absconded with under the direct jurisdiction of the U.S. Government.

So I hope you would take it into your thought process that perhaps we ought to expand our investigation, and I'd be happy to work with you on that.

Chairman BARTON. Well, reclaiming my time. I am not aware of one instance the gentleman from California has come up to me and asked for my help or cooperation in anything you just said.

Mr. WAXMAN. Well, consider yourself asked.

Chairman BARTON. Maybe you have and I've just got a bad memory, which is quite possible. But I don't recall it. Now, are you——

Mr. WAXMAN. I recall that we have had another hearing of this committee on this issue, and at that time I raised the concern that we were looking at the Oil-for-Food program and not paying any attention to the U.S. administration of the Iraq oil funds. That was on the record and we can get the transcript for it. You maybe didn't pay attention to it because I am only a Democratic member of the committee. That may be true. But I think it's worth investigating.

Chairman BARTON. Reclaiming my time, this member of the majority is the person who, on the House floor during the energy bill, asked unanimous consent that you could offer your amendment, when you weren't on the floor to offer it. That is who this member is. That is who this member is who has tried to go above and beyond to make sure that regardless of the majority or minority, if you're a member of this committee, all your rights are adhered to. The gentleman well knows that.

Mr. WAXMAN. And I appreciate that and thank the gentleman for it. But this is not a personal matter. This is a matter of public concern, and if we are going to look at the kickbacks and corruption and use of funds that should be directed to helping the Iraqi people, I think we are not only looking at one side of it, perhaps for political purposes, justifiably so, because I think it is worth pursuing, but we also ought to look at the $9 billion that have been lost or unaccounted for when the U.S. Government was in charge directly, and the failure of the U.S. Government to handle in a transparent manner, or even provide the U.N. the information about what was happening there when we were operating pursuant to a U.N. resolution.

I thank the gentleman for allowing the further discussion of this matter. And if you still object for my document which I questioned the witness to be in the record, I will accept that fact. But the gentleman did have it before him and we will make it available to anyone.

Chairman BARTON. I just want the documents vetted by the majority staff. And if the staff says they are acceptable, I am not opposed at some point in time to them being in the record. But I do strenuously object to the process, and if we don't get agreement on the process, then there will be an objection every time on process.

Mr. STUPAK. Mr. Chairman, if I may.

Mr. WHITFIELD. Yes, Mr. Stupak.

Mr. STUPAK. Mr. Chairman, if I may, I would request that, No. 1, we give Mr. Waxman some time to lay a foundation on where this document came from. If it's part of a public record, I don't know why it would not be admitted into the record. And I would ask that we give him 3 days or so to at least be allowed to submit this for the record, provided a foundation can be established.

Mr. WHITFIELD. Well, I would ask that he vet it through our staff. And then I would also just like to reiterate what Chairman Barton said; and that is we do—have had a policy of sharing docu-

ments, maybe not months in advance, but I know that this binder on the Oil-for-Food program was provided 6, 7 days ago. And I do think that it is not fair to bring documents up here that day, that we have never seen, and start testifying from them. And particularly in this document, there is nothing on this document whatsoever relating to Halliburton. Halliburton is not in any way referenced.

But at your request, I think that we will get the document and work with the staff and make some decision. But at this point, an objection has been made to admitting it into the record.

Mr. WAXMAN. Mr. Chairman, might I just point out that we are talking about two pages? You have a binder of many other documents. I wonder what happens next. Are we supposed to submit our intended questions of the witnesses to the Republican staff as well, to see if those are going to be permitted to be asked? Because it seems to me that that is the direction in which this committee is going. And I certainly hope that is not the case.

Mr. WHITFIELD. I don't think that's necessary.

Mr. WAXMAN. But I had asked about it, this document. I would be pleased to write a letter to the chairman and he can include it in the record or not. But this is a document that we received from the State Oil Marketing Organization that works for the Iraqis in dealing with their oil, and they were getting paid a lot less than what we were paying Halliburton to bring in gasoline into Iraq at the same time, and that ought to be investigated. I wish the committee would investigate that as well.

Mr. WHITFIELD. Okay. Mr. Waxman, thanks for your comments. Now, I want to call on the gentleman from Texas, Dr. Burgess, for his 10 minutes of questions.

Mr. BURGESS. Thank you, Mr. Chairman.

Dr. Gordon, in reading through your testimony on paragraph 1, the effectiveness of the program, you write, "I think it is important to begin by recognizing that the Oil-for-Food program and the U.N. staff involved were in fact tremendously successful at raising the quality of life for the Iraqi population." I'm sorry, I just find that an incredible statement to make. I'm astonished by that. But you back it up with measurement and I guess what I would like to ask, if I could, is that you will provide us some documentation for the statements that then follow.

Is this something that you have personal knowledge of, something that has been provided to you by the U.N. or UNICEF? Because it just doesn't square at all with what I saw myself when I was in the country of Iraq in August. You said the health care system was much better able to meet its population's needs. I was in Al Majar Hospital in August 2003. That place was physically decrepit. There was no reliable running water. The sewer system was just open into the courtyard . Flies were everywhere. The doctors complained that the medicine they had under Saddam were worthless, and, in fact, they'd have suffered greatly if Kuwait hadn't started a massive humanitarian influx of medication to the country of Iraq shortly after Saddam fell.

I was in their NICU. There wasn't any piped-in medical gas nor was there any provision for any medical gas. There was an infant there, clearly a premature infant, probably small for gestational

age as well, who clearly had what I would characterize as rather significant respiratory distress syndrome and had no oxygen on. I suspect that that child was probably dead before nightfall.

I'm sorry, but I don't see that that is a good system that was brought to the people of Iraq under the Oil-for-Food program. And mind you, at the same time the palaces that we went into, granted there was some damage from the combat phase, but the palaces that we went into were absolutely spectacular, with marble overlays on everything, marble floors, certainly comparable to anything we have here in the United States Capitol. So can I ask you to just discuss that statement a little bit?

Ms. GORDON. Well, sir, I would be happy to do you the dubious favor of giving you more than you would ever want to read on this. You could start, if you want to, by going to the Web site for the Office of Iraq Program. And you can at that spot download reports, more reports than I promise you will want to read by UNICEF——

Mr. BURGESS. Well, reclaiming my time, because I do have several things I want to get to. It certainly doesn't square with what I saw on the ground, and I'll believe my eyes before I'll believe a U.N. Report. Mr. Fawcett——

Ms. GORDON. Sir, I wonder if I could answer your question with 1 minute, which is to say what happened between 1996 and 2003 was that the situation, which was far far worse prior, was significantly improved. Remember, there had been a collapse from 90 to 96. From 96 to 2003 the level of food, nutrition, nearly doubled. The level of improvements in the health care system from 96 increased significantly. Electricity availability increased significantly. Availability of potable water increased significantly.

I'm not saying it's a good system. I'm not claiming that at all. I am saying, by every measurement of every humanitarian agency there, between 96 and 2004, under the Oil-for-Food program, there were substantial improvements in the quality of life.

Mr. BURGESS. Reclaiming my time, probably those are Saddam's statistics. But I'll just tell you, what I saw in the palaces was a significant investment of capital. And if one-tenth of that capital had been put into those hospitals, those children wouldn't be suffering.

Mr. Fawcett, I'd like to ask you for your response to that.

Mr. FAWCETT. All of the statistics upon which these judgments are made are Iraqi Government statistics. The U.N. reports in the late- or the mid-1990's that were used to raise the public awareness of all the children dying and build the fear of the Security Council that allowed that, forced them to give in to Saddam on these, were later proved to be false. These U.N. reports were retracted because they were based upon phony Iraqi Government statistics. That continued up till the time Saddam left.

Mr. BURGESS. Well, Mr. Fawcett, when you were giving your testimony, you ran out of time. And I believe you made the statement that you would like to talk about what the U.N. could have done, and perhaps you could take a minute and just tell us that.

Mr. FAWCETT. I think the first thing they could have done was not to circulate bad standards, circulate the Iraqi Government statistics aggressively, using them in a PR campaign to ease sanctions. They knew the statistics were bad. Maybe they couldn't do anything about that, about the gathering of the statistics. But they

did not have to actively disseminate them, knowing they were false. So that is No. 1.

Second, the whole program should have had transparency. There was none. There's a lot of documents that were published, virtually all of them are useless if you're trying to look into who's making money here and how are they making it. It's—the U.N. is great at putting out reports. But there's no detail in that report. There's no company names. There's no pricing of the commodities, things that the U.N. could have published anytime they wished. They did not need Security Council approval to do so. They could have been very transparent. In fact, when the Security Council was obstructive to the United Nations, as they were, as I absolutely agree they were, the U.N. could have gotten around that by just publishing documents and saying this is wrong. This is wrong. They failed to do so. They kept saying this is proprietary information, when this was a humanitarian program in a country under sanctions. The normal business rules should not have applied as far as keeping data secret. They could have published documents at any time. And had they done so, they would not be in the bind they are now. All the allegations of corruption against the Secretary General would have been dealt with long ago.

Mr. BURGESS. I guess I do find it odd that the costs for baby formula could be inflated by 25 percent in an organization that has as its mission disseminating that product around the world. I mean, how do you miss a 25 percent overcharge for Similac?

Mr. FAWCETT. That one puts me through the roof. It absolutely does.

Mr. BURGESS. Well, let me just ask you a question that I know is on the minds of my folks back home. Did the Secretary General have no decisionmaking role in setting the terms of this program?

Mr. FAWCETT. I'm sorry. I didn't understand.

Mr. BURGESS. Did the Secretary of the United Nations have no role in setting the parameters for this program?

Mr. FAWCETT. The current Secretary General was the first one to begin negotiations. The Iraqis actually liked him. He was replaced in 92 with another series of people that took a little bit harder line, and the Iraqis didn't like them. The Secretary General at the time that the program came into play was clearly a friend of the Iraqis, and that is another of the problems that we have seen early in the program. They should have gone to a far more competitive bidding process for the monitors and the banking. And now as we see from the Volcker Commission, it was the Secretary General himself that was manipulating the system.

Mr. BURGESS. Well, can you estimate the percentage of the kickbacks that might have been prevented had more thorough price checking been performed?

Mr. FAWCETT. I think at least half; without too much problem, half of the kickbacks could have been prevented. And I base that upon the fact that most of the goods going in are commodities. We know that some of the most difficult ones, gas-fired turbines from China, would be difficult to determine the price. Absolutely. But wheat from Australia, baby formula, milk, medicines from Pakistan or Switzerland, that's easy to do.

Mr. BURGESS. Well, besides just the dollars, were there any other warning signs that Saddam was charging kickbacks on the goods or contracts under the program?

Mr. FAWCETT. Shady operations. Companies with no backing, no background. While it's correct to say that it's the member states that put those companies forward, the U.N. Could have at any time said this one looks shady to us. But instead, they found themselves dealing with money launderers, with organized crime, and with terrorists.

Mr. BURGESS. And as my time is about expire, any other issues that the United Nations might have taken up to prevent this from going as far as it did?

Mr. FAWCETT. Courage, which they failed at.

Mr. BURGESS. Mr. Chairman, I'll yield back.

Mr. WHITFIELD. Thank you, Dr. Burgess. At this time I will recognize Ms. Blackburn for 10 minutes.

Mrs. BLACKBURN. Thank you, Mr. Chairman.

Dr. Gordon, I think I'd like to come to you first. I want to—you've talked a lot about the Oil-for-Food program and the comments and the responses that you have made. And so the question I would like to ask you is if you feel like, if I am understanding you right on this, do you feel like—do you think—is it your opinion that the Oil-for-Food program was adequately run, adequately and properly managed and given appropriate oversight? And if so, would you recommend that the United States participate in such programs in the future?

Ms. GORDON. Again, I need to break it into which parts of the U.N. had responsibilities.

Mrs. BLACKBURN. Go ahead. Very quickly.

Ms. GORDON. So specifically the decision to allow Iraq to choose its trade partners. It was understood at the time that that would give Iraq considerable political leverage. If the Security Council members had not wanted to do that, it would have been easy enough to design the program without that.

If you go to the other side of the fence, as it were, the U.N. staff, whose only responsibility under the Secretary General was to monitor, to provide information, to advise the 661 committee, not to make substantive decisions and not to design the program itself, by every account I've seen they did their job and they did their job well. The program was not designed or created by the Secretary General. It was created pursuant to Chapter 7 of the charter, which puts it directly under the control of the Security Council.

Mrs. BLACKBURN. Okay. So I'm going to interrupt here. In other words, what you're telling me, then, is with the monitoring and the advice mechanisms, it is your opinion that it was adequately run and adequately and properly managed.

Ms. GORDON. I would say the flaws that we have identified have to do with——

Mrs. BLACKBURN. Okay. And would it be your advice that we embark on such programs in the future?

Ms. GORDON. Well, I think comprehensive sanctions on any country are destructive.

Mrs. BLACKBURN. All right. Okay. What do you know of the Iraq steering committee and its administration of the Oil-for-Food program?

Ms. GORDON. By the Iraq steering committee you mean the 661 committee? I am fairly familiar with how the 661 committee operates.

Mrs. BLACKBURN. Do you think we ought to bring them before Congress? Do you think we should bring them before this committee to answer questions?

Ms. GORDON. My understanding is that so far the State Department has declined to provide any of its participants on the 661 committee.

Mrs. BLACKBURN. Okay. Let me ask you something else then. Do you think that there should be independent storage facilities to store U.N. documents in order to investigate further occurrences? Or, as we heard today, getting in behind this one might help lead us to others and other abuses and things. So do you think we need to set aside a facility to hold all of these documents?

Ms. GORDON. I have no opinion on the mechanics of where you want to store documents.

Mrs. BLACKBURN. All right, thank you. You know—and I appreciate your answers to my questions. I will have to tell you in my district in Tennessee, if you want to talk about something that gets the dander up of a lot of my constituents, it is talking about the waste, the fraud, the deceit, the despicable acts that took place with the formula program. That is, those are all things that really cause people to be incredibly, incredibly upset. And I appreciate your answering our questions.

Mr. Fawcett I would like to come to you, if I may, please, sir. How extensive do you think the ties were between Sevan and Saddam at the time that all of this was beginning to take place, and how do you think it was that Sevan ended up being picked as the OIP director?

Mr. FAWCETT. That's a good question which I don't think we know the answers to.

Mrs. BLACKBURN. Okay. Do you have insight that you can provide me?

Mr. FAWCETT. No further than what the Volcker Commission has come out with. However, I have encouraged the Volcker Commission to continue going down that path because I do not think we have gotten to the end of it. One of the trails that needs to be pursued is what is the money flow to Benon Savan, because I think if we start to peel that one back, we may end up shedding light again on longer-running money laundering structures of Saddam Hussein.

Mrs. BLACKBURN. Okay. Let's go, at the same point, to Chief of Staff Riza and the relationship with Sevan. And do you think that they collaborated and worked together on much of this, and on some of the oil allocations?

Mr. FAWCETT. I haven't seen anything that shows that they collaborated. My understanding of the way Mr. Sevan ran his operation was that he was very insular and was not out going and collaborating with a lot of other senior U.N. officials.

Mrs. BLACKBURN. What role do you think that Chief of Staff Riza might have played in the management of the program?

Mr. FAWCETT. I don't really know.

Mrs. BLACKBURN. You don't know. Okay. Do you think Kofi Annan was aware of much of Sevan's activities?

Mr. FAWCETT. I wouldn't go as far as to say he was aware of the illicit activities that have been alleged. However, he was fully aware of the potential for that, fully aware that the Iraqis would attempt to do just what they did, attempt to bribe senior public officials around the world and in the U.N. . So I think he is culpable of not exerting executive authority over that program.

Mrs. BLACKBURN. Okay. And then Boutrus Boutros-Ghali, what ties do you think exist between him and Saddam and administration of the Iraq escrow account; or do you think there were any?

Mr. FAWCETT. Certainly he had an awful lot of influence on the selection of the bank. That has become clear from the Volcker investigation, which showed no transparency process whatsoever. It was a manipulated process between the French and the Iraqis.

Mrs. BLACKBURN. Do you think the French Government played a role in that?

Mr. FAWCETT. Yes, they did.

Mrs. BLACKBURN. Let's see, I have got a couple of minutes. Mr. Chairman, I yield back. Thank you.

Mr. WHITFIELD. You have no further questions?

I call on Dr. Norwood for 10 minutes.

Mr. NORWOOD. Thank you very much, Mr. Chairman.

I would like to tell you something about this hearing. It is the most partisan one I've seen in a long time, and it is hard for grownups to understand and solve a problem when half the group is trying to change the subject. This is about the Oil-for-Food program, and we do need to understand it, and our people at home want to understand it.

Dr. Gordon, you are an associate professor, are you not?

Ms. GORDON. Correct.

Mr. NORWOOD. Are you a lawyer?

Ms. GORDON. I am both. I have a Ph.D. In philosophy and a J.D. In law.

Mr. NORWOOD. How long have you been teaching?

Ms. GORDON. In a faculty capacity since 1993. I taught as a graduate assistant prior to that.

Mr. NORWOOD. Do you get up to the U.N. a lot, spend a lot of time up there?

Ms. GORDON. I conduct some interviews from time to time.

Mr. NORWOOD. Do you go up once a month or are you there annually? I am impressed with your knowledge of the U.N. It sounds like you are there every day.

Ms. GORDON. I'm not there every day.

Mr. NORWOOD. You are getting it from the Internet, I guess.

Ms. GORDON. I get documents from all sorts of sources.

Mr. NORWOOD. But you are having some pretty strong opinions on documents from all sources, and I'm sort of curious about that.

Ms. GORDON. I'm also familiar with all of the scholarly literature in this area. I have conducted dozens of interviews with U.N. officials and diplomats.

Mr. NORWOOD. Do you spend a lot of time up at the U.N. that led you to believe some of the things that you have been saying today? My understanding was you just decided to come testify Friday morning, is that about right?

Ms. GORDON. I was called on Friday morning and invited to testify, and I accepted.

Mr. NORWOOD. Do they offer to let you see these documents that have been translated?

Ms. GORDON. No.

Mr. NORWOOD. You haven't had an opportunity to read these?

Mr. NORWOOD. I would love it if you would and report back if you have changes in attitude or thoughts about what your testimony is.

Ms. GORDON. These are the documents that Mr. Smego translated in the binder?

Mr. NORWOOD. Yes. The minority has that, and it would be helpful for you to read it. I would like to ask you if you think economic sanctions are a good thing anytime, anywhere.

Ms. GORDON. In general, what the studies on economic sanctions demonstrate is the most optimistic, which is the Huffnauer-Shartenelli data base from the 1980's and more recently the 1990's, that in about a third of the cases they are a factor in changing and influencing the behavior of the target state.

Mr. NORWOOD. Did that lead to the document, Using a Pick Axe for Brain Surgery, that you wrote?

Ms. GORDON. The title, which was——

Mr. NORWOOD. No, the subject.

Ms. GORDON. The title is a little inflammatory. The subject of that particular paper is the notion that because economic sanctions necessarily impact the civilian population that there is no way of, let's say just in war doctrine, discriminating between civilians——

Mr. NORWOOD. Let me ask you—I can't tell where you are on this exactly. It seems to me that you believe everything in the Oil-for-Food program worked perfectly and the U.N. acted correctly, or are you saying all of the things stated actually have happened, things that we are hearing today, things that none of us would be very much for, but all of that could have been stopped if only the United States would have stopped them? Where are you?

Ms. GORDON. I think it is probably not either of those two positions.

Mr. NORWOOD. Your testimony implies the first one. Your statements and some of the things you said imply the second one.

Let me go to Mr. Fawcett.

Ms. GORDON. I wonder if I could have a chance to answer that.

Mr. NORWOOD. Hold it for a minute. I am watching the clock. I will get back to you. Let me——

Some people—Dr. Gordon is a good example—claim that the Oil-for-Food program was tremendously successful in helping the Iraqi people. Do you agree with that assessment?

Mr. FAWCETT. I don't think we have any data to show how many people it has helped and to what degree and qualitatively it has. I would point out one survey that was done in the last year by the U.N. in which the amount of people that they claim are totally dependent upon their aid has dropped from 60 percent of Iraq to 25 percent, which means 35 percent of Iraq, 7 to 8 million people, are

now far better off. So either this invasion was the greatest humanitarian act——

Mr. NORWOOD. The Oil-for-Food program is what I am asking, though. Has that been successful?

Mr. FAWCETT. I don't think we have any data to show what success or failures it has had.

Mr. NORWOOD. What you are saying is you believe nobody could actually determine that at this point?

Mr. FAWCETT. No one could determine it.

What the U.N. has constantly said is 60 percent of the Iraqi people were totally dependent. In my experience in the humanitarian field for 10 to 15 years, I have not seen any population of which 60 percent will sit in their homes waiting for food to be delivered. It doesn't happen.

Mr. NORWOOD. Dr. Gordon went on to state that the U.N. provided considerable information and data about the Oil-for-Food program. Do you agree with that?

Mr. FAWCETT. The data that was essential to stop any of the corruption was not released. The only data that came out was inadvertently leaked from the U.N. on occasion. This is the data that mentions company names and mentions pricing. None of the other data is relevant to preventing corruption.

Mr. NORWOOD. Well, it appears to me that we are not getting the information or at least Congress is not getting the information as required. Dr. Volcker would be a good example of that. So it couldn't very well be said that we are getting correct information, at least in my opinion, from the U.N. Is it true that the Secretary had no decisionmaking roles in setting the terms of the Oil-for-Food program?

Mr. FAWCETT. That is not true. The Secretariat had ongoing daily decisionmaking capacity. The oversight was by the Security Council, and they could step in at any time. But all the data that was being passed to the Security Council, the options for the program, how it would change, were being provided by the U.N. itself.

Mr. NORWOOD. Is the Secretary a hands-on kind of fellow? Does he delegate and just sort of didn't know what was going on or do you think he knew what was going on?

Mr. FAWCETT. I think he knew what was going on, yes.

Mr. NORWOOD. Do you think the oil voucher system was mostly a benign recordkeeping system of Saddam's regime?

Mr. FAWCETT. Absolutely not. The recordkeeping system of graft, of corruption and political slush fund, I don't believe all members of the Security Council knew of the existence or the details of the voucher regime. I believe that only came out after the toppling of Saddam.

Mr. NORWOOD. Do you think we can prove that today? Do we have enough information out and documentation out that we could prove that?

Mr. FAWCETT. The existence of the voucher system or that——

Mr. NORWOOD. The voucher system actually worked and was honest.

Mr. FAWCETT. When it first came out, there was skepticism because it came out in the Iraqi newspaper and maybe was pushed by some of the Iraqi political factions. But the fact that the Duelfer

or ISG report came out and looked at that in some depth gave me more confidence to believe it is correct. We are now seeing many investigations around the world, not just here in Washington, that are starting to prove that this original document was correct.

Mr. NORWOOD. I will ask you one last one and perhaps a few in writing, but this one is important to me. Did the retroactive pricing of oil contracts cause oil exports to collapse as suggested by Dr. Gordon and ultimately harm the Iraqi people?

Mr. FAWCETT. No.

Mr. NORWOOD. I am interested in that.

Mr. FAWCETT. You have to look at the time line. Iraqi smuggling was ongoing at that period. It was really taking off. Iraq was not as interested in exporting through the Oil-for-Food program as they were making far more money from the smuggling through the pipeline. So the retroactive pricing, they could afford to stall, hedge and wait. So I don't think that that had a negative impact upon the Iraqi populous; and, once again, if it did, we have no data, reliable data to show it.

Mr. NORWOOD. Why did we do retroactive pricing?

Mr. FAWCETT. In order to cut out the cutback or the premium on the oil sales.

Mr. NORWOOD. Explain that.

Mr. FAWCETT. The manipulation of pricing—oil was underpriced. So if oil was supposed to be at $20 a barrel, the Iraqis and the oil overseers would agree to $19.50 a barrel, which would be another $.50 to fiddle around. Doesn't sound like much, but on a tanker load that is a million dollars. Retroactive pricing meant that the buyer didn't know what they were going to pay for it until after they delivered it or at least after they lifted the oil. So it eliminated that maneuvering of pricing.

Mr. NORWOOD. Do you think that was a proper thing to do to stop that kickback scheme?

Mr. FAWCETT. I think that was one of the options they had and had to go with it.

I want to point out that for 2 years under this program the oil overseers were a French expert and a Russian expert and for 1 year only the Russian was the oil overseer. When the new oil overseers were appointed, a Danish man and a Dutch, within 1 month was when the Iraqis insisted upon having an overt premium.

Mr. NORWOOD. Thank you, Mr. Chairman.

Mr. WHITFIELD. Thank you.

First panel has been here a couple of hours. I have about two or three more questions to complete the record from my perspective, and I will recognize Mr. Stupak. He has a few additional questions as well.

First, Mr. Fawcett, under the voucher system, what the 661 Committee would see, it is my understanding, was a contract between SOMO and the oil company that did the lifting, but they would not see or be aware of the underlying grant of oil to the individual that Iraq wished to influence?

Mr. FAWCETT. That is correct. Not only would the 661 Committee not see it but most likely U.N. officials would also not see it.

Mr. WHITFIELD. Now, Mr. Smego, originally I was talking to you about Exhibits 6 and 7 and Saddam's efforts to influence the

French. One of the individuals that was identified was Roselyn Bachelot. Did you find any documents that purportedly chronicled meetings between the Iraqi intelligence service and Mrs. Bachelot?

Mr. SMEGO. Yes, Ms. Bachelot was noted in Exhibit 9, for example.

Mr. WHITFIELD. What does it state in there?

Mr. SMEGO. In April 2002, a representative in Paris World wrote a memo regarding his meeting with the French parliament member, Ms. Bachelot.

Mr. WHITFIELD. What was her title or position?

Mr. SMEGO. Her position was the—she was the national assembly deputy and spokeswoman for Chirac's 2002 Presidential campaign. The documents state as such, and the committee staff confirmed that as well.

Mr. WHITFIELD. Exhibit 12, would you walk us through that quickly.

Mr. SMEGO. Exhibit 12 was a memorandum from May 2002 regarding the meeting of the French representative in Paris with Ms. Bachelot stating that, number 2—point 2, she assured that the French position opposed any American tax on the nation, and France used the right of opposition. In parentheses following that was a veto within the Security Council against any American decision regarding the attack on Iraq and that Iraq issued its statement that it is prepared to offer financial support to Chirac for his election campaign. The message was passed on to the financial official of the election campaign.

But I do want to make clear that the offer of campaign contribution was declined by the——

Mr. WHITFIELD. No record of the campaign contribution?

Mr. SMEGO. There is no record within that document, but it says the official declined it.

Mr. WHITFIELD. And then one other question. Vladimir Zhirinovsky, I know there is some documentation of him. He is a member of the Russian duma. From your translations, did he receive any oil vouchers?

Mr. SMEGO. Yes, Mr. Zhirinovsky received quite a few oil allocations. Specifically, Exhibits 23 through 30 specify the majority of the Russian oil allocations to Mr. Zhirinovsky, who was the head of the Russian liberal democratic party.

Mr. WHITFIELD. Thank you very much.

At this time, I recognize Mr. Stupak.

Mr. STUPAK. Thank you, Mr. Chairman.

Mr. Fawcett, are you the author of this Exhibit Number 42 in our book, Sources of Revenue for Saddam and Sons: A Primer of the Financial Underpinnings of the Regime in Baghdad?

Mr. FAWCETT. Yes.

Mr. STUPAK. Are you the sole author?

Mr. FAWCETT. There are two of us.

Mr. STUPAK. Have you done subsequent writing since then?

Mr. FAWCETT. I haven't done much writing but a lot of research.

Mr. STUPAK. On this?

Mr. FAWCETT. On the Oil-for-Food.

Mr. STUPAK. Because I'm looking at some of these statements in here, and what you are testifying to really looks a little different.

Like on page 13 when we talked about the overseers and Russia was in control and sort of insinuated that they had complete control, but the Dutch in the fall of 2000 were the overseers?

Mr. FAWCETT. By the fall of 2000, there were three.

Mr. STUPAK. Are you alleging that the oil overseers were in on the oil surcharges?

Mr. FAWCETT. I am alleging—certainly not by the fall of 2000. I don't believe they were. Earlier than that, under the French and Russian watch, I think there was an awful lot of underpricing of oil. It had not yet gone out into the public. I do not have any documentation to show that the French or Russian oil overseers were taking money.

Mr. STUPAK. You didn't state that in the report. You talked about the three overseers, one being the United States in there for awhile, and then they resigned.

Mr. FAWCETT. When the U.S. oil overseer resigned after about 18 months of the program, it was the next month that the first fight began on oil pricing between the Security Council and Iraq.

Mr. STUPAK. You didn't say that in your report, and that's what we relied upon, and now your testimony is a lot different here today.

Mr. FAWCETT. The report is 3 years old.

Mr. STUPAK. About 2 years old. Just over 2 years. That is why I asked you if you have any subsequent writings to try to clarify what you are saying.

Mr. FAWCETT. No. I think the oil overseers when they came—the new oil overseers came in in the fall of 2000 is exactly the same period of time when two other things were happening, the opening of the Syrian pipeline and the Iraqis demanding an overt kickback.

Mr. STUPAK. On page 23 of your report, you said the second half of 2000. Because France only went so far in advocating reform of U.N. sanctions, rather than Iraq's preferred option of lifting them entirely, the French company saw their market share slashed dramatically.

Mr. FAWCETT. That is right.

Mr. STUPAK. The Oil-for-Food program, Saddam Hussein leveraged it for political gain and also for trying to lift sanctions?

Mr. FAWCETT. Correct. And he would try to leverage the French, and one way of leveraging them was to pull away the support he was giving them.

Mr. STUPAK. In this report, you talked a lot about the U.N. oversight and the lack of oversight and the 661 Committee or the standing committee. Nowhere did you mention the Secretary General, but you talked a lot about him today.

Mr. FAWCETT. Right. This was a portion of the report that we did not—or a topic we did not go into.

Mr. STUPAK. The stuff you said about the Secretary General, do you have documents to back that up?

Mr. FAWCETT. Most of the allegations against the Secretary General have come out in the last year, the allegation about the improprieties of his son.

Mr. STUPAK. To make allegations is one thing, but to be able to factually back them up is another thing. Do you have any documents to back them up?

Mr. FAWCETT. The documents against the Secretary General in the Volcker Commission are the worst. I have gone back in the history and the public record and found the activities of the Secretary General vis-a-vis Iraq. Did not do it in 2002.

Mr. STUPAK. Do you have any documents?

Mr. FAWCETT. Plenty of documents.

Mr. STUPAK. We will ask you to produce those for the committee.

Since you are the author of this report, can you explain this to me? The first year the Oil-for-Food program is found, page 17. 1997, U.S. Only took 13 percent of the Oil-for-Food program of the oil, still the largest end user. By 1999, the U.S. portion had climbed to 35 percent; and since September 11 the U.S. has been purchasing well over 50 percent of all the Iraqi oil sold under the Oil-for-Food program.

And you go on to say, and I am not clear either, not clear why the U.S. purchased such large quantities of Iraqi oil in the wake of September 11 and amid the heightened threats toward the Baghdad regime emanating from Washington and this administration. If we know the program isn't working at solving what it is supposed to solve and give humanitarian aid to Iraq and we are threatening war against them and trying to blame them for September 11, even though they had nothing to do with September 11, why would we continue to buy oil to fill the coffers of Saddam Hussein? That are the questions my constituents ask me, not this other stuff about the U.N.

Mr. FAWCETT. We could not explain it. We had no explanation for why we were doing it, which is why we reported that.

Mr. STUPAK. Dr. Gordon, I only have a few minutes left, but every time you tried to answer a question, you got cutoff. Any of those questions you want to explain from Dr. Burgess, Mr. Norwood or Ms. Blackburn? And you didn't ask this committee to testify? You were invited to testify.

Ms. GORDON. Yes, sir.

Mr. STUPAK. You were asked by this committee to testify. You didn't ask us to testify?

Ms. GORDON. I certainly didn't do that.

If I could address a few points very briefly, and if I could address a couple of statements Mr. Fawcett made for clarification.

When Mr. Fawcett and maybe someone else was talking about the oil overseers after the American and Norwegian left and there was only the French and Russian and there was implication there that then they were being self-serving, that is incorrect. That's not how that committee worked. The way it worked for the oil overseers is that two oil overseers had to sign off on every contract, and no oil overseer could sign off on any contract of his own nation.

Mr. STUPAK. Russia has their own oil and basically bought this oil for food and sold it back to the United States?

Ms. GORDON. I am not familiar with that.

When it was down to two or when it was even at three or when it was at two, then any time that a French contract came up or a Russian contract came up, since there were not two oil overseers from non-French or non-Russian countries to sign off on that, then that was circulated to the entire 661 Committee. That is what happened when that occurred. There was a control in place. It's incor-

rect to suggest that there wasn't, which specifically prevented self-dealing in that form.

Second, I would like to comment on the representative from Tennessee's comment about the baby formula. With all due respect, an increase in baby formula is not a major factor in child death in Iraq. I will tell you what is a major factor, a lack of potable water. That's what spikes child mortality.

If you want to know what was responsible for the lack of potable water, it was the absence of sewage and water treatment equipment and, specifically, electricity to generate them. If you want to look at what particular goods the United States blocked systematically throughout the sanctions regime including the Oil-for-Food program, it was the electricity sector, communications sector, transportation.

If you want examples of what, in fact, caused large-scale child mortality in Iraq, it was such things as the U.S. blocking $200 million of child vaccines. It was the U.S. blocking water tankers during a period of drought in a country with high mortality from water-borne diseases. It was the U.S. agreeing to approve a sewage treatment plant in Iraq and blocking the generator to run it.

If I could address the issue of data, Mr. Fawcett has said there was no reliable data on either the humanitarian situation or the severity of it prior to the Oil-for-Food program. That is incorrect. If you look at the scholarship of the leading medical demographers and public health experts from Harvard, Columbia, and Johns Hopkins, published in the leading public health and medical journals, you will see something very different. You will see measurements, fresh data,not based on the Iraqi government, not based on the Iraqi government's data, which demonstrates both the severity of the humanitarian situation as of 1996 and substantial improvements that happened in the humanitarian situation under the Oil-for-Food program.

And, last, I would like to address the claim that the Secretary General had an ongoing daily decisionmaking process in the Oil-for-Food program. That is incorrect. At every point the structure of the program was determined by Security Council resolutions and decisions made by the 661 Committee. The Secretary General had no decisionmaking role in that. That was something because it was a program under the auspices of Chapter 7 of the U.N. charter that was entirely the creation and under the supervision and monitoring of the Security Council.

Thank you for giving me the opportunity.

Mr. STUPAK. Mr. Fawcett, smart sanctions, which was U.N. Resolution 1409, that sort of lifted any kind of control that was left in this whole program, right, that was implemented May 14 to the smart sanctions? Can you explain how that sort of lifted any international control?

Mr. FAWCETT. No. I am not up to speed on the smart sanctions approach.

Mr. STUPAK. It's found on page 20 of your report. Because you said here, the new sanctions regime will actually weaken international control and facilitate increased hard currency opportunities for the Hussein regime in two ways. First, all efforts to increase international monitoring or oversight of sanctions busting

trade with Iraq were abandoned in the course of negotiations leading to the passage of the resolution; and, second, the streamlined procedures will make it much easier for Iraqi officials to insist upon kickbacks, on contracts supplying goods to the Oil-for-Food program.

Mr. FAWCETT. I am with you now. That was a process by which the oversight from the Security Council was lessened and more responsibility was actually put onto the Secretariat, upon the U.N. officials, to approve contracts without having them go through the Security Council. So whatever limited oversight the Security Council had been providing previously, which was limited, was decreased.

Mr. STUPAK. No way in the Security Council or any form in the U.N. does the Secretary General have a vote on the Security Council or anything?

Mr. FAWCETT. No.

Mr. WHITFIELD. Gentleman's time has expired.

Mr. Stupak and I had two opportunities. If there is anyone else who wants to ask a question, then we will terminate this panel. Mr. Burgess was recognized first. Mrs. Blackburn.

Mrs. BLACKBURN. Thank you, Mr. Chairman. I did have just a couple more questions that I wanted to come back to now that we are through this, and I know we are all ready to hear from Mr. Anderson.

Dr. Gordon, I would like to come back to you. You have a great deal of knowledge of the inner workings of the U.N. and seem very supportive of what you saw carried out in this program. It had been reported and we had heard that Chief of Staff Riza had shredded some documents that were related to the program. Do you know if he had the authority to shred those documents and who may have given him that authority? Do you know anything about that situation?

Ms. GORDON. The only small amount I know about is the documents were redundant. They were a second set. Other than that, I don't know anything about that event.

Mrs. BLACKBURN. And then talking again about Mr. Sevan, my question—and since you have knowledge of the workings of the U.N. in this program, my question to you would be, how did he manage to seemingly disobey U.N. rules and not really raise any suspicions, just kind of work, you know, on his own framework or maybe on his own timetable or maybe under his own direction, if you will? Do you have any insight you could offer to that?

Ms. GORDON. Your question is——

Mrs. BLACKBURN. How is he able to do it without raising suspicions within the U.N. Organization?

Ms. GORDON. You are referring specifically to the claim that he received an oil voucher?

Mrs. BLACKBURN. Uh-huh.

Ms. GORDON. I assume in the same process as has been described before. The way the Security Council designed this program is that the company names were registered and the company names, as long as they were sold—as long as those companies corresponded to the contracts and the contracts conformed to the formulas approved by the 661 Committee, that's what took place. What hap-

pened with the vouchers was entirely outside that system. None of the vouchers at any point would have come through that system.

Mrs. BLACKBURN. So then what you are saying is you don't think there was oversight of his activities in that regard and that would not have been abnormal for there not to have been oversight of his activities?

Ms. GORDON. There is enormous oversight of his activities. If you look at the reports he presented——

Mrs. BLACKBURN. Within a certain framework.

Ms. GORDON. If you want to know whether the voucher came through, obviously, it did not.

Mrs. BLACKBURN. Mr. Chairman, I yield back.

Mr. WHITFIELD. Mr. Burgess.

Mr. BURGESS. Thank you, Mr. Chairman.

Just a couple of additional questions for Mr. Smego.

On the documents that have been provided to us in the binder, I believe it is document number 7, in that your translation work showed you that there was opportunity to discuss the political fortunes of Mr. Chirac of France and Mr. Putin of Russia, is that correct?

Mr. SMEGO. Yes, specifically the people through whom the French President Jacques Chirac and Russian President Vladimir Putin could be approached by the Iraqi intelligence service.

Mr. BURGESS. Are there other documents then that show that Russian political figures received oil allocations from Saddam Hussein?

Mr. SMEGO. Certainly. There were some documents from the Russian Asbecht. For example, Exhibit 30, which is a spreadsheet, handwritten, that outlines the different oil allocations during phase 7, specifically, the second handwritten point at the bottom for Mr. Zhirinovsky and the third for Ms. Sazhi in the political Science Committee. Ms. Sazhi was identified as the head of the peace and unity party of Russia.

Mr. BURGESS. I know Mr. Waxman has pointed out this is our 13th hearing, but bear with me because this is my first. Who is Vladimir Zhirinovsky?

Mr. SMEGO. Vladimir Zhirinovsky was the head of the Russian liberal democratic party.

Mr. BURGESS. And could you walk us through the documents that show that Mr. Zhirinovsky received oil allocations from Saddam Hussein?

Mr. SMEGO. I believe starting off at 26—starting off at Exhibit 23, Mr. Zhirinovsky requested some cooperation in contracting.

Exhibit 24 discusses the subject of the special quantity of crude oil to Mr. Vladimir Zhirinovsky, and the company belonging to Mr. Zhirinovsky has not registered itself in the United Nations until now.

Exhibit 26 would be a memorandum from Tariq Aziz to the minister of oil regarding a Russian delegation that was going to arrive in October 1997 to complete the special contracts regarding the Oil-for-Food products and that the Saddamco company is registered in Iraq and the United Nations to purchase oil on behalf of that Russian liberal democratic party.

Subsequent Exhibit 27 mentions 1.8 barrel contract during phase 2 for Saddamco. That is on October 7, approximately 2 days after that delegation was to arrive.

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

Mr. WHITFIELD. Thank you, Dr. Burgess.

I thank this panel for their testimony today, and at this time you are dismissed.

We will call our second panel: Mr. Gerald C. Anderson, who is the Director of the Office of Peacekeeping, Sanctions and Counterterrorism, U.S. Department of State. Mr. Anderson, good afternoon. You are aware that the committee is holding an investigative hearing and when doing so we have had the practice of taking testimony under oath. Do you have any objection to taking testimony under oath or giving it under oath?

Mr. ANDERSON. No objection.

Mr. WHITFIELD. The Chair then advises you that under the rule of the House and the rules of the committee you are entitled to be advised by counsel. Do you desire to be advised by counsel during your testimony today?

Mr. ANDERSON. No, thank you.

Mr. WHITFIELD. If you would please rise and raise your right hand, I will swear you in.

[Witness sworn.]

Mr. WHITFIELD. You are now under oath.

Mr. Anderson, you may give your 5-minute opening statement. I didn't want Mr. Stupak——

Mr. STUPAK. I am listening.

TESTIMONY OF GERALD C. ANDERSON, DIRECTOR, OFFICE OF PEACEKEEPING, SANCTIONS AND COUNTERTERRORISM, U.S. DEPARTMENT OF STATE

Mr. ANDERSON. Mr. Chairman and distinguished members of the committee, I welcome the opportunity to appear before you to discuss the U.N. Oil-for-Food program and to answer your questions on various aspects of the management and execution of the program.

The Oil-for-Food program was adopted in 1995 to alleviate the serious humanitarian crisis while maintaining comprehensive restrictive measures on items that Saddam Hussein could use to then pose a threat to his neighbors in the region and this at a time when many were calling for an end to those restrictions. The 661 Committee monitored the implementation of the Oil-for-Food program and through each of its members was also responsible for reviewing humanitarian contracts, oil spare parts contracts and oil pricing submitted on a regular basis by Iraq to the U.N. for approval. The U.S. delegation was an active participant in all such reviews.

However, the 661 Committee operated on a consensus basis as a subsidiary body of the Security Council. The efforts of the U.S. and the United Kingdom to counter or address noncompliance were often negated by other members' desires to ease sanctions on Iraq, often exacerbated by the actions of certain key member states in advancing self-serving national economic objectives.

Clearly, the sanctions failed to force the regime of Saddam Hussein to comply with international obligations, but they did succeed in limiting Iraqi efforts to rebuild their military capabilities. The major shortcomings of the OFF program have been widely documented in recent months, but the program did succeed in its basic humanitarian objective of ensuring that the Iraqi people were adequately fed.

Much of what the U.S. Government could and could not achieve with regard to monitoring the program was directly related to the politics surrounding Iraq and the Security Council. U.S. efforts to keep the comprehensive sanctions regime in place were repeatedly challenged by Council members whose national firms would derive economic benefit from the lifting of sanctions.

Indeed, starting in the mid 1990's and continuing to 2001, these pressures to lift sanctions grew. Violations with respect to the Oil-for-Food program manifested themselves in a whole pull-down menu of manipulative mechanisms in order to circumvent the sanctions, including surcharges, topping off, influence peddling, product substitution, product diversion, phony service contracts, phantom spare parts, shell corporations, illusory performance bonds, hidden bank accounts and plain old-fashioned bribery and kickbacks to the tune of several billion dollars.

Mr. Chairman, some members of the Security Council did not take their international obligations seriously and either directly or indirectly facilitated sanctions busting activities by the Saddam regime. The 661 Committee was mired in a political debate with regard to Iraq that often impeded it from taking action against violators of the embargo; and, as the recent Volcker Committee reports indicate, there are serious charges that U.N. officials may have allowed Saddam to further undermine their system.

When in late 2000 the U.N. Oil overseers reported excessive premiums on oil experts, the 661 Committee, led by the U.S. and the U.K., agreed to a statement on December 15, 2000, making clear that additional fees above the selling price approved by the 661 Committee were not acceptable. Despite circulation of this message to all oil companies approved to lift Iraqi oil, evidence of the illicit surcharges continued during the spring of 2001.

The U.S., working in close coordination with the British delegation, raised the issue of excessive oil price premiums in a series of more than 40 formal and informal 661 Committee and Security Council meetings during that period. After months of stalemate, the U.S. and British experts made creative use of the consensus rule governing decisions in the 661 Committee by withholding support until the end of the month on oil pricing proposals submitted at the beginning of the month by the Iraqis. As a result, by the spring of 2002, the oil price variation or surcharge for market levels had been reduced from as much as $.50 per barrel to an accepted industry variation of $0.03 to $.05 per barrel.

Allegations of kickbacks to the Oil-for-Food program began to surface in late 2000. The U.S. and British experts raised this issue with the 661 Committee experts and the Office of Iraq Programs representatives in 2000 and early 2001 and formally submitted proposals to address this issue during a 661 Committee meeting in March 2001. However, no documentary evidence was available at

the time to support the allegations, and other committee members claimed that, without this evidence, no action can be taken.

The United States frequently provided members of the 661 Committee and the Security Council with information and evidence of sanctions violations by the Saddam regime, including on Saddam's diverting funds to benefit Iraq's elite and on his attempts to procure WMD-related materials.

In March 2002, a U.S. interagency team briefed the 661 Committee on the regime's diversion of trucks.

U.S. commanders of the multi-lateral interception force in the Gulf briefed the committee each year starting in 1996 on illegal smuggling of Iraqi crude oil, including through the unauthorized use of ferry services from neighboring states.

An equally noteworthy source of oil smuggling was through Iraq's pipeline with Syria which restarted in late November 2000. The U.S., in coordination with the U.K., repeatedly raised concerns over this blatant noncompliance only to be told by Syria that the pipeline was, quote, being tested.

Mr. Chairman, thank you for this opportunity to appear before the committee. I now stand ready to answer whatever questions you and your fellow committee members may have.

[The prepared statement of Gerald Anderson follows:]

PREPARED STATEMENT OF GERALD C. ANDERSON, DIRECTOR, OFFICE OF PEACEKEEPING, SANCTIONS AND COUNTER-TERRORISM, BUREAU OF INTERNATIONAL ORGANIZATION AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Chairman, distinguished members of the Committee, I welcome the opportunity to appear before you to discuss the U.N. oil-for-food program and to answer your questions on various aspects of the management and execution of the program.

Mr. Chairman, let me start by discussing why the Iraq sanctions were imposed and why the Oil-for-Food Program was established. Four days after Iraq invaded Kuwait in 1990, the Security Council adopted Resolution 661, which imposed comprehensive trade and financial sanctions against the former Iraqi regime. The United States government supported this measure as part of a larger strategy to force Iraq to cease hostilities and to withdraw its forces from Kuwait.

At the end of the Gulf War in 1991, the Security Council adopted Resolution 687 that extended comprehensive sanctions on Iraq to ensure that Saddam Hussein complied with the major provisions of the ceasefire. By retaining the sanctions, the Council also sought to deny Iraq the capability of rearming or constituting its weapons of mass destruction and other military programs.

The sanctions were not anticipated to remain in place for more than a year or two before Saddam complied. We now know that Saddam chose not to comply. By 1995 in the wake of deteriorating humanitarian conditions in Iraq, many in the international community called for an end to the restrictions, reflecting concern that the impact of the sanctions was being borne primarily by the innocent Iraqi civilian population.

In April 1995 the Security Council adopted Resolution 986, establishing the Oil-for-Food Program to alleviate the serious humanitarian crisis while maintaining comprehensive restrictive measures to deny Saddam access to items that he could use to again pose a threat to his neighbors in the region.

The sanctions committee that was established under Resolution 661 in 1991, the 661 Committee, monitored the implementation of the overall sanctions regime on Iraq, and after the adoption of Resolution 986, it also monitored the implementation of the Oil-for-Food Program.

The 661 Committee, like all sanctions committees, operated as a subsidiary body of the Security Council. Unlike the Council, decisions were made on a consensus basis requiring the agreement of all parties and members. In addition to providing general oversight of the Oil-for-Food Program and to monitoring member state compliance with the sanctions, the committee, through each of its members, was also responsible for reviewing humanitarian contracts, oil spare parts contracts and oil pricing submitted on a regular basis by Iraq to the U.N. for approval.

The U.S. delegation was an active participant in all such reviews. The efforts of the U.S. and the United Kingdom to counter or address non-compliance were often negated by other members' desires to ease sanctions on Iraq. The atmosphere in the committee, particularly as the program evolved during the late 1990s, became increasingly contentious.

The fundamental political disagreement between members over the Council's imposition of comprehensive sanctions was often exacerbated by the actions of certain key member states in advancing self-serving national economic objectives. In retrospect, although the consensus rule often stymied progress in the committee, that same consensus rule helped the U.S. achieve its objectives in a number of critical ways.

The imposition of a retroactive pricing mechanism and our ability to place holds on humanitarian contracts that contained potential dual-use items were both made possible by the use of the consensus rule.

Judging the success or failure of the Iraq sanctions depends on the view of their objectives. Clearly they failed to force the regime of Saddam Hussein to comply with its international obligations. But they did succeed in limiting Iraqi efforts to rebuild their military capabilities after the Gulf War. As regards the Oil-for-Food Program, similar considerations apply. The major shortcomings of the program have been widely documented in recent months, but the Oil-for-Food Program did succeed in its humanitarian objective of ensuring that the Iraqi people were adequately fed, thus limiting the impact of sanctions on them.

Much of what the U.S. Government could and could not achieve with regard to monitoring the program and implementation of the sanctions was directly related to the political situation surrounding the contentious issue of Iraq in the Security Council and in the 661 Committee. U.S. efforts to keep the comprehensive sanctions regime in place repeatedly were challenged by Council members who complained about the humanitarian impact of sanctions on the Iraqi people, and whose national firms would derive economic benefit from the lifting of sanctions. Indeed, starting in the mid-1990s and continuing into 2001, these pressures to lift sanctions grew.

Violations with respect to the oil-for-food program manifested themselves in a whole pull-down menu of manipulative mechanisms in order to circumvent the sanctions, including surcharges, topping off, influence pedaling, product substitution, product diversion, phony service contracts, phantom spare parts, shell corporations, illusory performance bonds, hidden bank accounts and then plain old fashioned bribery and kick backs to the tune of several billion dollars.

Let me provide examples in two key areas: manipulation of oil pricing and kickbacks on the oil-for-food program.

The first regards oil flowing out of Iraq. The former Iraqi regime, through the State Oil Marketing Organization, proposed prices for various markets and grades of crude for review by the U.N. Oil Overseers, and for approval by the 661 Committee. The U.N. Oil Overseers and committee members verified that the purchase price of the petroleum and the petroleum products were reasonable in light of prevailing market conditions. Evidence that the Iraqis were attempting to impose excessive price premiums on oil exports to exploit differences between oil prices approved by the 661 Committee and subsequent fluctuations in global oil prices surfaced as early as the fall of 2000, when the UN oil overseers informed the 661 Committee of instances in which the GOI was requesting imposition of an additional fee on the sale of Iraqi crude.

My second example involves goods coming into Iraq. Again, there was a clear division of responsibility. While Iraqis retained the authority to contract with specific suppliers under the oil-for-food program, the 661 Committee was tasked with ensuring that the contracted goods were appropriate for export to Iraq under the conditions set out in Security Council Resolution 986. Once a contract was approved by the committee and the goods shipped, the U.N. inspections agent, Lloyds Register, and later Cotecna, were responsible for authenticating the arrival of these goods into Iraq. Separately, it was the responsibility of member states to prevent sanctioned goods from entering into Iraq.

Mr. Chairman, I offer these examples to illustrate exactly where responsibility lay. There were, in hindsight, substantial problems related to all of these areas of responsibility. Some members did not take their international obligations seriously and either directly or indirectly facilitated sanctions-busting activities by the Saddam regime. The 661 Committee was mired in a political debate with regard to Iraq that often impeded it from taking action against violators of the embargo. And as the recent Volcker Independent Inquiry Committee reports indicate, there are serious charges that U.N. officials may have allowed Saddam to further undermine their system.

I stated earlier that the United States has made every effort to address violations within the 661 Committee, even though we were often impeded by other committee members.

In late 2000, U.N. Oil Overseers reported that Iraqis were attempting to impose excessive premiums on oil exports. The 661 Committee, led by the United States and the United Kingdom, agreed to a statement on December 15, 2000, making clear that additional fees above the selling price approved by the 661 Committee were not acceptable. Despite circulation of this message to all companies approved to lift Iraqi oil, evidence of the illicit surcharges continued during the spring of 2001. The United States, working in close coordination with the British delegation, raised the issue of excessive oil price premiums in a series of more than 40 formal and informal 661 Committee and Security Council meetings during that period.

After months of stalemate within the committee, the U.S. and British experts made creative use of the consensus rule governing decisions in the 661 Committee by withholding support until the end of the month on oil pricing proposals submitted at the beginning of the month by the Iraqis. This retroactive price analysis gave the U.S. and British experts the opportunity to compare oil prices sought to the actual market price of similar crude oils to determine if SOMO's prices reflected fair market value—a requirement under Resolution 986. Beginning in October 2001, the United States and United Kingdom regularly employed the retroactive pricing mechanism to evaluate SOMO's prices until the suspension of the oil-for-food program in 2003.

The retroactive oil pricing we imposed had the intended effect. By the spring of 2002, the U.N. Oil Overseers reported that the oil price variation from market levels had been reduced from as much as 50 cents per barrel to an accepted industry variation of 3 to 5 cents.

Separately, allegation of kickbacks to the oil-for-food program began to surface in late 2000. U.S. and British experts raised this issue with the 661 Committee experts and the Office of the Iraq Program's representatives in 2002 and early 2001 and formally submitted proposals to address this issue during a 661 Committee meeting in March 2001. However, no documentary evidence was available at the time to support these allegations. Consequently, our proposals received no support. Committee members claimed that, absent evidence indicating that such kickbacks existed, no action could be taken.

Important measures taken to address this issue occurred after the fall of Saddam's regime, when the United States, through the Coalition Provisional Authority, was informed of the kickback scheme by Iraqi ministry representatives in Baghdad. With the fall of the Hussein regime in the spring of 2003, and with the subsequent authorities granted under U.N. Security Council Resolution 1483, CPA officials, in coordination with U.N. officials and Iraqis, took steps to eliminate surcharges in the remaining oil-for-food contracts.

In addition to eliminating and countering surcharges and kickbacks, the United States also took initiatives to provide members of the 661 Committee and the Security Council with information and evidence of violations by the Saddam regime, during various briefings. The United States briefed Security Council members in 2000 on the various ways the Saddam regime was diverting funds to benefit Iraq's elite, including through the use of diverted funds to build and furnish Saddam's palaces. The U.S. again briefed Security Council ambassadors in the spring of 2002 on Saddam's noncompliance with U.N. Security Council resolutions, and Saddam's attempts to procure WMD-related materials.

In March of 2002, a U.S. interagency team briefed the 661 Committee on the regime's diversion of trucks. U.S. commanders of the Multilateral Interception Force, or MIF, in the Gulf also briefed the committee each year starting in 1996 on the MIF's activities in combating the illegal smuggling of Iraqi crude oil. MIF Commanders in 2001 and 2002 briefed the 661 Committee and highlighted the continued attempts by Saddam Hussein to circumvent sanctions by illegally exporting oil and illicitly importing materials into Iraq through the unauthorized use of ferry services from neighboring states.

The MIF operating in the Persian Gulf enjoyed success from 2000-2001 in significantly reducing the number of small vessels operating out of Shatt al-Arab that were smuggling Iraqi oil along Iran's southern coast. An equally noteworthy source of oil smuggling prior to the 2003 Iraq war was the illegal flow of oil through Iraq's pipeline with Syria, which restarted operations in late November 2000. The United States, in coordination with the UK, repeatedly raised concerns over such blatant non-compliance, only to be told by Syrian representatives that the Iraq-Syria pipeline was "being tested," but was not operational.

The oil-for-food program was a unique endeavor, and although it was essential to the Iraqi people, it was also manipulated by Saddam Hussein and his cronies to undermine the sanctions.

Mr. Chairman, thank you for this opportunity to appear before the committee, I now stand ready to answer whatever questions you and your fellow committee members may wish to pose.

Mr. WHITFIELD. Thank you, Mr. Anderson.

How long have you been with the State Department?

Mr. ANDERSON. I joined the State Department in August 1980.

Mr. WHITFIELD. How long have you been involved in this oil-for-food issue?

Mr. ANDERSON. I became director of this office in July 2004.

Mr. WHITFIELD. Who was the U.S. representative on the 661 Committee?

Mr. ANDERSON. The 661 Committee was a committee of the Security Council; and, therefore, our mission was represented and our permanent representative was the senior representative. But most committee sessions were attended by our sanctions unit chief at the U.S. mission to the United Nations in New York.

Mr. WHITFIELD. Now, in your testimony, you talk about that self-serving national economic objectives often worsened fundamental political disagreements between members of the Security Council. Can you provide a specific example of this?

Mr. ANDERSON. The reference there was, by looking at the members of the Security Council and the 661 Committee with whom we debated measures to deal with noncompliance, with sanctions and with these various manipulative devices that I listed in my statement, it was clear that countries that had an interest in selling more of their products, their companies' products to Iraq, tended to take positions more favorable to Iraq.

Mr. WHITFIELD. The oil surcharge would be one example?

Mr. ANDERSON. That would be one example.

Mr. WHITFIELD. When did the U.S. become aware that Saddam was demanding an oil surcharge?

Mr. ANDERSON. The oil overseers first informed the 661 Committee in December 2000 about the blatant attempts to impose the surcharges of up to $0.50.

Mr. WHITFIELD. Did the U.S. raise concerns about this with the 661 Committee?

Mr. ANDERSON. Yes.

Mr. WHITFIELD. How many times did they attempt to address the issue of oil surcharges with the 661 Committee?

Mr. ANDERSON. As I mentioned, over 40 times. I have a list of a number of particular dates when those issues were raised, and I would characterize it as an iterative process where we sought to find a solution that would be acceptable to the committee through a consensus of the committee and would also be effective in ending the oil surcharges.

Mr. WHITFIELD. And the U.S—I assume you made written requests about this or sent written documents to the committee expressing their concern?

Mr. ANDERSON. We did submit a number of written documents accompanying our various proposals on this issue over time.

Mr. WHITFIELD. And which states resisted American efforts to eliminate the surcharge?

Mr. ANDERSON. Generally speaking, the U.S. and the U.K. Were like-minded in general. Occasionally, we had some differences of opinion on tactics, but we were generally with them and the other permanent members of the Security Council and some of the non-permanent members of the Security Council such as, for example, Syria who, during part of the program, during one 2-year period was a member of the Council and a member of the Committee.

Mr. WHITFIELD. Basically, France, Russia and China were those——

Mr. ANDERSON. Those were the other three permanent members.

Mr. WHITFIELD. What were their stated reasons for objecting to removing the surcharges?

Mr. ANDERSON. In general, the first type of reaction to proposals to deal with the surcharges was challenging the evidence that was available for the surcharges. Another common argument was to claim that action on the surcharges would affect the humanitarian situation in Iraq negatively or would cause the net revenue coming into the program to decline, which would therefore reduce the amount of funds under the program available to procure humanitarian supplies.

Mr. WHITFIELD. And yet the surcharges themselves were definitely reducing the amount of money, humanitarian aid going to Iraq?

Mr. ANDERSON. That was clearly our argument, Mr. Chairman.

Mr. WHITFIELD. But you were never successful in getting them to correct that, is that correct?

Mr. ANDERSON. That's correct. We did, however, de facto implement a system of retroactive pricing that was referred to in the first panel, which we implemented not by consensus in the committee, because we never obtained a consensus, but through the system of holds on oil prices. In other words, we exercised our right under the consensus system to place a hold on any oil contracts until the end of the month when it was known what the market price for that oil was during that month. And that was the mechanism that we used to implement retroactive pricing. It was over the objections of other members of the committee.

Mr. WHITFIELD. In some of our testimony, Dr. Gordon—my impression was that everything decided at the 661 Committee had to be unanimous and the fact that the U.S. was not objecting seemed to indicate that the U.S. was going along with everything that was happening. But what you have just described is a little bit different than that.

Mr. ANDERSON. Mr. Chairman, I'm not sure which issue your reference to objecting is, but I would just reiterate there were many disputes within the committee over policy decisions and the——

Mr. WHITFIELD. There were a lot of disputes, I take it?

Mr. ANDERSON. Yes.

Mr. WHITFIELD. In Exhibit 46, I notice that the U.S. was willing to consider other alternatives to retroactive pricing in order to get rid of the surcharges, is that correct?

Mr. ANDERSON. Yes, Mr. Chairman. Exhibit 46 is a document that analyzes various responses from various members of the 661 Committee to the problem of surcharges. This is a matrix that was drawn up at one point during the 6 months of debate within the

committee on how to deal with this problem, and it illustrates the range of ideas that were under discussion. When you add up the various positions, you can see why we were not able to reach a consensus that we felt would be effective.

Mr. WHITFIELD. Why did the U.S. and Great Britain desire proactive pricing to be conditioned on a mandatory lifting requirement?

Mr. STUPAK. This document number 46, could you tell us the source of that document?

Mr. WHITFIELD. Came from the State Department.

Mr. STUPAK. Does Mr. Anderson have that in front of him?

Mr. ANDERSON. Yes, I do.

Mr. STUPAK. Do you recognize that as a State Department document?

Mr. ANDERSON. I know from conversations with colleagues at our mission to the United Nations that it is a United States document. It was prepared in New York by our mission.

Mr. WHITFIELD. Can you explain why the U.S. and Great Britain desired proactive pricing to be conditioned on mandatory lifting requirements?

Mr. ANDERSON. Mr. Chairman, I'm not an expert by any means on the oil market, but I understand from others who were—whose reasoning was behind that decision that that method would be more effective in eliminating the surcharges. Because, as I believe we heard described in the first panel, if a company that was going to lift oil was not aware at the time they agreed to lift what the price would be, it would not be possible to make an agreement with the Iraqi side for a surcharge. And if they were able to get out of that lifting obligation, then that arrangement would no longer apply.

Mr. WHITFIELD. Now you mention in your testimony that members of the 661 Committee did not take their international obligations seriously. Could you be more specific in terms of particular countries and examples?

For example, with respect to holds placed on humanitarian contracts, can you estimate what percentage of holds were placed by the U.S. and British due to concerns over potential dual-use capabilities?

Mr. ANDERSON. I would say the vast majority of holds placed by the U.S. and U.K—over 99 percent of those holds were placed because of concerns about potential dual uses. There were a very small number of cases where some participants in the interagency review process that took place in Washington of the oil contracts signaled a concern about the pricing of the contract as potential evidence of a kickback taking place. But in almost every case, even contracts that had a pricing concern were placed on hold officially because of concerns about dual use.

Mr. WHITFIELD. So if—you are saying over 90 percent by U.S. and Great Britain and 10 percent or less was for holds placed by the countries only?

Mr. ANDERSON. If I understand the question, it goes to the percentage of all holds placed by the committee and how many of those were placed by the U.S. and U.K. And my understanding is that, indeed, over 90 percent were placed by the U.S. and U.K; and,

therefore, all other members—the other 13 members of the committee were only responsible for 10 percent of those holds.

Mr. WHITFIELD. I have no further questions at this time. I recognize Mr. Stupak.

Mr. STUPAK. Thank you.

Mr. Anderson, do you agree that there was a serious humanitarian crisis in Iraq in 1995?

Mr. ANDERSON. I would say, sir, and all the evidence that I have seen indicates that there was, indeed.

Mr. STUPAK. I'm looking at page 3 of your testimony, first main paragraph there. It says, the Oil-for-Food program did succeed in its humanitarian objective of ensuring that the Iraqi people were adequately fed, thus limiting the impact of the sanctions on them. Is that correct?

Mr. ANDERSON. Yes, I think that's correct. And I would call your attention to the precise wording. Adequately fed does not mean luxuriously fed or any situation that we would all wish, but adequate, yes.

Mr. STUPAK. The illegal profits or sales of this oil and commodities—let's just say oil—where Saddam Hussein received these kickbacks or money to do what he wished outside the Oil-for-Food program, it's been estimated that half of this illegal money came from sales to countries like Jordan, Syria, Turkey, is that correct?

Mr. ANDERSON. As I understand from studies that have been done of the oil market from that period, for example, the GAO study that I think you're familiar with, that is the case, yes.

Mr. STUPAK. If the United States was pushing in the U.N. to make sure that the Oil-for-Food program was properly followed, as they should have, then why would the U.S. allow Saddam to receive about half of his money through these illegal sales? These sales were in violation of the sanctions against Iraq?

Mr. ANDERSON. Yes, sir. That's correct. That's the reason that the U.S. Government under the Foreign Assistance Act certified to the Congress that assistance to Jordan every year starting in 1991 and to Turkey every year starting in 1996 was in the national interest despite their violations of U.N. Sanctions.

Mr. STUPAK. Doesn't that send a mixed signal to everybody else? Like the sales to Jordan and Turkey, we will say that is in violation of the sanctions, but we'll look the other way. But if anyone else comes up with anything where they receive something that would be in violation of sanctions, we are going to put a hold on it or we're going to try to enforce them in the 661 Committee? Isn't that sort of a—how do you put credibility into a program when you look the other way when it's in your political interest and then yet you admonish others for doing the same thing you are doing?

Mr. ANDERSON. Jordan came to the 661 Committee in 1991 with a request for relief from the sanctions, alleging that the enforcement of the sanctions and a ban on oil trade with Iraq would cause severe economic hardship to Jordan. Turkey also submitted a similar request for relief. The judgment of the U.S. Government as reflected in those certifications to Congress was that indeed there was—it was in the U.S. interest to take that approach.

Within the U.N. system, the Jordanian request was never granted officially, but the committee "took note," was the terminology

that they used, of the trade between Jordan and Iraq. And the U.S. in many bilateral diplomatic exchanges with Jordan suggested that the trade with Iraq in the other direction, in other words, the compensation that Jordan paid to Iraq, should only be in barter terms with humanitarian goods. In the case of Turkey, the 661 Committee never acknowledged the request; and the U.S. also had many diplomatic exchanges with Turkey about attempting to limit those purchases from Iraq.

Mr. STUPAK. As I said in my opening, it's a geopolitical decision, but I think we lose credibility when we start talking about sanctions and what other countries can do. Even though Jordan and Turkey did go to the standing committee, it sounds like the standing committee did not approve it, but yet the U.S. did as a matter of policy. We're supposed to be the big enforcer, us and the United Kingdom, to say these sanctions have to work; and if they work, we have to play by the same rules. When it was to our interest, we forget the rules, correct?

Mr. ANDERSON. What Jordan and Turkey were doing was not a secret. It was known to the committee and made clear to the world and U.S. Congress and it is of a fundamentally different character than this list of under-the-table, secretive, manipulative means of gaining illegal revenue that the Saddam Hussein regime engaged in.

Mr. STUPAK. There are numerous allegations that prohibited items also went to Iraq through Jordan. What kind of controls did the Security Council have over this trade?

Mr. ANDERSON. For a period of time, Jordan had an inspection system at its port in Aqaba of goods that were entering Iraq that was run by a private contractor. And the Jordanians assured us—and again, we had many diplomatic exchanges with them to make sure that they would police that trade to make sure that only those humanitarian goods were traded back to Iraq in exchange for the oil.

Mr. STUPAK. But we know that wasn't the case now, right?

Mr. ANDERSON. Every regime has exceptions, it has violations, including in this case.

Mr. STUPAK. Did the U.S. relieve its inspector of those duties—that was supposed to be doing these inspections along the border there in Jordan? Did Jordan have an inspector that was supposed to be looking at these commodities to make sure they didn't violate the understanding that only certain humanitarian things could move from Jordan to Iraq? Did Jordan remove its inspector who was supposed to be head of this program and make sure that only the proper commodities went into—or humanitarian products went into Iraq.

Mr. ANDERSON. I am not familiar with the details of that. I can get an answer back to you.

[The following was received for the record:]

This question should be directed to the Government of Jordan, which had responsibility for its side of the border.

Mr. STUPAK. If you would, please. Thanks. In June 1997, the United States and the United Kingdom told the sanctions committee that it was, "beyond the committee's competence to approve exports of Iraqi oil," to Jordan. Such approval raised all sorts of

questions which had been put aside over the past few years, the U.S. stated. Is this your understanding of the situation concerning illegal trade between Iraq and Jordan? Is this your understanding?

Mr. ANDERSON. As I said earlier, the 661 Committee took note of the trade, but the 661 Committee did not authorize it. And the U.S. participated in that decision.

Mr. STUPAK. You know, when we opened up the pipeline, and I think it was you that said that, that it was supposed to be an experiment at first just to make sure that it worked. But that was their pipeline going up to Syria there.

Mr. ANDERSON. Yes, sir.

Mr. STUPAK. After that, that pipeline never really shut down. And that's where a lot of these illegal sales took place, was through Turkey, and really outside the Oil-for-Food program. Were any attempts made by the State Department to shut that down?

Mr. ANDERSON. Many, many attempts, both by raising this issue within the 661 Committee and also directly with Syria.

Mr. STUPAK. And nothing ever happened. Right?

Mr. ANDERSON. That's correct.

Mr. STUPAK. Okay. Was the State Department aware of all the end use of all this oil that was being sold illegally, that the end use was here in the United States?

Mr. ANDERSON. I believe the State Department received the same kind of statistical reports on the oil industry that are widely available to the industry. So I assume so. Yes, sir.

Mr. STUPAK. I asked a question earlier that has been bothering me. Maybe you can shed some light on it. I had asked of the other witness, Mr. Fawcett, because he sort of raised it in his report, that when we started in 1997, the first year of the program, the United States was the biggest user of the oil—Iraqi oil at 13 percent. By 1999, it rose to 35 percent. And since September 11, the U.S. had been purchasing well over 50 percent of all Iraqi oil sold underneath the Oil-for-Food program. And every year, it kept going up. And it's just not clear why the U.S. would purchase such large quantities of Iraqi oil under this program in the wake of September 11 and the thoughts of going to war. Can you explain that? Was there any State Department rationale why they would continue to buy that oil?

Mr. ANDERSON. As far as I know, it wasn't a State Department decision one way or the other on whether that oil should be purchased. Those are transactions done by private companies on the oil market within the framework of U.S. Law and international law.

Mr. STUPAK. Yeah, but still ended up here. Wouldn't you do an investigation to try to enforce this so it did not end up on the U.S. market? And if we are trying to be true to the spirit of the sanctions, I would think you would not want Iraqi oil coming in here since we have these sanctions against them.

Mr. ANDERSON. I think the simple answer to that is the oil market is one big pool, and at one end, oil is put in. Obviously, there are some limits on the particular qualities that are for particular purposes. But if the oil is going into that market from Iraq and the U.S. is purchasing oil, it really doesn't matter whether a specific

oil from Iraq ends up in the U.S. or some other—it goes somewhere else and the U.S. substitutes; it's one big pool.

Mr. STUPAK. Thank you.

Mr. WHITFIELD. The gentleman's time has expired. At this point, I will recognize Dr. Burgess for 10 minutes.

Mr. BURGESS. Thank you. And thank you, Mr. Anderson, for taking time to be with us here today. In your testimony, you stated that, besides the surcharges and kickbacks, the United States also brought to the 661 Committee evidence and information concerning additional violations of the program, the Oil-for-Food program. And we have got in our binder that was provided to us Exhibit 45. And I guess, just like Mr. Stupak, this is a document that is known to you. Correct?

Mr. ANDERSON. Yes, sir.

Mr. BURGESS. Okay. Exhibit 45, an e-mail dated March 5, 2002, on truck briefing points. And this document describes a situation where the United States apparently learned that Iraq was diverting trucks imported under the program for military purposes. Are you familiar with this?

Mr. ANDERSON. Yes, sir.

Mr. BURGESS. Was this matter addressed within the 661 Committee?

Mr. ANDERSON. Yes, it was.

Mr. BURGESS. And what was their feeling about this?

Mr. ANDERSON. This e-mail is dated 1 day before an interagency group from the U.S. Government briefed the committee on what we knew about the diversion of trucks that were brought into Iraq ostensibly for humanitarian purposes and were then diverted to military use. And this is precisely the kind of concern that was uppermost in our mind within the committee, in making sure that goods were not diverted to military use. And that's why we went to the trouble of presenting that briefing. And the result of that was a change in the judgments of the committee on what types of trucks would be considered humanitarian.

Mr. BURGESS. Well, clearly, the United States and the State Department were concerned. Were other members of the committee, did they express concern or surprise that this diversion was occurring?

Mr. ANDERSON. This is, sir, a rather typical exchange. Typically, if someone presented information on a sanctions violation of this sort, it was usually either the United States or the United Kingdom. Typically, depending on the nature of the evidence, if the evidence was very clear and compelling, there wasn't too much that other committee members could say about it. If the evidence was circumstantial, as sometimes was the case when there would only be a newspaper article from the press somewhere without any corroborating evidence, other members of the committee would challenge that newspaper article and would say that no action could be taken until there was more substantial evidence. But in this particular case, the evidence was quite compelling, and there was action taken.

Mr. BURGESS. So the diversion of these trucks to military use, I mean, what did France think was eventually going to happen?

Mr. ANDERSON. Well, I think the position of other countries on the committee typically was to react to the information that was presented to them. And we've heard earlier described the contract process, where contract documents would come to the committee. They would look at that and approve the contract or put the contract on hold. And then, if the—in this case, say a truck contract said that it was going to be used for a hospital or to transport food or just some civilian use, no one in the committee would challenge that, they would accept that. But then if you then subsequently showed them evidence that in fact these trucks were going right from the port to the military base being used by the Iraqi military and you have compelling evidence of that, they then react to that and say, oh, well, of course that's in violation of the sanctions, and that's not acceptable.

Mr. BURGESS. Well, then there's another—if we just skip ahead to Exhibit 47 and let me ask the same question. Is this an exhibit that is known to you? Is this an e-mail, internal e-mail from the State Department as well?

Mr. ANDERSON. Yes, sir.

Mr. BURGESS. This one describes the diversion of Ventolin inhalers. Are you familiar with this incident?

Mr. ANDERSON. I'm familiar with the document, and I've also had some conversations with colleagues who were involved in dealing with it. Yes, sir.

Mr. BURGESS. Now, did we, the United States, ever confirm whether this medicine that was found in Syria actually came from an Oil-for-Food shipment diverted from Iraq?

Mr. ANDERSON. We have initiated—since the staff of the committee brought this particular document to our attention, our mission in New York has been searching their records to see, to get the answer to that question. As of today, they have not found any indication that we did confirm that or that any particular action was taken within the 661 Committee with regard to this. But I would say, sir, that this is an example of a fragmentary information on a possible sanctions violation. We very frequently got such fragmentary information. It would basically be a tip from a source, and we would take that information as far as we could take it, and sometimes, it would involve calling it to the attention of the U.N. Office of the Iraq program and asking that they take particular care in following such matters. In other cases, if it involved a country that was a member of the Security Council on the committee, raising—the fact of raising it in the committee would mean that it was highlighted that it was going on, and we would do that with the hope that that country would then subsequently refrain from that type of behavior.

Mr. BURGESS. But, of course, I mean, as you know, and we have heard in this room this afternoon the United States has taken a great deal of criticism from the United Nations and from outside the United Nations from blocking the flow of humanitarian goods into Iraq. Is it fair to conclude that the Iraqi regime may have actually been cashing in on medicines intended for its own people? And this is Ventolin; it's an inhaler used for asthmatic children. And they were taking this—it looks like they were taking this

across the border, turning it into cash for some other purpose. Do you think that's a possibility?

Mr. ANDERSON. Absolutely.

Mr. BURGESS. Well, given the obstacles for reform within the United Nations, why didn't the United States, as Mr. Fawcett has suggested, put public pressure on France, Russia and others to eliminate this type of abuse? I mean, again, here we have got a medicine to go to asthmatic Iraqi children we are selling in the pharmacy of Damascus for whatever purpose, who knows, and the money is coming back to the Saddam regime. Why didn't—why wasn't more pressure put on France, Russia to—Germany to stop this?

Mr. ANDERSON. I would say we certainly put tremendous pressure on France and Russia, and then Germany of course during the period that Germany is a member of the Security Council, but certainly on France and Russia within the framework of the council. And as far as public pressure, I think, on the general issue of dealing with Iraq, there was a tremendous amount of public pressure on France and Russia on the overall issue of dealing with Saddam Hussein. With regard to these specific violations, it would depend on the issue. I mean, different countries could be involved at different times. But certainly within the framework of the committee, it was very clear that there was a struggle under way between the U.S. and the U.K. On the one hand and the other three permanent members, Russia, France and China, on the other, on a whole range of issues. During the period before the smart sanctions that were addressed earlier when we were reviewing every single contract there was a lot of discussion about contract holds that the U.S. and the U.K. placed because of weapons of mass destruction or dual-use concerns. Many of those contracts were from—were submitted by companies in Russia and France or China. And we were under tremendous pressure from those governments to release the holds. So it was very clear that there was a lot of tension over those.

Mr. BURGESS. And I'm certain there was. But, golly, this looks pretty blatant. I mean, you have got a medicine that's used for asthmatic children in the country of Iraq, and you are selling it in Damascus on the black market. I mean, I fail to see why that's—you know, just like the other stuff we heard about, about the infant formula, paying 25 percent more than you know you should be paying for it. It's almost as if there was—well, I'm not going to say it. But it looks like this was a premeditated act at so many levels that I just simply can't shake that thought.

Mr. Chairman, I will yield back my time.

Mr. WHITFIELD. Thank you, Dr. Burgess. At this time, I will recognize Mrs. Blackburn for 10 minutes.

Mrs. BLACKBURN. Thank you, Mr. Chairman. And I want to thank Mr. Anderson, and two of our other witnesses are still in the room. I want to thank them for their time today. This is something that is of tremendous interest not only to us but to our constituents. And I also want to thank the chairman and the ranking member for their work on getting everything ready for the hearing today.

Mr. Anderson, let me just ask you this as a matter of background, and I think as we look at this and as our constituents, I know we have many who are watching the hearing and listening to the things that are going on here. Were you at the State Department in 1991 when Resolution 661 was passed?

Mr. ANDERSON. I was at that time on assignment overseas, and I was not dealing directly with Iraq or the United Nations at that time.

Mrs. BLACKBURN. Okay. And then when Resolution 986, in the mid 1990's, were you there at that point?

Mr. ANDERSON. No.

Mrs. BLACKBURN. You were not. Okay. And then for the record, let's just go ahead. In 1991, who was our Secretary of State and our U.N. Ambassador?

Mr. ANDERSON. 1991, that was the late Bush period. So that would have been Mr. Baker as our Secretary of State at that time.

Mrs. BLACKBURN. All right.

Mr. ANDERSON. And our U.N. Ambassador, I would have to check the list. It was probably the period of Ambassador Pickering, I believe.

Mrs. BLACKBURN. And then in the mid 1990's?

Mr. ANDERSON. Mid 1990's, I guess it depends which year, whether it would be in the Clinton administration, or are you referring to the——

Mrs. BLACKBURN. That would have been?

Mr. ANDERSON. Madam Albright was our representative, our permanent representative at the U.N. And then Mr. Holbrook.

Mrs. BLACKBURN. All right. Okay. And so what I wanted to do was be certain that we realize who was at the State Department and who was our U.N. Ambassador during that period of time and who was in charge of overseeing, and then as I said, for clarification, I felt like it was important to notice to whether you were there or you were involved. Because I think it's important for people to realize, you know, we talk a lot about—we use a lot of acronyms and a lot of numbers in DC, and sometimes, it allows us to gloss over the importance of the Iraq steering committee. And this group that was put in place by Resolution 661 just simply by using numbers, you know, it does not speak specifically to the mission that these folks were given in looking at sanctions and looking at the oil and the commodities and the proper use of those items and of the proceeds from the sale of that oil.

And I think that, many times, as we go back and we are looking hindsight, using the advantage of hindsight in looking at this, we have a tendency to say, how did the wheels come off of this? And how did it get to be so seemingly out of control? And that is hard for us to get our arms around, what appears to be just a blatant disregard for humanitarian aid and for the welfare and well-being of people, not to mention respect for the law.

You have mentioned in your testimony a couple of different places on page 2 and 3 about the political debate and impeding action against violators of the program. And you mentioned earlier in your remarks, the U.K. Was generally with us.

Mr. ANDERSON. Yes.

Mrs. BLACKBURN. And then to Dr. Burgess' response you mentioned against the French and Germans. And how much of the pressure to turn a blind eye, if you will, to any actions against the violators, how much of that came from the French and Russian governments?

Mr. ANDERSON. I would say, ma'am, that I would turn that image around.

Mrs. BLACKBURN. Okay.

Mr. ANDERSON. And I would say that the pressure from the U.S. and U.K. To look into violations was quite strong. And we got similar pressure back from countries that were most interested.

Mrs. BLACKBURN. You got the push back from the French and the Russians.

Mr. ANDERSON. Yes. That's correct.

Mrs. BLACKBURN. Considerable?

Mr. ANDERSON. Considerable pushback? In particular with regard to contracts that involved companies from those countries.

Mrs. BLACKBURN. Okay. During this period of time, the mid 1990's, do you know if there was a relationship between Kofi Annan and Cotecna?

Mr. ANDERSON. I don't have any familiarity with that beyond what I read in the second report of the Volcker Commission.

Mrs. BLACKBURN. Do you know if Kojo Annan was involved in any way at that point? Are you aware of anything from there?

Mr. ANDERSON. I would refer you to the report. That's the source of what I know. He was employed by Cotecna, and the dates of his employment and the conditions are detailed in the Volcker Commission's report.

Mrs. BLACKBURN. You also mentioned in your testimony that there were regular briefings on the program that were given to the Security Council Ambassadors.

Mr. ANDERSON. Yes.

Mrs. BLACKBURN. And what feedback did they give and how receptive did they seem to be to negative information?

Mr. ANDERSON. The—if I understand, ma'am, you are referring to briefings by the United States on knowledge that we had.

Mrs. BLACKBURN. Right.

Mr. ANDERSON. And I would say the reaction was typically negative from members of the Council, other than the U.K. It was typically—pushback was a good word, challenging the veracity of our information, challenging whether or not there was evidence to support the assertions that we were making. There was a tendency to question the information the U.S. was presenting.

Mrs. BLACKBURN. Did they give you as much resistance on accepting negative information as they did to any type of action against the violators of the program?

Mr. ANDERSON. I just want to see if I understand the question, ma'am. The violators, are you referring to companies or——

Mrs. BLACKBURN. Correct. You know, as we have talked about the violators on the aid, and you mentioned in your testimony some of the disagreements that were there, the fundamental disagreement over dealing with some of these folks. My—and what I'm trying to get to, Mr. Anderson, is how strongly they would resist, the negative information, and then turn around and deal—how strong-

ly they would resist dealing with anybody who was trying to impede what they saw as a benefit to the French and Russian governments.

Mr. ANDERSON. Well, I think in general everybody on the 661 Committee accepted that violations of the sanctions regime should not occur, in principle. But when it came down to specific cases of violators, there tended to be a lot of debate about the evidence, whether an actual violation had occurred and whether one could be sure, based on the available evidence, that it had occurred.

Mrs. BLACKBURN. Okay. You know, in the last panel, one of the questions that I asked was if members of this committee, the 661 Committee, the Iraq steering committee, whatever we are going to call it, if they should come in and testify before this committee, if we should have them there. And I would be interested to hear from you if the State Department, what the State Department's opinion would be on having those members come in. Because I find it very interesting that it seems as if there was a denial, an awareness of what was probably happening, but then a choice to possibly not take action. So I would be interested in what the State Department's opinion is on that.

Mr. ANDERSON. Well, the members of the 661 Committee of course were the 15 countries who were members of the Security Council. And the individuals who were sitting in that committee were all diplomats just as I am. So if I served—you asked, ma'am, where I was in 1991. I was in Poland, for example, and I dealt with the parliament of Poland. And occasionally they requested that a U.S. diplomat would come and talk to them in a committee setting like this. And our response to that was always that we are always happy to talk to a committee, but we are not happy to be subpoenaed by a committee because we have diplomatic immunity. And I would guess that most diplomats from the 15 countries who were on the 661 Committee, on the Iraq sanctions committee, would probably react in a similar way; that you might get people to talk to you, but I'm not sure that you would get them to testify under oath.

Mrs. BLACKBURN. You are probably correct. And I thank you so much for your answers.

Mr. Chairman, I will yield back.

Mr. WHITFIELD. Thank you.

I will recognize the gentleman from Florida for 10 minutes.

Mr. STEARNS. Thank you, Mr. Chairman. I don't have a full length of questions here, but I just wanted to ask Mr. Anderson: Has your career pretty much been at the State Department?

Mr. ANDERSON. Yes, sir.

Mr. STEARNS. From when you got out of school, college?

Mr. ANDERSON. I was in West Africa as a Peace Corps volunteer for 2 years after college. And then I came back to Washington, and I completed my graduate studies before I joined the Foreign Service and also worked at the Commerce Department for a period of time during those graduate studies.

Mr. STEARNS. So you have been at the State Department how many years, would you say?

Mr. ANDERSON. 25 years.

Mr. STEARNS. In your 25 years of being there, have you seen anything like this occur? Generally, you find these type of arrangements, that Saddam Hussein used oil allocations to undermine the sanctions. It's not brand-new. In your experience, have you seen other cases where this paradigm, this model has occurred in all of your experience? Is this unique in all of your professional history?

Mr. ANDERSON. Well, sir, I would say this particular program, the structure of the program, the breadth of it, is certainly unique. But since you referred to my career, I will permit myself to refer to my experience in the Middle East. I served 5 years altogether in the Palestinian areas and in Israel. And I must say that, in the kind of approach to dealing with the rule of law that we observed in this procedure was—is something that one can see in other areas in the Middle East also. Not on this scale, but the idea that business transactions are not transparent, that there may be double-dealing or triple-dealing is certainly not unknown in that region of the world.

Mr. STEARNS. That is what I am trying to get at. It seems to me we have oil here, but you could have food. You could have housing. You could have health. I mean, you could have a whole series of commodities that could be used like oil. And in the Middle East, there is a climate of quid pro quo, whether it's money or other things. So what I'm trying to establish, in your professional opinion, is this unique and egregious and something that people couldn't say, Well, this is just how the Middle East is and this is how everybody does it there. So this program is no different than they have done for eons. And so for Mr. Volcker to come here and try and do a report, he might have a difficult time because he can't separate what is the custom and culture. And so I need to hear from your professional experience whether we are talking about something here that is totally separate from the argument, that's part of the culture.

Mr. ANDERSON. I would respond, sir, that this program is different from what is typically the case in the Middle East in several aspects. One, the size, because, we were talking about——

Mr. STEARNS. Billions of dollars.

Mr. ANDERSON. Billions of dollars and comprehensive sanctions on an entire national economy.

Mr. STEARNS. Over a long period of time.

Mr. ANDERSON. Over a long period of time. There's nothing on that scale.

Mr. STEARNS. So the scale of it, with the amount of money. And, two——

Mr. ANDERSON. Complexity.

Mr. STEARNS. Complexity. And, three, that it is over a long period of time. It wasn't just a one-time transaction.

Mr. ANDERSON. That's correct.

Mr. STEARNS. Do you have—now, just I'm asking in your professional opinion here. And you can also give me a personal opinion. Do you think Volcker is going to be successful in trying to get to all the nooks and crannies here and get to the bottom of this, considering the extensive amount of relationships between nations and third parties? How do you get to the bottom of this? And do you feel confident that you can? What is your professional opinion?

Mr. ANDERSON. Sir, I would refer you to the mandate for Volcker's committee. We were quite careful in approving the U.N. Resolution that accepted the creation of the committee to make sure that the mandate of the committee was limited. And, indeed, if you look at it, it is limited to investigating wrongdoing by U.N. Officials in violations of the rules that were established by the sanctions committee. And that means that other bad things that happened that were outside the functioning of that—the Oil-for-Food program and the procedures are certainly bad, but they may not be within the mandate of the Volcker committee. So when you ask me, do I think whether he will succeed, in answering that, I try to look at what it is, what the task that he was assigned to.

Mr. STEARNS. The question is, can he succeed on the task given to him?

Mr. ANDERSON. I think it is always a question in any investigation on whether he can get evidence for any assertions. I think that he is—if you look at his first two reports, I think you will see that he has uncovered a range of assertions. Some of them have been better documented; others have been less well documented. But he has included in his report even things that are less well documented, and he might presumably be continuing to investigate as that investigation proceeds.

So I would say, since the Volcker committee is not a judicial institution, it's an investigative committee, and the results of that committee's work could be and may be forwarded to national authorities in the appropriate countries.

Mr. STEARNS. Where would that go, to the international court?

Mr. ANDERSON. No. I don't think so. I think it would go to national judicial authorities in appropriate countries for prosecution if——

Mr. STEARNS. Because, see, when you do an investigative report, you really don't have this subpoena under oath, and you are just asking questions and people can say what they want. And so my concern is the range of answers and range of interpretations, and this whole thing gets so murky. And it seems to me we need more of a judicial investigation where you have subpoena powers that he can put them under oath and there is a case where we could, if they suborned perjury, that we could actually put them in jail, even minor people. But I just don't have the feeling that he has that kind of authority. Is that true?

Mr. ANDERSON. That's correct. He does not have that authority.

Mr. STEARNS. So how can you investigate if you don't have the authority to extirpate the truth?

Mr. ANDERSON. Well, I think what Mr. Volcker stated is that he is preparing the best information that he can based on the access he has, granted by the United Nations, and that this information will be made available to member states including the United States and our judicial authorities who do have subpoena power and investigatory authority, who can investigate, if they deem it appropriate, any of the cases that might be described in the report of the Volcker committee.

Mr. STEARNS. Just as an outside observer, we see that the implication of some high Russian officials that has been in the paper this week. Now, how much confidence—and I am just rhetorically

putting this question out—do we think Russia is going to institute judicial prosecution against these high Russian political officials?

Mr. ANDERSON. That's obviously up to Russia to decide. And I won't comment——

Mr. STEARNS. But by opening up that, they open up a can of worms for their own policy positions at their government at the highest level.

Mr. WHITFIELD. If I could interrupt. They informed us that they are not going to do anything.

Mr. STEARNS. So we've already heard from Russia that, even if their highest officials are implicated, they are not going to do anything. So, you know, it's a little frustrating I think for us to look at the Volcker Commission and think that we are going to get some solid answers, and, more importantly, there are going to be results from it.

So, Mr. Chairman, with that, I just appreciate your having the hearing and want to encourage this continued investigation. But I think Mr. Anderson pointed out some problems with the ultimate jurisdiction of Volcker and getting the member country to prosecute the individuals that are guilty.

Mr. WHITFIELD. Thank you, Mr. Stearns.

At this time, I will recognize Mr. Inslee for 10 minutes.

Mr. INSLEE. Thank you. Mr. Anderson, I do have a question, but I need to say something before I start. So if you can just bear with me for a couple minutes.

Yesterday, in preparation for the Democratic-Republican baseball game, I pressed into service a young man who is a neighbor of ours to play catch. And this young fellow, I haven't seen for a couple of years, he's been in the Army and he is scheduled for deployment in Iraq here probably early next year I think. And the reason I mention that is that, with all due respect to this hearing, I really would rather be investigating how we can make sure that young man has the tools available to keep him safe and how we can make sure that our taxpayer money is not being wasted on contracts that have been squandered, and how we can make sure that $80 million gets accounted for so that we can put that into armored HMMVWs instead of some rat's nest of profiteering in Iraq. And I've been very disturbed that our institution, the U.S. House of Representatives, is not getting to the bottom of why contractors are disposing of millions of dollars of taxpayers' money instead of having armored HMMVWs for our soldiers like my neighbor who is going there early next year. I really think that is a fitting subject of inquiry that I would hope that our committee at some time can get to. We have made numerous attempts on the floor of the House to do that. We need a Truman commission in this regard, which, frankly, is a lot more important than this subject.

I would also like to see an investigation of some of the things coming out now about why my neighbor has to go to war and how that takes place—how that took place. I read a note from a London paper the other day from a July 23, 2002, memorandum that said, "In high-level meetings between the Bush administration and the British saying military action is now inevitable, Bush wanted to remove Saddam through military action justified by the conjunction of terrorism and WMDs, but the intelligence and facts were being

fixed around the policy. The case was thin. Saddam was not threatening his neighbors, and his WMD capability was less than that of Libya, North Korea or Iran."

This is a smoking gun about what happened, why my neighbor has to go to Iraq and be subject to hostility when a war started based on false, fraudulent information. And that's what I would like to see the U.S. Congress investigating so that my neighbor doesn't get in harm's way in Iraq. Instead, we are fooling around with the history of some oil effort that, frankly, I don't think is going to keep him safe. And I hope at some point the U.S. House of Representatives does its duty, which is to have a Truman commission to investigate the fraudulent use of taxpayer money and how this war started based on false information. That's an investigation worthy of this Congress.

But I want to ask you a question about this regard now, turning to the subject of this hearing. I was looking at some of the language, earlier witnesses have talked about, on kickbacks. And they submitted a document that said that while, "While the practice has usually been associated with weapons procurement, it was also a regular feature of the Reagan administration's agricultural support program to Iraq as administered by the U.S. Department of Agriculture's commodity credit corporation." In this guise, it was known as, "after-sales service."

Do you know how that happened and what was going on there?

Mr. ANDERSON. I believe that program was administered by the Agriculture Department, and I would have to get you an answer from them or refer you to them. I'm not familiar with that.

This question should be directed to the Department of Agriculture, which administered that program.

Mr. INSLEE. Thank you. I'll appreciate it if you can do that. Now, you're in the office—you're the director of the Office of Peacekeeping Sanctions and Counterterrorism. That's your current title?

Mr. ANDERSON. Yes, sir.

Mr. INSLEE. And what were you doing back in July 2002?

Mr. ANDERSON. July 2002, I was the counselor to the U.S. embassy in Warsaw, Poland.

Mr. INSLEE. Okay. So could you give us any information about this British memorandum that suggests that the Bush administration had made a decision to take military action in July 2002 based on flimsy evidence, on thin evidence based on assertions that WMD had less capability in Iraq that Libya, North Korea or Iran? Do you know anything about that?

Mr. ANDERSON. No, I don't.

Mr. INSLEE. I wish you did, because that's the thing I would like to see the U.S. Congress finally figure out, how this war started based on false information. Thank you.

Mr. WHITFIELD. I will recognize the gentleman from Michigan for a brief remark.

Mr. STUPAK. Thank you, Mr. Chairman. And I just want—you know, today's hearing got off a little bit there on the wrong foot with some documents coming into the—or wanted to be admitted into the record. And, you know, we have always worked well on this committee in a bipartisan manner; I hope we can keep that up. In my opening statement I indicated to you that I thought that we

should do further investigation along these lines, especially some of the U.S. interests in some of the U.S. oil companies that may or may not have benefited from this Oil-for-Food program. So I would hope in the weeks ahead that we can take another look at that. We have a couple subpoena requests that we had asked and documents we wanted from certain documents; hopefully, the majority would honor that and sign the subpoenas so we can get the documents front and center.

I think what the committee has done today is sort of tip of the iceberg, but you can sort of see the frustration on this. We all have strong feelings on this, even the last questioner there, my friend from Washington, there, mentioned the impact of this. It's more than just Food-for-Oil program; it's the whole Iraq war and everything else, which sort of gets energy levels up around here. And no disrespect meant to the Chair or anything like that, but we do have some strong feelings on this side as I'm sure you do on your side, and we'd like to use this committee as being as bipartisan as we are and that, that we continue to work on this issue, but hopefully, we can have a full investigation including the areas that the minority would like to explore through subpoena or interviews of companies. And we would hope you would join with us in that request.

Mr. WHITFIELD. Thank you, Mr. Stupak.

And, Mr. Anderson, thank you for your testimony today. As we all know, the chairman of the full committee has a real interest in this whole subject matter, and I know that there will be additional discussions as we move forward in trying to make some determinations about which ways to go in further hearings on this subject. So, with that, this hearing is adjourned. And I appreciate your testimony.

[Whereupon, at 5:42 p.m., the subcommittee was adjourned.]

[Additional material submitted for the record follows:]

The Honorable John D. Dingell
U.S. House of Representatives
Committee on Energy and Commerce

June 20, 2005

Thank you for the opportunity to further contribute to your investigation into the UN's Oil for Food Program. I sincerely wish you well in this endeavor. The following are my answers to your questions of June 6, 2005.

1) **During your testimony, you stated that in your written report published in 2003 you had not studied the role of the Secretary General in overseeing the Oil for Food Program. However you made several allegations about his poor oversight, stated that you had many documents to support those allegations, and promised to provide them to the Committee. Please provide those documents.**

The CIJ report, Sources of Revenue for Saddam & Sons was published in September 2002. Since then Saddam has been toppled and a number of investigations of the Oil for Food Program have commenced. Consequently tens of thousands of pages of documents have emerged, to which we did not have access at the time. I have incorporated some of these documents in my answers.

Initial negotiations
In September 1991, then Secretary General Javier Perez de Cuellar submitted a report to the Security Council recommending procedures for implementing the Oil for Food Program. (See Annex 1) The Secretary General recommended that Iraq be allowed to choose oil buyers as well as humanitarian suppliers. Paragraph 20 of his report begins, "The most efficient way of selling Iraqi petroleum and petroleum products is for Iraq to carry out the marketing." Paragraph 45 ends with, "It is, therefore, recommended that the Government of Iraq be entrusted with the task of purchasing and arranging for deliveries of the goods to Iraq." By September 1991, there was ample documentation available to the Secretary General (See Annex 2) demonstrating that Iraq would make every effort to undermine and manipulate sanctions. Allowing Iraq to choose buyers and suppliers not only demonstrated 'poor oversight', it handicapped future UN officials and *institutionalized* poor oversight into the oil for food program itself.

Oil Expertise
Another example of poor oversight began in October 1991. The Secretary General appointed a three person panel to advise him "on various aspects of Iraqi oil exports under the sanctions regime." (See Annex 3) One of those persons was Loik le Floch-Prigent, Chairman of Elf Aquitaine. At the same time, Elf Aquitaine was deep into negotiations with Iraq regarding future production agreements from massive Iraqi oil fields. The agreements would only come into force once sanctions were lifted. Mr le Floch-Prigent was an active participant in the negotiations.

Second Negotiations
Within days of Secretary-General Boutros Boutros Ghali taking office in January 1992, he dispatched the UN controller, the senior official in charge of the UN's finance and

budget, Assistant Secretary General Kofi Annan to Geneva to open negotiations with the Iraqis as to practical procedures for an Oil for Food Program. In the first meeting Kofi Annan reportedly agreed to allow the Iraqis to run the majority of the revenue through Iraq's own bank account with only notifications to the UN of transactions. (See Annex 4) The Security Council refused to back the UN controller and the Iraqis subsequently broke off negotiations. Allowing the Iraqis control over the revenue stream would have given the UN a very poor base from which to exert oversight.

Lack of a Learning Curve

From the imposition of sanctions in August 1990 until the first oil exports in Dec 1996, Iraq was allowed to import virtually any item with the approval of the UN Security Council. The UN Secretariat provided the personnel and resources to advise the Security Council's sanctions committee. For food and medicine the Security Council had no veto over the transaction but was merely notified. UN records from the time are full of examples of suspicious activity by Iraq and its foreign suppliers. There was no secret within the corridors of the UN as to Iraqi malfeasance however the Secretary General never allocated sufficient resources to allow an effective advisory capacity to the Security Council. (See Annex 5)

UN Procurement

In January 1996, Iraq began seriously negotiating the terms of a Memorandum of Understanding with the UN Secretariat, still under the control of Secretary General Boutros Boutros Ghali. This MoU was signed in April 1996, but the negotiations and establishment of the procedures and mechanisms took another six months. During this period of time, normal UN regulations on procurement of major contractual components necessary to get the program off the ground were constantly violated. The violations took place at the specific direction of the Secretary General or by those he appointed in an ad-hoc body called the Iraq Steering Committee. As an example of poor oversight, the Iraq Steering Committee kept no minutes of its meeting and had no formal procedures. The Volcker Commission outlines in detail the decisions made by these senior UN officials reporting directly to the Secretary General. The toothless monitoring mechanism set up at the direction of the Secretary General further impeded the ability of future UN officials to grapple with corruption under the program. (See The Independent Inquiry: Interim Report, February 3, 2005, Chapter 3.)

Audits

The Oil for Food Program was poorly audited. According to the UN Board of Auditors in their 2001 annual report, the UN averages 12 internal auditors per billion dollars of annual expenditure. At this rate the Oil for Food Program should have had 160 internal auditors. They had 4. In addition there were no internal audits for the first two years of the program. There were no internal audits of the UN headquarters handling of the program. There were no internal audits of any of the oil or humanitarian contracts, even after public and private allegations of corruption were made. As the Volcker Commission noted the head of the Secretariat's auditing board, the OIOS, reports to the Secretary General. ". . .this reporting arrangement was unsatisfactory because of potentially conflicting budgetary and management responsibilities of the Secretary-General." (See Independent Inquiry: Internal Audit Reports, Jan 9, 2005.) Kofi Annan had previously been the UN controller. With this background, as Secretary General, he

should have insisted on rigorous auditing. He did not. This exemplifies 'poor oversight.'

Office Monitors
Under the 1996 MoU the UN could determine how many distribution monitors it would deploy inside Iraq. These monitors were to have absolute freedom of movement in carrying out their duties. Secretary General Boutros Boutros Ghali determined, via an undefined process, that 151 international monitors would be deployed. The number could be increased at the discretion of the UN. (See Annex 6)

In October 2000, the UN's Office of Internal Oversight performed an audit on the deployment of the international observers. The auditors found that one-third of the expatriate observers were assigned administrative duties, i.e. ". . . are not actually discharging their responsibilities as Observers despite being specifically recruited and allowed entry into Iraq for this purpose." It was noted by the auditors that UNICEF had assigned over 78% of their allocation of observers to administrative duties.

One month later, at the end of November 2000, Secretary General Kofi Annan provided a report to the Security Council on 'the distribution of humanitarian supplies throughout Iraq." In the section entitled 'United Nations observation mechanism' the SG made no mention of desk-bound monitors. Quite the opposite, he declared that an 'enhanced observation mechanism' had been into place in July 2000. This had improved 'the effective management of the observation process.' He concluded, 'It is my sincere hope that the Committee will, on the strength of these assurances, review further the present high level of holds on humanitarian contracts in order to enhance the effectiveness of the programme.'

In other words, contrary to the findings of his own in-house auditors, whose reports were not available to the Security Council, the Secretary General reported that the observation mechanism was improving and therefore the Security Council should relax its own scrutiny and skepticism of Iraqi contracts.

IDPs
During the Oil for Food Program, the most threatened populations in Iraq were those the Iraqi government had expelled from their homes, the internally displaced. These people desperately needed the recognition and protection of UN officials on the ground. They never received it. During the research for a report written by myself and Victor Tanner for Brookings/SAIS in 2002, we persistently queried the Oil for Food Program as well as the UN humanitarian agencies that worked under it, as to the internally displaced. The following was typical of their responses. The spokesperson for the Oil for Food Program said;

> "The UN under this program does not deal with IDPs. We are only in Iraq to observe the distribution of supplies. The government of Iraq is directly responsible for programs for IDPs and I don't believe they have any programs for IDPs. Only in the three northern governorates do we have specific projects because we are operational." In response to a query on assistance to the displaced in Iraq, the World Food Program (WFP), a key observer of the distribution the OIP spokesperson referred to, commented: "As for the south, the characteristic

lack of information as to their plight does not allow us to assess the real complexity of the issue."

The UN High Commissioner for Human Rights pointed out on many occasions the plight of the displaced and the fact that they were not receiving humanitarian rations. Just as adamantly, the UN Secretary General, the Oil for Food Officials, and the UN humanitarian agencies continued to ignore the tragedy of the displaced. Eventually the Security Council ordered the Secretary General to report on Iraq's refusal to give the displaced the humanitarian rations. Secretary General Kofi Annan ignored the Security Council. (See Annex 7)

2) One of your complaints about the Oil for Food Program was the lack of competitive bidding in the provision of humanitarian goods to Iraq. Was there any provision in the program that mandated competitive bidding? Did the 661 Committee require it?

There was no provision in the program that mandated competitive bidding for the supply of humanitarian goods to Iraq; hence my complaint. As noted above the first UN procedures allowed Iraq to make all decisions regarding contracting. (Annex 1) However, the Security Council did mandate the UN secretariat to employ experts to examine each contract, in particular the details of price and value. There were more than 20,000 contracts for the supply of goods to Iraq. The UN experts found 70 that were overpriced. This represents less than one half of one percent of all contracts. The UN claims that the Security Council did nothing about these overpriced contracts. As a point of comparison, the US Department of Defense examined 750 Oil for Food contracts in 2003 and found that 48% were overpriced. In the sector of food commodities, the easiest to price-check, the DoD study found that 87% of the contracts were overpriced.
(See Annex 8)

3) Several times in your testimony you stated that all of the statistics including those reporting on health, mortality, and sanitation in Iraq after the first Gulf War reported by the United Nations were based on "phony Iraqi government statistics" and were subsequently retracted by the United Nations. Please provide citations for the reports based on "phony Iraqi government statistics" and the dates of their retraction.

In 1995, the UN oil for food agency FAO issued a report titled Evaluation of Food and Nutrition Situation in Iraq. A portion of the report was based on a survey conducted by a team of US based anti-sanctions campaigners contracted by FAO. "With the cooperation of the Nutrition Research Institute of the Ministry of Health, the Mission conducted a survey in Baghdad to assess the nutritional status and mortality of children under-five years of age." Afterwards, the FAO surveyors wrote a letter to the prestigious British medical journal The Lancet, which concluded "The moral, financial, and political standing of an international community intent on maintaining economic sanctions is challenged by the estimate that since August, 1990, 567 000 children in Iraq have died as a consequence." The press had a field day, citing the UN's FAO as claiming half a million children had died from sanctions. Eighteen months later the surveyors, followed up with another letter to the Lancet stating that subsequent surveys showed far lower mortality rates, or as the writers put it, "several-fold lower."

Columbia University's Richard Garfield made a comparative study of the various Iraq mortality surveys. In his 1999 paper, The Impact of Economic Sanctions on Health and Well-Being, he described the FAO study. "Advocates for ending sanctions have accepted Iraqi claims without critical examination. An early report, later retracted because of data inconsistencies and errors in survey methods, estimated excess deaths of children under five at 500,000 in 1995 (Zaidi & Smith Fawzi, 1995). Despite its subsequent retraction (Zaidi, 1997) the study is still often referred to."

Nevertheless the FAO boasted of the impact that this report had on international public opinion and the importance of this report on the weakening of the resolve of the UN Security Council and the consequent establishment of the Oil for Food Program. Despite the retraction the FAO in reporting to its client, the Government of Iraq, in its Assessment of the Food and Nutrition Situation Iraq 2000 wrote, "The high levels of malnutrition documented by the 1995 mission were an important catalyst for the reaching of an agreement on the implementation of the Oil-for-Food Programme."

Several months after the publication of the flawed FAO survey, the World Health Organization produced one of its own. In "The Health Conditions of the Population in Iraq Since the Gulf Crisis", published in March 1996, WHO claimed the health system of Iraq had been set back 50 years and that child mortality had increased six fold under sanctions. As Richard Garfield noted, "In 1996 the Iraqi ministry of health, with the assistance of a consultant from WHO, printed a report showing an average monthly excess of 4500 deaths among under fives (WHO, 1996). WHO reported this data as its own; UN humanitarian agencies henceforth reported 4500 embargo-related deaths as a verified fact."

It is important to note that both of these flawed UN reports were issued at a critical juncture in the negotiations between the UN and Iraq over establishing the Oil for Food Program. The resulting publicity clearly eroded the UN's position and led to compromises being made in Iraq's favor.

The main UN report used to advocate the easing or lifting of sanctions was UNICEF's 1999 report titled Child and Maternal Mortality Survey 1999 Preliminary Report. The report opens by noting that the survey was a partnership between the Government of Iraq and UNICEF. It states that the Iraqi Ministry of Health was closely involved in all aspects of the survey. This included planning, design, fielding the data collectors as well as their supervisors. The government also did the data entry. (See Annex 9)

A former UN official, Rehan Mullick who worked with the statistical databases in Baghdad wrote an internal report to senior UN officials in 2002. In it he made some shocking revelations. As reported by the National Journal;

> "Furthermore, Mullick reported, the locals working on the database included the son-in-law of the Iraqi deputy foreign minister and the children of a top official in the Mukhabarat -- Saddam's personal intelligence agency -- plus the children of a retired Iraqi intelligence official, a former ambassador, and other Baath Party members. The UNICEF database, which compiled the statistics on infant mortality and other politically sensitive measures of the humanitarian situation, was handled by Iraqis directly linked with the ministry of foreign affairs; one was the daughter of a deputy prime minister. The person in charge of the special end-use monitoring of imports that potentially had dual uses was another Iraqi with strong ties to the regime." (See Annex 9)

UNICEF has yet to retract its 1999 survey.

In December 2002, Hasmik Egian, the Oil for Food spokesperson said; "Sixty percent of the (Iraqi) population relies entirely on the food basket and it's their only means of covering their nutritional food needs." I have never been able to determine the statistical data, phony or not, upon which this statement was based. Nevertheless this statistic has been incessantly repeated. Sixty percent of the Iraqi population represents about 13 million people.

A UN agency involved in the Oil for Food Program, the World Food Program issued a press release on Sep 28 2004 announcing an 'unprecedented survey' of food in Iraq. (See Annex 9) "The political environment before the war made it impossible to analyze the level of poverty and hunger in the country," explained Torben Due, Country Director for WFP's operations in Iraq. "For the first time, we are getting an accurate picture of people's access to food. As a result, we are much better able to plan assistance." WFP found that "6.5 million people – 25 percent of the entire population – remain highly dependent on food rations."

Prior to the US invasion of Iraq, the UN claimed 13 million people were entirely reliant on the UN for humanitarian aid. The UN now says that 6.5 million are highly dependant.

Either the toppling of Saddam provided a dramatic improvement in the humanitarian situation in Iraq or the UN figures were grossly wrong.

4) You testified that the United Nations could have opposed contracts to supply goods to Iraq with companies that, although approved by member states to enter into contracts, were actually money launderers, organized crime companies, and terrorists. Please describe the process established under the Oil for Food Program that allowed the United Nations to, unilaterally or otherwise, halt such contracts.

The premise of this question is wrong. Why would the UN need a 'process' to be established in order to oppose contracts with money launderers, organized crime and terrorists?

Prior to the establishment of the Oil for Food Program the UN secretariat advising the Security Council pointed out numerous suspicious transactions with Iraq. The main impediment stopping the UN from continuing this practice was not a lack of process but that their most experienced investigator, Paul Conlon, was fired just weeks before the program came into being.

5) You stated in your testimony that Boutros Boutros-Ghali had "an awful lot of influence on the selection of the bank" for the Oil for Food Program. Please provide documentation for that statement.

Independent Inquiry, Interim Report, February 3, 2005, ppg 73-84

6) You stated in your testimony that you thought Secretary General Kofi Annan "knew what was going on." On what basis did you make that statement? Please provide documentation.

The relevant excerpt from the testimony is the following.

"NORWOOD: . . .

Is it true that the Secretariat had no decision making role in setting the terms of the oil-for-food program?

FAWCETT: That's not true. The Secretariat had an ongoing daily decision making capacity. The oversight was by the Security Council, and they could step in at any time. But all the data that was being passed to the Security Council, the options for the program, how it would change, were being provided by the U.N. itself.

NORWOOD: Well, is the secretary a hands-on kind of fellow, or does he delegate and just sort of didn't know what was going on, or you think he knew what was going on?

FAWCETT: I think he knew what was going on, yes.

NORWOOD: Do you think the oil voucher system was mostly a benign record keeping system of Saddam's regime?

FAWCETT: Absolutely not. It was the record keeping system of graft and corruption and political slush funds. I don't believe that all the members of the Security Council knew of the existence or of the details of the voucher regime. I believe that only came out after the toppling of Saddam."

There are three basis for my claim that Secretary General Kofi Annan "knew what was going on."

a) Any senior UN official that was responsible for dealing with Iraq would have been aware of the key literature as well as internal United Nations reports bluntly detailing Iraq's corrupt practices. (See Annex 10)

b) Kofi Annan had a career path within the United Nations which provided him thorough insight into the operations of the UN as well as contacts throughout the bureaucracy. He has worked for humanitarian agencies, WHO and UNHCR. He was head of UN personnel, head of administration and management, head of programme planning and budget, head of Peace Keeping, the Security Coordinator and the UN Controller. He was first employed by the United Nations at the age of 24. He was a life long employee.

c) Kofi Annan had a long history of involvement with Iraq.

- He negotiated with Iraq to release foreigners held as hostage in 1990. He developed a relationship with Tariq Aziz.
- On behalf of the UN he opened Oil for Food negotiations with Iraq in 1992.
- In 1998, during the conflicts between the arms inspectors and Iraq, he took a very hands-on role in negotiating with Saddam Hussein, defusing tensions early in the year by declaring that the Iraqi president was a man he could do business with.
- Late in 1998, when the US/UK initiated a bombing campaign that could have led to all out war, he was involved on a daily if not hourly basis with Iraq related issues.
- He had Middle East advisors such as Ghassan Salameh and Lakhdar Brahimi who were very familiar with Iraq.

In Defense of the United Nations

The UN is indispensable. I believe in its mission. There are many UN heroes. These are people that have attempted to perform honestly and courageously. I have seen them boldly sticking their heads up in the midst of war as well as risking their career in the bureaucratic dungeons of New York. Rather than scheming their way into ever more prestigious and lucrative positions, their primary goals is to assist the downtrodden in a manner that builds the credibility of the organization they believe in; the United Nations.

Rehan Mullick is one such unsung hero. In Baghdad, at personal risk to himself he tried to blow the whistle on the Oil for Food Scandals. In New York, at personal cost he pushed paper in front of noses. He truly believed that if senior UN officials knew what was going on, they would set things straight. He was fired

Another is Paul Conlon. His book, United Nations Sanctions Management is at times darkly comic, yet unrelenting in its condemnation of the Security Council, UN member states, and the Secretariat for failure to exert responsible oversight of the Iraq sanctions. In a truly enlightened act, Conlon has made publicly available to the University of Iowa as well as the Technical University of Dresden an extensive archive of UN internal documents that would never have seen the light of day without his taking a whistleblower's risk. In 1995, Conlon was fired by the United Nations Department of Political Affairs. Every point Conlon made, every pitfall he pointed out, every scam he identified was ignored by the Security Council, the Secretariat, and the UN humanitarian agencies. *After* his firing Iraq was given carte blanche to manipulate the Oil for Food Program.

Due to the actions of Paul Conlon, Rehan Mullick and others as yet un-named, no UN official, (Secretariat, Security Council, Humanitarian, or Ambassador) could ever claim that the pervasive corruption of the Oil for Food Program was not foreseen or that "I didn't know."

John Fawcett

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To: State oil Marketing Organization
Baghdad.

Dear Sirs

Reference is made to contract No. M/08/ dated / /2000, between State Oil Marketing (SOMO) as "Seller" and ---------- as "Buyer" concerning the sale and purchase of ----Bbl crude oil during the period ---------

This letter will confirm our mutual agreement of the payment of ---- $/Bbl from -------"Buyer" to SOMO as administrative and sales expences under the following terms and conditions :-

1) Buyer shall pay for each nominated shipment of crude oil an amount corresponding to that nominated shipment quantity.

2) Payment shall be made (7) days prior to the

accepted loading date. In all cases payment must be received by seller before commencement of loading.

3). Payment shall be made either:-

a. In cash directly to seller, or

b. Cash transfer to seller's designated bank account No. ------

4). Both parties confirm that the contents of this letter remain strictly confidential.

Yours faithfully

Received and confirmed by
Signature:
Name:

State Oil Marketing Organization
SOMO

TAB 2

**Translator comments appear in hard brackets.*

In the name of God, the Most Gracious, the Most Merciful

Republic of Iraq
Ministry of Oil
Office of the Minister

Number: W/349
Date: 22 November 1998

[*Margin note to:*]
The Honorable Executive Director: Please review.
Nov. 22

SECRET and PERSONAL

The Vice President of the Republic,
The Honorable Mr. Taha Yasin Ramadan

Subject: Extension of Phase Four

Implementation of your directive, dated 19 November 1998, regarding the suggestion to supply additional quantities, which will be due during the two month extension starting from 29 November 1998, ...we would like to show the following:

1- An additional quantity for the period of two months 1.8 million barrels a day X 60 days is approximately (110) million barrels.
2- We suggested the distribution of the additional quantity as follows:
   a- Full return of the cut during phase four is approximately (18) million barrels
   b- Provide a reserve quantity limited to 10% (approximately 12 million barrels) for the purpose of special requests of friendly companies and distinguished personalities.
   c- Distribute the remainder approximately (80 million barrels) to the friendly nations, companies, and political establishments, at a rate nearly in accordance with phase four and [*organized/arranged*] for the super-powers as shown below:

Russia	40%
France	15%
China	11%

[*Margin note on left to:*]
The Honorable Executive Director of the Marketing Organization: do what is necessary regarding the agreed upon on the aforementioned annual budget to nominate the carriers.

Please provide approval on the distributions regarding the attached schedule, to contact the companies directly, to save time, and nominating the transporters.

With regards...

Lt. Gen. Engineer
'Amir Muhammad Rashid
Minister of Oil
21 November 1998

[*signature of Saddam Zaban Hasan*]

[*signature of 'Amir Muhammad Rashid*]
Nov. 22

[*Margin note*]
+ Italy
+ Algeria
and [*consider it done*].

[signature of Taha Yasin Ramadan]
21 November 1998

جمهورية العـــراق
وزارة النفط
مكتب الوزير
العدد/ و/ ٣٠٠٠
التاريخ/ ٤ شعبان/ ١٤١٩هـ
الموافق ٢٤/ تشرين الثاني ١٩٩٨م

بسم الله الرحمن الرحيم

سري وشخصي

التشريق/مكتب المدير التنفيذي
الرقم ٣٢٠٠٠
التاريخ ٢٤/١١/١٩٩٨

السيد نائب رئيس الجمهوريـــة
الاستاذ طه ياسين رمضان المحترم

م/ لجنة المرحلة الرابعة

تنفيذاً لتوجيه سيادتكم يوم ١٩٩٨/١١/١٩ بصدد تقديم مقترح لتوزيع الكميات الاضافية التي يستحقق خلال فترة التمديد لشهرين اعتبارا من ١٩٩٨/١١/٢٩ ... نود ان نبين مايلي :

١- الكمية الاضافية لفترة الشهرين ١٫٨ مليون برميل يوميا × ٦٠ يوم = حوالي (١١٠) مليون برميل

٢- المقترح توزيع الكمية الاضافية كما يلي :

أ- اعادة ماتم استقطاعه خلال المرحلة الرابعة حوالي (١٨) مليون برميل .

ب- اما ، كمية احتياط بحدود ١٠٪ (حوالي ١٢ مليون برميل) لاغراض الطلبات الخاصة للشركات والشحنات الصديقة .

ج- توزيع الباقي حوالي (٨٠ مليون برميل) على الدول والشركات والشحنات الصديقة بنسبة متقاربة لما اعتمد في المرحلة الرابعة ويترتب على ذلك للدول الكبرى مابين ادناه :

روسيا - ٤٠٪
فرنسا - ١٥٪
الصين - ١١٪

نرجو التفضل بالموافقة على التوزيع وفق الجدول المرفق والمباشرة بالاتصال بالشركات كسباً للوقت لترشيح الناقلات .

مع التقديـــــر

الفريق المهندس
عامر محمد رشيد
وزير النفط
١٩٩٨/١١/٢٤

TAB 3

[*Margin Note*]
Adjusted by the order of the President-Leader, may God bless him, at the meeting on the morning of 17 December 1999.

[*'Amir Muhammad Rashid*]

17 December 1999

Disclosure of Specifications to the Phase after the Sixth (Special Orders)

Countries	Phase V Specifications	Phase VI Specifications	Suggested Specifications after Phase VI		Dec. 17 Notes
Countries of Permanent Membership					
1- Russia	**38.3%**	**34.6%**	**87.0**	**31.1%**	Increase the Oil when you can
A- Standard Orders	25.2%	23.6%		19.3%	
B- Special Orders	13%	11%		11.8%	
Communist Party	16	16		10.5	
Liberal Party	10	10		6.5	
Peace & Unity Party	3	3		3.0	
Foreign Ministry	16	12		8.0	
Ambassador in Baghdad	2	2		1.5	
Shafranik/Institute				1.5	
Political Science Academy				1.5	
Russian University (Ghopkin) for Oil and Gas	[*illegible note*]			1.5	
[*Totals in millions of barrels*]	(47)	(43)		(33)	
2- China	**9.1%**	**9.3%**	**25.0**	**8.9%**	
A- Standard Orders	7.4%	7.7%		7.0%	
B- Special Orders	1.7%	1.6%		1.9%	
Mr. Khuwan	6 million bbl.	6 million bbl.	4.0	5.5 million bbl.	*4.0 changed to 2.5; 5.5 changed to 4.0*
Norinco Company				1.5 million bbl.	
3- France	**15%**	**13.3%**	**33.3**	**11.9%**	
A- Standard Orders	10.2%	7.2%		6.4%	
B- Special Orders	4.8%	6.1%		5.5%	
Michel Grimard	1.8	1.8		1.2	
Patrick Maugein	7	7		2.5	*2.5 changed to 2.0*
Boidevaix	5	5		3.0	*3.0 changed to 1.5*
Friendship Society	1.8	1.8		1.2	
Addax Company	1.8				
Charles Pasqua		4		4.0	*4.0 changed to 3.0*
Hamida Na'ana		1.8		1.2	*1.2 changed to 1.0*
Alias Al-Gharzali		2.6		1.2	*1.2 changed to 1.0*
[*Totals in millions of barrels*]	(17)	(24)		(15.3)	

[*Margin Note*]
Regarding the Central Order: it is forbidden to increase the Special Orders beyond 17 December 1999.

١٩٩٩/٢٢

كشف التخصيصات للمرحلة مابعد السادسة
(الطلبات الخاصة)

الدولـــة	التخصيص للمرحلة الخامسة	التخصيص للمرحلة السادسة	التخصيص المقترح لمابعد المرحلة السادسة	الملاحظـات
الدول دائمة العضوية				
١- روسيا	٢ر٣٨٪	٦ر٢٤٪	٠ر٨٧ ١ر٢١٪	
أ- الطلبات الاعتيادية	٢ر٢٥٪	٦ر٢٣٪	٣ر١٩٪	
ب - الطلبات الخاصة	١٣٪	١١٪	٨ر١١٪	
- الحزب الشيوعي	١٦	١٦	٥ر١٠	
- الحزب الليبرالي	١٠	١٠	٥ر٦	
- حزب الوحدة والسلام	٣	٣	٠ر٢	
- وزارة الخارجية	١٦	١٢	٠ر٨	
- السفير في بغداد	٢	٢	٥ر١	
- شغرانك/مؤسسة	-	-	٥ر١	
- اكاديمية العلوم السياسية	-	-	٥ر١	
- جامعة(غوبكن)للنفط والغاز الروسية			٥ر١	
	(٤٧) مليون برميل	(٤٣) مليون برميل	(٣٣) مليون برميل	
٢- الصين	١ر٩٪	٢ر٩٪	٠ر٢٥ ٩ر٨٪	
أ - الطلبات الاعتيادية	٤ر٧٪	٧ر٧٪	٠ر٧٪	
ب - الطلبات الخاصة	٧ر١٪	٦ر١٪	٩ر١٪	
- السيد خوان	٦ مليون برميل	٦ مليون برميل	(٥ر٤) مليون برميل	
- شركة نورنكو	-	-	٥ر١	
٣- فرنسا	١٥٪	٣ر١٣٪	٣ر٢٢ ٩ر١١٪	
أ - الطلبات الاعتيادية	٢ر١٠٪	٢ر٧٪	٤ر٦٪	
ب - الطلبات الخاصة	٨ر٤٪	١ر٦٪	٥ر٥٪	
- ميشيل فريمار	٨ر١	٨ر١	٢ر١	
- باتريك موجان	٧	٧	٣ر١	
- سودافيه	٥	٥	٣ر١	
- جمعية الصداقة	٨ر١	٨ر١	٣ر١	
- شركة ايبكس	٨ر١	-	٣ر١	
- شارل بسكوا	-	٤	٣ر١	
- حميدة نعنع	-	٨ر١	٣ر١	
- الياس الغزلي	-	٦ر٢	٣ر١	
	(١٧) مليون برميل	(٢٤) مليون برميل	(١٥ر٣) مليون برميل	

TAB 4

In the name of God, the most Compassionate, the most Merciful

Republic of Iraq
Presidency of the Republic
Secretary

TOP SECRET and PERSONAL

No.: 1/1/22/450/K
Date: 19 January 2002

The Honorable Director of the Iraqi Intelligence Service

Subject: Iraqi – French Relations

In reference to your memorandum Number 140/4/1/2/70 dated 12 January 2002.

The role of France is poor but it is not because of what is stated in paragraphs (A, B, C) of Article (7) in your memo, rather that the Iraqi – French relations have been dormant, and therefore the President-Leader (God bless him) ordered the improvement of dealing with France.

For your information…with regards.

Lt. General
Dr. 'Abd Hamid Al-Khatab
Secretary to the President of the Republic
19 January 2002

[*second margin note*]
To: Director General M4
Please prepare ideas on the subject in coordination with M5
[*signature dated Jan. 20*]

The Honorable Foreign Minister: in addition to your memo Number 285/K on 13 January 2002, for your information…with regards.

[*first margin note*]
Assistant Comrade, review this and to the Director General M4: remind me to speak to the Foreign Minister after I finish my duties that are considered the first priorities. [*remainder of note is cut off*]

[*Tahir Jalil Habbush*]
Jan. 20

[*third margin note*]
To: Director, Section 1
and Head of France Dept.
For Discussion

[*signature dated Jan. 21*]

**Translator comments appear in hard brackets.*

الجمهورية العراقية

السكرتير

سري للغاية وشخصي

العدد ١/١/٢٢/٤٥٠/ك

التاريخ ٥ ذو القعدة ١٤٢٢هـ

١٩ كانون الثاني ٢٠٠٢م

٢٢٦ ش.ع

السيد مدير جهاز المخابرات المحترم

م/ العلاقات العراقية - الفرنسية

اشارة الى كتابكم ذي العدد/ ١٦٠/٤/١/٢/٧٠ في ٢٠٠٢/١/١٢ .

ان دور فرنسا سلبي وليس السبب كما جاء في الفقرات (أ، ب، ج) من المادة (٧) من كتابكم آنفاً في فتور العلاقات العراقية - الفرنسية، ومع ذلك امر السيد الرئيس القائد (حفظه الله) تحسين التعامل مع فرنسا.

للتفضل بالعلم .. مع التقدير .

العريف

د. عبد حميد الخطاب

سكرتير رئيس الجمهورية

١٩/١/٢٠٠٢

يطلع الحرمة المعاون

وكذلك السيد كمال

وتذكيرنا لكي تتذاكر مع

السيد وزير الخارجية

من مؤشرات نعتبرها

خطوات ايجابية

السيد وزير الخارجية المحترم / لاحقاً بكتابنا ذي العدد/ ٢٨٥/ك في ٢٠٠٢/١/١٣ للتفضل بالعلم ... مع التقدير .

٨٩

TAB 5

In the name of God, the Most Compassionate, the Most Merciful

The Honorable Director of the IIS
Subject: Iraqi – French Relations

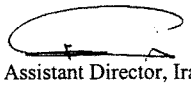
The President-Leader Saddam Husayn (may God bless him and protect him) ordered the improvement of dealing with France, and regarding your margin note dated 20 January 2002, coordination with M5 and M10 to prepare ideas and recommendations which will lead to executing the order of the President (may God bless him and protect him) these recommendations which have been completed are as follows:

1. Iraq will prepare to send official, political, and social delegations to France in exchange for an invitation to French delegations to visit Iraq.
2. Organize a round table in Baghdad and Paris with the goal of discussing the methods to develop and activate the relations between both countries in all fields. On the condition that a delegation specialized in this matter is sent to participate in this activity, it is possible to change the Iraqi – French Joint Committee, which Paris refuses to meet with, because it does not seriously consider it at this time.
3. The Foreign Minister will visit Paris to discuss matters regarding the relations between the two countries, the Security Council Agenda, and to clear the air with France.
4. Tasking the National Council and Office of Foreign Relations to the Party to approach the most influential parties in France and the French Parliament (National Assembly and Senate).

**Translator comments appear in hard brackets.*

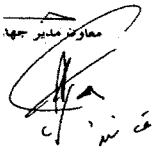
5. Do not consider granting the economic privilege (oil and trade) to those who are not effective or do not have any leverage. However, these privileges will be given to French political and economic individuals close to the center of political decision-making.
6. Increase the staff of the Iraqi Embassy in Paris to match the staff in the French Embassy in Baghdad because this connection is most important.
7. Study the possibility to support one of the candidates in the French presidential elections after it becomes clear who is going to win the elections through the offer of oil contracts on the condition that the winner of the right represents a good position for Iraqi and Arab issues.

Kindly review…upon your decision…with regards.



Assistant Director, Iraqi Intelligence Service
5 February 2002

[*First margin note*]
The requirement is how do we begin, what are the movement plans, and who are the influential French individuals, who through them, it will be possible to improve the relations? As to the support of the candidates for one time, without reference and grounds, [*summary translation: how do you want us to agree on this?*]



[*Tahir Jalil Habbush*]

[*Second margin note*]
For that request, before we meet with the Foreign Minister, we have to make a plan for that and let me know during the week.
Rajab

[*additional names with dates*]

Mazin	Muhammad	Ghalib	Hasan
Feb 3	Feb 3	Feb 4	Feb 4

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

السيد مدير جهاز المخابرات المحترم

الموضوع العلاقات العراقية ــ الفرنسية

امر السيد الرئيس القائد صدام حسين حفظه الله ورعاه بتحسين التعامل مع فرنسا وبضوء هامشكم جانباً بتاريخ ٢٠ /ك٢ / ٢٠٠٢ ، تم التنسيق مع م٥ ،م١٠ لغرض تهيئة الافكار والمقترحات التي تؤدي الى تنفيذ امر السيد الرئيس القائد حفظه الله ورعاه ادناه المقترحات التي تم اعدادها وكمايلي:

١. قيام العراق بارسال الوفود الرسمية والحزبية والشعبية الى فرنسا وبالمقابل دعوة الوفود الفرنسية لزيارة القطر.

٢. تنظيم مائدة مستديرة في بغداد وباريس الهدف منها البحث في وسائل تطوير وتفعيل العلاقات بين البلدين في كافة المجالات على ان يتم ارسال وفد متخصص لهذا الغرض للمشاركة في هذه الفعالية ويمكن ان يكون هذا بديلاً" للجنة العراقية الفرنسية المشتركة حيث ترفض باريس انعقادها وتعتبرها غير مجدية في الوقت الحاضر.

٣. قيام السيد وزير الخارجية بزيارة باريس للتشاور بشؤون العلاقات بين البلدين ومايدور في اروقة مجلس الامن وتنقية الاجواء مع فرنسا .

٤. تكليف المجلس الوطني ومكتب العلاقات الخارجية للحزب بالتحرك على الاحزاب الرئيسية المؤثرة في فرنسا والبرلمان الفرنسي (الجمعية الوطنية ومجلس الشيوخ).

٥. صرف النظر عن اعطاء امتيازات اقتصادية (نفطية وتجارية) الى شخصيات غير مؤثرة وليس لها أي نفوذ ويتم اعطاء هذه الامتيازات الى الشخصيات السياسية والاقتصادية الفرنسية القريبة من مركز صنع القرار السياسي.

٦. تعزيز كادر السفارة العراقية في باريس وبما ينسجم واهمية هذه الساحة مقارنة بكادر السفارة الفرنسية في بغداد.

٧. دراسة امكانية دعم احد المرشحين للانتخابات الرئاسية الفرنسية بعد وضوح الرؤيا من سيفوز بالانتخابات من خلال عقد نفطي مع العرض بان فوز اليمين يمثل توافقا" جيدا" للقضايا العراقية والعربية.

للتفضل بالاطلاع .. تنسيبكم ... مع التقدير.

معاون مدير جهاز المخابرات للعمليات

٥ شباط ٢٠٠٢

TAB 6

In the name of God the most Compassionate, the most Merciful

Presidency of the Republic
Iraqi Intelligence Service

URGENT

To: The Honorable Director of the IIS
Subject: Iraqi – French Relations

For your information on the date of 6 February 2002 we have recommended the following:

1- We suggest that the Foreign Minister visit Paris after the French presidential election, which is going to be held for the second time on the date of 5 May 2002.

2- Below are the most important influential people who, through these people, our relations with France can improve.

   a. The former French President Valéry Giscard d'Estaing: he is one if the members in the French Right. It is possible you can approach him through our ambassador in Paris, because he has a good relationship with him.

   b. The French Charles Pasqua: former Minister of the Interior and the French candidate for presidential elections in the current period. It will be possible for you to approach him through the Foreign Ministry, because he has a good relationship with Mr. Tariq 'Aziz. For your information he is one of the French right.

**Translator comments appear in hard brackets.*

In the name of God the most Compassionate, the most Merciful

Presidency of the Republic
Iraqi Intelligence Service

c. Jean-Pierre Chevenement: former French Minister of Interior and Defense, he currently heads the (French Citizens' Movement), and he is also one of the French candidates for the presidential elections. It will be possible for you to approach him through the French believer [*a named IIS source and the company the source owns*], whose good position towards Iraq is known.

d. Jacques Delors: former French minister (Socialist), former leader of the European Commission, and a member of the Socialist Party. It will be possible to approach him through the Tunisian-French citizen, Tawfiq Al-Mathluthy (the President of the French International Citizen's Party).

e. Lebanese-French citizen Joseph Tu'imah (the official for the Middle East in the Office of Foreign Relations to the French Socialist party): he is cooperative with the IIS, and it will be possible to use him to approach the Socialist Party and exchange visits of the party's delegations between the two countries.

f. The French Pierre Joxe: former Minister of Defense, socialist, and it will be possible to approach him through the cooperative Moroccan-French citizen, Muhammad Al-Bashari.

**Translator comments appear in hard brackets.*

In the name of God the most Compassionate, the most Merciful

Presidency of the Republic
Iraqi Intelligence Service

g. The French Bernard Emié: French Presidential Advisor for period from (1995-1998), the official in charge of the Iraq file, and currently French Ambassador to Jordan. He is very close to Chirac, and he is enthusiastic to return the relationship with Iraq to its previous state. It is possible to approach him through the cooperative [*named IIS source*].

h. The French Nicola Lang [*phonetic*]: French Presidential Advisor and considered the secret mediator between the French Government and the countries of the Middle East and all Arab countries. It will be possible to approach him through the Foreign Ministry and using the good relationship with Mr. Tariq 'Aziz.

i. Ahmad Bin-Bila and the young Muhammad Al-Basri: they have influence within the French politics and parliament. It is possible to use their relationships through the Foreign Ministry and the Office of Foreign Relations.

a. The French Parliamentarians Serge Mathieu, (member of the House Senate), and Roselyne Bachelot, (member of the National Assembly): we can approach them and exploit them through the Foreign Ministry, the Office of Foreign Relations, and the National Assembly.

Kindly review…as you wish…with regards.

Assistant Director, Iraqi Intelligence Service
February 2002

[*names of Mazin and Muhammad appear in the margin dated 9 February*]

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

رئاسة الجمهورية
جهاز المخابرات

عاجل

السيد: مدير جهاز المخابرات المحترم
الموضوع: العلاقات العراقية - الفرنسية

هامش سيادتكم جانباً بتاريخ ٦/٢/٢٠٠٢ .. نود بيان الآتي :-

١. نقترح ان نقوم السيد وزير الخارجية بزيارة باريس بعد الانتخابات الرئاسية الفرنسية التي ستجري جولتها الثانية بتاريخ ٥/٥/٢٠٠٢ .

٢. ادناه اهم الشخصيات المؤثرة التي من خلالها نستطيع تحسين العلاقة مع فرنسا :-

أ. الرئيس الفرنسي الاسبق فاليري جيسكار ديستان :-
احد الاقطاب الرئيسين في اليمين الفرنسي، يمكن التحرك عليه من خلال سفيرنا في باريس لكون لديه علاقة معه .

ب. الفرنسي شارل باسكوا :-
وزير الداخلية الاسبق ، مرشح للرئاسة الفرنسية في الدورة الحالية ، يمكن التحرك عليه من خلال وزارة الخارجية ولديه علاقة جيدة مع الاستاذ طارق عزيز، علماً انه احد اقطاب اليمين الفرنسي .

ج. جان بيير شوفنما :-
وزير الداخلية والدفاع الفرنسي الاسبق ، يرأس حالياً (حركة المواطنين الفرنسيين) ، احد المرشحين

بسم الله الرحمن الرحيم

رئاسة الجمهورية
جهاز المخابرات

السيد :
الموضوع :

للانتخابات الرئاسية الفرنسية ، يمكن التحرك عليه من خلال المؤتمن الفرنسي (named IIS source) (الذي يملك مجلة آفريك - آزي) الصادرة في باريس باللغة الفرنسية ، مواقفه جيدة ومعروفة من المصر .

د. جاك ديلور :- وزير فرنسي (اشتراكي) سابق رئيس المفوضية الاوربية سابقاً ، احد اقطاب الحزب الاشتراكي ، يمكن التحرك عليه من خلال المؤتمن التونسي الاصل الفرنسي الجنسية توفيق المدني (رئيس حزب فرنسا التقدمية) .

هـ. اللبناني الاصل الفرنسي الجنسية جوزيف طعمة (مسؤول الشرق الاوسط في مكتب العلاقات الخارجية للحزب الاشتراكي الفرنسي) :- متعاون مع الجهاز ، يمكن استثماره للتحرك على الحزب الاشتراكي وتبادل زيارات الوفود الحزبية بين البلدين .

و. الفرنسي بيير جوكس :-
وزير الدفاع الفرنسي الاسبق ، اشتراكي ، يمكن التحرك عليه من خلال المتعاون المغربي الاصل الفرنسي الجنسية محمد البشاري .

ز. الفرنسي برنارد ايمو :-
مستشار الرئيس الفرنسي للفترة من (٩٥-١٩٩٨) ،

بسم الله الرحمن الرحيم

رئاسة الجمهورية
جهاز المخابرات

السيد :
الموضوع :

ومسؤول ملف العراق ، وحالياً سفير فرنسا في الأردن
ومن المقربين لشيراك ويتحمس لعودة العلاقات
مع العراق لسابق عهدها ، يمكن التحرك عليه من
خلال المتعاون (named IIS source)

ج . الفرنسي نيقولا بلانح :-
مستشار الرئاسة الفرنسية ، يعتبر وسيط سري
بين الحكومة الفرنسية ودول الشرق الأوسط والأقطار
العربية ، يمكن التحرك عليه من خلال وزارة
الخارجية واستغلال علاقته الجيدة بالدكتور
طارق عزيز .

د . حمد بن سالم والفقيه محمد البصري :-
لديهم تأثير في الأوساط السياسية والبرلمانية
الفرنسية ، يمكن استثمار علاقاتهم من خلال وزارة
الخارجية ومكتب العلاقات الخارجية .

هـ . البرلمانيين الفرنسيين مريح مايثو (عضو مجلس الشيوخ)
وروزلين بايلو (عضو الجمعية الوطنية) :- يمكن التحرك
عليهما واستثمارهما من خلال وزارة الخارجية ومكتب
العلاقات الخارجية والمجلس الوطني .

للتفضل بالاطلاع ... تنسيبكم ... مع التقدير

مازن ١٩
محمد ١٩

معاون مدير الجهاز للعمليات
٢٠٠٢/٢/

(٣-٣)

TAB 7

In the name of God, the Most Compassionate, Most Merciful

Urgent

The Honorable Assistant Director to Operations, Iraqi Intelligence Service

Subject: Movement

Below are the names of individuals and businessmen, who through them, we will be able to approach the French President Jacques Chirac (the candidate for the French General Presidential elections, 2002) and the Russian President, Vladimir Putin:

1. FRANCE:

a. The French Nicola Lang [*phonetic*]: Secret middleman for France with the Middle East; he has direct relations with the French President Jacques Chirac, which was previously mentioned that he played an important role in the re-opening of the French Interests Section in Baghdad.

b. The French Patrick Maugein: Businessman and owner of oil company and has direct relations with President Chirac; previously he has visit the country several times, at the invitation from the office of Mr. Tariq 'Aziz, who he has a friendship with the Deputy Prime Minister.

c. The French Shovaliah [*phonetic*]: President of the French Total Oil Company; he is firmly connected with President Chirac, who is considered an Honorary President to the aforementioned company, therefore they meet weekly.

d. The French Roselyne Bachelot: Member of the French National Assembly; she is a friend of Iraq and has relations tied to the President Jacques Chirac.

e. The Ambassador was charged by the direction of the IIS Director to approach the relation with the French President through Morocco via the Moroccan Intelligence Services. There will also be a meeting with the legal scholar Muhammad Al-Basri and Dr. [*named IIS source*].

**Translator comments appear in hard brackets.*

2. RUSSIA:

a. Our Russian Source Sergei Rudasev: Head of the Iraqi People's Solidarity Committee in St. Petersburg, therefore his relations are tied with the Ms. Narasova [*phonetic*], widow of the former mayor of Leningrad, who meets with the Russian President weekly.

b. Our Russian Source Leonti Arkhibov [*phonetic*]: Advisor in the Russian Presidential Office through his position of employment.

c. Our Russian Source Boghos Akubov: Head of the Diplomatic Attaché of the Russian Foreign Ministry, through the Russian Deputy Foreign Minister Sultanov, who has good relations with the President Putin.

d. Mikhail Gutseriyev: Director of the Slavneft Company; therefore previously he was Deputy Chairman of the Duma Council and he has wide relations with the Presidential Office.

Kindly review...with regards.

م • ع • م •

[*feint signature*]
Director General, M4
11 March 2002

[*The names of Khudar, dated Mar. 10, and 'Ali, dated Mar. 11, appear as well.*]

**Translator comments appear in hard brackets.*

٩٢٦

بسم الله الرحمن الرحيم

عاجل

السيد معاون مدير الجهاز للعمليات المحترم

الموضوع / تحرك

ادناه اسماء الشخصيات ورجال الاعمال الذين يمكننا من خلالهم التحرك على كل من الرئيس الفرنسي جاك شيراك (المرشح للانتخابات الرئاسية الفرنسية لعام ٢٠٠٢) ، والرئيس الروسي فلاديمير بوتين :-

١ . فرنسا :-

آ . الفرنسي نيقولا لانج : الوسيط السري لفرنسا مع الشرق الاوسط ، والذي يرتبط بعلاقة مباشرة مع الرئيس الفرنسي جاك شيراك ، حيث سبق للمذكور أن لعب دوراً مهماً في إعادة فتح شعبة رعاية المصالح الفرنسية في بغداد .

ب . الفرنسي باتريك موجان : رجل أعمال ويمتلك شركة نفطية ولديه علاقة مباشرة مع الرئيس شيراك ، سبق له أن زار القطر عدة مرات بدعوة من مكتب الاستاذ طارق عزيز حيث يرتبط بعلاقة صداقة مع السيد نائب رئيس الوزراء .

ج . الفرنسي شوفاليه : رئيس شركة توتال النفطية الفرنسية ، والذي يرتبط وطيدة مع الرئيس شيراك الذي يعتبر الرئيس الفخري للشركة المذكورة حيث يلتقيان اسبوعياً .

د . الفرنسية روزلين باشلو : عضو الجمعية الوطنية الفرنسية ، صديقة للعراق وترتبط بعلاقة مع الرئيس جاك شيراك .

هـ سيتم التحرك على المغرب وصولاً الى العلاقة مع الرئيس الفرنسي من خلال المخابرات المغربية حيث كلف السفير حسب توجيه السيد مدير جهاز المخابرات ، كما أنه سيتم اللقاء بالفقيه محمد البصري والدكتور

(named US source)

٢ . روسيا :-

آ . مصدرنا الروسي سيرجي روداسيف : رئيس لجنة التضامن مع الشعب العراقي في سانت بطرسبورغ ، حيث يرتبط بعلاقة صداقة مع السيدة ناراسوفا أرملة عمدة مدينة لينيغراد السابق والتي تلتقي مع الرئيس الروسي اسبوعياً .

ب . مصدرنا الروسي ليونتي أرخيبوف : مستشار في ديوان الرئاسة الروسية من خلال موقعه الوظيفي .

ج . مصدرنا الروسي بوغوص أكوبوف : رئيس رابطة الدبلوماسيين الروس في وزارة الخارجية الروسية ، من خلال نائب وزير الخارجية الروسي سلطانوف الذي يرتبط بعلاقة جيدة مع الرئيس بوتين .

د . ميخائيل غودسريف : مدير شركة سلاف نفط ، حيث سبق وأن كان المذكور نائب رئيس مجلس الدوما ولديه علاقات واسعة مع ديوان الرئاسة .

للتفضل بالاطلاع ... مع التقدير .

م . ع . م . ٤

١١ / ٣ / ٢٠٠٢

حضر ١٠/٣

علي ١١/٣

TAB 8

...the most Merciful

Presidency of the Republic
Iraqi Intelligence Service

The Honorable Director of M1
Subject: Meeting

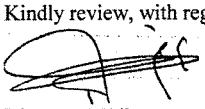
1. On 8 April 2002, I met with [*a named IIS source*] in the presence of the Director of the Protocol Section. I delivered the best regards of the IIS director to him, and I handed over (3000) three thousand US dollars, after which he showed his appreciation and acknowledgement to the director of the IIS, but assured that it was not necessary. We made him feel that he is one of us and that there is no difference between us, and that this is merely a showing of peace from the director of the IIS.

2. He mentioned that we have a lot of work ahead of us to affect the French politicians, because in order to do this we have to engage with them and their interests, as you know, life in the west especially in France, is greatly influenced by money and special interests.

3. Please deliver the attached envelope to the IIS director.

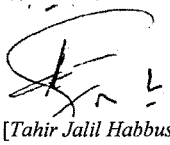
4. The aforementioned will travel tomorrow to Amman on his way back to Paris.

Kindly review, with regards,



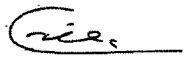
Director, M1/2
8 April 2002

[*second margin note*]
To the Director General, M4



[*Tahir Jalil Habbush*]
Apr. 8

[*first margin note*]
To the Honorable IIS Director: [*A named IIS agent*] met with [*the named IIS source*] and delivered to him a total of 3000 three thousand dollars, I send to you the accompanied envelope attached. With my regards,



Director, M1
Apr. 8

**Translator comments appear in hard brackets.*

③

الرحيم

رئاسة الجمهورية
جهاز المخابرات

السيد: م . م / المحترم
الموضوع: لقاء

١. بتاريخ ٨/٤/٢٠٠٢ التقيت بـ (named US source) ، بحضور ر . م . المراسم ، حيث نقلت له تحيات السيد مدير جهاز المخابرات المحترم ، كما قمت بتسليمه مبلغاً قدره (٣٠٠) ثلاثة آلاف دولار امريكي ، وقد ابدى شكره وعرفانه للسيد مدير الجهاز المحترم مؤكداً عدم حاجته وجهه من استلام مبلغ من المال.

وقد استعرضنا بأنه واحد منا ولا فرق بيننا وهذا اعجابه عن الاسلام ... من لدن السيد مدير الجهاز المحترم.

٢. اشار الى اننا ينتظرنا عمل كبير للتأثير على رجال السياسة الفرنسيين وهذا يتطلب محاكاة لنوازعهم واهتماماتهم ، وسيما ان الحياة في الغرب وفي فرنسا بالذات اخذت تتأثر كثيراً بالعوامل المادية والمصالح الذاتية.

٣. رجا ايصال المظروف المرفق الى السيد مدير الجهاز المحترم.

٤. ان المذكور سيغادر عمان في طريق عودته الى باريس.

للتفضل بالاطلاع ... مع التقدير

الى السيد م / ٢
السيد مدير الجهاز المحترم
م / ٣٠ / ٢
هذا التقارير السيد ناصر سابا ٨/٤/٢٠٠٢
وتسليمه مبلغ ... ثلاثة آلاف
دولار ارسل لسيادتكم بالظرف
جاهزة تسليمه مع التقدير
م . م / ١
٨ / ٤

TAB 9

Republic of Iraq
Presidency of the Republic

Date: 24 April 2002
No.: M1/2/2/2156

Memo

SECRET

To: M4/4

[*Illegible handwritten margin note, appears to be dated 24 April*]

We have attached a copy of the letter Number 22, dated 19 April 2002, from the IIS representative in Paris regarding his activity in the French field and his meeting with the French Parliament member, Ms. Roselyne Bachelot. The Honorable Director of the IIS has been briefed about this subject.

Please review, with regards.

Attachment:
Copy of the representative's letter Number 18, dated 12 April 2002, and the related subjects.

Director, M1/2
24 April 2002

Mr. Daran Raja

[*unidentified signature*]
Apr. 25

**Translator comments appear in hard brackets.*

جمهورية العراق
رئاسة الجمهورية

التاريخ: ٢٩/٤/٢٠٠٢
العـــدد: م/ ٤/ ٤/ ١٥٦

إعـــلام

سـري

الى / م ٤ د ٤

نرافق ربطاً صورة رسالة ممثل الجهاز في باريس بالرقم (٢٢) في ٢٠٠٢/٤/١٩ بشأن تحركه في الساحة الفرنسية ولقائه مع عضو البرلمان الفرنسي السيدة روزالين باشلو ، وقد حصل اطلاع السيد مدير الجهاز المحترم على الموضوع.

للتفضل بالاطلاع ... مع التقديـــــــــــــــــــــــر.

المرافقات:

- صورة رسالة الممثل المرقمة (١٨) في ٢٠٠٢/٤/١٢ والاوليات المتعلقة بها.

م . م ٢/١
٢٩/٤/٢٠٠٢

TAB 10

Republic of Iraq
Presidency of the Republic
Iraqi Intelligence Service

Date: 28 April 2002
No.: M1/2/2/2209

Memo

SECRET

To: M4/4

We have attached a copy of the letter from the IIS representative in Paris, Number 24 on 25 April 2002 regarding the meeting of [*a named IIS source*] with the director of the company which is owned by Mr. Jerome, the Presidential Advisor to President Chirac and the Election Campaign Official.

Please review, and inform us with your consideration about the subject, so that we can advise the Honorable IIS Director.

With regards.

Director, M1/2
28 April 2002

[*First handwritten margin note*]
Head of Department 2, please report the opinion.

[*unidentified signature*]
Apr. 29

[*Second handwritten margin note*]
Mr. Mazin, please do what is necessary regarding the information we have.

[*unidentified signature*]
29April

**Translator comments appear in hard brackets.*

جمهورية العراق
رئاسة الجمهورية
جهاز المخابرات
اعلام

التاريخ: ٢٨/٤/٢٠٠٢
العـــدد: ح/٤/٩/٢٠٠٢

سـري

الى / م ٤ د ٤

نـرافـق طيـاً صورة رسالة ممثل الجهاز فـي بـاريس بالرقم (٢٤) فـي ٢٠٠٢/٤/٢٥ حول لقاء (named IIS source) (named IIS source) مع مدير شركة يمتلكها السيد جـيروم مستشـار الرئيس شيراك والمسؤول عن حملته الانتخابية.

للتفضل بالاطلاع واعلامنا رأيكم بما ورد فيها ليتسنى لنا اطلاع السيد مدير الجهاز المحترم عليها.

مع التقديـــــــــــــــــــــــــــــــر.

السيد
لبيان الرأي

م ٢/١
٢٨/٤/٢٠٠٢

السيد حازم رجاء
يدرج بالملازم ومعد
الاوراق المشتراة لدينا

TAB 11

In the name of God, the Most Compassionate, the Most Merciful

SECRET

Notification 1903
M4/D4/1/2 5 May 2002

To: M1/2

Your SECRET notification Number M1/2/2/2209 on 28 April 2002.

1. The subject of activating the Iraqi – French relations is coordinated between the IIS Headquarters and the Foreign Minister.
2. We approve the granting of contracts to the French companies which are the most important and influential in the French field.
3. However, regarding the subject of doing business with the small French companies, it is a sign known to us that doing business with these small companies is not beneficial to the country, as we previously had included in our recommendation of activating the Iraqi – French relations.

Kindly review…with regards.

On behalf of the Director General, M4
5 May 2002

[*The names of Mazin, Muhammad, and 'Abd-al-Husayn also appear dated 5 May.*]

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

سـري

١٩٠٢
٢٠٠٢/٥/٥

أعـلام
م٤/د٤/١/٢

إلى / م١ / ٢

أعلامكم سري المرقم م١/٢/٢٢٠٩ في ٢٨ / ٤ / ٢٠٠٢ ٠

١ ٠ موضوع تفعيل العلاقات العراقية الفرنسية متابع من قبل قيادة الجهاز وبالتنسيق مع السيد وزير الخارجية ٠

٢ ٠ نؤيد إعطاء العقود إلى الشركات الفرنسية التي لها أهمية و وزن على الساحة الفرنسية ٠

٣ ٠ أما ما يخص موضوع التعامل مع الشركات الفرنسية الصغيرة من قبل القطر مؤشر ومعروف لدينا وأن هذا التعامل مع تلك الشركات الصغيرة لا يخدم القطر وسبق وأن تم تضمينه في مقترحاتنا بتفعيل العلاقات العراقية ـ الفرنسية ٠

للتفضل بالاطلاع ٠٠٠ مع التقدير ٠

م٠ع٠م٤
٥ مايس ٢٠٠٢

TAB 12

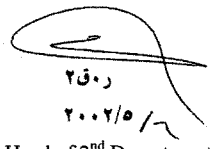
In the name of God, the most Compassionate, the most Merciful

To: The Honorable Director of Section 1
Subject: Iraqi – French Relations

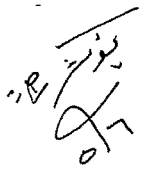
Besides M1's Notification, the attached letter of the representative in Paris contains the results of his movement towards and his meeting with the Deputy of French Parliament, Roselyne Bachelot, the official spokeswoman for Chirac's election campaign, accompanied by the Friend [*named IIS source*], which are the following:

1. The French Ms. Bachelot, pointed out the historic relationship between the two countries, and the subject of Iraq will be first in the priorities and concerns of French politics on the condition that Mr. Chirac wins.
2. She assured that the French position opposed any American attack on the nation, and France will use the right of opposition (veto) within the Security Council against any American decision regarding the attack on Iraq.
3. France will work throughout the upcoming period to lift the sanctions.
4. The representative conveyed to the French Ms. Bachelot that Iraq is prepared to offer financial support to Chirac, for his election campaign. She replied joyfully that she will deliver this offer to the financial official of the election campaign, who expressed gratitude and the appreciation of France to the Iraq's position (but he apologized) because they do not require the money.
5. M1 submitted the subject to the Honorable IIS director.

Kindly review, and we suggest saving this topic in the relations file…with regards,



Head of 2nd Department
6 May 2002



[*illegible handwritten margin note*]
6 May

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

السيد م . ش ١ المحترم

الموضوع / العلاقات العراقية ــ الفرنسية

جانباً أعلام م١ ومرفقة رسالة الممثل في باريس والمتضمنة نتائج تحركه ولقائه مع النائبة في البرلمان الفرنسية روزلين باشلو المتحدثة الرسمية لحملة شيراك الانتخابية وبرفقة الصديق (named HS source) وكمايلي :ــ

١ . أشارت الفرنسية باشلو بالعلاقات التاريخية بين البلدين ، وأن موضوع العراق سيحظى بالأولويات واهتمامات السياسة الفرنسية في حالة فوز شيراك .

٢ . أكدت أن الموقف الفرنسي ضد أي عدوان أمريكي على القطر ، وأن فرنسا ستستخدم حق النقض (الفيتو) داخل مجلس الأمن ضد أي قرار أمريكي يتعلق بالعدوان على العراق .

٣ . ستعمل فرنسا خلال الفترة القادمة على رفع الحصار .

٤ . نقل السيد الممثل الى الفرنسية باشلو استعداد العراق بتقديم دعم مالي لشيراك في حملته الانتخابية وردت عليه بانها ستنقل هذا الموضوع الى المسؤول المالي للحملة الانتخابية الذي نقل شكر وتقدير فرنسا لموقف العراق (وانهم يعتذرون) لانهم ليس بحاجة للجانب المادي .

٥ . عرضت م١ الموضوع امام انظار السيد مدير جهاز المخابرات المحترم .

للتفضل بالاطلاع ولنقترح تأشير الموضوع في ملف العلاقات ... مع التقدير .

ر.ق٢

٢٠٠٢/٥/٦

TAB 13

The Honorable Minister of Oil

Subject: The French Dignitary (Charles Pasqua)

- The President-Leader (God Bless Him) approved designating (3) million barrels to the French dignitary, (Charles Pasqua).

- The French dignitary (Bernard Guillet), on behalf of (Charles Pasqua), visited us this morning and requested to send the oil contract to the Swiss company (Genmar) for their signature, because that is the company chosen by them. When we made it clear that it's necessary to choose a French company, because the designated quantity is to a French dignitary, the response of Mr. (Bernard Guillet) was that it is not possible for political reasons and that he explained the situation to Mr. Tariq 'Aziz.

- We requested from Mr. (Bernard Guillet) a letter of authorization from Mr. (Charles Pasqua) to (Genmar) Company to lift the crude oil. He refused and clarified that they can not because of the fear of political scandal.

Point being, Mr. (Bernard Guillet) requests to send the contract by fax to Baghdad, without the presence of (Genmar) Company's representative to sign the contract, in the same manner that both Mr. (Alias Al-Gharzali) and Ms. (Hamida Na'ana) have been choosing the same Swiss company, (Genmar), to sign the contracts regarding the quantities designated for them.

Kindly review and as you see fit.
With regards.

[*illegible word*]
17 June 1999
Kazim Razuqi

[*margin note*]
Executive Director / Saddam Zaban Hasan
State Oil Marketing

**Translator comments appear in hard brackets.*

السيد وزير النفط المحترم

الموضوع: الشخصية الفرنسية (شارل سكلو)

- حصلت موافقة السيد الرئيس القائد (حفظه الله) على تخصيص (٢) ملايين برميل للشخصية الفرنسية (شارل سكلو)
- زارنا صباح هذا اليوم الشخصية الفرنسية (برنارد كولين) من طرف (شارل سكلو) وطلب ارسال العقد النفطي الى شركة سويسرية (جنفار) لتوقيعه باعتبارها الشركة المختارة من قبلهم. وعندما اوضحنا ضرورة اختيار شركة فرنسية لان الكمية مخصصة لشخصية فرنسية اجاب السيد (برنارد كولين) بان ذلك غير ممكن لاسباب سياسية وانه شرح الموقف الى الاستاذ طارق عزيز.
- طلبنا من السيد (برنارد كولين) رسالة تخول لموفدها السيد (شارل سكلو) شركة (جنفار) لرفع النفط الخام امتنع عن ذلك واوضح بانهم لا يستطيعون ذلك لاسباب تتعلق بالخوف من النتائج السياسية.

وتجدر الاشارة الى ان كل من السيد (الياس الفرزلي) والسيد (حميد نفع) كانوا قد اضاروا نفس الشركة السويسرية (جنفار) لتوقيع العقود المستلمة بالكميات المخصصة لهم وبنفس الطريقة التي يطلبها السيد (برنارد كولين) اي ارسال العقد بالفاكس اي عدم حضور ممثل شركة (جنفار) الى بغداد لتوقيع العقد.

للعرض بالاطلاع والتنسيب

مع التقدير

كاظم رزوقي

المدير العام لشركة تسويق النفط

TAB 14

Council of Ministers
Deputy Prime Minister

The Honorable Saddam Zaban

Greetings,

We are kindly informing you that Mr. (Bernard Guillet) is the diplomatic and political advisor for Mr. (Charles Pasqua), the French politician and former Minister of Interior. He represents him to receive the oil allocation designated for Mr. (Pasqua).

Salutations… with regards.

Dr. Sami Sa'dun
Manger, Office of the Deputy Prime Minister
Jun. 19

مجلس الوزراء
ديوان مجلس الوزراء

الاستاذ صدام الزين المحترم

تحية واحتراما

يرجى التفضل بالعلم بان السيد (برنارد غيبيه)
هو المستشار الدبلوماسي والسياسي للسيد
(شارل باسكوا) السياسي الفرنسي ووزير الداخلية
الاسبق.. وهو يمثله في استلام الحصة المخصصة
المخصصة للسيد (باسكوا).

اصدر امر الي.. مع التقدير

وصاي [illegible]
مدير مكتب [illegible] مجلس الوزراء
٦/١٩

TAB 15

In the name of God, the Most Gracious, the Most Merciful

Republic of Iraq
Ministry of Oil
State Oil Marketing

Number: Kh3/9211
Date: 20 June 1999

The Honorable Minister of Oil

Subject: The French Dignitary Charles Pasqua

In reference to the phone call with you this morning, 19 June 1999, the Swiss Genmar Company is considered the authorized company from Mr. Charles Pasqua to lift the designated quantity for him for Phase VI. The contract will be signed by us and sent by Fax to the aforementioned company, for their signature, in the same manner that is followed by Mr. Alias Al-Gharzali, and Ms. Hamida Na'ana.

Kindly review and approve.

With regards...

Saddam Zaban Hasan
Executive Director

Approved

[*'Amir Muhammad Rashid*]
Jun. 22

الجمهورية العراقية
وزارة النفط
[redacted]
شركة تسويق النفط (شركة عامة)

بسم الله الرحمن الرحيم

الرقم ع/ ٩٢١١
التاريخ ٢٠/ربيع ١/١٤٢٠هـ
٢٠/٦/١٩٩٩م

وزارة النفط / مكتب الوزير
الرقم / ٦٨٢٧
التاريخ ٢٠/٦/١٩٩٩

السيد وزير النفط المحترم

م/ الشاحنة الفرنسية شاول بيكوا

بالاشارة الى المكالمة الهاتفية مع سيادتكم صباح هذا اليوم ٢٠/٦/١٩٩٩ تعتبر شركة جنمار السويسرية الشركة المخولة من قبل السيد شاول بيكوا لرفع الكمية المقدمة له للمرحلة السادسة وسيتم توقيع العقد من قبلنا وإرساله بالفاكس الى الشركة المذكورة لتوقيعه وبنفس الطريقة التي اتبعت مع كل من السيد الياس الفوزلي والسيدة حميدة نعنع .

نتفضل بالاطلاع والموافقة .

مع التقديـــــــــر ...

صدام وبه حسن
المدير التنفيـــــذي

موافق

تلكس عربي ٥٨٣٤ سومو تلكس ٢١٢١٩٨ ، ٢١٢١٩٩ ص ب ٥١١٨ بغداد – عراق هاتف : ١٠ – ٧٧٤٢٠٤٠

TAB 16

Ministry of Oil / Office of the Minister
Number 7447
Date 24 August 1997
[*Stamp showing receipt of memo*]

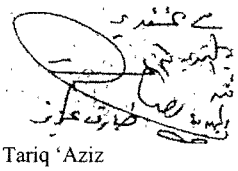
Minister of Oil:

Greetings,

The owner of this letter is Michel Grimard, who is among the friends of Iraq in France and the Deputy of Parliament.

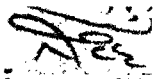
Kindly review, and treat him in this capacity, within the political policy we agreed on.

With regards.



Tariq 'Aziz
24 August 1997

[*Margin note*]
[*To:*] The Executive Director of SOMO: do what is necessary within the decision of the Deputy for the Addax Company.



[*signature of 'Amir Muhammad Rashid, Minister of Oil*]
Aug. 24

**Translator comments appear in hard brackets.*

السيد وزير الدولة لشؤون الوزير

الرقم ٧٤٤٧

التاريخ ٢٢/٨/١٩٩٧

تحية ..

ان صاحب الرسالة يسعى

للحصول على اعتماد

العراق في فرنسا ونائب

في البرلمان ..

ارجو التكرم والتعامل

معه بهذه الصفة في اطار

السياسة المقررة .

مع تحياتي

طارق عزيز

٢٢/٨/١٩٩٧

TAB 17

Ambassade du Royaume du MAROC
Section des Interets de l'IRAK
53, rue de la Falsanderle
75116 Paris
Tel: 45 53 33 70
Fax: 45 53 33 80

Embassy of The Kingdom of Morocco
Iraqi Interests Section
Paris

Marketing Organization / Office of the Executive Director
Number M1/1Kh/587
Date 25 August 1997
[*Stamp showing receipt of memo*]

No.: none
Date: 21 August 1997

The Honorable Dr. Sami Sa'dun

Mr. Michel Grimard informed us that the representative of the (Addax) Company received an invitation from SOMO, and he will be in Baghdad on 28 August because he intends to contract a purchase of 30 thousand barrels. Mr. Grimard repeats his wishes to treat the aforementioned company seriously.

In exchange, Mr. Grimard is recommending the organization of a French Parliamentary visit to the country.

He began supporting the (Fifth Christian Republic) movement to volunteer the European Community to lift the sanctions. We have attached a copy of the letter for your information...with regards.

Iraqi - Paris

**Translator comments appear in hard brackets.*

émis par : A4->A4 23/08/97 18:44 N°: 1

Ambassade du Royaume du MAROC
Section des Intérêts de l'IRAK

53, rue de la Faisanderie
75116 Paris
Tél. : 45 53 33 70
Fax : 45 53 33 80

سفارة المملكة المغربية
شعبة مصالح العراق
باريس

Réf. :
Date :

العدد : بدون
التاريخ : ٢١/٨/١٩٩٧

هيئة التصويب / مكتب الشؤون التعميمية
الرقم ٣/ع/٥٨٧
التاريخ ٢٥/٨/١٩٩٧

الى الدكتور سامي سعدون المحترم

اعلمنا السيد ميشيل كريمارد بأن ممثل شركة أداكس (ADDAX) قد أمضى وحدة من سوفيو وسيكون في بغداد يوم ٢٨ آب الجاري وانه ينوي التفاوض لعقد شراء ٢٠ ألف برميل يوم يجدد السيد كريمارد تمنياته بان تقابل الشركة المذكورة باهتمام.

بالمقابل يقترح السيد كريمارد تنظيم زيارة برلمانية فرنسية للنفط.

كما ابدى استعداد حركته (مجلس الجمهورية الكامنة) للمبادرة بعقد مؤتمر أوربي لرفع الحظر وزرعته لكم صورة رسالته للعلم مع التقدير.

عراقية - باريس

TAB 18

In the name of God, the Most Compassionate, the Most Merciful

Republic of Iraq
Ministry of Oil
Marketing Organization

No: Kh1/4918
Date: 28 August 1997

The Honorable Minister of Oil

Subject: Certification of Crude Oil Export Contracts

Below are the details of the contract signed with Addax Company.

1. Contract Number: M/02/30 Date: 28 August 1997
2. Name of Purchasing Co.: Addax
3. Nationality: Swiss
4. Quantity: 1,800,000 barrels of Kirkuk crude oil
5. Destination of Crude Oil: Europe
6. Period of Supply: until 4 December 1997
7. Approximate value of the Contract: (29) million American Dollars

Kindly review and certify...with regards.

Saddam Zaban Hasan
Executive Director

Approved Certification of the Minister

Aug. 29

[*signature of Saddam Zaban Hasan under 'Amir Muhammad Rashid's*]

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط
هيئة التسويق

الرقم ٤٨٧٨/٤
التاريخ ٥ربيع٢/١٤١٨هـ
٢٨/٨/١٩٩٧م

السيد وزير النفط المحترم

م/المصادقة على عقود النفط الخام المصدر

ادناه تفاصيل العقد الموقع مع شركة اداكس

١- رقم العقد : 8/02/30 التأريخ : ١٩٩٧/٨/٢٨
٢- اسم الشركة المشترية : اداكس
٣- الجنسية : سويسرية
٤- الكمية : ١٫٨٠٠٫٠٠٠ برميل نفط خام كركوك
٥- وجهة النفط الخام : اوروبا
٦- فترة التجهيز : لغاية ١٩٩٧/١٢/٤
٧- القيمة التقديرية للعقد : (٢٩) مليون دولار امريكي

للتفضل بالاطلاع والمصادقة مع التقدير .

عدام رجى حسن
المدير التنفيذي

مصادقة السيد الوزير

تلكس عربي ٥٨٣٦ سومو تلكس ٢١٢١٦٨ ، ٢١٢١٩٦ ـ ص ب ٥١١٨ بغداد ـ عراق : هاتف ٧٧٤١٠٤٠ ـ ١٠

TAB 19

From the Fifth Christian Republic Movement
Paris on 8 January 1998

Mr. Tariq 'Aziz
Deputy Prime Minister
Baghdad, Iraq

Your Excellency,

Please renew this memorandum, which is of great importance to me and also for the Activities Program for the year of 1998. As you can see, in order to carry out this program it is regarded as difficult financially, politically, and diplomatically; and we hope it is possible to implement this program.

Your Excellency, please accept my best regard.

Signature
Michel Grimard

**Translator comments appear in hard brackets.*

من حركة الشعبيين لجمهورية إيران

باريس في ٨ كانون الثاني ١٩٩٨

السيد طارق عزيز
نائب رئيس الوزراء
جمهورية العراق

سعادتكم

أرجو أن تجدوا طيا مذكرة ذات أهمية كبيرة بالنسبة لي، وتتضمن برامج النشاطات السنية للعام ١٩٩٨، وحسب ما تم تقريره فإن تنفيذ هذا البرنامج صعب ماديا وسياسيا ودبلوماسيا. أعلن أمانتي تنفيذ هذا البرنامج.

تقبلوا سعادتكم خالص تقديري.

توفيق
ميشيل كريمار

TAB 20

**Translator comments appear in hard brackets.*

Ambassade du Royauine du MAROC
Section dus Intereis de l'IRAK

53, rue de la Faisandorie
75116 Paris
Tel: 45 53 33 70
Fax: 45 53 33 80

Embassy of the Kingdom of Morocco
The Iraqi Interests Section
Paris

Ref:
Date:

Number: 10/9/20
Date: January 1998

Office of the Honorable Deputy Prime Minister

Subject: Letter

We are sending you the copy of the translated letter that was forwarded to the Deputy Prime Minister from Mr. Michel Grimard, President of the Fifth Christian Republic Movement.

Kindly review…with regards.

Section Chief
Dr. Ahmad Ibrahim Al-'Azzawi

Mr. Minster of Oil:
Greetings, please review and, for your information, Mr. Grimard, he is among the active friends in France, and it is imperative to help him…with regards.

[*Tariq 'Aziz*]
Jan. 13

The Honorable Executive Director of the State Marketing:
Please take the necessary steps when the name of the (Addax) Company appears.

[*'Amir Muhammad Rashid*]
Jan. 15

[*Margin note written above memo narrative*]
Give special priority to the Addax Company.

[*Saddam Zaban Hasan*]
Jan. 21

Attachment,
4 copies in Arabic
4 copies in French.

* RECEIVE STOPPED *

سفارة المملكة المغربية
شعبة مصالح العراق
باريس

Ambassade du Royaume du MAROC
Section des Intérêts de l'IRAK

53, rue de la Faisanderie
75116 Paris
Tél. : 45 53 33 70
Fax : 45 53 33 80

وزارة النفط / مكتب الوزير
الرقم : ٥٢٢
التاريخ ١٩٩٨/١/١٥

العدد : ٢٠ / ٩/١
التاريخ : ١٩٩٨/١/

Réf. :
Date :

هيئة التسويق / مكتب المدير التنفيذي
الرقم ٨٤٧/ج.م.ت
التاريخ ١٩٩٨/١/١٨

مكتب الشؤون / نائب رئيس مجلس الوزراء المحترم

م/رسالة

اعطاء الاولويات الخاصة بالموضوع

ترسل اليكم صورة وترجمة الرسالة الموجهة من السيد كاتب رئيس مجلس الوزراء من السيد ميشيل كريسارد رئيس حركة مواطني الجمهورية الخاصة ، للاتصال بالاطلاع مع التقدير .

السيد وزير النفط
تحية ..
أرجو الاطلاع مع
العلم ان السيد فريار
هو ت اصدقاء العراق
الشخصيين في فرنسا ومن
الضروري مساعدته .
مع الشكر

رئيس الشعبة
الدكتور احمد ابراهيم العزاوي

المرفقات
٤ صفحة بالعربية
٤ صفحة بالفرنسية

TAB 21

In the Name of God, the Most Compassionate, the Most Merciful

Republic of Iraq
Ministry of Oil
Marketing Organization

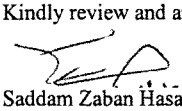
Number: Kh2/912
Date: 27 January 1998

Subject: Approval on contract crude oil export

Below are the details of the contract signed with Addax Company (Swiss):

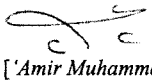
1- Contract Number: M/03/34 Date: 27 Jan 1998
2- Purchasing Company: Addax BV (Geneva-Branch)
3- Nationality: Swiss
4- Quantity: 1,800,000 barrels (10 Thousand barrels for period of 180 days)
5- Quality: Kirkuk
6- Destination: Spanish and/or France
7- Pricing: European pricing
8- Period of Supply: Until 2 June 1998
9- Value of the Contract in Dollars: approximately (25) million US Dollars (at a price of 14 US Dollars per barrel)

Kindly review and approve, with regards.

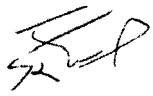


Saddam Zaban Hasan
Executive Director

Approved.



[*'Amir Muhammad Rashid*]
Feb. 2



[*Saddam Zaban Hasan*]
Feb. 3/Kh2

**Translator comments appear in hard brackets.*

الجمهورية العراقية
وزارة النفط
هيئة التسويق

بسم الله الرحمن الرحيم

الرقم ٤٢/
التاريخ ٢٤/رمضان/١٤١٨هـ
٢٤/١/١٩٩٨م

السيد وزير النفط المحترم

م/المصادقة على عقود النفط الخام المصدر

ادناه تفاصيل العقد الموقع مع شركة ادكس (السويسرية) :-

١- رقم العقد : M/03/34 التأريخ : ١٩٩٨/١/٢٧
٢- اسم الشركة المشترية : ADDAX BV (GENEVA-BRANCH)
٣- الجنسية : سويسرية
٤- الكمية : ١٨٠٠٠٠٠ برميل (١٠ ألف برميل لمدة ١٨٠ يوم)
٥- نوع النفط الخام : كركوك
٦- وجهة النفط الخام : اسبانيا ورأس لونسا
٧- التسعيرة : التسعيرة الاوربية
٨- فترة التجهيز : لغاية ١٩٩٨/٦/٢
٩- القيمة التقديرية للعقد بالدولار : حوالي (٢٥) مليون دولار امريكي (بسعر ١٤ دولار امريكي للبرميل الواحد)

للتفضل بالاطلاع والمصادقة مع التقدير .

صدام زين حسن
المدير التنفيذي

مصادقة السيد الوزير

تلكس عربي ٥٤٣٤ سودو تلكس ٢١٢١٩٨ ، ٢١٢١٩٩ ص ب ٥١١٨ بغداد - عراق

TAB 22

In the Name of God, the Most Compassionate, the Most Merciful

Republic of Iraq
Ministry of Oil
Marketing Organization

Number: Kh2/2405
Date: 7 March 1998

The Honorable Minister of Oil

Subject: (Addax) Company, Swiss

We kindly inform you that the company, above, has arrived through the French Deputy Michel Grimard (regarding the attached).

We have contracted with it within Phase II from the Memorandum of Understanding; also we renewed the contract with it during Phase III to supply it with quantity of 1.8 million barrels of crude Kirkuk.

The company now wants additional quantity of Kirkuk oil or Al-Basrah Light either during the current phase or the next phase.

Kindly review…and delegate.

With regards…

Saddam Zaban Hasan
Executive Director

Attachment: Memo copy with fax copy

Give them another (10) thousand

[*'Amir Muhammad Rashid*]
Mar. 7

[*Saddam Zaban Hasan*]
Mar. 8

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط
هيئة التسويق

الرقم ٢٤/ ص ٢٤٤
التاريخ ٩/ذو القعدة/١٤١٨هـ
٧/٣/١٩٩٨م

وزارة النفط
الرقم ٢٤٨٩
التاريخ ٧/٣/٩٨

السيد وزير النفط المحترم

م/ شركة (اداكس) السويسرية

يرجى تفضلكم بالعلم بان الشركة اعلاه قد جاءت من خلال النائب الفرنسي ميشيل كوشنار (الاولبات مرفقة) .

تم التعاقد معها لـ١٧ المرحلة الثانية من مذكرة التفاهم كما تجدد التعاقد معها خلال المرحلة الثالثة لتجهيزها بكمية بئر ا مليون برميل من خام كركوك .

تطلب الشركة الان كميات اضافية من نفط كركوك او البصرة الخفيف سواء خلال المرحلة الحالية او المرحلة القادمة .

للتفضل بالاطلاع والتنسيب .

مع التقديـــــر ...

سداد زين حسن
المدير التنفيـــذي

المرفقات صورة كتاب مع صورة تلكس

تلكس عربي ٥٨٣٤ سومو تلكس ٢١٢١٩٨ ، ٢١٢١٩٩ ـ ص ب ٥١١٨ بغداد ـ عراق هاتف : ١٠ ـ ٧٧٤٢٠٤٠

TAB 23

In the Name of God, the Most Compassionate, the Most Merciful

Embassy
Republic of Iraq
Moscow
[*in English*]

Embassy
Republic of Iraq
Moscow
[*in Arabic*]

Number: S/1/1/451
Date: 21 August 1997

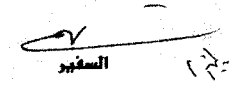
Foreign Ministry/Third Political Directorate

Subject: Letter

We are sending the letter of Mr. Vladimir Zhirinovsky, President of the Russian Liberal Democratic Party, written on 30 July 1997 and contains the sympathetic support of his party in supplying medicine and food with the Memorandum of Understanding between Iraq and the United Nations.

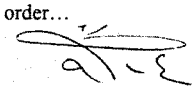
I, with the trade advisor of this Embassy, have met Mr. Kondrativ [*phonetic*], the assistant of Mr. Zhirinovsky for economic affairs, on 10 August 1997. Mr. Kondrativ hopes that there is a possibility to carry out the desires of the leader of the Russian Liberal Democratic Party, who binds us with good relations and his position of support to Iraq's difficult situation, either in the Duma Council, or in meetings of the republic, public or otherwise. We informed him that Iraq has no objection to the cooperation with them on the condition of the known rules of conduct and kindly request to him to present their offer to the authorized Iraqi body.

Kindly review...with regards.



Ambassador
Dr. Hasan Fahmi Jum'ah
21 August 1997

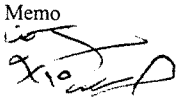
[*handwritten margin note*]
The Honorable Executive Director:
Contact our Ambassador in Moscow by phone to provide him the quality of the crude oil and the appropriate quantity...for your information this order...



[*'Amir Muhammad Rashid*]
Sep. 14

Attachments:
Letter with its translation

Memo



[*Saddam Zaban Hasan*]
Sep. 15

Copies to:
Ministry of Oil / with copy of the letter, kindly review...with regards.
Ministry of Trade / with copy of the letter, kindly review...with regards.

**Translator comments appear in hard brackets.*

سفارة
جمهورية العراق
موسكو

EMBASSY
OF THE REPUBLIC OF IRAQ
MOSCOW

وزارة النفط / مكتب الوزير
الرقم ٨٨٥٩
التاريخ ١٩٩٧/٩/١٢

وزارة النفط
المركز
الوارد العادي
الرقم ٢٢٨
التاريخ ١٩٩٧/٩/١٤

العدد: 45/ /1/1/
التاريخ: ١٤/ربيع الثاني/1418هـ
المصادف: 21/ آب / 1997 م

وزارة الخارجية / الدائرة السياسية الثالثة

م / رسالة

نرفق بطيه رسالة السيد فلاديمير جيرينوفسكي رئيس الحزب الليبرالي الديمقراطي الروسي المؤرخة في 1997/7/30 والمتضمنة دعم مشاركة حزبه في توريد الادوية والاغذية بموجب مذكرة التفاهم الموقعة بين العراق والامم المتحدة.

هذا وقد التقيت السيد كوندراتيف مساعد السيد جيرينوفسكي للشؤون الاقتصادية وبحضور المستشار التجاري في هذه السفارة بتاريخ 1997/8/10 ورجا السيد كوندراتيف امكانية تنفيذ رغبة زعيم الحزب الليبرالي الديمقراطي الروسي الذي تربطنا به علاقات جيدة وله مواقف داعمة لموقف العراق سواء في مجلس الدوما أو في الاجتماعات الجماهيرية والشعبية وغيرها. أعلمناه بعدم ممانعة العراق من التعاون معهم وفق الاصول التجارية المعروفة ورجونا منهم تقديم عروضهم للجهات العراقية المختصة.

يرجى التفضل بالاطلاع مع التقدير.

المرفقات
رسالة مع ترجمتها

السفير
الدكتور حسن فهمي جمعه
1997/8/21م

نسخة منه الى
وزارة النفط / مع نسخة من الرسالة يرجى التفضل بالاطلاع مع التقدير.
وزارة التجارة / مع نسخة من الرسالة يرجى التفضل بالاطلاع مع التقدير.

(1-1)

TAB 24

In the Name of God, the Most Compassionate, the Most Merciful

Republic of Iraq
Ministry of Oil
Marketing Organization

Number: Kh1/5451
Date: 16 September 1997

The Honorable Minister of Oil

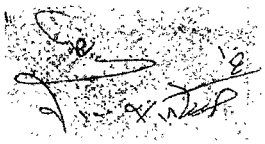
Subject: Communications with Mr. Vladimir Zhirinovsky

In reference to the your margin note about contacting the Iraqi Ambassador in Moscow regarding the subject of the special quantity of crude oil to Mr. Vladimir Zhirinovsky, leader of the Russian Liberal Democratic Party and according to the phone conversation with his excellency Ambassador Doctor Hasan Fahmi Jum'ah, Embassy of the Iraqi Republic in Moscow, on 16 September 1997, it is clear that the company belonging to Mr. Zhirinovsky has not registered itself in the United Nations until now. The Ambassador confirmed that the company has been slow in this regard, and he will send a detailed letter regarding this subject. It has been found that the assistant leader of the party, Mr. Kondrativ [*phonetic*], will visit the country soon to conduct negotiations with the Ministry of Trade regarding supplying food and medical products to the country.

Kindly review…with best regards.

Saddam Zaban Hasan
Executive Director

[*handwritten margin note*]
Thank you…and continue with care.
[*'Amir Muhammad Rashid*]
Sept. 17



[*second signature is Saddam Zaban Hasan's*]
Sept. 18

Office copy – please file

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط
هيئة التسويق

الرقم ٤/١٥٤٥١
التاريخ ١٩٩٧/٩/٢٦

السيد وزير النفط المحترم

م/الاتصال بالسيد فلاديمير جيرنوفسكي

اشارة الى حديث سيادتكم حول الاتصال بالسيد السفير العراقي في موسكو بخصوص موضوع تخصيص كمية من النفط الخام للسيد فلاديمير جيرنوفسكي زعيم الحزب الليبرالي الديمقراطي الروسي واستنادا" للمكالمة الهاتفية التي تمت مع سعادة السفير الدكتور حسن فهمي جمعة - سفارة جمهورية العراق في موسكو بتاريخ ١٩٩٧/٩/١٦ اتضح بان الشركة العائدة للسيد جيرنوفسكي لم يتم تسجيلها في الامم المتحدة لحد الان واكد السيد السفير بان الشركة متماطلة في هذا الجانب وسوف يوافي سيادتكم برسالة تفصيلية حول الموضوع . كما بين بان مساعد زعيم الحزب السيد كوندراتيف سيزور القطر قريبا" لاجراء مباحثات مع وزارة التجارة بخصوص توريد مواد غذائية وزراعية للقطر .

راجين تفضل سيادتكم بالاطلاع مع فائق التقدير والاحترام .

صدام زين حسن
المدير التنفيذي

التلكس العربي ٥٨٢٤ سلومو التلكس ٢١٢١٩٨ ، ٢١٢١٩٦ شمس ت ٥١١٨ بغداد - عراق هاتف : ٦٠ - ٧٧٤٣٧٤

TAB 25

* *Translator comments appear in hard brackets.*

FEDERAL ASSEMBLY – PARLIAMENT OF RUSSIAN FEDERATION

STATE DUMA
FACTION OF THE LIBERAL-DEMOCRATIC PARTY OF RUSSIA

10326, Moscow, Okhotny Riad Street, House #1. Tel: 292-80-1; 292-87-95

September 22, 1997 Reference #: 5.1 - 4 - 775

His Excellency
Dr. Hasan Fahmi Jum'ah
Republic of Iraq [*illegible*]

Dear Friend:

In accordance with the agreement achieved earlier, I hereby inform you that we are planning to send a delegation to Iraq to conduct negotiations with the leadership of the country. The delegation will consist of the following members:

- Gutseriev, Mikhail Safarbekovich: Deputy Chairman of the State Duma; Deputy on behalf of the LDPR; authorized to negotiate on all issues related to this program;
- Zakanov [*first two letters are illegible*] Alikhan Beibotovich, Deputy Chairman of the Federal Food Corporation of Russian Federation; authorized to negotiate and sign contracts with respect to the food-related part of the program;
- Gromov [*first letter is illegible*] Anatoliy Nikolaevich, Director of the Department for External Economic Activities, Sidanco Company (the company is involved in production, refining and transportation of oil in certain regions of Siberia, Far East and Saratov Oblast); authorized to negotiate and execute contracts for the oil quota allocated to the Liberal-Democratic Party of Russia;
- Idrisov Arsen Emilievich, Deputy Director of the Department, Sidanco Company;
- Minakov [*first letter is illegible*] Valentin Nikolayevich, assistant to the Deputy;

The timing of the trip (with the exception of October 1-3 of this year) depends exclusively on the time it would take the consular division of the embassy to issue visas.

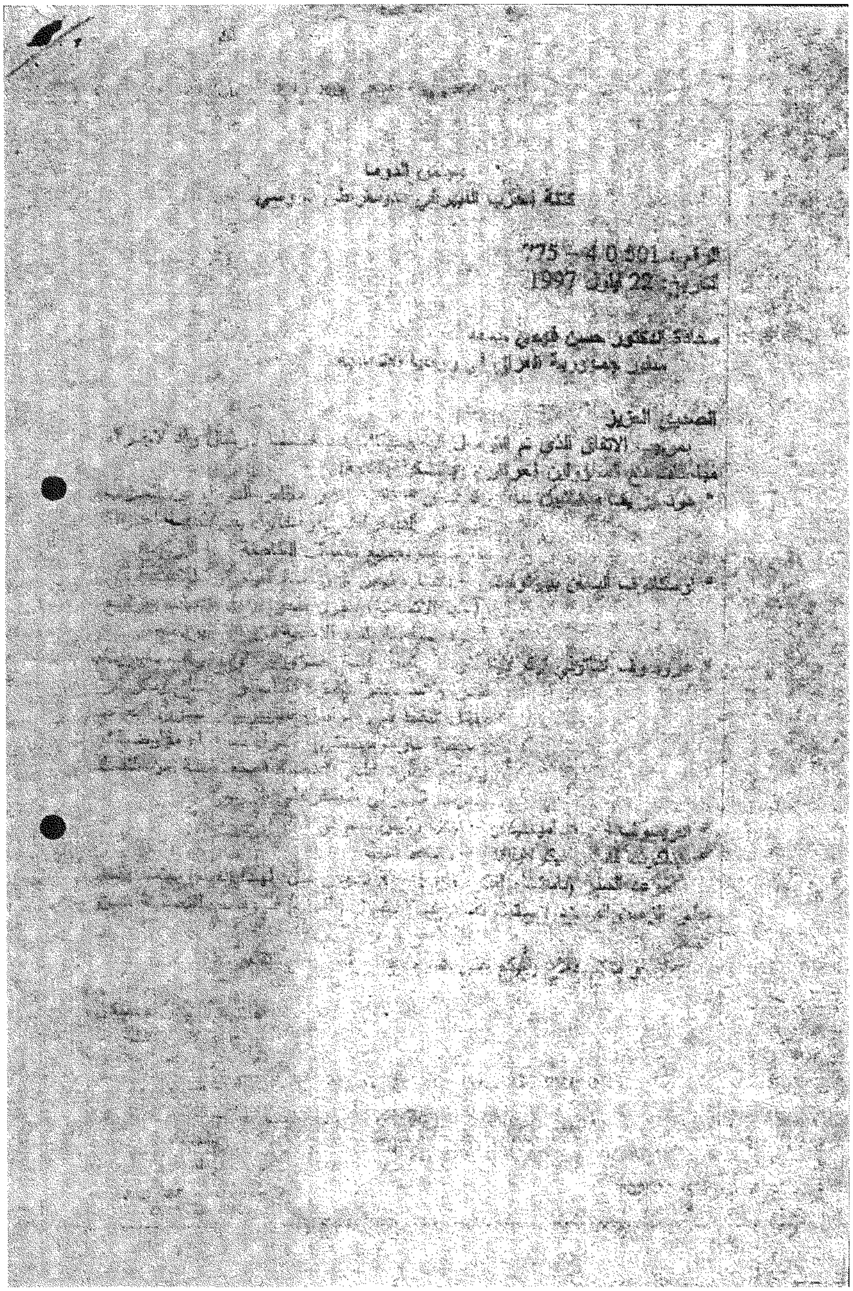
I cordially request that you advise us of your considerations with respect to the above.

Сердечно,
Sincerely,

Руководитель фракции
Head of Faction

В.Жириновский
V. Zhirinovsky

[*signature*]



[illegible] الدوما

كتلة الحزب الليبرالي الديمقراطي [illegible]

الرقم: 775 – 4.0.501

التاريخ: 22 أيلول 1997

سعادة الدكتور حسين فهمي [illegible]

سفير [illegible]

الصديق العزيز

بموجب الاتفاق الذي تم [illegible]

[illegible]

International Department PHONE NO. : 095 2927272 Sep. 22 1997 05:43PM P01

ФЕДЕРАЛЬНОЕ СОБРАНИЕ — ПАРЛАМЕНТ РОССИЙСКОЙ ФЕДЕРАЦИИ

ГОСУДАРСТВЕННАЯ ДУМА

ФРАКЦИЯ ЛИБЕРАЛЬНО-ДЕМОКРАТИЧЕСКОЙ ПАРТИИ РОССИИ

103265, г. Москва, ул. Охотный ряд, д. 1. Тел.: 292-80-01, 292-37-05

22 сентября 1997 г. № 51-4-775

Его Превосходительству
Д-ру Хасбиу Фахми Джуда
Генеральному директору Национальной Нефти

Дорогой друг!

В соответствии с достигнутой ранее договоренностью сообщаю Вам, что для ведения переговоров с руководством страны в Ираке планируется направить делегацию в следующем составе:

- Шахрай Михаил Сафарбекович, заместитель Председателя Государственной Думы, депутат от ЛДПР, [illegible] по двум вопросам, касающимся этой программы;
- Шихалов Аликан Бейботович, заместитель Председателя Федерального продовольственной корпорации Российской Федерации, уполномочен вести переговоры и подписывать контракты по продовольственной части программы;
- Ерохов Анатолий Николаевич, директор Департамента внешнеэкономической деятельности компании «СИДАНКО» (фирма занимается добычей, переработкой и транспортировкой нефти в регионах Сибири, Дальнего Востока, Саратовской области), уполномочен вести переговоры и заключать контракты на квоту по нефти, выделенную для Либерально-Демократической партии России.
- Идрисов Арсен Эмилевич, заместитель директора Департамента компании «СИДАНКО»;
- Ручкаков Валентин Николаевич, помощник депутата;

Сроки поездки (за исключением 1-3 октября с.г.) зависят исключительно от времени оформления виз консульским отделом посольства.

Любезно прошу сообщить Ваши соображения и связи с вышеизложенным.

С уважением,

Руководитель фракции В.Жириновский

PHONE NO. : 230 2922 Sep. 22 1997 01:46PM P01

TAB 26

In the Name of God, the Most Compassionate, the Most Merciful

Republic of Iraq
Foreign Ministry
Office of the Minister

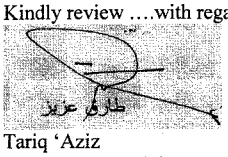
Number: M.KH/1/11/1620
Date: 1 October 1997

SECRET

Ministry of Oil
Subject: Russian Delegation Visits the Nation

Our Embassy in Moscow informed us through their letter, written on 30 September 1997, that the Russian delegation, lead by (Mr. Mikhail Gutseriev), the Deputy for the Duma, is going to arrive to the country on Sunday, 5 October 1997, to complete the special contracts regarding the oil and food products. Also the Embassy added that (Zhirinovsky), the President for Russian Liberal Democratic Party, requested our full support to the delegation, and he pointed out that (Gutseriev) personally represents him and that he has all the authority to sign the contracts, and he will bring with him, as a member of the delegation, the Director General of the (Sidanco) company, which is registered in Iraq and the United Nations to purchase oil on behalf of the Russian Liberal Democratic Party. The Embassy mentioned that (Gutseriev) is wishing to meet with the Honorable Oil Minister and with the Director of Marketing.

Kindly review ....with regards.



Tariq 'Aziz
Deputy Prime Minister
Acting Foreign Minister
1 October 1997

[*handwritten margin note:*]
To the Executive Director: Take the necessary steps for the contracts with the appropriate quantity, and "yes" for the meeting.

[*'Amir Muhammad Rashid*]
Oct. 9

[*Saddam Zaban Hasan*]
Oct. 5

[*Various inter-office stamps adorn top of memo marking the date the memo was received*]

**Translator comments appear in hard brackets.*

جمهورية العراق
وزارة الخارجية
مكتب الوزير

وزارة النفط / مكتب الوزير
الرقم ٨٩٤٠
التاريخ ٥/١٠/١٩٩٧

بسم الله الرحمن الرحيم

هيئة التسويق / مكتب المدير التنفيذي
الرقم ٨١٤
التاريخ ٥/١٠/١٩٩٧

العدد : م.خ/١/ ٨٧
التاريخ ٢٩ جمادى الأولى/١٤١٨هـ
الموافق ٣٠ تشرين الأول/١٩٩٧ م

(سري)

وزارة النفط

م/ وفد روسي يزور القطر

أعلمتنا سفارتنا في موسكو ببرقيتها المؤرخة في ١٩٩٧/٩/٣٠ أن الوفد الروسي برئاسة (ميخائيل غودتسيرييف) نائب رئيس مجلس (الدوما) سيصل القطر يوم الأحد المصادف ١٩٩٧/١٠/٥ لأكمال العقود الخاصة بالنفط والمواد الغذائية. وأضافت السفارة، أن (جيرنوفسكي) رئيس الحزب الليبرالي الديمقراطي الروسي طلب تقديم الدعم الكامل للوفد وأشار الى أن (غودتسيرييف) يمثله شخصياً ولديه كافة الصلاحيات لتوقيع العقود، وسوف يصطحب الوفد معه مدير عام شركة (سيدانكو) المسجلة لدى العراق والأمم المتحدة لشراء النفط نيابة عن الحزب الليبرالي الديمقراطي. وذكرت السفارة أن (غودتسيرييف) قد أبدى رغبته في مقابلة السيد وزير النفط ومدير التسويق.

نرجو التفضل بالأطلاع .. مع التقدير.

طارق عزيز
نائب رئيس مجلس الوزراء
وزير الخارجية وكالة

١٩٩٧/١٠/١

TAB 27

In the Name of God, the Most Compassionate, the Most Merciful

Republic of Iraq
Ministry of Oil
Marketing Organization

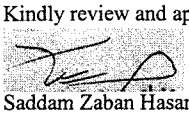
Number: Kh1/6215
Date: 8 October 1997

Subject: Approval

Here are the details of the contract signed with the Russian Sidanco Company (on behalf of Mr. Vladimir Zhirinovsky the President of the Russian Liberal Democratic Party).

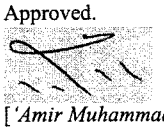
1-	Contract Number:	M/02/32	Date: 7 Oct 1997
2-	Purchasing Company:	Sidanco	
3-	Nationality:	Russian	
4-	Quantity:	1.8 million barrels	
5-	Quality:	Kirkuk crude oil	
6-	Destination:	Europe	
7-	Period of Supply:	Until 4 Dec 1997	
8-	Value of the Contract in Dollars: (30) million American dollar.		

Kindly review and approve, with regards.



Saddam Zaban Hasan
Executive Director

Approved.



[*'Amir Muhammad Rashid*]
Oct. 11

[*Saddam Zaban Hasan signed again*]
Oct. 11

[*Page 23 is a duplicate of this page without the approvals noted at the bottom.*]

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط
هيئة التسويق

الرقم ٦٢١٥/١٤
التاريخ ٧/جمادي٢/١٤١٨هـ
٨/١٠/١٩٩٧م

السيد وزير النفط المحترم

م/ مصادقة

ادناه تفاصيل العقد الموقع مع شركة سيدانكو الروسية (نيابة عن السيد فلاديمير جيرنوفسكي رئيس الحزب الليبرالي الديمقراطي الروسي) .

١- رقم العقد : N/02/32 التاريخ : ١٩٩٧/١٠/٧
٢- اسم الشركة المشترية : سيدانكو
٣- الجنسية : روسية
٤- الكمية : ١ر٥ مليون برميل
٥- النوعية : نفط خام كركوك
٦- وجهة النفط الخام : اوروبا
٧- فترة التجهيز : لغاية ١٩٩٧/١٢/٤
٨- القيمة التقديرية للعقد بالدولار : (٣٠) مليون دولار امريكي

للتفضل بالاطلاع والمصادقة مع التقدير .

عدام كريم حسن
المدير التنفيذي

موافق

مصادقة السيد الوزير

تلكس عربي ٥٨٣٤ سوسو تلكس ٢١٣١٩٨ ، ٢١٢٤٩٩ ـ ص ب ٥١١٨ بغداد ـ عراق : هاتف ٧٧٤٢٠٤٠ ـ ٧٠

TAB 28

Republic of Iraq
Ministry of oil
SOMO

Attn: Mr. Saddam Z. Hassan
Executive Director General

Re: Contract M/4/44 of 8/7/98: Kirkuk Crude Oil ex Ceyhan.

Dear Sir,

We would like to refer to the above Contract and to inform you that the balance of 1'019'225 US bbls of Kirkuk was left over under the above mentioned Contract after completion of the last shipment.

We would appreciate, if you agree to extend the validity of the above Contract in order to permit O.J.S.C Sidanco to perform their contractual obligations and to lift the balance.

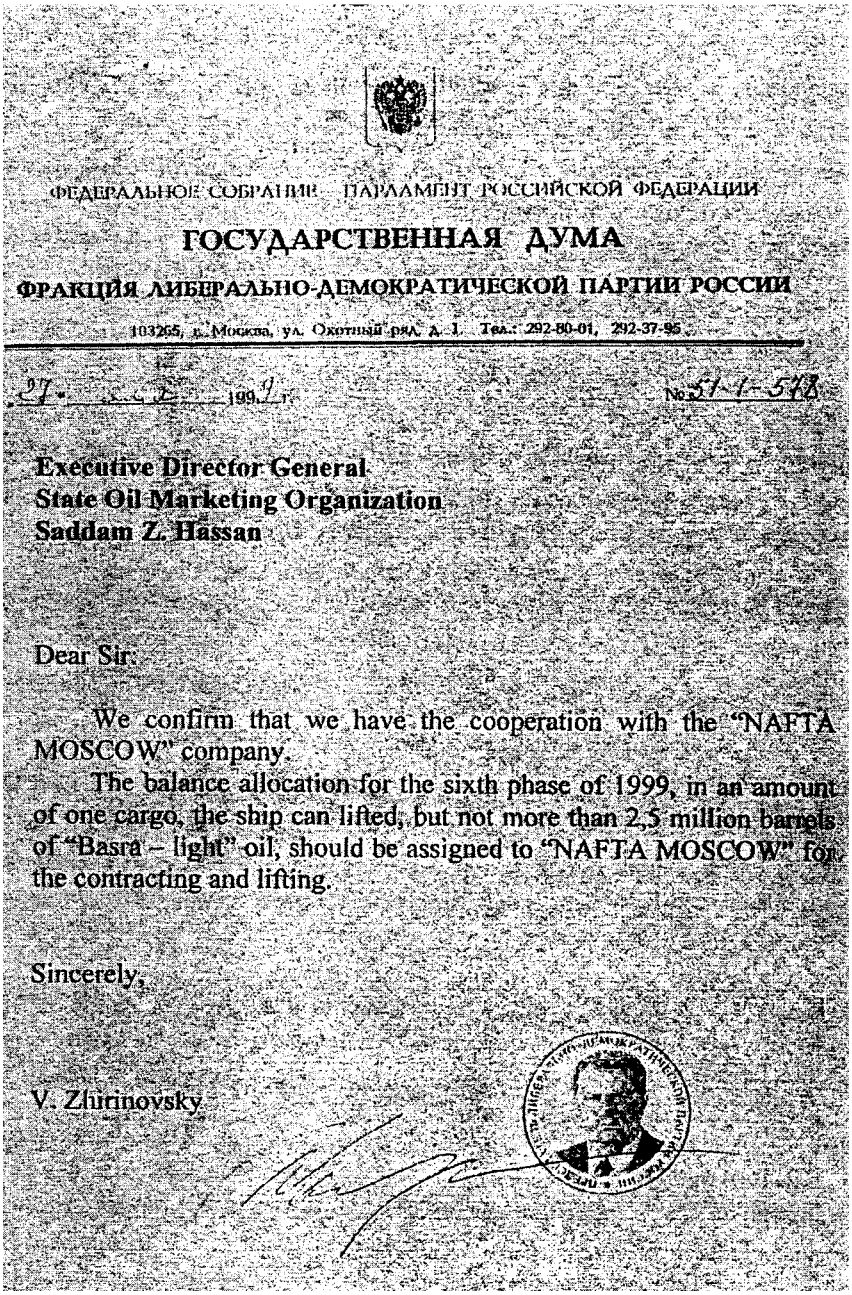
We hope that our wishes will be favourably welcomed and assure you of our desire to be of service at all times.

We remain,
Yours sincerely,

V. V. Zhirinovsky

شركة تسويق النفط / مكتب المدير التنفيذي
الرقم / ٢٠٠ / ج / ٢٠٠٤
التاريخ ١٥ / ٤ / ١٩٩٨

Тав 29



ФЕДЕРАЛЬНОЕ СОБРАНИЕ – ПАРЛАМЕНТ РОССИЙСКОЙ ФЕДЕРАЦИИ

ГОСУДАРСТВЕННАЯ ДУМА

ФРАКЦИЯ ЛИБЕРАЛЬНО-ДЕМОКРАТИЧЕСКОЙ ПАРТИИ РОССИИ

103265, г. Москва, ул. Охотный ряд, д. 1. Тел.: 292-80-01, 292-37-95

27.12.1999 г. №57-1-578

Executive Director General
State Oil Marketing Organization
Saddam Z. Hassan

Dear Sir:

We confirm that we have the cooperation with the "NAFTA MOSCOW" company.

The balance allocation for the sixth phase of 1999, in an amount of one cargo, the ship can lifted, but not more than 2,5 million barrels of "Basra – light" oil, should be assigned to "NAFTA MOSCOW" for the contracting and lifting.

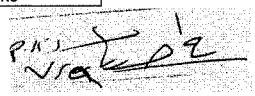
Sincerely,

V. Zhirinovsky

TAB 30

Crude Oil Allocations
For Russian Companies
For Phase Seven

Company	Million Bbls.	%	Remarks
Russia	115.0	32.24	
Zarubezhneft	23.0		
Machinoimport	10.5		
Zan Gas	6.0		
Alfa-Eco	11.0		
Tyumen	9.5		
ACTEC	14.5		
Tatneft	8.0		
Bashneft	4.0		
Gasprom	5.0		
Lukoil	4.5		
Sirgutneftgas	3.0		
East Siberian Oil and Gas Co.	1.0		
Rosneft	3.0		
Nafta-Moscow	2.0		
Onaco	3.0		
Transneft	2.0		
RAO MES	1.5		
Zerich GmbH – Moscow	3.5		
Total	115.0		



[*Saddam Zaban Hasan*]
Jul. 9

Please Review the Following Sir:

First – The Quantity for Zarubezhneft
Direct contract (20) million barrels + (1.5) million barrels for the appropriation of Mr. Shafranik, + (1.5) million barrels for Ghopkin University.

Second – The Quantity for Tyumen
Direct contract (3) million barrels + (6.5) million barrels to Zhirinovsky

Third – The Quantity for Zerich GmbH
(2) million barrels Ms. Sazhi + (1.5) million barrels for the Political Science Academy

With regards…

**Translator comments appear in hard brackets.*

FOR RUSSIAN COMPANIES
FOR PHASE SEVEN

COMPANY	MILLION BBLS	%	REMARKS
RUSSIA	115.0	32.24	
TARUBETHNEFT	23.0		
ARCHINA COMPANY	10.5		
ZAN GAS	8.0		
ALFA ECO	11.0		
TEXOMAN (TNK)	9.5		
ACTEC	14.5		
TATNEFT	8.0		
BASHNEFT	4.0		
GAS PROM	5.0		
LUK OIL	4.5		
SURGOTNEFT GAS	3.0		
EAST SIBERIAN OIL & GAS CO	1.0		
ROSNEFT	3.0		
NAFTA - MOSCOW	2.0		
ONACO	3.0		
TRANS NEFT	2.0		
RAOMGS	1.5		
ZERICH GMBH - HAMBURG	3.5		
TOTAL	115.0		

موجود سيارتكم الاطلاع على بيان :

كمية تريليونية

- الفئة الباشر (٢٠) مليون برميل + (١/٥) المليون برميل لصالح بيت شرانك + (١/٥) مليون لكامنة فوركي

كمية شركتين (TNK)

- الفئة المباشر (٧) مليون برميل + (٦/٥) مليون برميل كمية جيد نوفكي

كمية تريليونية GMBH

- كمية (٢) مليون برميل للشركة شاجي + (١/٥) مليون برميل لاكاديمية العلوم لياسم
مع التقدير

Page 32, Begin Translation:

In the Name of God, the Most Merciful, the Most Compassionate

The Republic of Iraq
Ministry of Oil
State Oil Marketing Company

[Stamp]
Ministry of Oil/
Minister's Office
No. 8172
Date: 08/10/1998

No: [KH]2/ 9124
Date: August 10, 1998

To: The Honorable Minister of Oil

Subject: African Middle East Petroleum Co. LTD., Inc.
(Mr. Sevan)

The African Middle East Petroleum Co. LTD., Inc. submitted an application (attached) to purchase Iraqi oil during the current phase in accordance with the Memorandum of Mutual Understanding.

Mr. Muwafiq Ayub informed us through a phone conversation, from the Iraqi Representation [mission] in New York, that the aforementioned company is that which was mentioned to you by Mr. Sevan, the Director of the Iraqi Program in the United Nations, during his last visit to Baghdad.

Please acknowledge and refer.

With Regards,

Saddam Zaban Hasan [Zaban, not Zayn]
Executive Director

[Handwritten Comment 1:] Approval of the Vice President of the Republic was received the morning of 15 August, 1998.

[Handwritten Comment 2:] H2 The contract will be 1.8 million barrels.

[U/I Signature]	[Signature]	[U/I Signature]
8/15	Mr. Kazim Zakria	8/17

Telex: Arabic 5834 Somo Telex: 212198, 212199/PO Box 5118 Baghdad, Iraq, Phone No: 7742040/10

Page 31, Begin Translation:

In the Name of God, the Most Merciful, the Most Compassionate

The Republic of Iraq
Ministry of Oil
State Oil Marketing Company

[Stamp]
Ministry of Oil/
Minister's Office
No. 10103
Date: 09/26/1998

No: [KH]2/ 91235
Date: September 26, 1998

To: The Honorable Minister of Oil

Subject: Approval of Exported Crude Oil Contracts.

In reference to the approval of the Vice President of the Republic, Taha Yasin Ramadan, who informed us in the footnote of our memorandum No. KH2/9124 dated 08/10/1998 (enclosed is an attached copy).

Based on the phone conversation on the morning of 09/24/1998 between the undersigned and Mr. Muwafiq Ayub, from the Iraqi Representation [mission] in New York, it was emphasized that the African Middle East Petroleum Co. LTD., Inc., represented by Mr. Fakhri 'Abd-al-Nur, was mentioned as a recommendation from Mr. Sevan.

Under the details of the contract with the African Middle East Petroleum Co. LTD., Inc.:

1. Contract No:	M/04/60 [in English] Date: 09/24/1998
2. Purchasing Company:	African Middle East Petroleum Co. LTD., Inc.
3. Nationality:	Panamanian
4. Quantity:	1.8 Million Barrels
5. Quality of Crude Oil:	Kirkuk
6. Destination:	Romania or Italy
7. Tariff:	Europe
8. Period of Supplying:	until 11/25/1998
9. Estimated Value:	approximately (18) million dollars (based on the price of $10 per barrel). [USD not specified]

Please acknowledge and approve.

With Regards,

Saddam Zaban Hasan
Executive Director

To be presented to the Minister 9/28
Approval of the Minister
[Handwriting Illegible]

Telex: Arabic 5834 Somo Telex: 212198, 212199/PO Box 5118 Baghdad, Iraq, Phone No: 7742040/10

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط

الرقم

التاريخ

وزارة النفط / مكتب الوزير
الرقم
التاريخ

السيد رئيس الشركة المحترم

AFRICAN MINNA EAST PETROLEUM CO. LTD. INC.

(AFRICAN MINNA EAST PETROLEUM CO. LTD. INC.)

Page 32

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط
الهيئة التنفيذية

وزارة النفط / مكتب الوزير
الرقم: ١٠٨٨٩
التاريخ: ١٩٩٨/٩/٢٠

الرقم: ٩٨/٢٢٥
التاريخ: ١٩٩٨/٩/٢٠

شركة تنمية النفط شركة مساهمة

السيد وزير النفط المحترم

م/ المصادقة على عقود العقد الخاص الصغير

بالإشارة الى مراجعة السيد نائب رئيس الجمهورية السادة ماتسوم ومعاونه المتعلقة بالسيد بيانكو بشأن العرض المقدم من شركة ماتسوم في ١٩٩٨/٨/٢٧ والمرفقة صورة منها طيه.

وبالاستناد الى الصلاحية المخولة لي بموجب كتاب مكتب الوزير المرقم ١٠٨٨٩/٢٢ في ١٩٩٨/٧/٢٢ والسيد بيانكو الحاصل من الشركة العراقية لتسويق النفط ومقرها سويسرا والتي تمثل شركة MATSUM MIDDLE EAST PETROLEUM CO. LTD. INC. وارفق بمفاتحة السيد فاروق عبد الستار مع الشيخ اوس بن السيد سلطان.

أسماء شركات العقد الموقع مع شركة MATSUM MIDDLE EAST PETROLEUM CO. LTD. INC.

١- رقم العقد : ٩٨/٥٤/٢٥ التاريخ : ١٩٩٨/٧/٢٤
٢- اسم الشركة الصغيرة : MATSUM MIDDLE EAST PETROLEUM CO. LTD. INC.
٣- الجنسية : يابانية
٤- الحكومة المضيفة : تركمانستان
٥- نوع العقد الخاص : كردوك
٦- رقم العقد الخاص : ٢٠٠٨٨٩ / ٢٠٠٨٨٩
٧- القطر : أوربا
٨- الفترة التنفيذية : ١٩٩٨/٧/٢٤ - ١٩٩٨/٧/٢٤
٩- الكمية التقريبية : [illegible]
تدفع بالدولار

نرجو الاحاطة والمتابعة مع الاخوة ...

مدير عام مكتب الوزير

مصادقة السيد الوزير

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط
دائرة الاستثمار

الرقم: ٩٦٢٤٥
التاريخ: ٢٠ رجب ١٤١٧
٢٠/١١/١٩٩٦

شركة تنمية الحقل العراقي (ع.م.)

السيد مدير الحقل المحترم

م/ المصادقة على مذكرة الحقل العام المنقح

الحقل في موافقة السيد نائب رئيس الجمهورية الاستاذ طه ياسين رمضان المذكرة المنقحة بالمذكرة المرفقة ٤١١٢/٤ المؤرخة ٢٢/٤/١٩٩٦ والمرفقة طيا.

وبناءا على المصادقة الحاصلة صباح يوم ٢٤/٩/١٩٩٦ بين الوزير والسيد نائب رئيس الجمهورية في مكتبه في بغداد والتي تم فيها AFRICAN MIDDLE EAST PETROLEUM CO. LTD. INC. والتي يمثلها السيد ليزر فقد اختير هو الشخص الذي يمثل السيد سيدان.

أيدة بتضامن الحقل العراقي مع شركة AFRICAN MIDDLE EAST PETROLEUM CO. LTD. INC.

أ- رقم الصفحة : 7/04/60 التاريخ : ٢٤/٩/١٩٩٦

ب- اسم الشركة المشتركة : AFRICAN MIDDLE EAST PETROLEUM CO. LTD. INC.

جـ- الجنسية : بنمية

د- العنوان : بوا نلبوت تريبة

هـ- اسم الحقل العام : كركوك

و- نسبة الحقل العام : ٤٠ روبانيا و٢٠ ايطاليا

ز- الكمية : ٢٠ آلاف

ح- تاريخ التصنيف : تقديمية ٢٠/٦/١٩٩٦

ط- الكمية المتصنيفة : مواليد (٤٨) بلجرم مواد (٤٨) بلجرم ٣٠ تواتر فقط بالتستيرون للشركة الموقعة

نتعهد بالعلم والمتابعة مع التقدير ...

سيدام ريو ...
المدير العام ...

تابعة السيد المدير

...

UNITED NATIONS

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/1990/OD/115/DC.40

TO: AFRICAN MIDDLE EAST PETROLEUM PARIS	FROM: THE OIL OVERSIGHT [illegible] UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
[illegible]	FAX NO: [illegible]
ATTENTION: MR. FAKHRY ABDELNOUR MS. SANDRINE NEUVILLE	REF: OIL FOR FOOD ARRANGEMENTS
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE:	

Ref: Contract Number: M0446 UN REF: S/AC.25/1990/OD/115/DC/M0446
Between: SOMO and AFRICAN MIDDLE EAST PETROLEUM LTD
Date of Contract: 28 September 1998
Quantity: 1,000,000 mts
Quality: Kirkuk
Pricing Formula: Europe Market
Port of Loading: Ceyhan

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APPROVAL OF THE SAID CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN:

☒ APPROVED

☐ NOT APPROVED

REMARKS:

SOMO
ENE
SAYDOLT ROTTERDAM
PERMANENT MISSION OF IRAQ TO THE UN

Page 34

TAB 32

INCOMING CALL

APR99 1429 : Incoming call. Msg no : 00982

212198 SOMO IK
AMPC 489611MC

APRIL 8TH, 1999
TELEX NO. 2461

FROM: AFRICAN MIDDLE EAST PETROLEUM CO. LTD. INC.,
ADMINISTRATIVE OFFICE IN MONACO

TO : MINISTRY OF OIL
SOMO (STATE OIL MARKETING ORGANIZATION)
BAGHDAD - REPUBLIC OF IRAQ

ATTN: MR. SADDAM Z. HASSAN, EXECUTIVE DIRECTOR GENERAL

CC : MR. ALI HASSAN, HEAD CRUDE OIL DEPT./2

WITH REFERENCE TO OUR MEETING LAST MONTH IN VIENNA (OPEC), IT IS OUR CLEAR UNDERSTANDING THAT OUR CONTRACTUAL QUANTITY WAS RAISED BY AN ADDITIONAL QUANTITY OF ONE MILLION BARRELS AND WE WOULD APPRECIATE RECEIVING YOUR EARLY CONFIRMATION.

WITH MANY THANKS AND KIND REGARDS,

AFRICAN MIDDLE EAST PETROLEUM CO. LTD. INC.
FAKHRY ABDELNOUR

212198 SOMO IK
AMPC 489611MC

END

APR99 1431 : Line free

[*Handwritten margin note:*]
The Honorable Executive Director
The African Middle East Company / Mr. Sevan have upon themselves the impression that the amount has been increased from (1) to (2) million as a result of the meeting with the Minister in Vienna. For your information, the quantity on the contract is Kirkuk.
Kindly review and delegate…with regards.

[*unknown signature*]
Apr. 8

[*Margin Note:*]
Consultation

[*Saddam Zaban Hasan*]
Apr. 8

**Translator comments appear in hard brackets.*

TAB 33

Benon Sevan and Phase VI

The following documents, which can be found in the National Harmony Database as ISGZ-2004-E00003, contain information relating to Benon Sevan and the African Middle East Petroleum Co. LTD., Inc. (AMEP) and Phase VI of the UN Oil-For-Food Program. The document resides within the 21 SOMO discs on Disc 12, ISGZ2004E00003-132288.pdf.

Originally 477 pages, the following cursory translation represents pages 108 through 111, the contractual arrangements of the oil allocated for the aforementioned period. Page 109 is a copy of page 108, requiring no further translation. Documents originally in English are not translated, but can be seen with the attached originals. Additional information, found within the same file on pp. 10-17, and 51-52 mentioning AMEP and/or Sevan is also attached.

ISGZ-2004-E00003 Page 108, Begin Translation:

In the Name of God, the Most Merciful, the Most Compassionate

The Republic of Iraq
Ministry of Oil
State Oil Marketing Company

[Stamp]
Ministry of Oil/
Minister's Office
No. 8684
Date: 08/01/1999

No: [KH]2/ 11538
Date: August 1, 1999

To: The Honorable Minister of Oil

Subject: Contract M/06/78 with the African Middle East Company (Mr. Sevan)

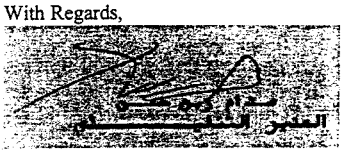
In reference to the approval in the memorandum from the Office of the President of the Republic – Secretary – numbered 4371/K dated 07/25/1999.

Under the details of the contract with the African Middle East Petroleum Co. LTD.

1. Contract No:	M/06/78 [in English]
2. Date of Contract:	07/29/1999
3. Purchasing Company:	African Middle East Petroleum Co. LTD.
4. Nationality:	Panamanian
5. Quantity:	2 Million Barrels
6. Quality of Crude Oil:	Kirkuk
7. Destination:	Europe
8. Tariff:	Europe
9. Period of Supplying:	until 11/20/1999
10. Estimated Value:	approximately (30) million dollars (based on the price of $15 per barrel). [USD not specified]

Please acknowledge and approve.

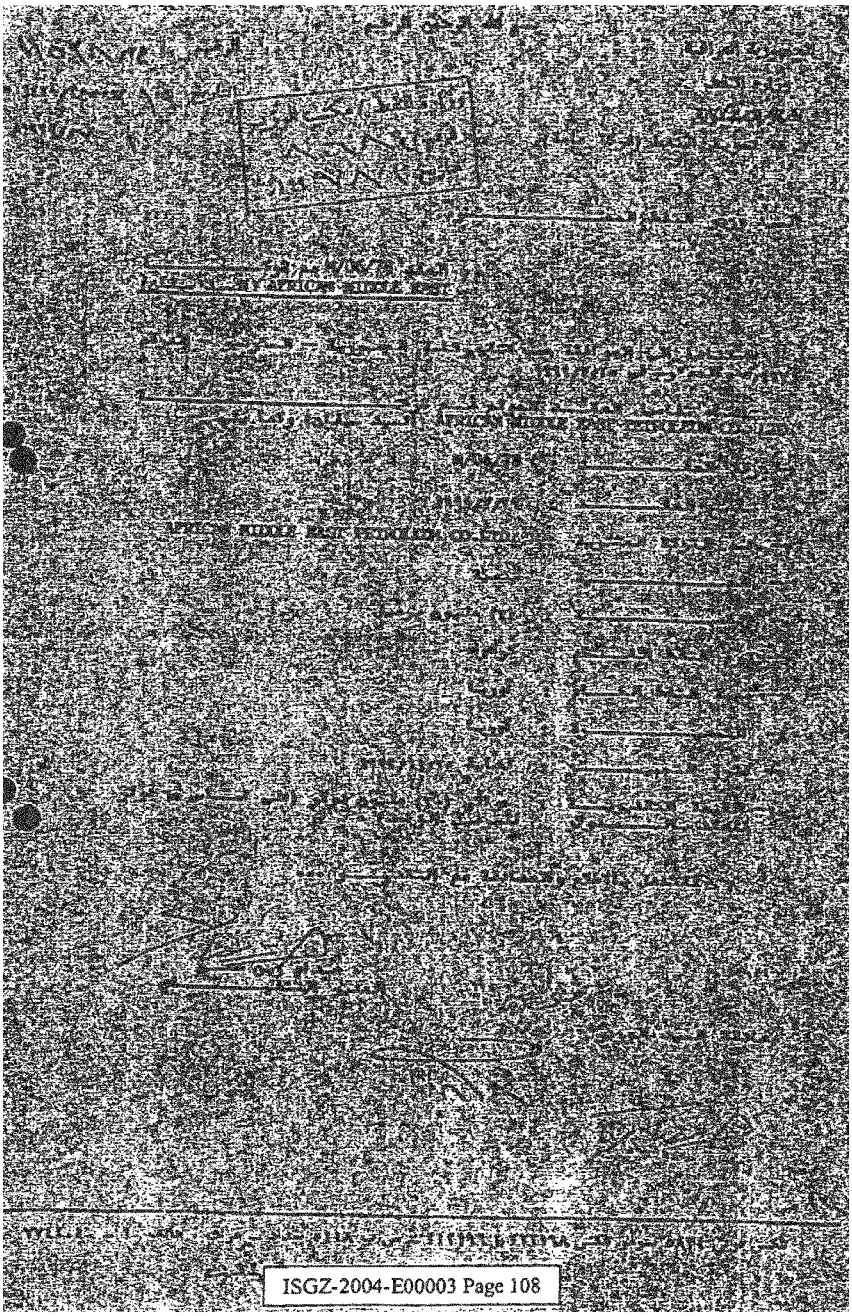
With Regards,



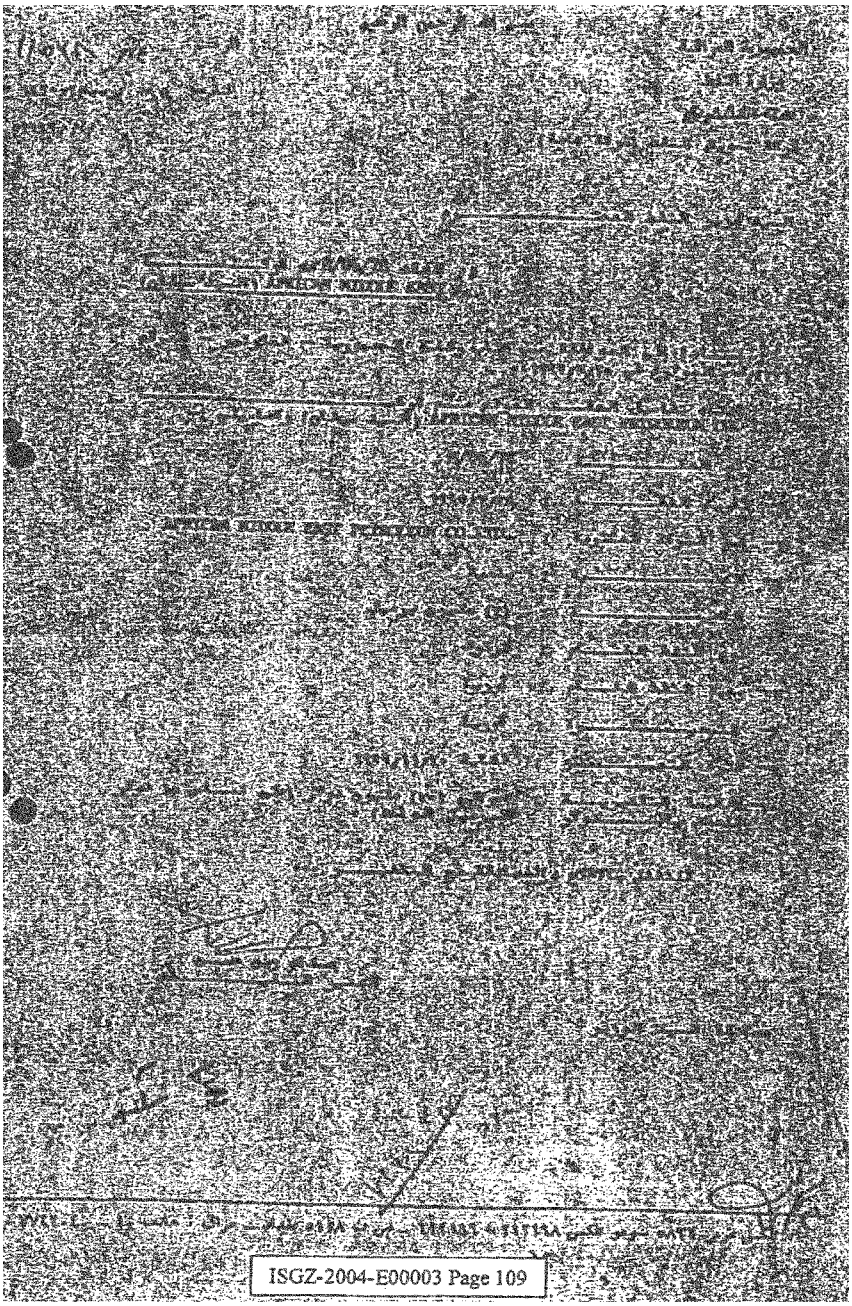
Saddam Zaban Hasan
Executive Director

Approval of the Minister: Approved

[Handwriting Illegible]



ISGZ-2004-E00003 Page 108



ISGZ-2004-E00003 Page 109

UNITED NATIONS NATIONS UNIES

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990)
CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/1998/OIL/112/CONC.36

TO: AFRICAN MIDDLE EAST PETROLEUM COLLIVERY LTD. ARUSHA	FROM: THE OIL COMMITTEE UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO: 011-327-55-35-54-10	FAX NO: (212) 963-1628
ATTENTION: Mr. FAKHRY ABDELNOUR	REF: OIL FOR FOOD ARRANGEMENTS
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 2	

Re: Contract Number: [illegible] UNTREF S/AC.25/1998/OIL/112/CONC.36
Between: NOMO and AFRICAN MIDDLE EAST PETROLEUM COLLIVERY
Dated: [illegible] August 1998
Quantity: 2,000,000 bbls
Quality: Kirkuk
Pricing Formula: European Market
Value Date: [illegible]

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APPROVAL OF THE OIL CONTRACT PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN APPROVED BY SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT.

REMARKS:

NOMO
BNP
SAVENIJE ROTTERDAM
PERMANENT MISSION OF IRAQ TO THE UN

UNITED NATIONS — NATIONS UNIES

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/1999/OIL/1242/CC.78 — 6 August 1999

TO: AFRICAN MIDDLE EAST PETROLEUM S.A. CORPORATION PANAMA	FROM: THE OIL OVERSIGHT UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO. 011 377 93 25 34 47	FAX NO. (212) 963-1628
ATTENTION Mr. FAKHRY ABDELNOUR	REF.: OIL-FOR-FOOD ARRANGEMENT
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 11	

Re: Contract Number: M/06/78 — ON REF. S/AC.25/1999/OIL/1242/CC.78
Between: MHM and "AFRICAN MIDDLE EAST PETROLEUM CO. PANAMA"
Date of Contract: 3 August 1999
Quantity: 2,000,000 bbls
Quality: Kirkuk
Pricing Formula: European Market
Port of Loading: Ceyhan

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APPROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN APPROVED BY SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT.

REMARKS:

cc:
SOMO
BNP
SAYBOLT ROTTERDAM
PERMANENT MISSION OF IRAQ TO THE UN

جدول رقم (٢)

احتياجات الكميات للمرحلة السادسة (مليون برميل)

	كركوك	البصرة	المجموع
- الاستهلاك	١٦٧ر٣	٢١١ر٥	٣٧٨ر٨
- الانتاج			
حزيران	٢٨ر٣١٤	٣٦ر٩٩٤	٥٤ر٨٠٨
تموز	٣٠ر٣٤	٤٧ر٣٤٢	٧٧ر٣٧٦
آب	٣٠ر٥٠١	٤٠ر٤٩٢	٧١ر٩٩٣
أيلول	٣٦ر٣٧	٤١ر٣٦	٧٨ر٣٣
تشرين الأول (١-٩)	٦ر٣	٢ر٣٣	٦ر٣٥
المجموع	١١٨ر٥٨٩	١٥٥ر٦٨	٢٣٣ر٥٠٧
العجز لغاية نهاية المرحلة .	٤٨ر٥	٥٦ر٣٣	١٠٤ر٨٣
المعدل اليومي (٤٨ يوم)	(١ر٠١)مليون برميل يوميا	(١ر١٣٦) مليون برميل يوميا	حوالي (٢ر١٩) مليون برميل يوميا

على أساس معدلات ضخ للتصدير :-

كركوك : ٩٥٠ ألف برميل يوميا
بصرة : ١ر٣٥ مليون برميل يوميا } ٢ر٣ مليون برميل

تحتاج الى حوالي (٥) مليون برميل تصالح اضافي

بسبب زيادة معدل التصالح اليومي عن معدلات ضخ كركوك كما في اعلاه تحتاج الى تحويل كمية حوالي (٢) مليون برميل كركوك الى البصرة لبعض المشتريين.

لغاية التحميل لما بعد المرحلة السادسة يمكننا التصالح بكميات اضافية اخرى (مثلا بكمية (٣-٤) مليون برميل اضافية) لتصبح الكمية الكلية للتصالح الاضافي (٨-٩) مليون برميل .

جدول رقم (١)

الدولة/الشركة	الكمية المتعاقد عليها (مليون برميل)	الكمية الباقية المطلوبة (مليون برميل)	الملاحظات
١- روسيا	١٣٣		
أ- الشركات الامتيازية			
ذراباشفط	١٩	٢	أضيف (١) مليون برميل من الكمية المتبقاة لروسيا .
لوك اويل	٧	غير محددة	
مشيتو امبورو	١٠	—	أضاف (١) مليون برميل المتبقية من العقد .
روز نفط	٥	—	
راه كاز	٨	غير محددة	
حاد نفط	٩	—	أضيف (١) مليون برميل من الكمية المتبقاة لروسيا .
يوكوس	٢	غير محددة	
سالك نفط	٢	غير محددة	
كاز بروم	٦	غير محددة	
ترانز نفط	٣	—	
نفتا يوكو	٤	٢ — ٤	
سيدانكو	٤	—	
اوناكو	٤	—	
ب- الشركات الخاصة			
حزب الوحدة والسلام	٣	—	
جيرنوفسكي	١٠	[illegible]	
الحزب الشيوعي	١٦	—	
ج- شركات امتيازية/ خاصة			
الفا ايكو) الخارجية	١٣	غير محددة	أضيف (١) مليون برميل من الكمية المتبقاة لروسيا .
تيومين) الروسية	٤		
راوهس (ابن الصغير)	٤	١٠	

١ — ٢

تم تحرير الجدول من أصل
السيد الوزير

الدولة/الشركة	الكمية المتعاقد عليها (مليون برميل)	الكمية الإضافية المطلوبة (مليون برميل)	الملاحظات
٢- الصين	٢٤		الكمية الخاضعة حسب الكشف (٢٦) .
أ- الكيانات الامتيازية			
سينوكيم	١٢	٣	
جايتا أويل	١٢	غير محددة	
بوتيبيه	٣	—	
وشع روشع	٢	—	
ب- الكيانات الخاصة			
السيد خوان	٦	—	
٣- فرنسا	٥٫٥		
أ- الكيانات الامتيازية			
توتال	١٤	غير محددة	
بيركاب	١٤	٢	
ب- الكيانات الخاصة			
ميشيل فريسار (شركة داكس)	٠٫١	—	
بيتريك وديجان (شركة ترافيكورا)	٣	—	
بوداليه (شركة فيتول)	٥	٢	
جمعية العدالة (شركة أريتيو)	٠٫١	—	
شاول بيكوا (شركة جنمار)	٣	—	
صيدة تعنم (شركة جنمار)	٠٫١	—	
الياس الفوزاني (شركة جنمار)	٠٫١	غير محددة	

الدولة/الشركة	الكمية المضافة طبقا (مليون برميل)	الكمية الاضافية المطلوبة (مليون برميل)	الملاحظات
الجزائر			
الطلبات الاعتيادية	٥ر١١	–	
بوتسوانا			
الطلبات الخاصة	٥ر١١		كمية الاضافة الاصلية (٩) مع الزيادة (٢) مليون الاضافية
ماليزيا			
الطلبات الاعتيادية	٥ر٢		
بتروناس	٥ر٢	غير محددة	
الطلبات الخاصة			
المصدرين العراقي			
نادي أمند ثري			
(شركة تريد عمر)	٥ر٢	–	
نيجيريا			
الطلبات الاعتيادية	٥ر١٠		
شركة النفط الوطنية (بيتيم)	٥ر١٠	–	
الطلبات الخاصة			
السودان			
الطلبات الاعتيادية	٥ر٥		
–			
الطلبات الخاصة			
شركة سامو	٥ر٥	غير محددة	أضيف (٥ر٥) مليون برميل اضافية
المغرب			
الطلبات الاعتيادية	٥ر٢		
سمير المغربية	٥ر٥	٥ر٢	
الطلبات الخاصة			
عبدالله البلاوي	٥ر٢	–	
(شركة بتريد)			
الاردن	٥ر٣		
الطلبات الاعتيادية			
الطلبات الخاصة			
لينه شيلاه (شركة بتروفار ستروبيوش السويسرية)	٥ر٣	–	

الدولة/الشركة	الكمية المتعاقد عليها (مليون برميل)	الكمية الاضافية المطلوبة (مليون برميل)	الملاحظات
الامارات العربية	٣ر٢		
الطلبات الامتيازية			
شركة كريسنت	١ر٢	—	
الطلبات الخاصة			
شركة لوي لويل (الشيخ احمد مانع حميد المنتيفة) *	١ر١	١	
اليمن	٣ر٢		
الطلبات الامتيازية	—		
الطلبات الخاصة			
الوريانى (شركة ZSA)	٣ر٢	—	
تونس	٥ر٠		
الطلبات الامتيازية			
شركة اسناب	٥ر٠	—	
الطلبات الخاصة	—		
مصر	٣ر٠		
الطلبات الامتيازية	—		
الطلبات الخاصة			
شركة الكوم	٣ر٠	غير محددة	
ايطاليا	١٤ر٨		
الطلبات الامتيازية			
شركة ايني	٥ر٥	٢ر٠	٥/
شركة أيني	٢ر٢	٢ر٠	أعطيت كمية (٢ر٠) مليون برميل اضافية *
شركة اي اي اي	٠ر٠	غير محددة	
الطلبات الخاصة			
السيد روبرتو فرمغوني (شركة كريسبا)	٤ر٠	غير محددة	
السيد تلفاتوري نيكوترا (شركة اي تي أس)	٣ر٠	غير محددة	
نيجيريا	٩ر٠	—	
الطلبات الامتيازية			
— ايجيبول	٤ر٠	غير محددة	
— سيرفوكس	٣ر٠	غير محددة	
الطلبات الخاصة			
السيد بلم تالبش (شركة لنتس)	٣ر٠	—	

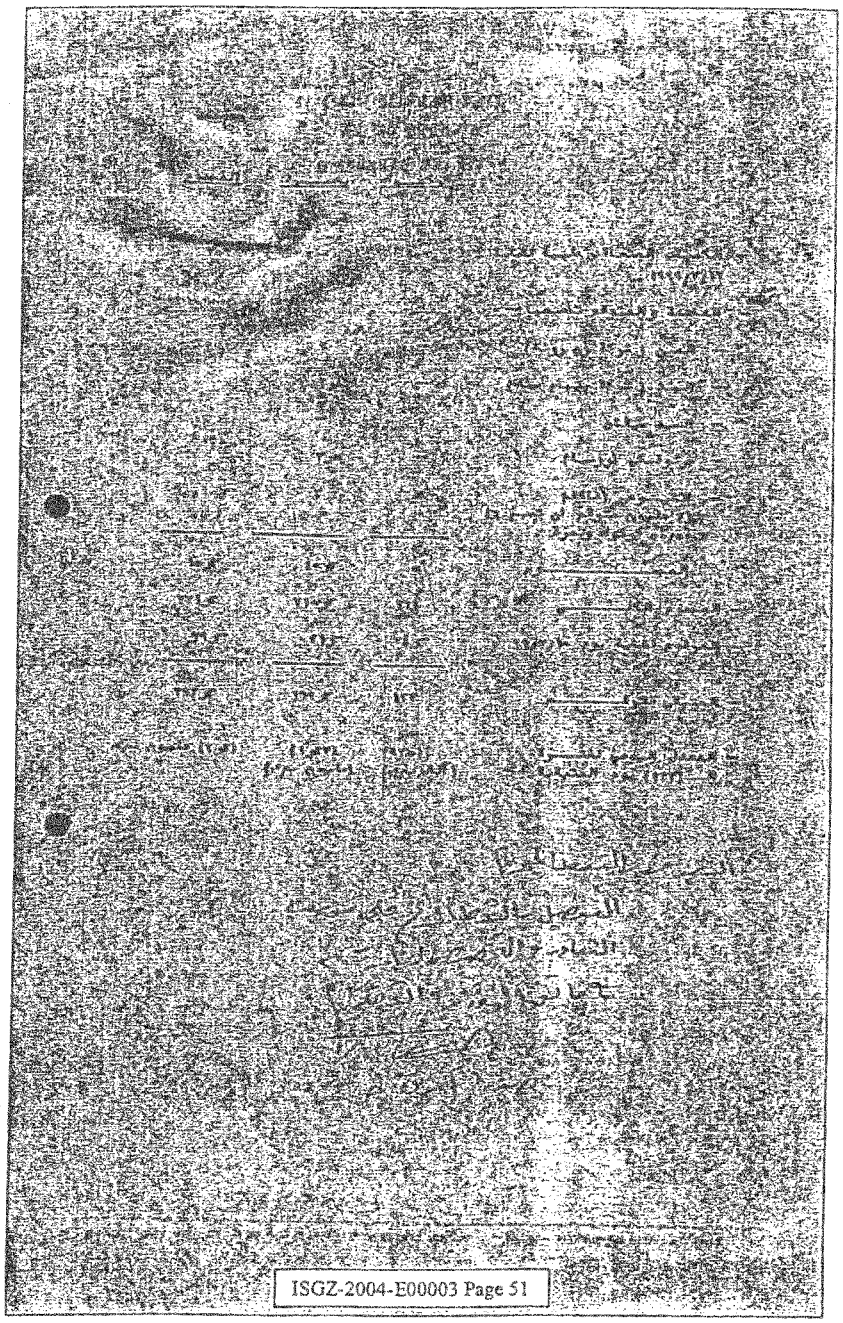
الدولة/ الشركة	الكمية المتعاقد عليها (مليون برميل/ ي)	الكمية الفعلية المطلوبة (مليون برميل)	الملاحظات
[illegible]			
[illegible]			
الكيانات الامتيازية	٥ر٠		
شركة أو أو بي	٥ر٠		
الكيانات الخاصة			
[illegible]	٢ر٠		
الكيانات الامتيازية			
[illegible]	٢ر٠	–	
الكيانات الخاصة			
تركيا	٢٢ر٠		
الكيانات الامتيازية			
– تيراق	١١ر٠	٨ر٦	
– [illegible]	١ر٠		
الكيانات الخاصة			
[illegible] (ستا)	١ر٠		
محمد [illegible] (امبو)	٣ر٠		
[illegible] العابدين ازدم (ازدم)	١ر٠		
[illegible]	٢ر٠		
[illegible]	٦ر٠		
الكيانات الامتيازية			
شركة أو ام لي	٦ر٠		
الكيانات الخاصة			
[illegible] السيد محمد البوني (النفطة ٣-٤)			
جنوب السودان	٢ر٠		
الكيانات الامتيازية	–		
الكيانات الخاصة			
شركة بوكو	٢ر٠	–	
تانزانيا	٤ر٠		
الكيانات الامتيازية	–		
الكيانات الخاصة			
شركة [illegible]	٤ر٠		
[illegible]	٢ر٠		
الكيانات الامتيازية			
الكيانات الخاصة			
شركة لومـــوس	٢ر٠		

٥ – ٢

الدولة/الشركة	الكمية المتعاقد عليها (مليون برميل)	الكمية المطلوبة (مليون برميل)	الملاحظات
[illegible]			
الكلمات الاستهلالية	س٤		
الكلمات الختامية			
كاموكو	س٤		
[illegible]			
الكلمات الاستهلالية	س٤		
الكلمات الختامية	—		
[illegible] (أوبشانسكو)	س٢		
[illegible] (الغرب السيبيري)	س٢		
[illegible]			
الكلمات الاستهلالية	س٢		
[illegible]	س٢		
الكلمات الختامية	—		
[illegible]			
الكلمات الاستهلالية	س٢		
الكلمات الختامية			
[illegible] (الشرق الأقصى)	س٢		
[illegible] (ساخالين)			
[illegible]			
الكلمات الاستهلالية	س٦		
الكلمات الختامية			
[illegible] (أبو ظبي)	س٦	غير محددة	
[illegible]			
الكلمات الاستهلالية	س٢		
الكلمات الختامية			
[illegible] (الجزائر)	س٢	غير محددة	
[illegible]			
الكلمات الاستهلالية	س٢		
[illegible]	س٢	مطلوب كمية (س٢) مليون برميل اضافية .	
الكلمات الختامية			

الدولة/الشركة	الكمية المتعاقد عليها (مليون برميل)	الكمية الإضافية المطلوبة (مليون برميل)	الملاحظات
بلاروسيا			
الكيانات الاحتيادية	–	١ر٠	
الكيانات الخاصة			
الحزب الليبرالي الديمقراطي البيلاروسي (الشركة بلمنتال التركي)	١ر٠		
أمريكا			
الكيانات الاحتيادية		٢ر٠	
الكيانات الخاصة			
الشركة أوبكار رايت (الوسطاء)	٢ر٠		
كيانات خاصة أخرى			
الشركة ميداك (شركة الأوبكان ميدل ايست)	٢ر٠		
ميدامتس كو (شركة تريد دكتو لمتد)	٢ر٠		تقوم الشركة بتصدير النفط بسبب تأخير التحويل
محمد السوني (جريدة الشرق)	٢ر٠		
شركة كلف اوردل هاندل (النمساوية)	١ر٠		
شركة تراكسد التبرمية	١ر٠		الكمية الإضافية على العقد رسمياً وتم توقيع عقد السوني ؟
المجموع	٣٢٨ر٠		

٢ – ٢



ISGZ-2004-E00003 Page 51

	كركوك	بصرة	المجموع
- الكميات المتعاقد عليها لغاية ١٩٩٩/٧/١٢	١٥٦	٢٠٠	٣٥٦
- المخصصة والمتوقع تخصيصها:-			
- الصين (شركة دي رونغ)	-	٢	
- الهند (شركة بيهام ستاه)	-	١ر١	
- السيد سيفان	٢	-	
- جرنوفسكي (روسيا)	-	٣ر٥	
- الشيوعي (ماكدا) (٤ مليون متوقع ان تصبح ٦) ٥٠/٥٠ كركوك وبصرة	٣	٣	
المجموع	٥	١٠ر٦	١٥ر٦
المجموع الكلي	١٦١	٢٣٠ر٦	٣٩١ر٦
المرفوع لغاية يوم ٩٩/٧/١٠	٣٨ر٣	٤١ر٣	٧٩ر٦
المتبقي للرفع	١٢٣	١٦٩ر٣	٢٩٢ر٣
المعدل اليومي للفترة الـ (١٣٣) يوم المتبقية	(٩٢٥) (ألف برميل)	(١ر٢٧) (مليون برميل)	(٢ر٢) طن م ب/ي

المليا

السيد موقع

TAB 34

Benon Sevan and Phase VII

The following documents, which can be found in the National Harmony Database as ISGZ-2004-F00002, contain information relating to Benon Sevan and the African Middle East Petroleum Co. LTD., Inc. (AMEP) and Phase VII of the UN Oil-For-Food Program. The document resides within the 21 SOMO discs on Disc 13, ISGZ2004F00002-132352.pdf.

Originally 549 pages, the following cursory translation represents pages 104 through 106, the contractual arrangements of the oil allocated for the aforementioned period. Page 105 is a copy of page 104 and warrants no further translation. Documents originally in English are not translated, but can be seen with the attached originals.

ISGZ-2004-F00002 Page 104, Begin Translation:

In the Name of God, the Most Merciful, the Most Compassionate

The Republic of Iraq
Ministry of Oil
State Oil Marketing Company

[Stamp]
Ministry of Oil/
Minister's Office
No. 481
Date: 01/13/2000

No: [KH]2/ 636
Date: January 13, 2000

To: The Honorable Minister of Oil

Subject: Approval of Exported Crude Oil Contracts.

In accordance with the disclosure of allocations to the amended seventh phase dated 12/17/1999.

Under the details of the contract with the African Middle East Co. (Mr. Sevan):

1. Contract No:	M/07/88 [in English]
2. Date of Contract:	01/11/2000
3. Purchasing Company:	African Middle East Petroleum
4. Nationality:	Panamanian
5. Quantity:	1.5 Million Barrels
6. Quality of Crude Oil:	Kirkuk
7. Destination:	Europe
8. Tariff:	Europe
9. Period of Supplying:	until 06/08/2000
10. Estimated Value:	approximately (33) million dollars (based on the price of $22 per barrel). [USD not specified]

Please acknowledge and approve.

With Regards,

صدام زبن حسن
المدير التنفيذي

Saddam Zaban Hasan
Executive Director

Approval of the Minister: Approved

[Handwriting Illegible]

Telex: Arabic 5834 Somo Telex: 212198, 212199/PO Box 5118 Baghdad, Iraq, Phone No: 7742040/10

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط
شركة تسويق النفط (شركة عامة)

الرقم ع٢/ ٦٢٦
التاريخ ٦ /شوال/١٤٢٠ هـ
٢٠٠٠/١/ م

وزارة النفط/مكتب الوزير
الرقم / ٤٨١
التاريخ: ٢٠٠٠/١/١٣

السيد وزير النفط المحترم

م/ المصادقة على عقود النفط الخام المصدر

بالاشارة الى كشف التخصيصات للمرحلة السابعة المعدل والمقر بتاريخ ١٩٩٩/١٢/١٧ .

أدناه تفاصيل العقد الموقع مع شركة AFRICAN MIDDLE EAST (السيد سيفان) .

١- رقم العقد : M/07/88
٢- تاريخ العقد : ٢٠٠٠/١/١١
٣- اسم الشركة المشترية : AFRICAN MIDDLE EAST PETROLEUM
٤- الجنسية : بنمية
٥- الكمية : (٥ر١) مليون برميل
٦- نوع النفط الخام : كركوك
٧- وجهة النفط الخام : أوربا
٨- التعبئة : أوربا
٩- فترة التجهيز : لغاية ٢٠٠٠/٦/٨
١٠- القيمة التقديرية للعقد بالدولار : حوالي (٣٣) مليون دولار (على اساس ٢٢ دولار للبرميل الواحد) .

للتفضل بالاطلاع والمصادقة مع التقدير ...

صدام زين حسن
المدير التنفيذي

مصادقة السيد الوزير

بسم الله الرحمن الرحيم

الجمهورية العراقية
وزارة النفط
شركة تسويق النفط (شركة عامة)

الرقم ٣٢/ ٦٢٦
التاريخ ٧ /شوال/ ١٤٢٠ هـ
٢٤ /١/ ٢٠٠٠م

السيد وزير النفط المحترم

م/ المصادقة على عقود النفط الخام المصدر

بالإشارة الى كشف التخصيصات للمرحلة السابعة المعدل والمقر بتاريخ ١٩٩٩/١٢/١٧ .

أدناه تفاصيل العقد الموقع مع شركة AFRICAN MIDDLE EAST (السيد سيفان) .

١- رقم العقد : M/07/88
٢- تاريخ العقد : ٢٠٠٠/١/١١
٣- اسم الشركة المشترية : AFRICAN MIDDLE EAST PETROLEUM
٤- الجنسية : بنمية
٥- الكمية : (٥٠١) مليون برميل
٦- نوع النفط الخام : كركوك
٧- وجهة النفط الخام : أوربا
٨- التعبئة : أوربا
٩- فترة التحميل : لغاية ٢٠٠٠/٦/٨
١٠- القيمة التقديرية للعقد بالدولار : حوالي (٣٣) مليون دولار (على اساس ٣٢ دولار للبرميل الواحد) .

للتفضل بالعلم والمصادقة مع التقدير ...

صدام كريم حسن
المدير التنفيذي

مصادقة السيد الوزير

تلكس عربي ٥٨٣٤ سومو تلكس ٢١٢١٩٨ ، ٢١٢١٩٩ ـ ص ب ٥١١٨ بغداد ـ عراق : هاتف ١٠ ـ ٧٧٤٢٠٤٠

UNITED NATIONS

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

17 January 2000

S/AC.25/2000/OIL/1281/OC.82

TO: AFRICAN MIDDLE EAST PETROLEUM CO LTD INC PANAMA	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO 011-377-93 25-84-47 011-41-22-2110-4080	FAX NO (212) 963-1628
ATTENTION Mr. FAKHRY ABDELNOUR	REF. OIL-FOR-FOOD ARRANGEMENT
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE 1	

UN REF: S/AC.25/2000/OIL/1281/COMM.88

Re: Contract Number M/07/88
Between: SOMO and "AFRICAN MIDDLE EAST PETROLEUM CO. LTD.INC
Date of Receipt 17 January 2000
Quantity 1,500,000 bbls
Quality Kirkuk
Pricing Formula European Market
Port of Loading Ceyhan

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APPROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE SAME HAS BEEN APPROVED BY SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

REMARKS

cc:
SOMO
BNP
SAYBOLT ROTTERDAM
PERMANENT MISSION OF IRAQ TO THE UN

TAB 35

Benon Sevan and Phase VIII

The following documents, which can be found in the National Harmony Database as ISGZ-2004-E00004, contain information relating to Benon Sevan and the African Middle East Petroleum Co. LTD., Inc. (AMEP) and Phase VIII of the UN Oil-For-Food Program. The document resides within the 21 SOMO discs on Disc 17, ISGZ2004E00004-132292.pdf.

Originally 188 pages, the following cursory translation represents page 164, the contractual arrangements of the oil allocated for the aforementioned period.

ISGZ-2004-E00004 Page 164, Begin Translation:

In the Name of God, the Most Merciful, the Most Compassionate

The Republic of Iraq
Ministry of Oil
State Oil Marketing Company

[Stamp]
Ministry of Oil/
Minister's Office
No. 10790
Date: 08/16/2000

No: [KH]2/ 13841
Date: August 15, 2000

To: The Honorable Minister of Oil

Subject: Approval of Exported Crude Oil Contracts.

In reference to your footnote on 06/25/2000 regarding the disclosure of the eighth phase allocations.

Under the details of the contract with the African Middle East Petroleum (Mr. Sevan):

1. Contract No:	M/08/96 [in English]
2. Date of Contract:	08/13/2000
3. Purchasing Company:	African Middle East Petroleum
4. Nationality:	Panamanian
5. Quantity:	1.5 Million Barrels
6. Quality of Crude Oil:	Kirkuk
7. Destination:	Europe
8. Tariff:	Europe
9. Period of Supplying:	until 12/05/2000
10. Estimated Value:	approximately (33) million dollars (based on the price of $22 per barrel). [USD not specified]

Please acknowledge and approve.

With Regards,

Saddam Zaban Hasan
Executive Director

Approval of the Minister: Approved

[Handwriting Illegible]

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة النفط
شركة تسويق النفط (شركة عامة)

وزارة النفط / مكتب الوزير
رقم : ٩٠٠
التاريخ : ٢٠٠١/٨/٣١

الرقم : ٣٤ / ١٢٨٣١
التاريخ : ٢٠٠٠/٨/١٥

السيد وزير النفط المحترم

م/ الموافقة على عقد العقد الاطار المبكر

اشارة الى طلبكم بتاريخ ٢٠٠٠/٨/١٤ على كافة التخصيصات المرفقة

ادناه تفاصيل العقد الموقع مع شركة AFRICAN MIDDLE EAST PETROLEUM (الشركة سكاكو) :-

١- رقم العقد : M/DR/96
٢- تاريخ العقد : ٢٠٠٠/٨/١٢
٣- اسم الشركة المتعاقدة : AFRICAN MIDDLE EAST PETROLEUM
٤- الجنسية : بريطانية
٥- الاحتياطي : (٣٠٠) مليون برميل
٦- نوع النفط الخام : خفيف
٧- جهة النفط الخام : أوربا
٨- التصدير : تصدير أوربا
٩- فترة التصدير : لغاية ٢٠٠٠/١٢/٥
١٠- الكمية التقديرية للعقد بالدولار : حوالي (٢٢) مليون دولار (على اساس ٢٢ دولار للبرميل الواحد) .

لذلك نأمل الموافقة والمصادقة مع التقدير ...

صدام حسين
المدير العام

موافق

مصادقة السيد الوزير

TAB 36

Benon Sevan and Phase X

The following documents, which *are not currently found in the National Harmony Database*, contain information relating to Benon Sevan and the African Middle East Petroleum Co. LTD., Inc. (AMEP) and Phase X of the UN Oil-For-Food Program. The document resides within the 21 SOMO discs on Disc 20, ISGZ2004E00002-132285.pdf.

Originally 218 pages, the following cursory translation represents pages 108 and 109, the contractual arrangements of the oil allocated for the aforementioned period. Page 109 is a copy of 108 and warrants no further translation.

Another file, ISGZ2004D00046-132688.pdf from Disk 12, does have a National Harmony record under ISGZ-2004-D00046. Originally 197 pages, this file has additional information regarding Phase X, specifically the extension of the phase period. P. 120 contains contract information, while pages 2-9 contain spreadsheets summarizing the Phase X contracts. Note that on p. 4, contract M/10/48 is misidentified as "Al Rasheed International," but is corrected on p. 8 written in as "African M E."

ISGZ-2004-E00002 Page 108, Begin Translation:

In the Name of God, the Most Merciful, the Most Compassionate

The Republic of Iraq
Ministry of Oil
State Oil Marketing Company

[Stamp]
Ministry of Oil/
Minister's Office
No. 12564
Date: 08/14/2001

No: [KH]2/ 12118
Date: August 14, 2001

To: The Honorable Minister of Oil

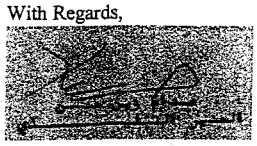
Subject: Approval of Exported Crude Oil Contracts.

In reference to the disclosure of allocations on 07/06/200, under the details of the contract with the African Middle East Co. (Mr. Sevan):

1. Contract No:	M/10/48 [in English]
2. Date of Contract:	08/13/2001
3. Purchasing Company:	African Middle East
4. Nationality:	Panamanian
5. Quantity:	1 Million Barrels
6. Quality of Crude Oil:	Kirkuk
7. Destination:	Europe or America
8. Tariff:	Europe or America
9. Period of Supplying:	until 11/30/2001
10. Estimated Value:	approximately (22) million dollars (based on the price of $20 per barrel). [USD not specified]
11. Total of Return:	paid within 30 days after acquisition

Please acknowledge and approve.

With Regards,



Saddam Zaban Hasan
Executive Director

Approval of the Minister: Approved

[Handwriting Illegible]

Telex: 212198, 212199 PO Box 5118 Baghdad, Iraq, Phone No: 7742040/10

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة النفط
شركة تسويق النفط (شركة عامة)

AFRICAN MIDDLE EAST

AFRICAN MIDDLE EAST

TELEX

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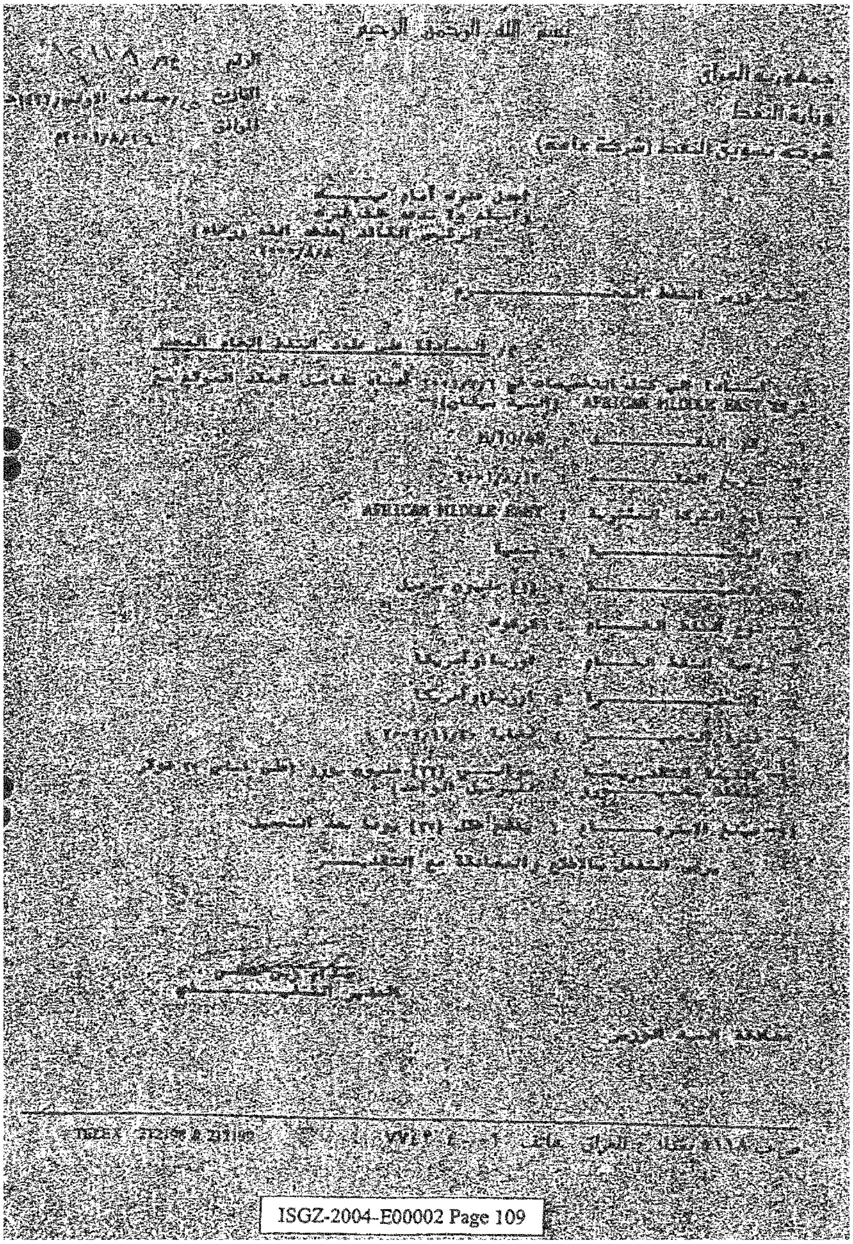

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة النفط
شركة تسويق النفط (شركة عامة)

الرقم: ع م/ ٩٨٦١١٨
التاريخ: ٦/ جمادى الأولى/ ١٤٢٢هـ
الموافق: ٢٠٠١/٧/٢٦م

[illegible] أنظار سيادته
[illegible]
الرئيس القائد (حفظه الله ورعاه)
٢٠٠١/٨/٨

السيد وزير النفط المحترم

م/ المصادقة على عقود النفط الخام المصدر

إشارة إلى كتاب التخصيصات في ٢٠٠١/٧/٦ [illegible] المصادقة على العقد الموقع مع شركة AFRICAN MIDDLE EAST (الجنسية [illegible])

رقم العقد : M/10/68
تاريخ العقد : ٢٠٠١/٧/١٢
اسم الشركة المشترية : AFRICAN MIDDLE EAST
الجنسية : [illegible]
الكمية : (٤) مليون برميل
نوع النفط الخام : كركوك
وجهة النفط الخام : أوربا/أمريكا
المنفذ : [illegible]/أمريكا
فترة التحميل : لغاية ٢٠٠١/١٠/٣٠
المعادلة السعرية : [illegible] (٢٢) [illegible]
الدفع الآجل : يدفع خلال (٣٠) يوما بعد التحميل

مرفق العقد بالأصل والمعادلة مع التقدير.

[illegible]
المدير العام

مطالعة السيد الوزير :

ص.ب ١١٨ بغداد - العراق هاتف [illegible] ٧٧١٠ TELEX [illegible]

شركة تسويق النفط (شركة عامة)

السيد الدائرة المالية — الرقم : ع٢/ ١٠٠

من / دائرة تسويق الخام الشائبة — التاريخ: ٢٠ / ٨ /٢٠٠١

م/ العقد رقم M/10/48 مع شركة
AFRICAN MIDDLE EAST PETROLEUM

تم التعاقد بتاريخ ٢٠٠١/٨/١٣ مع الشركة أعلاه على تجهيزها بكمية من نفط خام كركوك فوب ميناء جيهان وذلك حسب الشروط التالية :-

اسم المشتري : AFRICAN MIDDLE EAST PETROLEUM

رقم العقد : M/10/48

تاريخ العقد : ٢٠٠١/٨/١٣

الهيئة : بنمية

الكمية : (١) مليون برميل

نوع النفط الخام : كركوك

فترة التجهيز : لغاية ٢٠٠١/١١/٣٠

الوجهة السابقة : أوربا وأمريكا

السعر : أوربا وأمريكا

موافقة المفوضين : في ٢٠٠١/٨/١٨ .

الشروط الأخرى : كما في الشروط العامة المطبقة على مبيعات الشركة فوب ميناء جيهان

للعلم والعمل بموجبه لطفاً ...

مدام [illegible]
المدير الفني

شـــــركة أســـــواق النفط (تنفيذ الخطوط للشحنات المسعرة وغير المسعرة)

قرطاجنة

المبيعات	الفرق المستحق	الفرق المسعر	الفرق الفعلي	كمية الفرق	كمية مسعرة	التاريخ	رقم الفاتورة	العميل
-5,140,547.00	16,200,947.00	16,200,947.00	4,000,000	5,000,000	30/11/01	00/10/01		ZARUBEZHNEFT MOSCOW
-3,679.00	2,005,976.00	2,005,700.00	2,000,000	0	30/11/01	00/10/02		E.D.I.S.A EUROPEAN OIL TRADING CO.)
-38,796.00	3,204,796.00	3,202,000.00	3,000,000	3,000,000	30/11/01	00/10/03		AL-CON PETROLEUM LIMITED
195,711.00	3,384,821.00	3,200,000.00	2,000,000	2,000,000	30/11/01	00/10/04		AMAL AMORA CO.
409,484.00	4,891,534.00	3,000,000.00	0	3,000,000	30/11/01	00/10/05		ESTAFET G.L.C.O
-39,396.00	4,200,796.00	4,200,000.00	2,000,000	2,000,000	30/11/01	00/10/06		ROUNTI FOR TRADING
-8,280.00	4,206,396.00	4,200,000.00	2,000,000	2,000,000	30/11/01	00/10/07		ROSNEFTE GAS EXPORT
6,999,300.00	2,009,500.00	15,000,000.00	1,000,000	5,000,000	30/11/01	00/10/08		RAK ENERGY FINANCE
-99,812.00	3,946,812.00	3,900,000.00	2,000,000	3,000,000	30/11/01	00/10/09		ZENAT PETROLEUM LIMITED

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المبيعات	الفرق المستحق	الفرق المسعر	الفرق الفعلي	كمية الفرق	كمية مسعرة	التاريخ	رقم الفاتورة	العميل
1,347,999.00	6,017,132.00	6,000,000.00	0	6,000,000	30/11/01	00/10/10		ERRA MATERNE LIMITED OIL CORPORATION
-48,147.00	3,065,147.00	3,000,000.00	2,000,000	3,000,000	30/10/01	00/10/11		BACHAMPORT
-8,321.00	4,000,321.00	4,000,000.00	0	4,000,000	30/10/01	00/10/12		ERRA MARAD
3,014,004.00	8,000,004.00	10,000,000.00	0	10,000,000	30/11/01	00/10/13		BROKATA TRADING COMPANY LIMITED
195,243.00	3,200,743.00	3,000,000.00	2,000,000	3,000,000	30/11/01	00/10/14		PETROMETAL TRADING PETECHIM
391,984.00	16,983,016.00	17,000,000.00	7,000,000	10,000,000	30/11/01	00/10/15		ROSNEFTEGAZ (JR ROSNEFT)
3,125.00	3,001,875.00	3,000,000.00	3,000,000	3,000,000	31/12/01	00/10/16		BARREL INTERNATIONAL LTD
3,237.00	4,356,613.00	4,000,000.00	0	4,000,000	31/12/01	00/10/17		AL-CON PETROLEUM LIMITED
109,000.00	3,200,000.00	3,000,000.00	2,000,000	2,000,000	30/11/01	00/10/18		ALER OIL S.A.
1,201,973.00	2,000,421.00	2,000,000.00	2,000,000	2,000,000	30/11/01	00/10/19		BACHAMPORT

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المستفيد	رقم البند	التاريخ	قيمة الاعتماد	قيمة السحوبات	قيمة الرصيد	قيمة التأمين	قيمة المستردة	قيمة الاستحقاق	ملاحظات
GHASSAN SHALLAN CO.	98/10/20	30/11/01	2,000,000	2,000,000	0	2,000,000.00	3,945,365.00	84,631.00	
AL RASHEED INTERNATIONAL	98/10/21	30/11/01	2,000,000	2,000,000	0	2,000,000.00	2,003,964.00	-3,964.00	
AL HOON INTERNATIONAL TRADING CO.	98/10/22	30/11/01	1,000,000	1,000,000	0		1,000,000.00		[illegible]
ROCKET COMPANY (MR ROCKET)	98/10/23	30/11/01	1,000,000	1,000,000	0		1,000,000.00		
OMAN OIL	98/10/24	30/11/01	2,000,000	2,000,000	0	2,000,000.00	2,070,370.00	-70,370.00	
HYPERSONIC COMPANY	98/10/25	29/5/02	2,000,000	2,000,000	0		2,000,000.00		
RICHARD TRADING GROUP	98/10/26	30/11/01	1,000,000	2,000,000	2,000,000	2,000,000.00	3,002,394.00	-2,394.00	
AL KANAT MOSCOW	98/10/27	30/11/01	4,000,000	2,000,000	2,000,000	2,000,000.00	3,410,155.00	589,844.00	
ATRAD AMMORA CO.	98/10/28	30/11/01	2,000,000	2,000,000	0	2,000,000.00	2,049,446.00	-49,446.00	
MASRIND SHIPPING DE. E.R.L.	98/10/29	30/11/01	2,000,000	2,000,000	0		2,000,000.00		[illegible]

[illegible]

[illegible]

المستفيد	رقم البند	التاريخ	قيمة الاعتماد	قيمة السحوبات	قيمة الرصيد	قيمة التأمين	قيمة المستردة	قيمة الاستحقاق	ملاحظات
NATIONAL OILFIELD MAINTENANCE CO.	98/10/30	31/11/01	2,000,000	2,000,000	0	2,000,000.00	2,000,000.00	39,040.00	
TEVER DISTRICAKT ANONIM SIRKETI	98/10/31	30/11/01	2,000,000	2,000,000	0	2,000,000.00	1,961,875.00	38,124.00	
AL TOUN TRADING CO.	98/10/32	30/11/01	2,000,000	2,000,000	0	2,000,000.00	2,001,000.00	-1,000.00	
ENERGY INVESTMENT	98/10/33	30/11/01	1,000,000	1,000,000	0	1,000,000.00	1,048,814.00	-48,814.00	
RIFYON PETROLEUM LIMITED	98/10/34	30/11/01	2,000,000	2,000,000	0	2,000,000.00	1,945,129.00	54,871.00	
AL LOUL INVESTMENT AND TRADE CO.	98/10/35	30/11/01	1,000,000	1,000,000	0	1,000,000.00	999,000.00	1,000.00	
PETROVIETNAM TRADING PETECHIM	98/10/36	30/11/01	2,000,000	2,000,000	0	2,000,000.00	1,949,341.00	50,659.00	
BETA ADALAT PETROL VE PETROL URUNLERI MAKINELERI VE KAZ SANAYI VE TICARET A.Ş.	98/10/37	30/11/01	1,000,000	1,000,000	0	1,000,000.00	1,000,977.00	-977.00	
AL MIDDLE EAST ADVANCED REAL ESTATE CONSTRUCTION INC.	98/10/38	30/11/01	2,000,000	2,000,000	0	2,000,000.00	2,130,195.00	-130,195.00	
PETROSERT TRADE MOSCOW	98/10/39	30/11/01	4,000,000	4,000,000	0	4,000,000.00	7,027,994.00	-27,994.00	

[illegible]

-49,999.00	1,010,990.00	1,000,000.00	1,000,000		0	15/01/01	08/10/40	MARCO EST.	
-4,217.00	2,004,217.00	2,000,000.00		0	2,000,000	30/11/01	08/10/41	JOINT STOCK COMPANY METOKIAZ BRANCH	
0.00	1,000,000.00	1,000,000.00		0	1,000,000	30/11/01	08/10/42	CHAAF STAR	
-6,071.00	1,006,071.00	1,000,000.00	1,000,000		0	30/11/01	08/10/43	ZAFNA TRADING, S.A.	
-119,227.00	6,119,227.00	6,000,000.00	6,000,000	5,000,000		30/11/01	08/10/44	BAOCHEN INTERNATIONAL OIL LONDON CO. LTD.	
-26,926.00	3,026,926.00	3,000,000.00		0	3,000,000	30/11/01	08/10/45	BADC KALITIX OIL & GAS COMPANY DARC KALIBRETTAAS	
		1,000,000.00	1,000,000		0	10/10/02	08/10/46	ARAFINAL SHIPPING & CARGO AGENCIES	
-6,296.00	906,746.00	1,000,000.00	1,000,000		0	30/11/01	08/10/47	SERING EXPORT-IMPORT	
-3,000.00	3,003,000.00	3,000,000.00	3,000,000		0	30/11/01	08/10/48	AL RAZHEED INTERNATIONAL	
-37,879.00	1,037,879.00	1,000,000.00	1,000,000		0	30/11/01	08/10/49	PETROLINE FOLLAYTED ARAB EMIRATES	

-49,148.00	1,049,148.00	1,000,000.00	1,000,000		0	30/11/01	08/10/50	PERENCO PLC	
-47,000.00	1,047,000.00	1,000,000.00	1,000,000		0	30/11/01	08/10/51	WALIMASHAFEY	
-823.00	2,000,823.00	2,000,000.00	2,000,000		0	30/11/01	08/10/52	MACUNDUL F MIDDLE EAST	
		2,000,000.00		0	2,000,000	30/11/01	08/10/53	CASPIAN INVESTMENT LTD	
0.00	1,000,000.00	1,000,000.00	1,000,000		0	31/12/01	08/10/54	PAN OIL SERVICE CO. S.R.O.	
-49,137.00	2,049,137.00	2,000,000.00	2,000,000		0	30/11/01	08/10/55	OIL AND GAS SERVICE GROUP LTD.	
10,312.00	989,688.00	1,000,000.00	1,000,000		0	30/11/01	08/10/56	AL TIEJAL GAZ	
-996.00	1,000,996.00	1,000,000.00	1,000,000		0	30/11/01	08/10/57	MARFIELD AG	
-50,452.00	2,050,452.00	2,000,000.00	2,000,000		0	30/11/01	08/10/58	NATIONAL OILWELL MAINTENANCE CO	
-3,996.00	3,003,996.00	3,000,000.00	3,000,000		0	30/11/01	08/10/59	ALCOM PETROLEUM LIMITED	

	-49,249.99	2,048,146.99	2,002,896.00	2,000,000		0	30/11/01	M/10/60	PETROLINE FZC UNITED ARAB EMIRATES
	-45,136.00	17,764,961.00	29,000,000.00	8,000,000	14,000,000	31/01/01	M/10/61	SHERDOW AGENCY (RUSSIA)	
	-46,096.00	2,046,904.00	2,000,000.00	0	2,000,000	30/11/01	M/10/62	SEVON PETROLINN LIMITED	
	-36,143.00	2,036,143.00	2,000,000.00	0	2,000,000	30/11/01	M/10/63	LIMITED LIABILITY COMPANY "DELTA ECO"	
	0.00	1,000,000.00	1,000,000.00	1,000,000	0	30/12/01	M/14/64	ABIKOS / ABITED OIL DIVISION	
	-126,700.00	3,119,300.00	3,000,000.00	1,000,000	3,000,000	30/11/01	M/10/65	EROON HOLDING LTD	
	-1,004.00	2,001,004.00	2,000,000.00	2,000,000	0	30/12/01	M/10/66	DELTA PETROLEUM PRODUCTS TRADING	
	203,171.00	3,196,829.00	4,000,000.00	2,000,000	2,000,000	30/11/01	M/10/67	LUKOIL ASIA PACIFIC PTE LTD	
			1,000,000.00	0	1,000,000	30/11/01	M/10/68	ALPHODA INTERNATIONAL TRADING CO	
	79,075.00	1,920,925.00	2,000,000.00	2,000,000	0	31/12/01	M/10/69	MIRAL INVESTOR CORPORATION (NOS) LTD	

	-1,083.00	2,001,083.00	2,000,000.00	2,000,000		0	30/11/01	M/10/70	[illegible]
	71,760.00	1,928,240.00	2,000,000.00	2,000,000		0	30/11/01	M/10/71	ARCOIRIS PETROLINN FZC LIMITED
	66,215.00	1,933,785.00	2,000,000.00	0	2,000,000	30/11/01	M/10/72	PT ANEKDO DUTA	
	-34,372.00	1,034,372.00	1,000,000.00	0	1,000,000	31/12/01	M/10/73	BIRT EXE TO SHAJAM	
	-80,090.00	1,080,090.00	1,000,000.00	0	1,000,000	30/11/01	M/10/74	CHAYKOPOW NCE (COMPANY LIMITED)	
	2,002,000.00	1,000,000.00	3,000,000.00	0	3,000,000	31/12/01	M/10/75	ZERICH GMBH SWITZERLAND	
	-87.00	3,000,087.00	3,000,000.00	1,000,000	4,000,000	30/11/01	M/10/76	PETROLEUM AND INDUSTRIAL SERVICE MACHINE	
	-1,791.00	1,001,791.00	1,000,000.00	1,000,000	0	30/11/01	M/10/77	PRIMEC OIL ENTERPRISE LTD	
	33,500.00	966,500.00	1,000,000.00	0	1,000,000	31/12/01	M/10/78	M/TOS S.A. GENEVA SWITZERLAND	
	-19,972.00	2,019,972.00	2,000,000.00	0	2,000,000	31/12/01	M/10/79	[illegible]	

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
-59,718.00	3,044,718.00	3,000,000.00		$	3,000,000	30/11/01	M/10/80	ZYRYA MANAGEMENT SERVICES		
169,999.00	1,840,974.00	2,000,000.00		$	2,000,000	30/11/02	M/10/81	PETROLINE FZC/UNITED ARAB EMIRATES		
[illegible]		2,000,000.00	1,000,000	1,000,000	30/11/01	M/10/82	AREDIO PETROLEUM FRANCE			
78,626.00	21,934,468.00	22,000,000.00	8,000,000	8,000,000	25/12/02	M/10/83	COUNCIL FOR TRADE AND ECONOMIC COOPERATION (ACTEC)			
[illegible]		2,000,000.00	1,000,000	1,000,000	30/11/01	M/10/84	AREDIO PETROLEUM FRANCE			
108,393.00	891,917.00	1,000,000.00		$	1,000,000	30/11/01	M/10/85	DEVON PETROLEUM LIMITED		
-11,342.00	2,016,342.00	2,000,000.00		$	2,000,000	31/12/01	M/10/86	AREDIO PETROLEUM FRANCE		
-20,555.00	1,979,344.00	1,900,000.00	1,000,000		1,000,000	30/12/02	M/10/87	PEDEX SERVICES S.A.R.L.		
-10,000.00	1,010,000.00	1,000,000.00		$	1,000,000	31/12/01	M/10/88	PRIMADOSA ENTERPRISE LTD.		
		2,000,000.00	2,000,000	$	2,000,000	31/12/02	M/10/89	ARTIONALA OILWELL MAINTENANCE CO.		
[illegible]										
[illegible]										
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
24,258.00	1,975,742.00	2,000,000.00		$	2,000,000	31/12/01	M/10/91	B.C. INTERNATIONAL (PVT) LTD.		
		1,000,000.00	1,000,000	$	1,000,000	28/12/02	M/10/92	PETROLINE FZC/UNITED ARAB EMIRATES		
214,748.00	1,785,251.00	2,000,000.00		$	2,000,000	30/11/01	M/10/93	OIL AND GAS SERVICE GROUP LTD.		
71,365.00	2,928,634.00	3,000,000.00	2,000,000	1,000,000	30/12/02	M/10/94	ARAB TRADE DEVELOPMENT CO.			
71,372.00	2,071,672.00	2,000,000.00	2,000,000	$	31/12/01	M/10/95	PERUX PETROLEUM LIMITED			
-97,799.00	2,097,799.00	2,000,000.00	2,000,000	$	31/12/01	M/10/96	COLSEP SRL			
-99,000.00	1,949,000.00	1,850,000.00		$	1,000,000	31/12/01	M/10/100	B.C. INTERNATIONAL (PVT) LTD.		
[illegible]		2,000,000.00		$	2,000,000	31/12/01	M/10/102	AMMAR AHMAD BOND CO.		
		2,000,000.00		$	2,000,000	28/12/02	M/10/104	PETROLINE FZC/UNITED ARAB EMIRATES		
40,333.00	2,960,333.00	2,000,000.00		$	2,000,000	30/11/01	M/10/106	AL HODA INTERNATIONAL TRADING CO.		
[illegible]										

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ملحق المرحلة العاشرة

BAYER	CONT_NO	NATION
ZARUBEZHNEFT,MOSCOW	M/10/01	روسيا
E.O.T.O.(EUROPEAN OIL TRADING CO.)	M/10/02	تركيا
ALCON PETROLEUM LIMITED	M/10/03	بريطانيا
AWAD AMMORA CO.	M/10/04	سوريا
TATNEFT O.A.O	M/10/05	تترستان
NOURI FOR TRADING	M/10/06	سوريا
ROSNEFTE GAS EXPORT	M/10/07	روسيا
IBEX ENERGY FRANCE	M/10/08	فرنسا
FENAR PETROLEUM LIMITED	M/10/09	بريطانيا
CHINA NATIONAL UNITED OIL CORPORATION	M/10/10	الصين
MACHINOIMPORT	M/10/11	روسيا
CHINX WANBAO	M/10/12	الصين
MEDNARTA TRADING COMPANY LIMITED	M/10/13	قبرص
PETROVIETNAM TRADING-PETECHIM	M/10/14	فيتنام
ROSNEFTEIMPEX / INK ROSNEFT	M/10/15	روسيا
MARDEL RESOURCES LTD.	M/10/16	بريطانيا
ALCON PETROLEUM LIMITED	M/10/17	بريطانيا
ALEX OIL S.A.	M/10/18	بريطانيا
MACHINOIMPORT	M/10/19	روسيا
GHASSAN SHALLAH CO.	M/10/20	هولندا
AL RASHEED INTERNATIONAL	M/10/21	الأردن
ALHODA INTERNATIONAL TRADING CO.	M/10/22	[illegible]
ROSNEFTEIMPEX / INK ROSNEFT	M/10/23	[illegible]

ملحق المرحلة العاشرة

BAYER	CONT_NO	NATION
OMNI OIL	M/10/24	[illegible]
HYPERBOREY COMPANY	M/10/25	[illegible]
INCOMED TRADING GROUP	M/10/26	[illegible]
SLAVNEFT MOSCOW	M/10/27	روسيا
AWAD AMMORA CO.	M/10/28	سوريا
HASHRO SHIPPING OIL S.R.L.	M/10/29	[illegible]
NATIONAL OILWELL MAINTENANCE CO.	M/10/30	قطر
TEKFEN DIS TICARET ANONIM SIRKETI	M/10/31	تركيا
ALTOUN TRADING CO.	M/10/32	سوريا
ENERGY INVESTMENT	M/10/33	[illegible]
DEVON PETROLEUM LIMITED	M/10/34	بريطانيا
JALDUL INVESTMENT AND TRADE CO.	M/10/35	الأردن
PETROVIETNAM TRADING-PETECHIM	M/10/36	فيتنام
SETA INSAAT PETROL	M/10/37	تركيا
ABI MIDDLE EAST ADVANCED SEMI CONDUCTOR INC.	M/10/38	الأردن
SOYUZNEFTEGAB MOSCOW	M/10/39	روسيا
JOINT- STOCK COMPANY NAFTOGAZ UKRAINE	M/10/41	أوكرانيا
CHASE STAR	M/10/42	[illegible]
COBRA TRADING, S.A.	M/10/43	[illegible]
SINOCHEM INTERNATIONAL OIL LONDON CO.,LTD.	M/10/44	الصين
OJSC KALMYK OIL & GAS COMPANY/ OJSC KALMNEFTGAS	M/10/45	
ARAPHIL SHIPPING & CARGO AGENCIES	M/10/46	الجزائر
GROMIG EXPORT-IMPORT	M/10/47	[illegible]

4/0

HAMED EST.

عقود المرحلة العاشرة

AFRICAN M-G

BAYER	CONT_NO	NATION
AL RASHEED INTERNATIONAL	M/10/48	ليبيا
PETROLINE FZC UNITED ARAB EMIRATES	M/10/49	الإمارات
PERENOO PLC	M/10/50	بريطانيا
VAZHMASHIMPEX	M/10/51	أوكرانيا
UNICONSULT MIDDLE EAST	M/10/52	جورجيا
THE OIL SERVIES CO.(OSC)	M/10/54	ليبيا
OIL AND GAS SERVISE GROUP LTD.	M/10/55	باكستان
AL-HILAL S.A.L.	M/10/56	لبنان
MASERFIELD AG.	M/10/57	سويسرا
NATIONAL OILWELL MAINTENANCE CO.	M/10/58	الهند
ALCON PETROLEUM LIMITED	M/10/59	نيجيريا
PETROLINE FZC UNITED ARAB EMIRATES	M/10/60	الإمارات
EMERCOM AGENCY (RUSSIA)	M/10/61	روسيا
DEVON PETROLEUM LIMITED	M/10/62	بنما
LIMITED LIABILITY COMPANY "ALFA EQO"	M/10/63	روسيا
ASMOS LIMITED OIL DIVISION	M/10/64	قبرص
ERDEM HOLDING COMPANY	M/10/65	تركيا
DELTA PETROLEUM PRODUCTS TRADING	M/10/66	تركيا
LUKOIL ASIA PACIFIC PTE.LTD	M/10/67	سنغافورة
AL-HODA INTERNATIONAL TRADING CO.	M/10/68	الإمارات
URAL INVESTOIL CORPORATION (UOIL) LTD.	M/10/69	روسيا
I.F.E. SRL	M/10/70	رومانيا
AREDIO PETROLEUM FRANCE	M/10/71	فرنسا

عقود المرحلة العاشرة

BAYER	CONT_NO	NATION
PT.MEDCO DUTA	M/10/72	أندونيسيا
IVES CO.LTD. UKRAINE	M/10/73	أوكرانيا
CHAIYAPORN RICE COMPANY LIMITED	M/10/74	تايلاند
ZERICH GMBH SWITZERLAND	M/10/75	سويسرا
PETROLEUM AND INDUSTRIAL SERVICES (INCOME)	M/10/76	قبرص
PRIMACOBA ENTERPRISE LTD.	M/10/77	قبرص
VITOL S.A. GENEVA SWITZERLAND	M/10/78	سويسرا
OJSC KALMYK OIL & GAS COMPANY/ OJSC KALMNEFTGAS	M/10/79	كازاخستان
ZYRYA MANAGEMENT SERVICES	M/10/80	سويسرا
PETROLINE FZC UNITED ARAB EMIRATES	M/10/81	الإمارات
AREDIO PETROLEUM FRANCE	M/10/82	فرنسا
COUNCIL FOR TRADE AND ECONOMIC COOPERATION (ACTEC)	M/10/83	روسيا
AREDIO PETROLEUM FRANCE	M/10/84	فرنسا
DEVON PETROLEUM LIMITED	M/10/85	بنما
AREDIO PETROLEUM FRANCE	M/10/86	فرنسا
MEDIX SERVICES S.A.R.L.	M/10/87	قبرص
PRIMACOBA ENTERPRISE LTD.	M/10/88	قبرص
NATIONAL OILWELL MAINTENANCE CO.	M/10/89	الهند
S.O. INTERNATIONAL (PVT) LTD.	M/10/91	باكستان
PETROLINE FZC UNITED ARAB EMIRATES	M/10/92	الإمارات
OIL AND GAS SERVISE GROUP LTD.	M/10/93	باكستان
ARAB TRADE DEVELOPMENT CO.	M/10/94	قبرص
FENAR PETROLEUM LIMITED	M/10/95	نيجيريا

[illegible]	[illegible]	[illegible]
B.C. INTERNATIONAL (PVT) LTD.	[illegible]	[illegible]
AMMAN AHMAD BOMB CO.	[illegible]	[illegible]
PETROLINE FZE LIMITED ARAB EMIRATES	[illegible]	[illegible]
AL-HOON INTERNATIONAL TRADING CO.	[illegible]	[illegible]

ISGZ-2004-D00046 Page 9

TAB 37

In the name of God, the Most Compassionate, Most Merciful

Republic of Iraq
Presidency of the Republic
Member of the RCC
Vice President of the Republic
Taha Yasin Ramadan

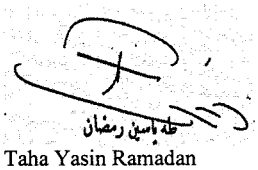
No.: M.T/45
Date: 16 January 1999

[Ministry of Oil / Office of the Minister
Subject: French IBEX-ENERGY Company

In reference to your memorandum No. RM/4 on 7 January 1999, and attached to our memorandum No. MT/1761 on 15 December 1998.

We approve the supplying of the above company with a quantity of (1.8) one million and eight hundred thousand barrels of Iraqi crude oil to be included in Phase V of the Memorandum of Understanding as the beginning of doing business with this company, as well as to know the potential of advantage from their activities in other fields.

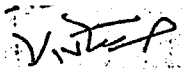
Kindly review and do what is necessary…with regards,



Taha Yasin Ramadan
Vice President of the Republic

[*first handwritten margin note:*]
The Honorable Executive Director: please call me.
[*'Amir Muhammad Rashid*]
Jan. 16

[*second handwritten margin note:*]
The committee contacted the company after the phone conversation with the Minister.
[*Saddam Zaban Hasan*]
Jan. 17



**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

جمهورية العراق
رئاسة الجمهورية
عضو مجلس قيادة الثورة
نائب رئيس الجمهورية
طه ياسين رمضان
العدد : ٣٠ ت / ٤٥
التاريخ ٩ رمضان ١٤١٩ هـ
١٦ / ١ / ١٩٩٩ م

وزارة النفط / مكتب الوزير
الرقم / ٥٨٧
التاريخ ١٦ / ١ / ١٩٩٩

شركة تسويق النفط / مكتب المدير العام
الرقم / ٣ / ع ج / ٥٤
التاريخ ١٧ / ١ / ١٩٩٩

وزارة النفط / مكتب الوزير

م/ شركة IBEX-ENERGY الفرنسية

اشارة الى كتابكم ذي العدد رم/٤ في ١٩٩٩/١/٧ والحاقا" بكتابنا ذي العدد م ت/١٧٦ في ١٩٩٨/١٢/١٥ .

نوافق على تجهيز الشركة اعلاه بكمية (١٫٨) مليون وخمسمائة الف برميل من النفط الخام العراقي ضمن اطار المرحلة الخامسة من مذكرة التفاهم كبداية للتعامل مع هذه الشركة والتعرف على امكانات الافادة من نشاطاتها في المجالات الاخرى.

للتفضل بالاطلاع واتخاذ مايلزم...مع التقدير.

طه ياسين رمضان
نائب رئيس الجمهورية

TAB 38

Number: RM/48
Date: 6 March 2002

(Do not allow your enemy to grasp your armor,
and do not give up your friends)
President-Leader (may God bless him)
8 Aug 2000

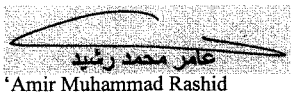
Governor, Central Bank of Iraq

Subject: Duty Facilitation

For the accomplishment of the Portuguese citizen Mr. (Armando Carlos), holder of passport number F-504464 issued on 4 July 2000 in Portugal, and for the services he rendered for this Ministry in exchange for the amount of 19,700.00 dollars (nineteen thousand seven hundred dollars) cash.

Please provide him with an approval memo to facilitate the withdrawal of the above cash amount through the Al-Qadisiyyah Border Compound (Turaybil).

With regards...



'Amir Muhammad Rashid
Minister of Oil
5 March 2002

[*first margin note*]
Honorable Minister: We did pay the amount above to the aforementioned person the morning of 4 March 2002 at the Ministry Headquarters and he received the amount of money as a loan from the Directorate of Administration and was accounted with your approval. He will take the above amount back in cash to our account in the Al-Rafiadian Central Bank and return it to our Directorate of Administration.

[*second margin note summary: Seemingly angry comment by an unknown writer questioning why the Chairman of the Economic Affairs Committee does not know about this matter.*]

**Translator comments appear in hard brackets.*

بسم الله

الصدر: م/ ٤٨/٣
التاريخ: ٢٠٠٢/٢/٦

وزارة النفط/مكتب الوزير
الرقم/ ٢١٢٩
التاريخ: ٢٠٠٢/٣/٥

(الأجل يحول بيننا وبين ما نريد ولا يحول بيننا وبين ما نحب)
الرئيس القائد (حفظه الله ورعاه)
٢٠٠٢/٨/٨

السيد محافظ البنك المركزي العراقي

م/ تسهيل مهمة

بالنظر لقيام السيد (ARMANDO CARLOS) برتغالي الجنسية حامل جواز السفر المرقم ٥٠٤٤٦ – P الصادر في ٢٠٠٠/٧/٤ البرتغال بتقديم خدمات الى هذه الوزارة لقاء مبلغ قدره -/١٩,٧٠٠ دولار (تسعة عشر ألف وسبعمائة دولار) نقداً ،

يرجى التفضل بالموافقة على تزويده بكتاب تسهيل مهمة إخراج المبلغ أعلاه بصحبته نقداً من خلال مجمع القادسية للحدودي (طريبيل) .

مع التقدير

عامر محمد رشيد
وزير النفط
٢٠٠٢/٣/٥

وفق الأصل

السيد المدير المحترم

تم تسليم مبلغ المذكور أعلاه للمستفيد المذكور أعلاه يوم ٢٠٠٢/٣/٤ في مركز الوزارة وتسلم المبلغ كاملاً من الدائرة الإدارية

[illegible]

TAB 39

Republic of Iraq
Ministry of Oil

(Do not allow your enemy to grasp your armor,
and do not give up your friends)
President-Leader (may God bless him)
8 Aug 2000

SECRET & PERSONAL

The Honorable Deputy Prime Minister
Chairman of the Economic Affairs Committee

Subject: Additional Quantity Loading From Mina Al-Bakr

1. By order of the President-Leader (may God bless him and watch over him), the loading of additional quantities of crude oil shipments within the Memorandum of Understanding, and the necessary coordination with the Oil Inspector at Mina Al-Bakr and the purchasing company is indicated below.

   The French company IBEX has completed loading two additional quantities:

Loading Date	Additional Quantity/bbls.	Price	Dollar Value
16 May 2001	229,237	18.784	$4,305,987.81
27 Aug 2001	271,669	17.550	$4,767,790.95
	500,906		$9,073,778.76

2. In reference to your phone call, sir, we have complied with the following:
   a. The agreement with the French Company to split the amount of the additional quantity in effect is 20% for the company and 80% for the country.
   b. The agreement with the Oil Inspector for his share of 2% from the amount of the additional quantity in exchange for his services.

**Translator comments appear in hard brackets.*

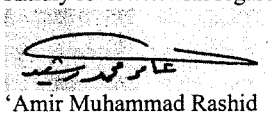
Republic of Iraq
Ministry of Oil

(Do not allow your enemy to grasp your armor,
and do not give up your friends)
President-Leader (may God bless him)
8 Aug 2000

3. In light of the above, (105,819) dollars has been paid to the Oil Inspector (Armando Carlos) for both aforementioned shipments, which is less than the rate previously agreed on.

4. The significance of the realized amount is that the total additional quantity mentioned above is considered a returned amount, and thereby is treated as such on this basis.

Kindly review…with regards



'Amir Muhammad Rashid
Minister of Oil
12 April 2002

**Translator comments appear in hard brackets.*

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة النفط

شركة تسويق النفط / مكتب المدير التنفيذي
١٩٦٩/٤/٢٣

٤ / ١٤

سري وشخصي

السيد نائب رئيس الوزراء
رئيس لجنة الشؤون الاقتصادية المحترم

م / الكمية الاضافية المحملة من ميناء البكر

١- تنفيذاً لامر الرئيس القائد حفظه الله ورعاه بتحميل كمية اضافية من النفط الخام على الناقلات ضمن شاكلة التفاهم ، فقد تم التنسيق اللازم مع القائمين النفطي في ميناء البكر ومع الشركة المشترية وكما مبين ادناه

تم تحميل كميتين اضافيتين من قبل الشركة الفرنسية ايكس

تاريخ التحميل	الكمية الاضافية / برميل	السعر	المبلغ دولار
٢٠٠١/٥/١٠	٢٢٩,٢٢٧	١٨/٧٨٤	٤,١٠٥,٨٨٧/٨٦
٢٠٠٢/٨/٢٧	٢٤١,٦٦٩	١٧/٥٥٠	٤,٧٦٧,٧٩١/٩٥
	٥٠٠,٩٠٦		٩,٠٧٢,٧٧٨/٧٦

٢- وفق المكالمة الهاتفية مع سيادتكم فقد اعتمدنا مايلي :

أ- الاتفاق مع الشركة الفرنسية على تقسيم مبلغ الكمية الاضافية بواقع ٢٠٪ للشركة و ٨٠٪ للقطر .

ب- الاتفاق مع القائمين النفطي على منح ٢٪ من مبلغ الكمية الاضافية مقابل خدماته

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة النفـــط

(وقل اعملوا فسيرى الله عملكم ورسوله والمؤمنون)
صدق الله العظيم

٣- في ضوء اعلاه تم تسديد ما مجموعه (١٠٥,٨١٩) دولار للمفاوض النفطي (ARMANDO CARLOS) عن الشحنتين اعلاه وهي اقل من السعر المتفق عليها

٤- تم اعتبار المبلغ المتحقق عن اجمالي الكمية الاضافية البالغ مبالغ مسترجعة وبذلك تم معاملتها على هذا الاساس.

يرجى التفضل بالاطلاع ..

مع التقدير

شاكر محمد رشيد
مدير النفط
١٠/٤/٢٠٠٧م

٢-٢

May 5, 1999

His Excellency General Amir Rashid
Minister of Oil
Republic of Iraq
Baghdad, Iraq

Dear General Rashid:

I plan to arrive in Baghdad on the afternoon of Tuesday, May 11, staying until approximately May 14. I would like very much to have the opportunity to visit with you while I am there.

My best regards to you and all my other friends in Iraq. I look forward to visiting with all of you soon.

Very truly yours,

O. S. Wyatt, Jr.

TAB 40

10/09/00 MON 17:48 FAX 001

وزارة النفط / مكتب الوزير
الرقم / ١٢٥٥٧
التاريخ: ٢٠٠٠/١٠/١٢

O. S. Wyatt, Jr.
8 Greenway Plaza, Suite 930
Houston, TX 77046
Tel 713/877-6700
Fax 713/877-7192

شركة تسويق النفط / مكتب المدير التنفيذي
الرقم / ٣٠٠/ع/ ٦٦٢٠
التاريخ ١٥ / ١٠ / ٢٠٠٠

FACSIMILE TRANSMITTAL PAGE

THIS TRANSMISSION CONSISTS OF 1 PAGES (INCLUDING COVER)

TO:	His Excellency The Minister	**DATE:**	October 9, 2000
COMPANY/FIRM:	Ministry of Oil		
CITY/STATE:	Baghdad, Iraq		
FAX:	964-1/885-3018		

Excellency,

I could write you all the market reasons why I think you should set the price on Basrah discounted at not less than $7.70 off of second month WTI, nor more than $7.95 second month WTI. I know that you are being furnished a multiplicity of numbers and reasons by some of your other lifters, mostly traders, but I think the above numbers are within the fair range.

My very best personal regards to you and all the people around you.

O. S. Wyatt, Jr.

TAB 42

SOURCES OF REVENUE FOR SADDAM & SONS

A Primer on the Financial Underpinnings of the Regime in Baghdad

September 2002

Prepared by the Coalition for International Justice
2001 S Street, NW, Suite 740
Washington, D.C., 20009

SOURCES OF REVENUE FOR SADDAM & SONS

Table of Contents

Introduction

Since 1997 Iraq has earned an average of $6 billion a year in civilian goods *via* the United Nations Oil-for-Food program, the country's only legitimate source of income, through which Iraqi oil is exported in exchange for imports deemed by international experts to have no military utility. On top of this, Saddam, aided variously by his two sons and close relations before them, has managed to earn more than $2 billion a year in hard currency by illegally exploiting the UN system and running extensive smuggling operations outside it.

This paper details the sources of that estimated $2 billion, which is projected to increase to $2.5 billion in 2002. Oil smuggling accounts for 90 percent of it. Examined herein are nine channels outside the Oil-for-Food program through which the Baghdad regime has managed to export oil in exchange for hard currency and goods *not* subject to UN oversight. These channels involve Turkey, Jordan, Syria, Lebanon, Iran and the Gulf States and are widening over time.

This study also explains how the UN system works and how Saddam and his inner circle have succeeded in manipulating it -- both to their financial betterment, by exacting kickbacks on Oil-for-Food contracts, and to Saddam's political and diplomatic advantage, by directing contracts to states that press Iraq's case in the international arena.

Also described here are additional minor sources of income, ranging from transportation ventures to the cigarette-smuggling that has developed into a turf war between Saddam's sons, to the cynical exploitation of opportunities afforded through the Iraqi Olympic Committee, to the gouging of Shi'i pilgrims visiting Iraq's holy sites.

Profiled briefly as well are four key principals whom Saddam has tapped to establish his global smuggling network and to handle the logistics of financing his regime: sons Udai, 38, and Qusai, 36, who are rivals for succession; half-brother, Barzan Ibrihim al-Tikriti, 51, whose daughter was for a time married to Udai and who for years used his diplomatic perch in Geneva to build a clandestine financial and corporate global network for Saddam; and Hussein Kamel Hassan al-Majid, Saddam's late cousin, son-in-law and formidable Military Industrial Commission head who amassed millions from kickbacks while building Saddam's weapons. An introduction to these actors is essential to appreciating both the character of Saddam's criminal enterprises and how he appears to be revising the script for his own succession.

Although the Iraqi people always are the last to be served by this ruthless and mercenary leadership, Saddam has successfully persuaded much of the world that the UN sanctions regime is to blame for their increased misery. In May 2002 the UN Security Council, sensitive to that complaint, revised the Oil-for-Food program to focus it more narrowly on limiting Saddam Hussein's capacity to import weapons of mass destruction (WMD) while sparing the Iraqi people as much as possible from the sanctions' effects. However,

the new, so-called smarter sanctions will do little to impede Saddam's ability to raise hard currency; in fact, they may actually enhance it.

The flaw in the UN program, both before and since its revision, is that it does not – nor is it intended to – stanch the money flow to Baghdad generated by the illicit trade that falls outside Oil-for-Food. Actually, the hard-currency flow to Saddam and his sons will likely increase as a result of the changes, through expanded opportunities for kickbacks and sanctions-busting.

The international community, while continuing to express its increasing concern over Saddam's weapons program, has long been aware of Saddam's ongoing revenue stream but has nevertheless turned a blind eye, for a range of reasons. UN Security Council members and regional governments have been openly enticed into supporting Baghdad and advocating for the lift of sanctions in exchange for lucrative contracts under the UN program.

The United States and United Kingdom, by far the hardest-nosed about enforcing the sanctions regime, nevertheless have been sensitive to the plaints of their close regional ally, Turkey, which claims to have suffered severe economic damage from a decade of sanctions and whose impoverished and rebel-ridden southeast enjoyed a boost from the illicit, $300m diesel trade until its shutdown earlier this year. The diesel trade has been tolerated by the US and UK in part for this reason, in part because it has been brokered by and has handsomely benefited the Iraqi Kurds. It has now been replaced by a significant increase in official, government-to-government trade in crude oil, which also benefits deeply indebted Turkey and has likely been allowed to continue for this reason – despite the fact that Baghdad nets far more from this trade than does Ankara.

In the case of Syria, whose business ties with Iraq are burgeoning, the US recognizes that cooperation is critical to success in the war against terrorism and has therefore been reluctant to demand that President Bashar Assad make good on his year-old promise that he would crack down on his country's illicit trade with Baghdad. Instead, Syria has continued to expand its trade and transport arrangements along with the increasing volume of oil moved through the pipeline. These include moving Iraqi oil to Lebanon and, in return, facilitating the transshipment through Syria of Lebanese goods. *In toto*, these arrangements are estimated to pump close to a billion dollars a year, or half of all illicit revenue, directly into Saddam's coffers.

The lax enforcement resulting from the international community's important but ancillary concerns regarding Iraq's neighbors has enabled Saddam to use the UN program to further consolidate his grip on power, thereby jeopardizing any effort to bring down his government. Not only has Saddam been able to extort sympathetic diplomatic postures from Security Council members eager to do business in Iraq, thereby strengthening his prestige in the Arab world and his position internationally; he has also exploited the UN program to solidify his domestic control over the Iraqi people. Because he and his sons control the distribution of the civilian goods imported through Oil-for-Food, ordinary

Iraqis must now depend on the regime even for basic goods formerly available in the marketplace.

This investigation, all based on open-source documents, has yielded other interesting data that heretofore have received scant attention. Three examples are illustrative, from both inside and outside the Oil-for-Food program and with regard to the family.

- *Within Oil-for-Food*: The US has long been the most adamant UN Security Council member about prohibiting the flow to Iraq of imports that might be used in weapons production, and President George W. Bush has singled out Saddam Hussein as a major target in the war against terrorism and the states that sponsor it. Yet the US is the single largest consumer of Iraqi oil. In January, when President Bush designated Iraq a constituent member of his axis of evil, the US consumed 75 percent of all Iraqi oil exported under Oil-for-Food.

  While no US-based oil firms are currently direct purchasers of Iraqi oil, Saddam's illegal per-barrel surcharges are passed up the line -- from the buyers which are mostly Russian, firms and small "nameplate" companies registered in Western countries, to the major traders; to the American refineries, and, presumably, to the ordinary motorist. This suggests that American companies and consumers are the last links in a chain of enablers who have helped to underwrite Saddam's end run around the UN system.

- *Outside Oil-for-Food*: Eleven free trade agreements have been signed with Iraq over the last two years, and several others are under discussion. In announcing each new bilateral agreement, trade officials have heralded vastly expanded trade relations. This public brandishing by other Middle Eastern nations of increased business linkages with Iraq, coupled with their increasingly flagrant violations of UN sanctions and Oil-for-Food protocols, may be means of expressing opposition to stated American intentions to effect "regime change" in Baghdad.

- *Entre famille*:

Conventional wisdom has long maintained that Saddam's heir-apparent was his elder son, Udai Hussein, who until 1999 was pre-eminent in Iraqi business and media affairs. However, in recent years Saddam would seem to have been put off by Udai's violent and irrational behavior, which has only increased since a 1996 assassination attempt left him physically impaired. In any case, Saddam has gone to great lengths to bolster the prospects for his second son, Qusai, a far less flamboyant and public figure whose strength lies in his cumulative acquisition of state power, including the command of nearly all Iraq's military, security and intelligence forces.

Within the last two to three years, the traditional line dividing the two sons' turf seems to have blurred, as Qusai, using state structures, has moved in on Udai's financial territory. Throughout most of the 1990s, Udai's illicit earnings came mostly through private, largely *ad hoc* arrangements with Turks, Kurds, Iranians and others. But as Iraq has reached out to reestablish official ties with its neighbors, Qusai appears to have taken the lead, and the new, state-to-state nature of many of these arrangements has begun to cut

Udai out. Both the new infatuation with Syria, rather than Jordan, as a trade partner, and the tremendous drop in the diesel trade with southeast Turkey in favor of dealings in crude with Ankara appear to have accelerated this effect. Other large-scale, longstanding smuggling operations seem also to have shifted to benefit Qusai; e.g., agents and front companies of his Mukhabarat, or secret service, appear to have taken over the cigarette trade.

As none of these shifts has happened without Saddam's knowledge and approval, it is reasonable to conclude that he has been deliberately broadening Qusai's authority to more firmly position his younger son to take over when the time comes.

It is the authors' hope that this first compilation of available public knowledge detailing Saddam's sources of revenue will serve as a tool for policy-makers, as well as scholars and journalists. Understanding Baghdad's funding mechanisms and those who devised and run them is critical to grappling with the slew of questions currently troubling the international community:

- How, given the Oil-for-Food program, the world's largest humanitarian program ever, can there remain shortages of basic medicines and foodstuffs?

- Why has Iraq continually drawn out and obstructed talks with the UN regarding the resumption of weapons inspections?

- How can certain Security Council members be induced *not* to advocate for Baghdad?

- Why, and how firmly, have Iraq's neighbors – and Iraq's own beleaguered Kurdish population – resisted the Bush administration's call for "regime change" in Baghdad?

- Why would a palace coup, acknowledged as a militarily efficient way to replace Saddam with one of his sons or top officials, not effect real "regime change?"

- Might more sharply targeted sanctions, focused on constraining the movement and freezing the assets of Saddam and his sons and associates, prove more effective at strangling his financial capabilities than the current sanctions regime?

To this final question, it is worth noting that lifting the current UN sanctions program would surely rob Saddam of his triumph in the realm of public diplomacy. However, it would also entail acknowledgement on the part of the international community that the Oil-for-Food program, whether or not it is earnestly enforced, cannot stop Saddam from procuring most of what he needs to remain a grave regional and worldwide threat.

The Iraqi economy prior to the imposition of sanctions

Iraq has a state-directed economy, which has allowed its leadership, an extended family clique run by Saddam Hussein since the 1970s, to reward its friends and punish its enemies. The year 1979, the same year that Saddam proclaimed himself president, marked the height of Iraq's economy, with oil production at 3.5 million barrels per day (bpd).[1] Domestic consumption was 300-350,000 bpd, leaving around 3.2 million bpd for export. Oil contributed over 90 percent of all Iraqi exports: the balance included dates, sulfur, fertilizer and cement.

Iraq had developed several export mechanisms for its oil: *via* pipelines through Syria and Turkey to the Mediterranean, *via* offshore loading terminals in the northern Gulf and by pipeline through Saudi Arabia to the Red Sea. The year 1980 saw the peak of Iraqi hard-currency earnings from exports, totaling over $26 billion.[2]

In all, by 1980 Iraq had some $35 billion in hard currency reserves.[3] In September of that year, hoping to take advantage of the new and insecure revolutionary regime in Tehran, Iraq invaded Iran, anticipating a quick war and a rapid expansion of its influence over the Gulf region. Eight years later, Iraq's oil infrastructure severely damaged, its reserves gone, and now in debt by an estimated $75-80 billion, the war ground to a halt.

In 1982, after siding with Iran, Syria closed its pipeline. Using force, Iran put the Gulf offshore terminals out of commission, and a tanker war erupted, frightening traders away from shipping through the Gulf. Iraq oil exports plummeted to about one million bpd, which brought in roughly $10 billion.[4]

Iraq reacted by increasing its exports through the Turkey and Saudi pipelines, by setting up exports by road through Jordan and Turkey and by redirecting its imports *via* the Jordanian port of Aqaba. By the late 1980s Iraq's oil exports were back over two million bpd; but due to the depressed price of oil on the world market, hard-currency earnings were still in the $10-12 billion range.[5] The end of the Iran-Iraq war heralded the chance for a major increase in Iraqi exports to a level far beyond its 1979 high. But it was not to be: Iraq invaded Kuwait in August 1990, and sanctions were imposed immediately. Turkey and the Saudis shut down the pipelines. With only Jordan remaining as a customer, exports in 1991 were virtually non-existent, less than $400 million.[6]

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[1] Library of Congress, "Iraq: A Country Study," 1990.
[2] UNCTAD, "Handbook of International Trade and Development Statistics," 1991.
[3] Library of Congress, "Iraq: A Country Study," 1990.
[4] UNCTAD, "Handbook of International Trade and Development Statistics," 1991.
[5] UNCTAD, "Handbook of International Trade and Development Statistics," 1991.
[6] UNCTAD, "Handbook of International Trade and Development Statistics," 1995.

I. Exports under the UN Oil-for-Food Program

Background

In the wake of the US-led coalition's military action against Iraq in early 1991, Iraq's withdrawal from Kuwait, and the massive violent repression by the Iraqi government of uprisings in the north and south, several high-profile international missions visited the country to assess the humanitarian situation. The first, in March 1991, was led by Under-Secretary-General Martti Ahtisaari and included representatives of many UN agencies. In its summary of findings Ahtisaari's team noted:

> "The recent conflict has wrought near-apocalyptic results upon the economic infrastructure of what had been, until January 1991, a rather highly urbanized and mechanized society. Now, most means of modern life support have been destroyed or rendered tenuous. Iraq has, for some time to come, been relegated to a pre-industrial age."[7]

The UN Secretary-General's Executive Delegate, Sadruddin Aga Khan, produced a report in July 1991 that led to action by the Security Council. After outlining all the misery of the Iraqi people and the imminent catastrophe facing the country, the report noted that under current UN resolutions, the Iraqis had the authority to import most of the goods necessary to avoid these problems. The mission reported that:

> In most of the cases that came to its attention, problems to date with importing the above items had more to do with the financing of such imports than actual prohibitions.[8]

The report recommended the establishment of a transparent mechanism that would allow Iraq to export a limited amount of oil to pay for humanitarian imports. The Security Council promptly passed Resolution 706, authorizing such; but the government of Iraq refused to accept the resolution for nearly four years.

Jordan, pleading particular hardship, was allowed by the UN to continue to import oil from Iraq and pay for it with food and medicines, and Iraq also exported sanctions-busting oil to Turkey and Iran. During this period from 1991-1996, prior to the start of the Oil-for-Food program, trade with these three nations brought between $300 million and $1 billion per year into Iraq.[9]

Reports continued to chronicle the misery of the Iraqi people. In April 1995, the Security Council passed Resolution 986, establishing the Oil-for-Food program. Eighteen months of negotiations ensued before the government of Iraq and the UN Security Council could come to an agreement regarding the program's implementation. Finally, in December 1996, the first oil flowed, and in March 1997, nearly two years after the passing of UNSCR 986, the first food purchased through this program finally arrived in Iraq.

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[7] UN, "Report to the Secretary-General on humanitarian needs in Kuwait and Iraq," S/2366, March 20, 1991.

[8] UN, "Report to the Secretary-General dated 15 July 1991 on humanitarian needs in Iraq," S/22799, July 15, 1991.

[9] UNCTAD "Handbook of International Trade and Development Statistics," 1995 and 2001.

Every six months Iraq and the UN renew the Oil-for-Food program. At first, the Iraqis were permitted to export only $1 billion worth of oil every 90 days and to import only from a highly restricted list of humanitarian items.[10] Early in 1998 oil exports were allowed to increase to $5.2 billion each six months,[11] and they have been unlimited since December 1999.[12] The types of goods allowed to be imported also has broadened to include such items as vehicles, spare parts for water systems, electric grids and, finally, spare parts for the oil field infrastructure.

In little more than five years, over $50 billion in oil revenues have passed though the UN account, and Iraq's exports have reached the level attained just prior to its 1990 invasion of Kuwait.

Oil Exporting Procedure[13]

1. The Iraqi State Oil Marketing Organization (SOMO) proposes a pricing mechanism to the UN for the upcoming month, and the UN either accepts or rejects the proposal;
2. An oil trader negotiates a purchase from SOMO;
3. UN "oil overseers," experts with considerable private sector experience appointed by the Secretary-General, reject or approve the contract;
4. "Liftings" are taken from either the offshore port at Mina al-Bakr, at the head of the Gulf, or from Ceyhan, the pipeline outlet on the Turkish Mediterranean coast;
5. After receiving the bill of lading, the contractor makes its payment within 30 days to the UN escrow account at the New York branch of the Banque National de Paris (BNP).

Logistics

Only two ports are authorized to load Iraqi oil under the Oil-for-Food program. Ceyhan, on the Mediterranean coast of Turkey, serviced by pipeline from Kirkuk, Iraq, is supposed to be the primary port; the secondary port allowed to export Iraqi oil is the offshore loading platform at Mina al-Bakr, in the northern Gulf. The other Iraqi offshore port in the northern Gulf, Khor al-Omaya, is still unusable due to damage suffered in the Iran/Iraq war. Aside from the Jordanian special case, all other routes, including by pipeline to Syria, tanker truck to Turkey or Iran, and barge through Iranian or Kuwaiti territorial waters, are considered to be violations of sanctions. The UN contracted the private Swiss firm Saybolt to monitor the flow of oil under the program.[14] Saybolt deployed six monitors to the southern port of Mina al-Bakr, and four to the Turkish port of Ceyhan. Both ports are accessible to very large crude carriers (VLCC).

Foreign contracting companies

From the beginning of the UN's Oil-for-Food program in 1996, the government of Iraq has repeatedly stated that it will use its contracting ability, in both oil sales and the

[10] UN SC Resolution 986, April 14, 1995.
[11] UN SC Resolution 1153, February 20, 1998.
[12] UN SC Resolution 1284, December 17, 1999.
[13] This is a summary of procedures compiled from the UN's Office of the Iraq Program's website. http://www.un.org/Depts/oip/
[14] UN, "Interim Report of the Secretary-General on the implementation of Security Council Resolution 986 (1995)," S/1996/978.

purchase of humanitarian goods, to reward its supporters in the international community.[15] Indeed, over the course of five years of oil exports under the UN program, the bulk of the contracts have gone to Russian firms, Iraq's most energetic supporter on the Security Council. Nevertheless, the largest end-consumer of the Iraqi oil has been the United States.[16] While the Iraqis have threatened to "blacklist" any companies found selling Iraqi oil to the US, in practice they cannot prohibit their oil from ending up there.[17] However, they could and did make sure that at least some of the profits from these sales to the US went to "friendly" traders.

The names of individual companies contracted to purchase oil under the UN program is not a matter of routine public record. Nevertheless, some names have come out in the press.[18] In Phase 1, which started in mid-December 1996, the Turkish refiner TUPRAS and the US firm Coastal Oil, a long-time Iraqi customer, led the list, with purchases of 13.5 and 10.8 million barrels, respectively.[19] These two were followed by Russian and French firms and another American company, Bay Oil. Phase 1 contracts were also won by the Dutch branch of London-based Trafigura, a firm run by one-time associates of Marc Rich and trading partners with Slobodan Milosevic's Yugoslavia.[20]

At least 25 Russian companies have contracted to purchase oil from SOMO. At first, the state-owned firm Zarubeshneft coordinated the various Russian interests. But by Phase 6, in the second half of 1999, the Russian Ministry of Fuel and Energy had begun to take a more direct hand in issuing quotas that recognized the preeminence of both Zarubeshneft and of Lukoil, Russia's largest privatized oil company, by according each of these just over 20 percent of all Russian oil contracts under the UN program.

Russia's quota system lent itself to rewarding patrons. In mid-1999, for instance, the newly installed Energy Minister, Viktor Kaliuznij, retracted Transneft's quota and rerouted it to Sibneft, a large shareholder of which had helped Kaliuznij land his job.[21] Under Minister Kaliuzniji, Zarubeshneft and Lukoil increased their shares from 20 to around 30 percent, and Sibneft climbed into third place with about seven percent.[22] The oil was not destined for the Russian market, which is awash in its own domestic production; rather, it was, and still is, resold to American and European buyers. There is also some question about what happened to the money. Early in 2002, the office of the

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[15] Arab Oil and Gas Directory 1999, Arab Petroleum Research Center, Paris, France, p.172.
[16] OECD Imports from Iraq, 1990-2000 http://www.eia.doe.gov/emeu/ipsr/t417.txt
[17] Nadim Ladki, "Iraq Oil Stays on Hold, Baghdad Wants Surcharge," *Reuters*, December 11, 2000.
US firms have also contracted directly with Iraq, though little since Phase 4, in the second half of 1998.
[18] The UN published the details of the contracts under the first two phases of the program. They have since stopped, pointing to the need to maintain the confidentiality of contractual proprietary information.
[19] "Iraq Approaches Oil Export Limit," *Middle East Economic Digest*, January 17, 1997.
[20] "New twist in SA oil scandal," *The Mail and Guardian*, February 23, 2001, and "Trepηa under the Yoke of the Serbian Occupier," *Kosova Daily Report*, October 3, 1996.
[21] As noted by *The Financial Times* in June 1999, "It is thought that this was Kaliuznij's way of thanking Sibneft's 40 per cent shareholder R. Abramovic for helping him to win the post of energy minister."
[22] More recently there has been some question as to just how much sway the Russian ministry has over the process. According to one account, Iraq is no longer blindly adhering to the Russian ministry's recommendations. See *Platt's*, March 19, 2002.

Russian prosecutor-general began investigating the whereabouts of up to $15 billion in proceeds that Russian companies generated from the Iraqi trade.[23]

Allegations regarding extensive kickbacks exacted by members of the regime in Baghdad (described in detail below) prompted Western major oil companies to withdraw from contracting directly with the government of Iraq. Since the beginning of Phase 9 in early 2001, the place of the majors has been taken by a host of smaller firms, many of which are not known for trading in oil.[24] Some of these companies are legitimate businesses, albeit not in the oil sector, such as Thailand's rice-exporting Chaiyaporn, Jordan's Middle East Advanced Semiconductor or the Jordan Grain Company; others have little business background, such as the Russian government's humanitarian agency, Emercom, or the Concern Regions of Ukraine. A host of firms, many unknown and registered in such lightly regulated countries as Liechtenstein, Cyprus and Panama, round out the list. Of these firms the Russian humanitarian agency Emercom has recently become the largest contractor of Iraqi oil under the Oil-for-Food program, having agreed to purchase 12 million barrels in July 2002, a volume believed to be twice that of any other recent contract.[25] According to unnamed Western diplomats, Emercom is making kickbacks to the Iraqis through a Jordanian bank account. Emercom strongly refuted the allegation, claiming the firm had been awarded the contract as a result of its humanitarian work.[26]

Clawbacks, kickbacks and retroactive pricing

A kickback is the payment of a minor portion, usually five to ten percent, of the price of a good by one party in a transaction with another. It is a form of bribery or extortion that is tolerated by the party making the kickback so as to clinch a deal. The recipient is usually a government official in position to either block or facilitate the transaction. Kickbacks have been a hallmark of trade with the regime of Saddam Hussein since its grasp of power in the late 1970s. While the practice has usually been associated with weapons procurement, it was also a regular feature of the Reagan administration's agricultural support program to Iraq, as administered by the US Department of Agriculture's Commodity Credit Corporation (CCC). In this guise it was known as "after sales service."[27] The latest incarnation of Saddam's kickbacks, bringing in up to $275 million to the Iraqi regime, became publicly known in November 2000, as part of a complex scheme of price manipulation within the Oil-for-Food program.

In the world market setting the price of oil between a producer and a buyer is fraught with numerous complications and influenced by a myriad of factors. Political calculations, differences in crude grading, technical refining capacities, and trading in

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[23] "Russian prosecutors to investigate Iraq oil deals," *Alexander's Oil & Gas Connections*, January 11, 2002, Source: *Energy24*.

[24] "Small traders dominate Iraqi oil customer list," *Reuters*, January 25, 2002, and Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France.

[25] "Russia 'giving illegal millions to Saddam for trade deals,' " *The Guardian*, August 20, 2002.

[26] Ibid.

[27] Alan Friedman, *Spider'sWeb: The secret history of how the White House illegally armed Iraq*, Bantam Books, NY, 1993, and Peter Mantius, *Shell Game: A true story of banking, spies, lies, politics and the arming of Saddam Hussein*, St. Martins Press, NY, 1995.

futures and other derivatives must all be juggled.[28] Free-market mechanisms rarely come into play. In 1996 the UN, in establishing the procedures for its Oil-for-Food program, came up with a novel method of establishing the price for Iraqi oil sold under the program.

Toward the end of each month SOMO, Iraq's state-owned oil marketing firm, presents the UN with a proposed price for the next 30 days. Although the UN Sanctions Committee, a Security Council body, has the discretion either to accept or reject these pricing proposals, until late 2000 the Committee almost always accepted the Iraqi proposals.[29] To apprise the Sanctions Committee of the intricacies and possible machinations inherent in the international crude oil trade, in 1996 the Secretary-General appointed four "oil overseers" to assess and approve contracts for the purchase of Iraqi oil. The first four overseers were from Russia, the US, Norway and France.[30] Over the next couple of years, three of the four resigned, leaving in place only the Russian overseer, Aleksandar Kramar. The Sanctions Committee locked horns on approving replacements: China insisted that its nominee should be approved, and the US disagreed.[31] In this high-profile hot spot, from July 1999 until August 2000, Mr. Kramar was the sole UN oil overseer.[32] Finally in August 2000, the Sanctions Committee managed to agree on the nationality and personality of two new overseers and appointed Michel Tellings from the Netherlands and Morten Buur-Jensen of Denmark.[33]

In November 2000 the Iraqi government opened a new front in its ongoing campaign to erode and avoid the UN sanctions when it declared that surcharges were to come into effect on oil export contracts and humanitarian goods imported under the Oil-for-Food program. The Iraqis' first tack was to request that the UN transfer, from its BNP account, 1.5 Euros per barrel to an account controlled by the Iraqi Central Bank.[34] This money, the Iraqis claimed, was needed to cover costs associated with oil production and transportation. As might have been predicted, the UN Sanctions Committee did not agree to this plan. So Baghdad tried a different approach: all oil contractors, the Iraqis announced, would now have to pay a $0.50-per-barrel surcharge directly to the government of Iraq over and above the money paid into the UN escrow account.[35] In order to make this self-styled production tax cost-effective in the highly fluid oil trading market; the Iraqis attempted to set their prices below market rate. Again, the UN Sanctions Committee balked.

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[28] "*Oil Pricing Regimes,*" speech delivered by Professor Robert Mabro, Director, Oxford Institute for Energy Studies, at the OPEC/CWC sponsored seminar on "OPEC and the Global Energy Balance," held in Vienna on 28-29 September. *Middle East Economic Survey*, Oct 8 2001.

[29] The only exception occurred in July 1998, when, in a hint of things to come, the US objected to a pricing proposal, calling it too low.

[30] "U.N. Sanctions Committee Selects Overseers," August 20, 1996, *UN Press Release* SC/6255.

[31] "Saddam's Phantom Funds," *Platt's Global Energy Business*, January/February 1999.

[32] Daily Press Briefing of Office of Spokesman for Secretary-General, August 11, 2000.

[33] http://www.un.org/News/briefings/docs/2000/20000811.db081100.doc.html

[34] "Iraq asks UN for control over some of its oil revenues," *Reuters* from *Newspage*, November 9, 2000.

[35] "SOMO's Customers In Turmoil Over New Premium," *Middle East Economic Survey (MEES)*, November 20, 2000.

In late November 2000 the Sanctions Committee rejected Iraq's price for December oil. In response, the Iraqis stopped loading tankers. Two other factors influenced the decisions of both the UN and the Iraqis. First, the UN's BNP account at the time still held some $5 billion in uncommitted funds, so the contracting of humanitarian shipments would not be affected by a short halt in revenue flow.[36] Second, the Iraq-Syrian pipeline had begun carrying Iraqi oil for the first time in nearly 20 years, meaning that Iraq had another potentially lucrative market for its production. Because the Syria-bound oil was and is sold outside of the Oil-for-Food program, the proceeds from these sanctions-busting sales bypass the UN's BNP bank account and go straight into Iraqi coffers.

The Iraqi government treated the period of the shutdown, which lasted from December 1-12, 2000, as a forum for business negotiations. At one point the Iraqis reduced their surcharge demand, which oil companies were now openly calling kickbacks, to 40 cents a barrel.[37] On December 11 the UN Sanctions Committee approved the proposed Iraqi pricing mechanism for December at a discount of 30 cents per barrel below market rates. Oil analysts, though, still thought the price too low, as apparently did the UN's new team of oil overseers, who told the Committee, during another wave of disputes in September 2001, that a nickel a barrel would have been a reasonable premium for these traders and ample recompense for the amount of work and risk involved.[38]

The major oil companies agreed. Even with UN approval of a price so discounted that a surcharge/kickback would not render the purchaser non-competitive, all the major companies, including those from such friendly nations as Russia, China and France, refused to handle Iraqi oil under these conditions.[39] Instead, it was left to minor traders, so-called nameplate companies, from Liechtenstein, Belarus, Cyprus, Panama and others to contract the Iraqi exports. These contractors, however, have never been the end-users. Rather, the purchasers include a host of firms, some of which are full-service oil companies, but most of which act purely as brokers. According to the minutes of a UN Sanctions Committee meeting, these ". . . contract holders . . . the middlemen (a unique situation in Iraq). . . carried no risk and made no investment."[40]

But these firms, mostly inexperienced in the complexities of oil trading, began to default on contracts. Western companies such as Bayoil, Vitol and Taurus stepped in to help settle a chaotic market by buying up Iraqi oil, possibly even at a loss.[41] Ensuing major contracts went to less well-known enterprises with links to these major traders.[42] The Iraqis, ever sensitive to their foreign contractors' bottom line, also fell in step with the UN's agreed-upon pricing and cut the surcharge to 30 cents for shipments to Europe and

[36] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France, p.175.
[37] Nadim Ladki, "Iraq Oil Stays on Hold, Baghdad Wants Surcharge," *Reuters*, December 11, 2000.
[38] http://www.un.int/france/documents_anglais/010924_cs_presidence_resume.htm
[39] Carl Mortished, "Oil boycott over Iraqi 'breach of UN scheme,'" *London Sunday Times*, January 7, 2001, and Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France.
[40] Meeting of UN Security Council Committee 661, August 27, 2001.
[41] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France.
[42] Ibid.

25 cents for shipments to the US. Iraq reportedly even offered rebates to those contractors who had paid 40 cents over the previous couple of weeks.[43]

Given these solicitous overtures from the Iraqis, the major companies' lockstep boycott of Iraqi exports began to crumble. BP and Exxon astonished the other majors by resuming purchases from middlemen of Iraqi crude in mid-January 2001.[44] Both firms claimed not to have paid kickbacks, to have bought from reputable dealers from whom they exacted contractual stipulations that they, too, had not paid kickbacks. However, if these reputable dealers had in turn bought the oil from nameplate companies which *had* paid kickbacks, the turnover of the oil, at least on paper, provided the end-users with enough distance from the illegal payment for the kickback to become incorporated into the final price.

In any case, no analyst doubts that, at least during this period of time, kickbacks or surcharges paid to the Iraqi government were the norm. Indeed, the *Wall Street Journal*, in a carefully researched article, recently reported that every barrel of Iraqi oil sold is subject to kickbacks.[45] At 30 cents per barrel -- the average determined by the UN oil overseers to have been paid since December 2000[46] -- the Iraqis would have made $175 million from the winter of 2000 through the fall of 2001, when the Sanctions Committee instituted new measures to hamper the kickbacks.[47]

In August 2001, after another stoppage of exports by Iraq due to a pricing dispute, Britain suggested reducing the Iraqis' ability to manipulate pricing by shortening the pricing cycle from 30 days to 10. After some hesitation over fears that an abbreviated cycle could inflict undue disruption in world oil markets, the US agreed to back the UK's revised proposal of a 15-day pricing cycle. Russia objected, claiming that 15 days would still disrupt the market.[48] Nevertheless, the Sanctions Committee continued to battle the kickback scheme.

By the end of 2001, through the US's use of holds on the pricing mechanism, the system had been transformed into a retroactive pricing mechanism. Under this arrangement, which, as of this writing, still holds, a contractor buying Iraqi oil does not know how much he will have to pay for the crude until after he has delivered it to a refinery. According to the Iraqis, the Russians and many trading companies, this retroactive pricing or "blind-purchase" system has resulted, not surprisingly, in a dearth of buyers.[49] Indeed, since the adoption of this pricing mechanism and the feverish speculation over

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[43] "Iraq finds way to regain direct control over oil export revenues," *Reuters* via *Newspage*, February 1, 2001.

[44] "BP and Exxon buy cargoes of Iraqi crude oil," *Alexander's Oil and Gas*, February 8, 2001, source Times Newspapers Ltd., January 16, 2001.

[45] Alix M Freedman and Steve Stecklow, "How Iraq Reaps Illegal Oil Profits," *Wall Street Journal*, May 2, 2002.

[46] http://www.un.int/france/documents_anglais/010924_cs_presidence_resume.htm

[47] The *Wall Street Journal* article (cited above, May 2, 2002), using estimates from UN officials, puts the figure at $300 million.

[48] Colum Lynch, "U.S. Supports Britain in Move To Tighten Pricing of Iraqi Oil," *Washington Post*, August 25, 2001.

[49] "New pricing hurting Iraqi oil exports," *Reuters*, February 28, 2002.

the last few months regarding possible US military action against Iraq, exports under Oil-for-Food have dropped off by more than 40 percent. In recent months an effort has been made by the UN Security Council to push Iraq to eliminate the kickback scheme. In early June, supposedly due to a shortage of buyers under the Oil-for-Food program, Iraq reduced its kickback rate from 30 to 15 cents per barrel.[50]

Although the kickback is denominated in dollars, the Iraqis insist that payment through the UN's BNP escrow account is transacted in euros. This demand, to which the UN acquiesced with little debate, was made in October 2000, coincident with the kickback demand, and began to be implemented in December of that year.[51] While the UN's Oil-for-Food program agreed to facilitate the change, and the UN Security Council approved it, the UN treasurer Suzanne Bishopric warned that the move would not be in the financial interest of the program. She estimated that the cost to the program over the first year would be at least $270 million, of which $185 million would come from lost interest payments, due to lower rates for euro deposits, and $83 million in lower revenue, as the price of oil would have to be discounted at least 10 cents per barrel for buyers to cover the added costs of dealing in euros.[52]

The Iraqis claimed that their action was purely political, in that they no longer wished to support the currency of their enemy and hoped to further drive a wedge between the US and Europe over policy towards Iraq. However, Iraq missed a follow-up opportunity when it failed to insist on converting the $10 billion sitting in the UN escrow account into euros. Having done so might have had some impact upon global exchange rates and set off a chain reaction that may actually have proven detrimental to the dollar.[53] But since the Iraqis didn't make this move, the rationale for the switch to euros may relate instead to their kickback scheme – that is, the Iraqis may have hoped to further muddy the waters and obscure the pricing mechanisms so as to facilitate the kickbacks. It may be purely coincidental, but the $270 million in estimated annual losses to the Oil-for-Food program made in October 2000 is strikingly close to the reported estimate of how much Saddam is likely to have made from kickbacks over the same period, that is, $175-300 million.

Consuming nations

The US Department of Energy tabulates the amounts and destinations of the UN-approved exports, nearly all of which go to OECD countries. From Phase 1 of the Oil-for-Food program, which ran from December 1996 to May 1997, through Phase 10, which ended in December 2001, non-OECD countries have steadily bought 200,000-350,000 bpd. The vast bulk of the exports, up to two million bpd, have gone to OECD countries.[54]

The US has always topped the list of end-consumers. The other major importers of Iraqi oil under the Oil-for-Food program have been France, Spain, Italy, Netherlands, Turkey

[50] Peg Mackey, "Iraq Cuts Kickbacks to Boost UN Oil Sales," *Reuters*, June 6, 2002.
[51] "U.N. to let Iraq sell oil for euros, not dollars," *CNN* from *Reuters*, October 30, 2000.
[52] Report of Suzanne Bishopric, UN Treasurer, to the 661 Sanctions Committee on 26 October 2000.
[53] Charles Recknagel, "Iraq: Baghdad Moves To Euro," *Radio Free Europe/Radio Liberty (RFE/RL)*, November 1, 2000.
[54] OECD Imports from Iraq, 1990-2000 http://www.eia.doe.gov/emeu/ipsr/t417.txt

and Japan. In 1997, the first year of the program, the US took only 13 percent, though it was still the largest end-user. By 1999, the US portion had climbed to 35 percent, and since September 11 the US has been purchasing well over 50 percent of all the Iraqi oil sold under the Oil-for-Food program.[55]

In numbers of barrels, the figures look like this: from the beginning of the program in December 1996 until July 1998, US monthly imports grew to just under nine million barrels of Iraqi oil, roughly 2.3 percent of all US oil imports. A sharp increase the following month brought the total to just over 22 million barrels, or 6.1 percent of all imports, with Exxon and Chevron responsible for the bulk of the increase. As a result, Iraq moved from being the US's twelfth largest petroleum supplier to being its sixth largest.[56]

September 2001 saw another sharp increase in US imports of Iraqi oil, this time, to 38.2 million barrels.[57] Iraq was now providing over 10 percent of US oil imports and had climbed over Nigeria to become the fifth largest exporter to the US, with only Canada, Mexico, Venezuela and Saudi Arabia providing more. (Since 1998, the increase in exports from Iraq has been offset by cutbacks in purchases from Venezuela, Saudi Arabia, Nigeria and Angola.)

It is not clear why the US purchased such large quantities of Iraqi oil in the wake of September 11 and amid the heightened threats toward the Baghdad regime emanating from Washington. It could be that the Iraqis, fearing they may be blamed for September 11, sought to tone down criticism and hence began sending more of its oil through the UN channel rather than through one of its sanctions-busting routes. Recognizing this, US authorities may have encouraged domestic refiners to absorb this extra capacity, in the interests of putting as much of the resulting revenue through the UN-scrutinized bank account as possible.

Since the start of 2002, apparently due to the retroactive pricing mechanism, the Iraqi exports under the Oil-for-Food program have declined dramatically to about one million bpd. While US imports have now dropped off due to the decline in Iraqi exports, Europeans consumers have almost totally curtailed their purchases. Therefore, for January-March 2002, the percentage of Iraqi exports bought by the US increased to over two-thirds of all Iraqi exports under the UN program.[58] In June 2002 US imports of Iraqi oil plummeted. Iraq fell to 14th place in exports of crude to the US, accounting for less

[55] OECD Imports from Iraq (Most Recent 12 Months), http://www.eia.doe.gov/emeu/ipsr/t314.txt
[56] http://www.eia.doe.gov/oil_gas/petroleum/data_publications/company_level_imports/cli.html
[57] Ibid.
[58] http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/company_level_imports/historical/2002/2002_03/data/import.xls. In late March 2002 Senator Frank Murkowski (R-Alaska) proposed a ban on all Iraqi oil imports. "Remember, this isn't 'oil-for-food,' he told his colleagues; "Smuggled oil is 'oil for terror.'" Murkowski argues that America's ill-advised dependency on Iraqi oil is an important justification for drilling in the Arctic National Wildlife Refuge. In his proposal, Murkowski would lift his ban on all purchases of Iraqi oil only when UN weapons inspectors have verified that Iraq is cooperating with the weapons inspection regime.

than 1.5 percent of all US crude exports for that month.[59] While many analysts credit the retroactive pricing scheme with undercutting the market, a combination of the bad press generated by the large US imports, congressional pressure, and the major oil companies not wanting to be dependant on Iraqi supply should war break out, may also explain the reduced US imports.

II. Imports Under the Oil-for-Food Program

Background

The UN Oil-for-Food program began with the passing of UN Security Council Resolution 986 in April 1995. But because of disputes on how it was to be implemented, the first oil exports did not begin until December 1996, and the first humanitarian goods did not arrive until March 1997. Since then, the quantities and variety of goods labeled humanitarian have grown steadily, and in June 1998 the program was expanded to include the importation of spare parts for the Iraqi oil industry. From the first exports of Iraqi oil under the UN Oil-for-Food program in December 1996 until the end of August 2002, over $56 billion in revenues have been received by the UN escrow account at the New York branch of the Banque National de Paris (BNP).[60] Of this, over $36 billion has been contracted for the supply of humanitarian goods, including just over $3 billion contracted for oil field spares and supplies. Of the $36 billion total, only about $24 billion worth of humanitarian goods and $1.4 billion of oil spares have actually been delivered, with the rest in production or pending delivery. About $4.2 billion worth of contracts have been placed "on hold" by the Sanctions Committee because they involve supplying Iraq with materials suspected of having dual-use capabilities; another $2 billion remains available for further contracts.

Upon receipt of funds from a contractor, BNP, following UN Security Council resolutions, divides the money into sub-accounts as detailed below. It is worth noting that neither the Iraqi government nor the Kurdish governorates receives cash. Both governments, with the assistance of the UN, produce lists of needed goods. The Iraqi government is responsible for contracting for both the 59 percent and 13 percent accounts – that is, the Iraqis negotiate with foreign suppliers not only for all goods and delivery destined for areas under Baghdad's control, but also for the areas under the control of the Kurdish authorities. Still, the UN authorizes the dispersal of cash from the BNP account.

The funds are allocated according to the following formula:

1. 59 percent goes toward humanitarian goods for Central and South Iraq (areas under the control of the Iraqi government). The original 53 percent figure was increased to 59 percent in October 2000;

[59] http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/company_level_imports/current/data/import.xls
[60] http://www.un.org/Depts/oip/

2. 13 percent is allocated for the three northern governorates that are under the control of the Kurdish Regional Government;
3. Costs for spare parts for the oil industry come proportionally from the 59-percent (Baghdad) and 13-percent (Kurdish) accounts;
4. 25 percent goes toward compensation claims stemming from Iraq's invasion of Kuwait, as per UNSC Resolution 687 and 705. The Geneva-based UN Compensation Committee processes claims and makes the awards. This figure was originally 30 percent but was reduced to 25 percent, with the difference going to the 59-percent allocation for humanitarian goods;[61]
5. 2.2 percent goes to the UN and its agencies for the costs of administering the program, though some of these funds deemed surplus are transferred to the 59-percent account;
6. 0.8 percent covers the cost of weapons inspections by United Nations Special Commission (UNSCOM), now United Nations Monitoring, Verification and Inspection Commission (UNMOVIC);
7. 1 percent goes to the administration of the BNP bank account;
8. Turkey receives transit fees for the use of its pipeline, which thus far have yielded nearly $1 billion for the Turkish state-owned pipeline company, BOTAS.

Procedure

Until May 14, 2002, the supply of humanitarian aid and oil field spares works as follows:[62]

1. The Iraqi government submits a distribution plan for each six-month phase to the UN Secretary-General, outlining in considerable detail the goods needed and where they will be distributed. This plan incorporates the program for the northern Kurdish region;
2. In a letter to the Security Council, the Secretary-General then approves the Iraqi plan, often with caveats and/or criticisms of the plan or the implementation of the previous plan;
3. The Iraqi government then contracts with foreign suppliers for the goods itemized in the plan;
4. The supplier then submits the contract and supporting technical documentation to the Office of the Iraqi Program (the OIP) at UN headquarters in New York. These submissions are made through suppliers' home governments' permanent missions to the UN;
5. Once the OIP has approved an application, it is passed on to the UN Sanctions Committee, which consists of all Security Council members and is responsible for determining whether the proposed imports could be used to build, disseminate or in any way facilitate Iraqi production of weapons of mass destruction. If any single member disagrees, an application can be put on hold. Since early 2000, many goods

[61] That figure may decrease even further, as more firms, after being threatened by the Iraqi government with the loss of its business, drop their Gulf War-related claims against Baghdad in the interests of retaining or increasing market share. (Steve Stecklow and Alix M. Freedman, "Iraq presses firms to forgo billions: Companies quietly drop war-reparations claims," *Wall Street Journal*, June 19, 2002.)

[62] This is a summary of procedures compiled from the UN's Office of the Iraq Program's website. http://www.un.org/Depts/oip/

no longer require Sanctions Committee approval but instead are approved by the OIP under a "fast-track" procedure;

6. Upon approval by the Committee or under the fast-track procedure, the OIP issues a letter both to the relevant permanent Mission and to the Iraqi government;
7. The government of Iraq then requests the BNP's New York branch, which holds the UN escrow account for the Oil-for-Food program, to issue a letter of credit to the supplier;
8. The supplier commences implementation of the contract;
9. Upon delivery of the goods at one of four [five as of June 22, 2002] entry points into Iraq, UN inspectors check the shipment and, if correct, issue an authentication notice back to UN headquarters;
10. The OIP then authorizes the BNP to make a payment to the supplier.

On May 14, 2002, the Security Council unanimously approved UN Resolution 1409, the revised or so-called "smart sanctions."[63] From now on, after approving a contract, the OIP will pass the application to the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) and the International Atomic Energy Agency (IAEA). Should UNMOVIC or the IAEA determine that among the goods proposed on the application are potential dual-use items that appear on a carefully drawn-up "Goods Review List (GRL)," the application is to be forwarded to the Sanctions Committee with an "assessment of the humanitarian, economic and security implications, of the approval or denial of the GRL item."[64] For applications in which no GRL items are found, or for those portions of an application devoid of GRL items, the Sanctions Committee now has no role to play. This change essentially does away with the need for a distribution plan. Iraq can now produce and sell as much oil as it wishes and spend the money on what it sees fit. The continued involvement of the UN is to insure that the goods are not on the GRL list and to course the funds through the UN account.

Resolution 1409 was not designed to further interdict the financial revenue accruing to Saddam and his sons. From all appearances, the new sanctions regimen will actually weaken international control and facilitate increased hard-currency opportunities for the Hussein regime in two ways. First, all efforts to increase international monitoring or oversight of sanctions-busting trade with Iraq were abandoned in the course of negotiations leading to the passage of this resolution.[65] With no new incentive for neighboring states to tighten their sanctions-busting trade,[66] Turkey, Syria, Jordan, Iran and the Gulf states will likely view this resolution as a "green light" to continue and expand their bilateral trade with Iraq. Second, the streamlined procedures will make it much easier for Iraqi officials to insist upon kickbacks on contracts supplying goods to the Oil-for-Food program. While some claim that this system has long been in place to a

[63] http://www.un.org/Depts/oip/background/scrs/scr1409.pdf The changes to the original procedures as described above are mainly in Points #5 and #6.
[64] Ibid.
[65] United States General Accounting Office, "Weapons of Mass Destruction: U.N. Confronts Significant Challenges in Implementing Sanctions against Iraq," May 2002, p.23.
[66] Victor D. Comras, " Shoving Saddam Back in His Box," *Washington Post*, December 31, 2001.

level of five percent on each contract,[67] with the UN oversight procedure now focused solely on dual-use items, little if any effort will be spent on preventing contract-related kickback arrangements.

The Kurds are also in a weaker position due to Resolution 1409, for while oversight on Iraqi importing processes has been eased, the Kurds' dependence on Baghdad remains. Although the Iraqis can import whatever they wish, the Kurds must still appeal to Baghdad to contract and transport their 13 percent of the goods. Should the Iraqis continue to be intransigent, contract substandard goods at high prices and foster significant delays, the Kurds have no recourse. The UN, to which they have appealed in the past, has even less bite.

Logistics

The UN and the Iraqi government have agreed to five ports of entry, of which three were in the original agreement -- Trebil, Jordan; Zakho, Turkey; and Umm Qasr, Iraq in the Persian Gulf. The others, Al Waleed, in Syria, and Ar'ar, Saudi Arabia, were added later. Umm Qasr is a seaport at the head of the Persian Gulf; the other four are road ports. The UN has stationed independent monitors at the ports. Lloyd's Register was originally contracted to staff these positions but was replaced in February 1999 by the Swiss firm, Cotecna. These monitors must authorize all shipments into Iraq before a supplier can receive payment. The monitors do not inspect every cargo that enters Iraq, only those that wish to be paid for their goods *via* the Oil-for-Food program.[68] "Only one out of 20 trucks [is] checked at the Jordanian border; at the Turkish border it is one in 200."[69]

Transport by sea to the ports of Aqaba, Jordan or Umm Qasr are handled by a variety of commercial shipping agents, largely from Jordan and the UAE. Several transport companies, mostly joint ventures with the Iraqi government or Iraqi firms, have been set up to handle the trucking from Aqaba to Baghdad. Inside Iraq it is the responsibility of the government to transport, warehouse and distribute the goods in the central and southern areas under its control.

The infrastructure deficiencies in the Iraqi transport system were noted as long ago as early 1991.[70] Since Phase 1 of the Oil-for-Food program, hundreds of millions of dollars have been allocated for purchase of vehicles and spares, but it is unclear how many have actually been delivered.[71] The US claims that hundreds of those that have been delivered have not been deployed for humanitarian work but rather have been requisitioned for use by the Iraqi military.[72]

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[67] United States General Accounting Office, "Weapons of Mass Destruction: U.N. Confronts Significant Challenges in Implementing Sanctions against Iraq," May 2002.

[68] http://www.un.org/Depts/oip/cpmd/authentication.html, and Gary Milholin and Kelly Motz, "Shopping with Saddam Hussein," *Commentary*, July-August 2001.

[69] "Preparing to do business with Iraq," *BBC News, Middle East,* March 5, 2001.

[70] Report to the Secretary-General on humanitarian needs in Kuwait and Iraq, S/2366 March 20, 1991.

[71] http://www.un.org/Depts/oip/ The site has detailed "distribution plans" -- in fact, Iraqi shopping lists -- for Phases 5-11.

[72] "US Sat Recon Upstages UN-Iraq Talks," *AFP,* March 6, 2002.

Relations between the Iraqi government, BNP and the UN

The Banque National de Paris (BNP) was chosen in consultations between the Government of Iraq and the UN secretariat to handle the revenue from the Oil-for-Food program.[73] Relations between the Iraqi government and both the UN and BNP have often been acrimonious, with particular difficulties arising over delays in issuing letters of credit. The Central Bank of Iraq has criticized BNP for dragging its feet both on issuing letters of credit and paying suppliers.[74] However, as the Executive Director of the UN's Office of the Iraqi Program, Benon Sevan, has pointed out, it is first up to the Iraqis to issue requests, based on signed contracts with suppliers, before the UN can authorize BNP to issue letters of credit. In his reports Mr. Sevan has declared that the Iraqis were extremely tardy in furnishing the stipulated requests. More than $1 billion, and at times considerably more, usually sit untapped in the BNP account because of these Iraqi government delays.[75]

While the UN has managed to weather that complaint, the Iraqis seem to be making headway with regard to another of their grievances. As part of their criticism of the banking arrangements, the Iraqis have said that the sheer volume of money, as well as the complications inherent in the convoluted sanctions mechanism, have overwhelmed BNP's ability to function efficiently. The UN responded by suggesting that Swiss and Swedish banks may be used to lighten BNP's administrative load, and the Iraqis parried with requests for an even wider distribution of banking services.[76] In late January 2002, the UN received final bids for banks other than BNP to provide services under the Oil-for-Food program. One week later, the UN issued letters of intent to pursue negotiations with Credit Agricole of France; Deutsche Bank and Hypovereinsbank of Germany; Banco Bilbao of Spain, Rabobank of the Netherlands and Switzerland's Credit Suisse Group, as well as BNP-Paribas. Such broad diversification will likely facilitate Iraq's manipulation and abuse of the system as it plays one bank off against another.[77] As of the end of May 2002, the UN had entered into negotiations with the new banks, with the expectation that the requested diversification would soon be implemented.[78]

The Kurds as well as the Iraqis also complain about the interest accrued on unspent funds. For a variety of reasons, funds accumulate in the UN's BNP account. At times it has reached the astronomical amount of over $10 billion. According to the UN treasurer, as of October 2000, $541 million in interest had been generated and been ploughed back into the account for further purchase of humanitarian supplies.[79] Nevertheless, both Iraqis and Kurds complain about the lack of transparency in the method of handling the

[73] The interim report of the Secretary-General on the implementation of Security Council resolution 986 S/1996/978, (1995).

[74] "Iraq in talks with UN to spread UN-controlled oil revenues," *Alexander's Oil and Gas* from *AFP*, May 8, 2001.

[75] Briefing by the Executive Director of the OIP to the Security Council, February 26, 2002, http://www.un.org/Depts/oip/background/latest/bvs020226.html

[76] "UN worried about unspent Iraqi oil revenues in one French bank," *AFP*, November 17, 1999.

[77] Carola Hoyos, "Banks compete over Iraq contract," *Financial Times*, February 19, 2002: "It will be easier for the Iraqis to play games and abuse the system after the diversification than it is now. When you are a customer of several banks you have more power than when you are the customer of just one bank."

[78] UN OIP, Note By the Office of the Iraqi Programme, May 24, 2002.

[79] Report of Suzanne Bishopric, UN Treasurer, to the 661 Sanctions Committee on 26 October 2000.

interest, while the Kurds continue to insist that they are not receiving their 13 percent share.

The Major Traders[80]

By Country

Over the first seven phases of the program, from December 1996 to May 2000, France and Russia garnered more contracts than any other countries, worth about $2 billion each. In each of the first three phases, Australia, thanks to wheat sales through the Australian Wheat Board, was among the top three sellers, with over $100 million per phase. More recently, Australia has again been exporting major amounts of wheat, building up to some $420 million in 2001.[81] China has steadily increased its market share, often pulling down third place in the rankings per phase.

Despite their refusal to sell oil to their enemies, aside from the US's Coastal Oil and some little known UK firms, the Iraqis have offered to include US and UK firms on the humanitarian supply side, but neither country has encouraged its companies to be major contractors.[82] In total, the US has only $220 million worth of business contracted, the bulk of which came in the first two phases; the UK has just over $130 million, spread across the first eight phases.

In the second half of 2000, because France only went so far as to advocate for *reforming* the UN sanctions rather than for Iraq's preferred option of lifting them entirely, French companies saw their market share slashed dramatically, from nearly half a billion dollars in Phase 7 to just over $150 million in Phase 8. Russia and China also suffered major cuts. The beneficiaries of these cuts were Arab nations: Egypt, Jordan, Tunisia, Syria and the UAE. The Iraqi government had shifted strategy, from cozying up to Security Council members toward cultivating Arab brethren.[83]

Egypt and Jordan were always among the top 10 exporters per phase.[84] But with Phase 7 (first half of 2000), their exports saw a sharp rise, in Egypt's case doubling to $570 million. The Iraqi trade minister claimed that by the end of 2002 Iraq would have imported $3 billion worth of goods from Egypt.[85] Also during Phase 7 Tunisia showed a

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[80] Except where otherwise noted, the following analysis is based upon information inadvertently released by the UN in February 2001. The UN's Office of the Iraqi Program, in the interest, OIP officials claim, of protecting proprietary information, does not normally disclose the names of companies that have contracts with the Iraqi government.

[81] "Farmers say government's hard line on Iraq is hurting exports," *Associated Press (AP)*, August 11, 2002.

[82] "Iraq happy to see so many firms interested to supply spare parts," *Alexander's Oil and Gas* from *Associated Press (AP)*, September 25, 1999.

[83] Nevertheless, to keep the Russians, Chinese and French on board, the Iraqis continued to dangle post-sanctions oil field concessions for which the Arab oil companies lack the necessary capital and technology.

[84] Jordan also exports to Iraq $300-400 million annually outside of the UN program, as payment for cut-rate oil. See below.

[85] "Egypt exports to Iraq to reach three billion dollars by end-2002: minister," *AFP*, February 25, 2002. This effective piece of propaganda leaves the reader believing that this is the level of annual trade, when in fact it is the total trade since 1996.

dramatic rise, exporting almost $400 million in the course of the year 2000. The UAE's exports, which had been growing steady since late 1998, nearly tripled during the second half of 2000, to over one-half billion dollars. Many of the goods were re-exports -- that is, Arab trading companies were selling goods they had purchased elsewhere, mostly from Europe. Turkey also began increasing its exports in the year 2000, but not in such dramatic fashion as would be expected from a neighboring state with a competitive manufacturing industry. Of course, Turkey does export huge amounts to Iraq -- just not through the Oil-for-Food program. The two neighbors' illicit trade is carried out openly at the Habur border crossing, which at times is overwhelmed and impassable due to the two-way, sanctions-busting traffic. The traffic across this border is covered below.

Southeast Asian countries such as Vietnam, Thailand and Malaysia have done steady business with Iraq. Vietnam, largely through sales of tea and rice, for which Iraq is its foremost market, has increased its share per phase, from $38 million in the first phase to $250 million in Phase 8. Last year the Iraqi Grain Board signed an agreement to invest over $6 million in a rice-processing plant in the Mekong Delta.[86]

By Company

Through the end of the year 2000 the main exporter to Iraq, with contracts worth more than twice those obtained by any other single company, was the Australian Wheat Board, which in less than three years sold Iraq some $1.2 billion worth of wheat. The Iraqis have exerted considerable political pressure on the Australians and its farm lobby to link continued sales to the withdrawal of Australia's support for the US/UK stance on Iraq.[87] Iraq is Australia's second leading market and the largest supplier of wheat to Iraq.[88] Baghdad's second and third largest suppliers under Oil-for-Food were Vietnam Northern Food Corporation, with $450 million of rice, and Egypt's Holding Company for Food Industries, with nearly the same amount in sugar, ghee and other food. Fourth was Thailand's Chaiyaporn Rice Co., selling rice; fifth, Al Wasel and Babel General Trading, a Dubai-based member of the Lootah Group, was set up "to cater for the needs of Iraq Government under 'Oil for Food program,'"[89] and sold some $300 million, mostly in vehicles.

In sixth place came Egypt's Ginza Company, with nearly $300 million worth of steel products, followed by Russia's Technopromexport, with over $230 million of "mechanical equipment." In eighth spot was Vietnam's Dairy Products Company, selling $220 million of milk and baby food, and ninth was India's Bharat Heavy Electrical, which garnered $200 million from just two contracts for gas turbine equipment. Rounding out the top ten -- surprisingly, bearing in mind the longstanding public antipathy between the two nations – was Saudi Arabia's Al-Riyadh International Flour Company, selling $200 million worth of wheat, ghee and other foodstuffs. France, up until this time the country selling the most to Baghdad, was also the most egalitarian,

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[86] http://www.vietnampanorama.com/business/fies.html

[87] "Aust farmers worry over Iraqi wheat sales," *South News*, http://southmovement.alphalink.com.au/southnews/Mar8.htm

[88] Virginia Marsh, "Baghdad, Canberra in deal on wheat exports", *Financial Times*, August 21 2002

[89] http://www.lootahgroup.com/wasel.htm

spreading its contracts out to many different companies. The top French companies, placing only 32nd and 33rd, were Schneider Electric High Voltage SA followed closely by Renault, each with contracts worth just under $75 million.

The two US companies with export contracts worth more than $50 million (most of which were negotiated during the first three phases) are Telwar International, a Tennessee-based firm that deals in bulk foodstuffs such as wheat and rice, and Luxor California Exports Corporation, which also dealt in bulk foods from its San Diego base. Luxor was founded during the 1980s to take advantage of a US government-subsidized program designed to encourage exports bound for Iraq and Algeria.[90] When the Oil-for-Food program opened for business, Luxor opened an office in Baghdad. Then, according to the company's website:

> Also, due to the variable nature of politics in the United States, we opened an office in Paris, Luxor Exports-France. Because France has a more stable relationship with Iraq, it is through this office that we have done our business with the Iraqi governmental buyers, specifically through the export of equipment, machinery and spare parts.[91]

From this office Luxor sold another $16 million of oil field spares under the UN program.

Holds/ non-compliance

Until the passage of Resolution 1409 in May 2002, any member of the UN Security Council could object to any proposed contract. While this system is now being phased out, there was considerable controversy over its application. The system used to work as follows. Once the UN secretariat approved a contract, it was circulated among all Sanctions Committee members (i.e., the 15 Security Council members). If any member objected to a particular contract (in practice, only the US and the UK ever did so), the contract was put "on hold." The term "non-compliant" was used when a contract was submitted to the UN's Office of the Iraqi Program (OIP) in New York and the UN official decided that application lacked sufficient information either to accord it fast-track approval or to circulate it to the Sanctions Committee. As of year-end 2000, China had the most contracts put "on hold" or deemed "non-compliant:" a total of 660, or about 15 percent of all such contracts. The next four countries with contracts "on hold" were European: France, Russia, Italy and Switzerland. Regional countries followed -- Jordan, Egypt, UAE and Turkey -- after which came Tunisia and another flush of European nations -- Austria, Sweden, Yugoslavia and Germany. Overall, companies from Western European countries were responsible for 36 percent of the total number of blocked contracts, Middle Eastern companies for 31 percent, 20 percent came from Asian companies and 12 percent from firms in Eastern Europe.

The list of individual companies responsible for submitting contracts that ended up "on hold" or "non-compliant," as of the end of 2000, was led by China's CMEC (China National Machinery and Equipment Import & Export Corporation). The bulk of the holds were for what the UN itemized as "Equipment," nearly a quarter billion dollars' worth of gas-powered turbine generators.

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[90] http://www.luxorexports.com/ENG/background.html
[91] Ibid.

In fact, five of the next six companies on the list had contracts to export gas turbines to Iraq: the Swiss firms ABB Power and Sitea International, each with well over $100 million; Russia's Technostroyexport, Yugoslavia's Energoprojekt and China's Dongfang Electric. Of the top eight companies with contracts "on hold," only Egypt's Leatsco, which was trying to sell $128 million of vehicles, and France's Alcatel, with its attempted exports of $72 million in telecommunications equipment, were *not* trying to sell gas turbines.

Oil field spare parts

Beginning with Phase 4, in June 1998 the UN authorized the purchase of spare parts in order to halt the degradation of the Iraqi oil fields and increase Iraq's oil production. At first the quota for spare parts was $600 million per year, which was raised to $1.2 billion in March 2000. Of the first $2 billion in contracts issued by the Iraqis, France garnered by far the most, worth nearly $400 million, or 20 percent of the total. Italy came in second, with $230 million, followed by Russia, with $191 million. The UAE and Jordan came in just behind, with $186 and $174 million, respectively. China was sixth, with $146 million.

Broken down by company, the Russian oil company Zarubezhneft placed first, capturing over $56 million of contracts in oil spares. A Tunisian firm, Petroleum & Industrial Realization Contractors came in second, with a $51 million contract for a water treatment plant that was subsequently placed "on hold." Other oil field-related water treatment equipment came next and was contracted to Italy's Ionic Italba, for over $40 million; next came Pakistan's Oil and Gas Services Group and France's Phoceenne, each with over $30 million in contracts.

Quid-pro-quo: Contracts for Political Support

Under the Oil-for-Food system, Iraq decides upon the allocation of funds and determines which countries and which suppliers within those countries will receive contracts. Competitive bidding, transparency of process and efficacy or accountability of a chosen firm are not factors in Iraq's decision-making, despite the oversight and influence of the UN's Office of the Iraqi Program. Iraqi officials have never hidden the reasons, prerequisites or criteria behind their choices of contractors under the Oil-for-Food program; indeed, they have stated many times that the money will flow to those who demonstrate political support for Baghdad in the international arena.

From the outset of the Oil-for-Food program in late 1996 through the first half of 2000, the Iraqis focused on purchasing from sympathetic permanent members of the UN Security Council, primarily France, followed by Russia, then China. During the year 2000, as momentum towards easing or even lifting sanctions began to gather steam, and revenue from the Oil-for-Food program vastly increased, Iraq shifted its focus to other friendly states, particularly Arab countries. By the end of the year 2000, Egypt, UAE and Jordan had become the favored trading partners.

III. Iraqi oil exports outside of the Oil-for-Food program

There are at least nine routes by which Iraq exports oil outside of the UN's Oil-for-Food system. These are: by truck to Turkey, Jordan, Syria and Iran; by barge through Iranian and Kuwaiti territorial waters, by topping up Oil-for-Food-authorized tankers at Mina al-Bakr, and most recently, *via* pipeline and railway to Syria. When using these routes, Iraq is paid directly, either in cash or barter. That is, the proceeds from these sales do not pass through the UN account at Banque Nationale de Paris's New York branch, nor are they subject to the 41 percent of Oil-for-Food profits set aside for compensation for Kuwait, support for the Kurds and UN expenses.

Tankers to Turkey

Background

Turkey benefited significantly from the Iraq/Iran war as both nations turned to Turkey for trade. Just prior to the war, in 1980, Turkish exports to Iraq were $135 million;[92] five years later they had increased seven-fold, to one billion dollars. Due to the damage done to the offshore ports in the Gulf, Iraq shifted most of its oil exports to Turkey and Jordan. Along with the Iraqi-Turkish pipeline, which was expanded to carry a maximum of 1.5 million bpd, an estimated 250,000 bpd were trucked across the two borders.[93] The traffic dropped off significantly at the end of the Iraq/Iran war, as both countries reverted to using the Gulf for trade. Turkish officials, in denial that the 1980s trade boom was destined to be short-lived, regularly complain that Turkey has suffered $40 billion in lost trade because of the UN sanctions. That figure seems grossly inflated.

In the spring of 1991, in the immediate aftermath of the Gulf War, the Iraqi government violently quashed an uprising in the Kurdish north. Nearly half of the population of Iraqi Kurdistan, 1.5 million people, fled toward Turkey and Iran. The US, with its British and French allies, responded by declaring parts of northern Iraq to be "safe havens," and under threats of military action, Iraqi forces withdrew. Within days the Kurds began to return. Literally days later, oil was again flowing from Iraq to Turkey. This time, though, the oil did not move *via* the Kirkuk-Ceyhan pipeline, which had been shut down in 1990 with the imposition of UN sanctions, but rather was carried on anything with four wheels.[94]

The Kurdish militia, the Peshmerga, with the backing of US air cover, established its hold just north of the oil storage areas near Kirkuk. Turkish truckers, therefore, had to traverse Kurdish lines to transport fuel from Kirkuk across the Turkish border. Improvised tankers were used, and every truck had some type of ad-hoc extra fuel tank strapped to its underbelly or hidden beneath the flat bed. The workmanship was so shoddy and the tanks so overfilled that the road between Kirkuk and the Habur crossing was at times impassable due to oil slop.

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[92] Henri J. Barkey, "Hemmed in by Circumstances: Turkey and Iraq since the Gulf War," *Middle East Policy,* October 2000.
[93] U.S. Library of Congress, "Iraq- A Country Study," 1990.
[94] "Turkish Truckers Smuggling Oil Across Kurdistan," *AFP,* December 13, 1991.

The Kurds immediately took financial advantage of the opportunity presented. As Iraq, Turkey and the new authorities in this region -- those of Masoud Barzani's Kurdish Democratic Party (KDP) -- came to develop a *modus vivendi*, trade in oil products became better organized.[95] Tankers were redirected from other tasks and brought in from the Iranian trade. The economy began to boom on both sides of the border. Saddam Hussein put his son Udai and son-in-law Hussein Kamel in charge at the Iraqi end.

Trading mechanisms

The trade in petroleum products between Turkey and Iraq outside of the Oil-for-Food program entails two commodities: crude oil and diesel fuel. The first involves direct arrangements between the Turkish and Iraqi governments; for the second, the Iraqi Kurds act as middlemen between Iraqi "private sellers" and Turkish entrepreneurs.

TUPRAS, the Turkish state-owned refining operation and Turkey's largest company, was the first firm to load or "lift" oil upon the resumption of Iraqi oil exports under the UN program.[96] Until the year 2000, TUPRAS was the largest non-Russian contractor under Oil-for-Food, importing some 50-100,000 bpd. The company also purchased up to another 100,000 bpd of sanctions-busting crude.[97] Between May 2000 and May 2001, Turkey imported illicit crude at the rate of about 70,000 bpd.[98] As distinct from the diesel trade, trade in crude is not effected by individual truckers in makeshift tankers slopping fuel along the roads in two countries. It is a more organized and professional operation, using the internationally regulated, TIR-qualified tankers contracted by TUPRAS, which drive down to the Iraqi storage areas south of Kirkuk. The drivers do not need to negotiate roadside purchases or concern themselves with exchange rate calculations; all negotiating has been done previously at the governmental level. The drivers return through the customs post with relative ease and deliver the crude to the TUPRAS refinery in the southeast Turkish town of Batman and to Iskenderun on the Mediterranean.[99] In their eagerness to circumvent the UN system, the Iraqis provided some oil without charge as payment for debts owed by the state prior to the imposition of sanctions.[100] Tekfen, the Turkish firm that built the Iraq/Turkey pipeline, has been a beneficiary of such a deal.[101]

In early 2001, as noted above, most reputable oil companies stopped buying Iraqi crude under Oil-for-Food due to the Iraqi insistence on their paying kickbacks. TUPRAS was

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[95] "Dollars reportedly earned by selling gasoline to Kurds," *AFP*, August 15, 1993.
[96] Arab Oil and Gas Directory 1997, Arab Petroleum Research Center, Paris, France.
[97] "Turkey aims to boost Iraqi border crude imports," *Reuters*, February 7, 2002.
[98] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France p.178.
[99] "Toros Marine Terminal appointed for the handling and storaging of Iraqi Crude Oil," http://www.tekfen.com.tr/english/news_tpic.asp. Also, *Alexander's Oil and Gas Connections*, from *MEES* via *Newspage*, "Turkey to increase cross-border Iraqi crude imports outside UN program," May 12, 2000.
[100] "Iraq Trucks 2Mn Tons Of Crude Oil To Private Turkish Firms Outside Oil-For-Food Program", Middle East Economic Survey, June 7, 1999..
[101] "Turkey to increase cross-border Iraqi crude imports outside UN program," *Alexander's Oil and Gas Connections* from *MEES* via *Newspage*, May 12, 2000: Also, "Toros Marine Terminal appointed for the handling and storaging of Iraqi Crude Oil," http://www.tekfen.com.tr/english/news_tpic.asp

no exception: in 2001 the state-run firm stopped buying crude through the UN. But then, unlike the majors, TUPRAS began solely buying straight from the Iraqis.[102]

The mechanics of trade in the second commodity, diesel fuel, have always been more chaotic, more locally driven and more prone to the vagaries of officials on both sides of the border. From the beginning in 1991, thousands of makeshift, ad-hoc tankers hauling two to eight tons of fuel each have been the mainstays of the diesel business. In 1993 the Iraqi government designated that, henceforth, private companies, al-Sadirah, Wadi Hajar, and al-Basha'ir, rather than the state marketing firm SOMO, would handle the Turkish trade.[103] This appeared to entail a shift from state control of the trade under Saddam's since murdered son-in-law, Lt. Gen. Hussein Kamel al-Majid, to companies under the direct control of Saddam's son Udai.[104] Two other small companies, Nineveh, also reportedly controlled by Udai, and Asia, allegedly in the hands of Massoud Barzani's Kurdish Democratic Party (KDP), are said to act as intermediaries between the Iraqis and the Kurds.[105]

After paying some nominal amount to SOMO, Udai's "private" Iraqi firm delivers tanker loads of diesel to "private" Iraqi Kurdish storage dumps in Dohuk and Zahko, the towns closest to the Turkish border crossing at Habur.[106] The Iraqi Kurds in charge of this region are from Barzani's KDP, and this trade represents their government's main source of revenue. Rather than deny the trade or their party's role in it, KDP spokesmen extol the virtues of their position, geographic and commercial, as middlemen between the Iraqi supplier and Turkish consumer.

> The KDP's [representative in Ankara] Dizayee says that the diesel trade is tying the economy of his faction's territory close to that of Turkey. Almost all the goods that Kurdish businessmen purchase with their profits from the diesel trade come from Turkey. And Turkish entrepreneurs are beginning to take an interest in the KDP's market. So far, that has spawned several joint ventures in hotels and the opening of the first private supermarket in Dahuk.[107]

By the time the diesel hits the Habur border, where both the KDP and Turkish governments tax the truckers, its price already surpasses world market rates.[108] A profit margin remains, thanks only to the low level of taxation the Turkish government was willing to tolerate in order to keep this trade going.

For six years successive Turkish governments decided to forego imposing normal taxation and duties on the diesel coming across the Habur border, while maintaining them

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[102] "Turkey aims to boost Iraqi border crude imports," *The Kurdistan Observer* from *Reuters*, February 8, 2002.
[103] "Government: 3 companies to sell oil to Turkey, Iran," *AFP* from *MEES*, FBIS-NES-93-195, October 12, 1993.
[104] Hussein Kamel no longer participates in the diesel trade, having been murdered by Udai and his associates in 1996. The bad blood between the brothers-in-law is covered in The Family section below.
[105] "KDP makes over $1 million daily from sanctions-busting," *Iraqi National Congress News*, July 15, 2000.
[106] Ibid.
[107] Charles Recknagel, "Turkey: Ankara Builds Influence In Northern Iraq," *RFE/RL*, August 4, 2000.
[108] "Iraqi Diesel Trade to Turkey Restarts," *Reuters*, December 7, 1997.

on diesel imports elsewhere. The trade with Iraq continued to grow and by 1997 accounted for nearly a quarter of the Turkish diesel market.[109] At first the government tried to limit the extent of the retail outlet for the Iraqi diesel to the southeast of the country, which, having suffered the brunt of the sanctions on Iraq, sorely needed the relief provided by lower fuel prices. But once across the border, the diesel, like water in the sand, disappeared into the Turkish economy, popping up in fuel stations and roadside stands nationwide.[110] The mainstream oil companies cried "foul" at what they perceived to be unfair competition, and when Shell Oil pulled out of a refining and marketing joint venture in early 1998, the government began attempts to regulate the trade.[111] At the same time, a report by Turkish oil field executives was given to the Turkish National Security Council, alleging that rather than providing an economic boost to the impoverished southeast, the profits from the Iraq diesel trade were going to the terrorist-designated Kurdistan Workers' Party, or PKK.[112]

In the summer of 1998 the Turkish government instituted a set of regulations that effectively legalized the sanctions-busting trade in diesel.[113] A new subsidiary of the state-owned company Turk Petrol, Turkish Petroleum International Corporation (TPIC), was formed and tasked with creating a depot in the Turkish town of Silopi, where all diesel traders would be mandated to dump their loads. All tankers and drivers were to be registered and taxed and were only allowed limited trips and quantities. The truckers, companies and local authorities protested, fearing that any government regulation was likely to impede trade and reduce profits. The Turkish government responded to their concerns by granting a monopoly on the retail trade to 15 local trading companies which joined forces in the firm SILOPI A.S.[114] Even so, the government had to fight for more than a year to overcome the truckers' and companies' resistance, and the new system was only implemented on September 1, 1999.[115]

During the new plan's first three months in operation, the Turkish government took in $74 million in taxes.[116] Even so, the retail price still remained lower than that of other imported or locally refined fuel.

The following two years have proved the truckers' and traders' fears to be well founded. The depot in Silopi has turned out to be a bottleneck, the computerized system of registration has restricted truckers to one trip every three to four months and TPIC has

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[109] "Silopi A.S. established for Habur diesel trade," *Turkish Daily News*, July 28, 1998.
[110] Jon Hemming, "Illicit Iraqi Fuel Trade at Gates of U.S. Base," *Reuters*, July 14, 1998.
[111] Slchuk Gokoluk, "What Made Shell Go?," *Turkish Probe*, issue 284, *Turkish Daily News*, June 21, 1998.
[112] "Automatic Pricing for Fuel -- Deregulation with Diplomatic Consequences," *Turkish Probe*, *Pulse of Turkey*, June 20, 1998.
[113] Amberin Zaman, "Turkey Shrugs Off U.N. Blockade of Iraq Commerce: Nation lets truck drivers openly import, sell diesel from Kurdish-controlled area," *Los Angeles Times*, August 4, 1998.
[114] "Silopi A.S. established for Habur diesel trade," *Turkish Daily News*, July 28, 1998.
[115] Ersan Ercoy, "Snags seen in Turk control of illicit Iraqi diesel," *Reuters*, September 3, 1999. Coincidentally, Iraq, seizing the opportunity presented by a devastating earthquake that had struck Turkey two weeks earlier, pledged a gift to the stricken nation of 500,000 barrels of oil ("Iraq donates 500,000 barrels of crude oil to Turkey," *Alexander's Oil and Gas Connections*, from *AP*, November 5, 1999).
[116] "At Iraq's Backdoor, Turkey Flouts Sanctions," *New York Times*, March 30, 2001.

been slow in paying for the loads delivered.[117] The involvement of the Turkish government has also further politicized the diesel trade: as the Turkish government now has a direct financial stake in each transaction, the Iraqi government enjoys new leverage.

In the aftermath of September 11, the Iraqis shut down the diesel trade. The trade in crude, however, continued with little or no interruption.[118] Some of the Turks, who had up to 5000 truckers in northern Iraq waiting to load, claimed that the interruption was due to the Iraqis' desire to stockpile refined oil products in the event that they were attacked by the US. This is possible, as the Iraqi refining capacity is limited. But bearing in mind that the crude, a government-to-government arrangement, is still flowing, it is also possible that the apparent need to stockpile diesel may have served as a convenient excuse to drastically curtail this trade. On the Turkish side, moves to restart the diesel trade in January 2002 were limited by a government decree in March that capped imports of Iraqi diesel at 15,000 bpd, ostensibly to reduce tax losses[119] and -- at least according to the Turkish military – to cut the revenue of Turkish firms that are sympathetic to the PKK.[120]

From the Iraqi side, the ongoing increase in government-to-government diesel sales to Syria[121] suggests that cutting out Udai and other intermediaries has taken precedence over stockpiling. Indeed, eight months into the cutback, one would think the Iraqis would have stockpiled sufficient diesel for any war scenario; yet the Turkish diesel trade has only resumed to about 20 percent of its former level. Turkey has threatened to shut the diesel trade down entirely on September 1, 2002.

Political economy

Saddam's son Udai's control over the Turkish sanctions-busting trade may be waning. Taking his place appears to be his younger brother Qusai, who over the past few years has taken on many official roles, including military command of the northern area from which the oil trade is organized.[122] Qusai's growing involvement may explain, at least from the Iraqi side, the shift from the entrepreneurial diesel trade to the organized government-to-government dealings in crude.

Despite the hefty cut taken by the Kurds, Iraqis do better by selling their oil directly to the Turks than through the UN structure. *Via* the Turkish truckers, the Hussein family nets cash, after minimal expenses; *via* the UN, the remuneration comes in the form of humanitarian aid. Moreover, the sanctions-busting traffic is two-way, with truckers and

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[117] "Truck Drivers Protest TPIC," *Turkish Daily News*, FBIS-NES-2002-0307, March 5, 2002.

[118] "Turkey Calls Back Trucks in N. Iraq, Not Clear When Iraq To Resume Diesel Supply," *Ankara Anatolia,* September 21, 2001, FBIS-NES-2001-0925; also *Ankara Anatolia*, December 20, 2001.

[119] "Turkey Tightens Border Trade Regulations To Avoid Tax Losses," *Turkish Daily News*, FBIS-NES-2002-0307, March 7, 2002..

[120] "PKK-Linked Company Wins Bid to Store N. Iraq Fuel; Military Cancels Contract," *Sabah*, May 20, 2002.

[121] Qusai Hussein likely engineered the increase in diesel trade with Syria at his older brother's expense. See section below on trade with Syria.

[122] "Iraqi Official on Qusay's Rise to Power," *RFE/RL*, August 13, 1999.

traders bringing in many types of consumer goods for sale.[123] The truckers often spend up to a week in Iraq and hence spend money in restaurants, hotels and on vehicle maintenance. The Turkish truckers thus provide spin-off economic benefits to those northern regions of Iraq under Baghdad's control, such as Mosul and Kirkuk.[124]

For the Kurds, the Iraq-Turkey oil trade is a mixed blessing. The wholesale and retail trade in Iraqi Kurdistan of Turkish and European goods has flourished due to this arrangement, and estimates of revenue run as high as $3 million a day, though most estimates put it at about one-third of that. The trade in oil, diesel and other commodities is the most significant source of funds for the embargoed area.[125] However, it has put one of the two key Kurdish parties, the Kurdistan Democratic Party (KDP), in a very profitable joint venture with the very regime that only 15 years ago committed genocide against the Kurdish population and is still involved in mass expulsions of Kurds. The other main Kurdish party, the Patriotic Union of Kurdistan (PUK), which unlike the KDP holds no territory between the Iraqi suppliers and the Turkish market, has largely been cut out of this financial windfall and criticizes/envies its rival.[126] In 1998 an agreement to unite the Kurds against Saddam that was brokered by the Clinton administration and signed in Washington had as its primary clause the sharing of this revenue between the two parties. That part of the agreement has never been fully implemented.

As for the Turks, at one point an estimated 45,000 Turkish truckers used the Kirkuk-Habur route. This so overwhelmed logistical capacities that Turkish authorities limited each trucker to one trip every three months. The trade in crude oil and diesel fuel did provide a significant economic boost to the impoverished southeast, not only to the thousands of truckers and their families, but also to the attendant service industry and the producers and wholesalers of the goods bound for Iraq. Clearly, some in the Turkish government appreciate how vital the sanctions-busting business has been to this Kurdish area of Turkey, where the government has fought a violent insurgency for nearly 20 years. As a local business leader said, " . . . if people were not offered employment, they would have no alternative but to take their guns and go to the mountains."[127] On a trip to the southeast last year, Prime Minister Bulent Ecevit promised to increase, not curtail the illicit trade. True to his word, in February 2002 the Turkish government declared its intention to increase imports of sanctions-busting crude to 80,000 bpd.[128] However, due to the new restrictions on the once-open diesel trade in favor of the more organized dealing in crude oil, most of the economic benefits previously accruing to the people of the southeast now go to the Turkish government.

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[123] Some of this material is treated in greater depth in the Minor Sources section below.

[124] At the same time, the Iraqi government has re-invigorated an Arabization campaign in those same areas, the objective of which is to expel non-Arabs (Kurds and Turkmen) from the oil-rich areas around Kirkuk.

[125] The Oil-for Food program brings in mostly goods.

[126] Association of Kurdish Tribes spokesman Hussein Khader al-Sourchi has gone so far as to claim that this rivalry over who should receive the smuggling income and the taxes on cross-border trade has been the primary cause of the internecine fighting that divided the two parties for many years ("US military action won't benefit Iraqi Kurds," *Daily Star* [Beirut], March 12, 2002).

[127] "Habur strike highlights splits in fuel-trading," *Turkish Daily News*, May 2, 2000.

[128] "Turkey aims to boost Iraqi border crude imports," *Reuters*, February 7, 2002.

International response

The United States and the UN Sanctions Committee have allowed this trade to flourish with only nominal protestations. With the northern no-fly zone patrolled from Turkish airbases, the US and UK are not eager to press the Turkish authorities to shut down the smuggling. Moreover, Western governments see some advantage in allowing the trade to go on, to benefit, even compensate, the Turks and the Kurds for some of the difficulties both have endured under the sanctions regime. As one State Department official put it, "The Kurds are getting a lot of money through the oil trade, and we like the Kurds."[129]

Three American presidents appear to have calculated that Baghdad's profits from the Turkish oil trade were a tolerable cost for the above-mentioned benefits to other participants in that trade. The argument put forward has been that, as long as the Turks took care to inspect and interdict materials that would support Saddam's development of weapons of mass destruction, US policy *was* being implemented. The current Bush administration has until now continued to follow this line. However, now that the rampant violations so obviously benefit Baghdad and can no longer be rationalized as bolstering the economy of Turkey's troubled southeast, that calculation may change.

[129] "Fatter in Lean Times Iraqi elite gets richer from illegal smuggling ignored by U.S.," *NY Newsday*, June 19, 2000.

TABLE I: Trade with Turkey outside Oil-for-Food

Diesel Trade Estimated Revenue (in millions)[130]

	1996	1997	1998	1999	2000	2001	2002
Average bpd	30,000	30,000	50,000	100,000	75,000	30,000	15,000
Iraqi Gov't.	$ 27	$ 27	$ 46	$ 92	$ 68	$ 27	$ 14
Udai's Companies	$ 72	$ 55	$ 55	$ 247	$ 243	$ 73	$ 38
KDP Gov't.	$ 56	$ 56	$ 93	$ 186	$ 139	$ 56	$ 28
KDP Companies	$108	$ 82	$ 82	$ 370	$ 365	$ 109	$ 57
Turkish Gov't.				$ 74	$ 185	$ 74	$ 37
Turkish Companies	$333	$333	$555	$1,036	$ 648	$ 259	$ 130

Crude Oil Trade Estimated Revenue (in millions)[131]

	1996	1997	1998	1999	2000	2001	2002
Average bpd					50,000	75,000	100,000
Iraqi Gov't./ KDP Gov't.					$ 347	$ 356	$ 438
Turkish Gov't.					$ 109	$ 164	$ 219
Turkish Companies					$ 22	$ 33	$ 45

Totals in diesel and crude trade with Turkey

Total Diesel	$596	$553	$830	$2,005	$1,648	$ 598	$ 304
Total Crude					$ 478	$ 553	$ 702
Total Diesel + Crude	$596	$ 553	$830	$2,005	$2,126	$1,151	$1,006

[130] To come to the above figures, the average yearly price of oil was taken from "US Department of Energy, Cost of Crude Oil Imports, Persian Gulf Nations." From this figure, we calculated from press accounts that the Iraqi government received $2.5/bbl. From the remainder we calculated that the Kurdish companies took 60 percent, Udai's companies 40 percent. KDP government taxes are calculated at 3 cents per bbl. The Turkish companies (truckers and retailers largely based in the Southeast) received 18 cents per liter until 1999, when the Turkish government began taking 4 out of the 18 cents, leaving the companies a 14-cent profit. These percentages and bpd were taken from published estimates. Total revenue is much more than the world price, as it includes revenue to the truckers and retailers that would otherwise have gone to the Turkish government in the form of taxes.

[131] Crude price is the same as above; the Turkish Government received $6/bbl. The remainder went to the Iraqi and KDP governments, but the authors have not found any estimates of how those numbers break down, nor is it clear whether the KDP government also extracts taxes on the crude trade. The Turkish company figure is based on transport costs of $8.90/ton, or about $1.2/bbl, taken from press accounts.

Tankers to Jordan

Background

As with the trade between Turkey and Iraq, the Iraq/Iran war altered other regional trading relationships. During the 1980s Iraq replaced Saudi Arabia as Jordan's main oil supplier.[132] The Saudis cut Jordan out completely in 1990, ostensibly for unpaid bills, but possibly in retaliation for Jordan's sympathy for Iraq during the run-up to the Gulf War. At the same time, the Jordanian port of Aqaba replaced the Gulf ports of Basra and Umm Qasr as the main route for Iraqi imports and exports. However, the trade between Iraq and Jordan grew lopsided: Iraq needed more goods than Jordan needed oil, and Iraq began running a deficit. At the imposition of sanctions in 1990, Baghdad was in debt to Amman for $1.3 billion.

King Hussein's Jordan had managed to position itself as an essential and moderate interlocutor with the West, all the while doing business with the ugly regime just down the road in Baghdad. His strategy proved effective: in recognition of Jordan's dependency on Iraqi oil, the UN never objected to Jordan's sanctions-busting trade with Iraq. Beginning at 65,000 bpd in 1991, the volume of Iraqi oil exports to Jordan has officially climbed to almost 110,000 bpd, while some observers think it may be significantly higher. The implementation in 1997 of the Oil-for-Food program caused no ripples in that steady increase.

About half of the oil Baghdad has called a gift from Iraq to Jordan; the other half is paid for, at concessionary prices, with Jordanian goods, largely food, medicines, appliances and fertilizer. In 1995, to facilitate the oil flow, Jordan and Iraq began discussing the construction of a pipeline.

Trading Mechanisms

Each year in November and December, negotiations between the two countries take place to determine the quantity and price of oil imports for the following year. These negotiations are often prolonged and contentious, and the King of Jordan or President Saddam Hussein usually makes the final decision. On top of the steady increase from 65,000 bpd to the current level of nearly 110,000 bpd,[133] some analysts believe the trade could be as much as 50 percent higher, with another 50,000 bpd being trucked into Jordan, presumably for export, on top of the amount agreed to in the yearly trade protocol.[134] But exact figures for the last two years, at least, are difficult to come by: there has been no international oversight at the port of Aqaba since the year 2000. (See *International Response* section, below.)

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[132] Laurie A Brand, *Jordan's Inter-Arab Relations: The Political Economy of Alliance Making*, Ch. 6, Columbia University Press, New York, 1994.

[133] External Trade Statistics of Jordan, http://www.dos.gov.jo/owa-user/owa and "Iraq and Jordan sign oil agreement," *Arabic News,* December 24, 2001.

[134] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France, p.177.

The half of the oil not deemed "free" is valued at a discount, believed to be $5-6 below market price.[135] As mentioned above, this second portion is supposed to be traded for Jordanian goods, the overall annual value of which has ranged from $200 million in the early 1990s to $450 million in 2001. The last year, though, has seen a dramatic drop-off in exports to Iraq. Despite the eagerness of Jordanian officials and businesses, the Iraqis have neither been signing as many contracts with Jordan as their annual agreement calls for, nor fully implementing those already signed.[136]

The way money changes hands to accommodate this trade is far from transparent. According to the Arab Oil and Gas Directory, a well-respected source in the petroleum industry, Jordan deposits payment for the cut-rate oil into an Iraqi-controlled account at the Central Bank of Jordan.[137] These funds are intended to be used to purchase Jordanian goods for export to Iraq. In practice, these funds could be used to purchase anything, including items imported into Jordan that are otherwise banned by UN sanctions. A Jordanian merchant, importer or agent must present an invoice to the commercial attaché at the Iraqi embassy in Amman to receive payment from this account.[138] There is no international oversight, not only on these banking transactions, but also on the entire Iraqi-Jordanian annual trade arrangement. Recently Iraq has openly recognized this re-exporting approach and has named Russia, Egypt and Jordan as the main buyers of foreign goods on its behalf.[139]

On an average daily basis, 300 tanker trucks move oil from Iraq to Jordan.[140] The monopoly on trucking is held by the Iraqi-Jordanian Overland Transport Company,[141] a joint governmental venture established in 1980.[142] This company is supervised directly by the Ministers of Transport of the two governments, who report on its status to their respective heads of state, the President of Iraq and the King of Jordan.[143] Despite this being a joint venture, Jordan ends up paying Iraq some $50-80 million annually for this

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[135] "$600m Oil Protocol With Iraq 'Key Weight' in Kingdom's Economic Balance," *Jordan Times*, FBIS-NES-2000-1101, November 1, 2000.

[136] "Jordan vies for Iraq's external trade," *Iraq Press*, August 20, 2001.

[137] Arab Oil and Gas Directory 2000, Arab Petroleum Research Center, Paris, France, p. 178.

[138] Gary Milholin and Kelly Motz, "Shopping with Saddam Hussein," *Commentary*, July-August, 2001.

[139] "Jordan, Russia, Egypt doing business on Iraq's behalf," *Iraq Press*, October 10, 2001.

This *modus operandi* is far from new: using the Central Bank of Jordan to provide funds, ostensibly to subsidize Jordanian-produced goods, but in fact to help powerful Jordanian firms move foreign goods to Iraq, was a technique employed by Baghdad in the 1980s, well before the imposition of sanctions (Laurie A Brand, *Jordan's Inter-Arab Relations: The Political Economy of Alliance Making*, Ch. 6, Columbia University Press, New York, 1994).

[140] "Jordanian-Iraqi company examines expanding land transport fleet," *Jordan Times*, June 30, 1998.

[141] Ibid.

[142] Laurie A Brand, "*Jordan's Inter-Arab Relations*.., cited above, ftnote 134.

[143] "General Assembly of Iraqi-Jordanian Land Transport Company Meets in Baghdad," *Iraq News Agency*, FBIS-NES-2002-0216, February 16, 2002, and, "King, Crown Prince meet with Iraqi transport minister," *Jordan Times*, June 30, 1998.

transport.[144] The company also hauls a significant portion of the goods from Aqaba to Iraq imported under the Oil-for-Food program.[145]

The proposed pipeline, now under discussion for seven years, may actually be coming into existence. Tenders were finally floated late in 2001, and contracts are expected to be issued in late 2002,[146] with the first oil scheduled to flow in October 2004.[147] The pipeline's capacity, 350,000 bpd, will be significantly more than Jordan requires, affording possible surplus for Palestine, Israel or as exports into the world market from the port of Aqaba.[148]

Political Economy

Jordan has regularly joined the chorus of those demanding that the sanctions be lifted.[149] Numerous highly publicized visits have taken place by officials from both countries, capped in November 2000, with a trip to Baghdad by the Jordanian Prime Minister Ali Abdul Ragheb.[150] The PM had been to Baghdad before, when he was the Minister for Industry and Trade and responsible for the trade arrangements between the two countries. In September 2000 Jordan became the first Arab country to fly into Baghdad since the imposition of sanctions.[151] This flight came just days after the groundbreaking, embargo-stretching flights from France and Russia. Also in 2000, Jordan terminated the contract of Lloyd's Register, the company monitoring the port of Aqaba for compliance with the UN sanctions regime. (See below for more on Lloyd's.)

Jordan, however, has also sent signals that it opposes the Iraqi regime. For example, the newly installed King Abdullah paid two widely publicized visits to Kuwait in 1999 and 2000.[152] More importantly, Amman permits the Iraqi National Accord to operate on its territory, thereby dealing Baghdad a significant blow. From this office the INA has orchestrated several damaging defections of high-ranking Iraqi officials.[153]

Domestically, the Jordanian government cannot be seen as being too anti-Iraq because of the numbers of Palestinians in Jordan, a constituency energetically cultivated by Saddam. Regionally, Jordan has significant trade with Israel and some with the Saudis. An

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[144] "Jordan, Iraq Oil Pipeline Reportedly Attracts Thirty Potential Contractors," *Jordan Times,* FBIS-NES-2002-0219, February 19, 2002.

[145] Despite all this activity the company generates very little profit: only $350,000 in 1997. "King, Crown Prince meet with Iraqi transport minister," *Jordan Times,* June 30, 1998.

[146] "Jordan, Iraq Oil Pipeline Reportedly Attracts Thirty Potential Contractors," *Jordan Times,* FBIS-NES-2002-0219, February 19, 2002.

[147] "Iraq to supply Jordan with crude oil through pipeline from 2004," *Alexander's Oil and Gas,* from *AFP*, May 12, 2002.

[148] Iraqi exports to Israel are not out of the question. According to *The Jerusalem Post* in August 1994, Israel had made a tentative agreement to import sanctions-busting oil *via* Jordan. "Minister Cited on Deal With Jordan to Buy Iraqi Oil," *Jerusalem Post,* FBIS, NES-94-160, August 18, 1994.

[149] "$600m Oil Protocol With Iraq 'Key Weight' in Kingdom's Economic Balance," *Jordan Times,* FBIS-NES-2000-1101, November 1, 2000.

[150] Ibid.

[151] "Jordan flight arrives in Baghdad," *BBC*, September 27, 2000.

[152] "King Abdullah in Kuwait," *Arabic News,* May 21, 2001.

[153] "A correction to an article in the Guardian Newspaper regarding Iraqi National Accord," Iraqi National Accord, February 25, 2002, http://www.wifaq.com/news1.html

alternative source of cheap oil would be a prerequisite for the Jordanians to get out from under the Iraqis' sway, but neither the Kuwaitis nor the Saudis has offered them the level of oil subsidy that Saddam provides.

As for the recent cooling of trade activity between the two countries, several factors may be in play. The mechanisms of trade with Jordan, including the reliance on trucking, have fallen far more under the control of Udai than of Qusai. If Qusai has indeed been gaining influence over the last year, as is suggested here, then he may well be moving to undermine his brother's profits from the Jordanian trade. [154]The construction of a pipeline would also eliminate the need for the IJLTC trucks, thereby cutting Udai out of a lucrative revenue stream. The Syrians, who apparently prefer to deal with Qusai, seem thus far to have been the beneficiaries of the drop-off in trade with Jordan.

International Response

The UN has never formally issued any documentation authorizing the Jordanian-Iraqi trade. Instead, the UN Sanctions Committee has regularly "taken note" of this irregular bilateral arrangement.[155] This diplomatic two-step did not, however, signify Western forces' trust that the Jordanians would adequately control sanctions-busting activities through the port of Aqaba. In 1991, the US, the UK and France set up a naval patrol outside the port and inspected incoming cargoes. The blockade increased costs to shippers and suppliers of goods to Jordan, due to the delays inherent in having one's ship inspected by US sailors.[156]

Complaints began pouring in, and under this pressure US Secretary of State Warren Christopher traveled to Amman in August 1993. He came away thanking King Hussein for his "effective enforcement of the sanctions."[157] In 1994 the blockade was lifted, in exchange for which the Jordanian government agreed to contract the UK firm, Lloyd's Register, to inspect all cargo entering Aqaba that was destined for Iraq.[158]

While the foreign military presence was removed, importers of goods to Jordan still complained of being unduly obstructed[159] and rejected allegations that shipments destined for Iraq were being imported into Jordan under false paperwork. It took six years, but under pressure from the Iraqi government and local businesses, in late 2000 the Jordanians banned Lloyd's from Aqaba. As the Prime Minister Abdul Ali Ragheb explained, Jordan's expansion of trade with Iraq was the government's prime objective.[160] Since then, there has been no independent inspection of the trade between Jordan and Iraq.

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[154] See The Family section below for more on this.
[155] "Turkey to increase cross-border Iraqi crude imports outside UN program," *Alexander's Oil and Gas Connections* from *MEES* via *Newspage*, May 12, 2000.
[156] "Further on Expected Agreement with Lloyds," *Jordan Times*, FBIS-NES-94-130, July 7, 1994.
[157] "Special Office to Regulate Iraqi Exports Opened," *Jordan Times*, FBIS-NES-93-153, August 11, 1993.
[158] "Further on Expected Agreement with Lloyd's," *Jordan Times*, FBIS-NES-94-130, July 7, 1994.
[159] Iham Sadeq, "Lloyds inspection team in Aqaba under fire," *The Star* (Amman), July 2, 1998.
[160] "Aqaba: After Lloyds!," *The Star* (Amman), October 19, 2000.

TABLE II: Trade with Jordan outside Oil-for-Food

Estimated Revenue (in $millions)[161]

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Protocol bpd	76,000	82,000	84,000	90,000	96,000	96,000	96,000	100,000	110,000
Actual bpd	78,000	83,000	88,000	87,000	94,000	91,000	94,000	125,000	135,000
Protocol imports		$220	$220	$220	$255	$200	$300	$450	$260
Iraq	$197	$317	$185	$249	$199	$162	$190	$430	$424
Jordan	$407	$442	$502	$510	$330	$414	$677	$734	$646

Pipeline to Syria

Background

Syria and Iraq have been rivals and at times enemies for more than 35 years. Syria sided with Iran during the Iran/Iraq war, and in 1982 it closed the oil pipeline between the two countries. A thaw in relations began in 1995, road transport was opened between the two countries in the summer of 1997 and later that year a memorandum of understanding on re-opening the oil pipeline was signed. By mid-1998 Iraq had repaired its portion of the pipeline and awaited final Syrian approval for the re-opening. It wasn't until two years later, though -- after Iraqi engineers had helped repair pumping stations on the Syrian side,[162] French companies had helped expand the pipeline[163] and, more significantly, after the death of President Hafez al-Assad in June 2000, when the traditional rivalry between the two counties lost much of its ferocity -- that Iraqi oil began to flow.

The oil flow accelerated the thaw in bilateral relations. Syria reopened the Aleppo-Mosul railroad, inactive since 1981, and established trucking and bus companies to facilitate the transport of Syrian goods and people to Iraq. The Syrians also made plans to upgrade their diplomatic presence in Baghdad, negotiated and signed a free-trade agreement, and attended groundbreaking trade meetings at which the Iraqi trade minister promised a massive increase in trade volume.

Trading Mechanisms

Via Pipeline: The Iraqi Petroleum Company (IPC) pipeline, which runs from Iraq's northern oil fields of Kirkuk to Syria's Mediterranean coast at Banias, with a spur to

[161] Figures for imports and exports of goods are taken from Jordanian Department of Statistics and converted form Jordanian dinar to dollars. http://www.dos.gov.jo/dos_home/home_e.htm. To the resulting figure for Jordanian exports, $50 million annually was added for transport. Figures for 2001 and 2002 also include an extra 25,000 bpd outside of the trade protocol. For this oil $6 a barrel was added for Jordan, the rest (world price minus six), to Iraq.

[162] "Syria's decision to import Iraqi crude follows example," *Alexander's Oil and Gas* from *Energy24*, October 31, 2000.

[163] "Iraqi-Syrian Pipeline Expansion," *AP*, April 11, 2000.

Tripoli in Lebanon, has a capacity of 700,000 bpd.[164] The Syrian oil fields, near the Euphrates city of Deir al-Zor, also feed into the pipeline. The negotiations regarding the re-opening of the pipeline were initiated by Udai Hussein and went on for nearly five years.[165]

The first agreement, in late 1997, called for the Syrians to pay half-price for the oil.[166] At the time the price of oil was about $13 per barrel.[167] When oil began to flow in late 2000, however, the price was closer to $30 a barrel.[168] Analysts believe Iraq's agreement with Syria was renegotiated and is now similar to that with Jordan, in that Syria receives a discount, in this case estimated at $2-6 per barrel.[169] Analysts also expect the Syrians, like the Jordanians, to facilitate the procurement and transport of goods proscribed under the Oil-for-Food program.[170] In the fall of 2000, as the first reports surfaced of oil flowing through the pipeline, Syria claimed that small quantities of oil were moving, sufficient for testing purposes only.[171] However, since December 2000 Syria, whose normal exports were about 350,000 bpd, has been exporting over 450,000-550,000 bpd, mostly to European customers.[172] As the Syrian oil fields have been in decline for quite some time, the overnight increase can only be due to Iraqi oil. The Syrians, though, do not re-export the Iraqi crude directly; rather, the Iraqi oil is first refined and then used to replace Syrian oil for the purposes of domestic consumption, thereby freeing up an equivalent amount of Syrian oil for export. Some experts believe Iraqi exports to Syria will increase to 250,000 bpd during 2002,[173] and plans are underway for the construction of a *new* Iraqi-Syrian pipeline, with a capacity of 1.4 million bpd.[174]

In 2001 Lebanon and Iraq came to an arrangement, modeled on that of Iraq and Jordan, whereby Iraq would provide Lebanon a quantity of free oil *via* the Syrian pipeline -- 400,000 barrels to begin with -- and sell Lebanon more.[175] This agreement was

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[164] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France, p.184-5.

[165] "Iraq, Udayy's Control Over Economy, Trade Viewed," *Al-Watan al-Arabi,* FBIS-NES-96-137, July 16, 1996.

[166] Con Coughlin, "Saddam sets up new oil smuggling deal to beat sanctions," *Sunday Telegraph*, November 1, 1998.

[167] US Department of Energy, http://www.eia.doe.gov/emeu/international/petroleu.html#CrudePrices

[168] Ibid.

[169] Alan Sipress and Colum Lynch, "U.S. Avoids Confronting Syrians on Iraqi Oil", *Washington Post*, February 1, 2002.

[170] Con Coughlin, "Saddam sets up new oil smuggling deal to beat sanctions," *Sunday Telegraph*, November 1, 1998. In this capacity, the recently reopened rail line between Mosul, in northern Iraq, and Aleppo, Syria's second largest city, came in handy: in June 2002 Western intelligence officials told *The Times of London* (Michael Evans, "Baghdad 'using Syria rail link to smuggle in military hardware,'" June 10, 2002) that Iraq has been using the rail line to smuggle in "a vast range of military equipment and parts for weapons of mass destruction." According to *The Times*, these include old Bulgarian tanks once sold to Syria, Czech-made Scud missile-guidance systems and surface-to-air missiles and possibly components for Iraqi's NBC weapons program.

[171] Alan Sipress and Colum Lynch, "U.S. Avoids Confronting Syrians on Iraqi Oil," *Washington Post*, February 1, 2002.

[172] "Syria-Iraq oil pipeline still flowing," *Reuters*, February 28, 2001.

[173] "Iraqi Oil Industry in 2002: A Turning Point," *Middle East Economic Survey,* January 14, 2002.

[174] "New Syrian-Iraqi oil pipeline will carry 1.4 million barrels per day," *Syria Live,* March 29, 2002.

[175] "Lebanon to receive 400,000 barrels oil under Iraqi government grant," *Alexander's Oil and Gas* from *Reuters* and *Newspage*, October 12, 2000.

announced just prior to the re-opening of the Iraqi-Syrian pipeline. During the summer of 2002, Baghdad and Tripoli, as a part of the free trade agreement, began making preparations to restore the pipeline to Lebanon for regular use.[176] They expect to put it into use for up to 50,000 bpd, estimated to be Lebanon's domestic consumption.[177] The oil will be sold to Lebanon at a cut-rate price. As the Lebanese import over $1 billion of petroleum products, there is ample scope for Iraqi exports.[178] Both the Syrian and Lebanese arrangements with Baghdad fall outside the Oil-for-Food program.

By Tanker: Since the re-opening of trade between Syria and Iraq in October 1997, four border crossings have come into use.[179] UN Oil-for-Food monitors, who only inspect goods being imported to Iraq under their program, are present at only one of these crossings;[180] at the other three, there is no international observation of the sanctions-busting trade. Late in 1998, prior to the completion of the repairs to the pipeline, an agreement was struck between Iraq and Syria to begin exporting Iraqi oil to Syria *via* tanker truck.[181] Although it is unclear when the transport actually commenced, trucks were certainly rolling prior to the fall of 2000, when the pipeline came into use,[182] and have carried on since.[183] Likely the cargo is Iraq's surplus diesel that at one point went to Turkey. It is reported that hundreds of trucks are involved in the transportation,[184] suggesting that up to 30-40,000 bpd are being moved – a volume roughly equal, as noted above, to the decrease in the Turkish diesel trade. Rail tankers may also be in use: in March 2001, there were suspicions that oil was being transported by rail to the new Syrian power plant near Aleppo, which reportedly requires some 30,000 bpd.[185]

Political economy

Syria, Jordan and Iraq have at times had the type of zero-sum triangular relationship wherein improvements in relations between any two parties signify a degrading of relations with the third. Recent moves would seem to confirm this analysis: Baghdad's increased trade with Syria saw a concurrent decline in Iraqi trade with Jordan. Working in Jordan's favor, however, has been its better road and port infrastructure, amenities the Syrians have begun to appreciate. Recently President Bashar Assad allocated $34 million to upgrade Syria's main port of Tartous.[186] In January 2001, just six weeks after the opening of the pipeline, Iraq announced it would direct much more of the transit of the Oil-for-Food imports through Syrian ports.[187] For the Syrians, the cut-rate Iraqi fuel,

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[176] "Iraq and Lebanon to rehabilitate oil pipeline", *UPI*, July 11, 2002

[177] "Iraq to assist Lebanon to repair idle pipeline" *Iraq Press*, August 25 2002

[178] "Lebanon's Petroleum Import Bill Rises To $1.1bn In 2000", *Middle East Economic Survey*, March 19 2001.

[179] "Iraq's trade with Syria booms despite U.N. embargo," *Iraq Press*, July 20, 2001.

[180] UN Office of the Iraqi Program, http://www.un.org/Depts/oip/cpmd/authentication.html

[181] Con Coughlin, "Saddam sets up new oil smuggling deal to beat sanctions," *Sunday Telegraph*, November 1, 1998.

[182] "Syria's decision to import Iraqi crude follows example," *Alexander's Oil and Gas* from *Energy24*, October 31, 2000.

[183] "Iraq's trade with Syria booms despite U.N. embargo," *Iraq Press*, July 20, 2001.

[184] Ibid.

[185] Brian Whitaker, "Syrian rehabilitation is in the pipeline," *The Guardian*, March 26, 2001.

[186] "$34 million for Tartous port," *Syria Live*, February 23, 2002.

[187] "Iraq increases its imports though the Syrian ports," *Arabic News*, January 3, 2001.

which allows them to export more of their own oil, represents a hard-currency windfall that could pump as much as a half-billion dollars annually into Syria's $7.5 billion budget.[188] The new arrangements with Lebanon, with oil passing through the Syrian pipeline and the planned Iraqi imports from Lebanon traversing Syrian territory, will bring in additional income and, as an added boon, is likely to enhance Lebanese dependency on Syria.

Iraqi relations with Syria can be viewed from several perspectives. First, the new warmth may signal an overt attempt to encourage Syria not to side with Iraq's enemies in any upcoming armed confrontation, as Syria has done in Iraq's last two wars. Second, the Iraqis may hope that enhancing its illicit trade relations with Syria will impede Syria's move toward a more open economy, which, in turn, could compel similar movement toward a more transparent political process that Iraq, like other nations in the region, would likely perceive as a dangerous precedent. Improved relations with Syria also puts pressure on Jordan to be more compliant with Iraqi wishes relating both to the importation of goods and to restricting the activities in Jordan of Iraqi dissidents. Finally, Iraq's improved relations with Syria can also be read as another move by Qusai in his ongoing contest with Udai for the seat of their father. One key sector, transport, may have fallen under Qusai's sway, as the al-Dhilal company, thought to be an Iraqi security service front, has taken over much of the transport between Syria and Iraq that was previously run by an Udai-controlled company, Al-Hoda.[189] Qusai is also said to enjoy friendlier relations with President Bashar Assad, a development that has caused his elder brother considerable unease.[190]

International responses

Criticism of Syria has been mild from the UN Sanctions Committee and its hard-line members, the US and UK. The US will not unduly pressure the Syrians, whom it now deems essential for any serious movement toward peace in Israel and for cooperation in the war on terrorism. Shortly after taking office, in late February 2001, US Secretary-of-State Colin Powell visited Syria. Secretary Powell said that President Bashar Assad had thrice assured him that Syria would put the resumed pipeline flow under the UN Oil-for-Food program.[191] It has yet to happen. The UK has made somewhat stronger protestations, but to no avail: no threats of punitive action were made in response to these blatant violations of UN sanctions. In the fall of 2001, Syria was elected to the UN Security . And as of January 1, 2002, Iraq's prime sanctions-busting partner sits on the UN Sanctions Committee and will do so through 2003.

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[188] "Syria passes 2002 budget with $7.6 bln spending," *Syria Live*, November 30, 2001.

[189] "Iraqi security use Transport Company on Baghdad-Damascus Line," *Iraq Press*, May 7, 2001. More on this in the Minor Sources section below.

[190] "Saddam mulls fresh cabinet reshuffle to boost son's standing," *Iraq Press,* August 18, 2001.

[191] Charles Recknagel, "Iraq: Syria Considering End To Oil Smuggling," *RFE/RL,* March 7, 2001

TABLE III: Trade with Syria outside Oil-for-Food

Estimated Revenue (in $ millions)[192]

	2000	2001	2002
Avg bpd	180,000	180,000	230,000
Iraq	$205	$854	$1,175
Syria	$ 65	$394	$ 504

Barges hugging the Iranian coast

Background

At the head of the Persian Gulf are the Iraqi offshore ports of Mina al-Bakr and Khor al-Omaia, both of which are served by an oil pipeline from Basra. Roughly half of all Iraqi exports under the Oil-for-Food program originate from Mina al-Bakr. Nearby are two other ports: Umm Qasr, along the Kuwait-Iraq border, and, up the Shatt al-Arab toward Basra, the port of Abu al-Flus. While these ports were built to be the main facilities for Iraqi imports and exports, they suffered heavy damage in the Iraq/Iran war and endured further bombing during the 1991 and 1998 US-led coalition air strikes.

Trading Mechanisms

The sanctions-busting in these ports occurs *via* four mechanisms: first, by loading up small barges, which stick within Iranian territorial waters until the Strait of Hormuz, whereupon they cross to unload in the UAE; second, by loading barges that travel to the Emirates by way of the Kuwaiti coast; third by topping off with illicit fuel tankers already stocked with legitimate loads under Oil-for-Food, and finally, by transporting oil by truck to Iranian destinations for re-export.

Barges along the coasts

Barges and smaller tankers fill up at the Shatt al-Arab ports of al-Muftiya and Abu al-Flus, north and south of Basra respectively, cross to the Iranian side and then travel along the Iranian coast, all the way to the islands of Qesh or Qeshim.[193] Along the way, naval patrols of the Iranian Revolutionary Guard, particularly from the Revolutionary Guard's maritime station just north of the mouth of the Shatt al-Arab, record and facilitate the transit.[194] These vessels, each with carrying capacities in the range of 15,000-50,000 barrels, are old, not designed for the transport of petroleum products, and are often overloaded and listing.[195] Iran furnishes its own pilots to navigate the shallow waters

[192] Figures based for 2000 (November-December only) and 2001 on an average of 150,000 bpd through the pipeline and 30,000 bpd of fuel transported by truck or rail. For 2002, 200,000 bpd through the pipeline and 30,000 bpd by truck or rail. The figures are based on Syria receiving $6 per barrel (upper range of published estimates), Iraq the balance.

[193] Barbara Crossette, "Smuggling of Iraqi Oil Is Rising, U.N. Is Told," *New York Times*, March 24, 2000. Robin Wright, "Use of transit point to skirt U.N. sanctions," *Los Angeles Times*, July 2, 2000.

[194] Kenneth Bacon, "Department of Defense News Briefing," April 20, 2000, and Robin Wright, "Use of transit point to skirt U.N. sanctions", *Los Angeles Times*, July 2, 2000.

[195] Charles Recknagel, " Iraq: Oil Smuggling Produces High Profits," *RFE/RL*, June 21, 2000.

close to shore and to help prevent polluting spills.[196] At Qeshim, at the Strait of Hormuz, the smugglers may acquire Iranian certificates of origin for their cargo.[197] For all these services the Iranians reportedly charge a fee of approximately $7 a barrel.[198] The oil is then either transferred into larger vessels, or, bearing the new documentation, the barges proceed to Pakistan, India or cross the Strait of Hormuz to the ports of Fujayrah or Dubai, where the oil enters the world market system and is reloaded for onward shipment. [199] During the height of sanctions-busting in December 1999, up to 100,000 bpd were transiting this route.[200] Udai Hussein, according to a former close associate, has a fleet of 50 ships plying this trade.[201] Iraqi opposition press has claimed that Udai wants to buy another fleet of 250 tankers from Japanese and Korean firms.[202]

Another method, likely less used, is for barges to leave from the port of Umm Qasr. They then either use the same route through Iranian waters as do the ships from Abu Flus, or they hug the Kuwaiti, Bahraini and Qatari coasts all the way to the UAE. While there is some evidence to support the claim that this route is well used, those choosing to embark from Umm Qasr face extra constraints. Not only is Umm Qasr the main Iraqi port for the importation of goods under the UN's Oil-for-Food program and is therefore watched by UN inspectors; the port is also home to the UN's Iraq-Kuwait Observation Mission, UNIKOM, which monitors the border.[203] Finally, the barges must traverse Kuwaiti waters, which are patrolled by an authority more likely to inhibit the smuggling.

Topping up on Oil-for-Food

Over the last few years there have been many press accounts outlining the details of the barge smuggling operations. The heightened spotlight on the issue, coupled with more aggressive interdictions, appear to have reduced dramatically the flow of oil *via* barges. At the end of 2001 the US Admiral in charge of interdicting smuggled oil through the Gulf estimated that the flow was down from a high of 100,000 bpd to about 30,000 bpd in 2001.[204] But the Iraqis have been experimenting with other ways to smuggle their oil out, and within the past year a new type of arrangement has come to light. In a recent, highly publicized case, a Dutch oil trading firm, Trafigura, having chartered a Liberian-flagged tanker, the Essex, bought crude from a French broker, Ibex Energy, and sold it to American and Venezuelan refiners, Koch and PDSA. The Essex was caught having topped up with an extra 270,000 barrels *after* UN inspectors had approved its load of 1.8 million barrels at Mina al-Bakr.[205] Trafigura's lawyer has denied, "'unequivocally' that

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[196] Ibid.
[197] Robyn Allen, "Iraq oil smuggling bonanza nets Dollars 2bn a year," *Financial Times*, October 4, 2000.
[198] Ibid.
[199] International Chamber of Commerce, Commercial Crime Services, "Tougher port controls sought against smuggled Iraqi oil," June 12, 2001, http://www.iccwbo.org/ccs/news_archives/2001/iraq.asp
[200] Charles Recknagel, "Iraq: Oil Smuggling Produces High Profits," *RFE/RL*, June 21, 2000.
[201] "Interview of Defector (Abbas al Janabi) with *Al Hayat*," *Iraq News* from Laurie Mylroie, October 18-22, 1998.
[202] "Saddam's son to set up tanker fleet for oil smuggling," *Iraq Press*. July 28, 2001.
[203] http://www.un.org/Depts/DPKO/Missions/unikom/unikom_body.htm
[204] "Iraqi Oil Smuggling Under Scrutiny," *RFE/RL*, December 7, 2001.
[205] Carola Hoyos, "Oil smugglers keep cash flowing back to Saddam," *Financial Times*, January 16, 2002.

the company had anything to do with the 'top-up' scheme."[206] Payment for at least part of the load managed to find its way into Swiss or Lebanese bank accounts, rather than into the UN's BNP account in New York.[207] This elaborate, multilateral smuggling effort was brought to the attention of the UN Security Council, and the responsible UN officials have called for reviews of the monitoring procedures to prevent further such occurrences.[208]

By truck to Iran

In contrast to the media spotlight on Iraq's sanctions-busting trade with other neighbors, there has been comparatively little reporting on the Iraqi oil trade with Iran *via* road. During 1993-94, Iraq was reported to be exporting 30,000 bpd of refined oil products by road to Iran, some of it transiting through oil-rich Iran to oil-hungry Pakistan.[209] The routes used have either been by road to Khaniqin-Qasr Shirin or by barge across the Shatt al-Arab and then by road to Iranian ports for export.[210] This arrangement was first brokered in the early 1990s by then-Minister of Industry Hussein Kamel al-Majid, who built up this part of the Iranian trade to 30,000 bpd.[211] One of Kamel's schemes -- for he was also responsible for weapons procurement -- was reportedly a plan to export fuel overland to Iran, which would then send on equivalent amounts to North Korea.[212] In exchange, Iraq was to be paid in hard currency, and Iran would receive Korean-made long-range missiles. It is not clear whether the deal, estimated to be worth some $120 million, ever went off.

Early in 1994 Saddam's son Udai muscled in on the land exports to Iran and succeeded in pushing out an ailing Kamel.[213] Udai reportedly solidified the trade by brokering a deal with then-Iranian President Rafsanjani's son Mehdi.[214].

It is not clear to what extent sanctions-busting oil is still trucked into Iran. However, transport between these two countries is clearly a priority -- at least for the Iranians, as

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[206] Alix M Freedman and Steve Stecklow, "The Oil "Top-Off": Another Way Iraq Cheats U.N.," *Wall Street Journal*, May 2, 2002.

[207] Carola Hoyos, "Oil smugglers keep cash flowing back to Saddam," *Financial Times*, January 16, 2002, and Alix M Freedman and Steve Stecklow, "How Iraq Reaps Illegal Oil Profits," *Wall Street Journal*, May 2, 2002.

[208] "Iraq: UN sanctions panel seeks measures in response to illegal oil smuggling," *UN News Service*, January 8, 2002.

[209] "Iraqi oil, goods said smuggled in via Iran," *Al-Hayah* newspaper, FBIS-NES-93-242, December 20, 1993.

[210] Adnan Husayn, "Regime Said to Export Oil Via Iranian Ports," FBIS-NES-94-239, December 13, 1994.

[211] "Saddam Family Dispute Over Oil Sales Reported," *Voice of Iraqi People*, FBIS-NES-93187, September 29, 1993.

[212] Walid Abi-Murshid, "DPRK Missiles for Iran in Secret Deal With Iraqi Oil," *Al-Sharq Al-Awsat*, June 17, 1993; FBIS- NES-93-118, June 22, 1993.

[213] "Saddam Family Dispute Over Oil Sales Reported," *Voice of Iraqi People*, FBIS-NES-93187, September 29, 1993. Hussein Kamel went on to defect and then to repatriate under a promised amnesty, immediately after which he was murdered at the behest of his former partner, Udai. This sordid saga is treated in more detail in The Family section below.

[214] Michael Theodoulou, "Sons of Iraq and Iran rulers join to flout UN embargo," *The Times of London*, February 24, 1994. Also, "Alleged Iraqi-Iranian-Turkish Plan on Kurdistan," *Al-Watan al-Arabi*, FBIS-NES-95-215, November 7, 1995.

evidenced last month, when a greatly expanded border terminal was inaugurated at the frontier post of Khosravi in Kermanshah province.[215] A rail line linking Syria-Iraq-Iran that will terminate at a main Iranian port, Khorramshar, is scheduled for completion in 2003. In Iraq, extra rail tankers are reportedly currently under production.[216] Recent examples of Iranian re-export of Iraqi oil are detailed below, in the section entitled *International Response.*

Political economy

At times the Iranian Navy has cracked down on smuggling operations that depend upon access to Iran's territorial waters.[217] The Iranian Revolutionary Guard naval patrol, considered to be the main facilitator and beneficiary of this trade, is not under the direct control of President Khatami, Tehran's moderate leader; indeed, its sanctions-busting use of this route appears instead to furnish hard currency to Iran's hard-liners.[218]

Baghdad may actually view this trade with Iran, its longtime enemy, as a mechanism to weaken it. Had Iranian President Khatami been able to solidify power in the hands of the moderates, a rapprochement with the US and other enemies of Saddam Hussein might have gained momentum. Instead, bringing the Iranian Revolutionary Guard into a lucrative trading relationship helps to keep the Tehran government divided.

For a few months in the first half of the year 2000, the three-way tussle between Iraq, Iran and the United States began to swing against Iraq. In mid-March the US State Department announced a minor lifting of US sanctions on Iran, which included freeing up trade in pistachios, carpets and caviar.[219] Far more than the re-opening of possible trading opportunities, the initiative was the first concrete signal that the United States believed the election of reformer Mohammad Khatami three years prior could lead to improved relations. Responding to the US initiative, in April 2000 Iranian naval units began interdicting vessels smuggling Iraqi oil through Iranian waters.[220] At one point it appeared that even the Iranian Revolutionary Guard had joined in the blockade of Iraqi goods, from which only a few months previous they had been profiting handsomely.[221] By early summer, though, coincident with a crackdown by Iran's hard-liners on the

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[215] "Iran's Largest Border Terminal Inaugurated; To Serve Pilgrims Visiting," *Iran News Agency,* March 6, 2002.

[216] "Iraq using rail link to smuggle oil," *Iraq Press,* June 10, 2002.

[217] This appeared to be the case in late June, as this paper went to press ("Iraqi Oil Smugglers Avoid Tankers," *AP*, June 26, 2002). The new Iranian vigilance on its coastal waterways has forced smugglers to substitute small sailboats, or *dhows*, for oil tankers, on the theory that they would be harder to spot. The theory was flawed: within one week, 21 mostly small vessels loaded with Iraqi oil were apprehended by US and allied naval ships constituting the Multinational Interception Force (see below).

[218] Kenneth Bacon, Department of Defense News Briefing, April 20, 2000; also Robin Wright, "Use of transit point to skirt U.N. sanctions," *Los Angeles Times*, July 2, 2000.

[219] Secretary of State Madeleine K. Albright, "Remarks before the American-Iranian Council," March 17, 2000, Washington, D.C.

[220] Charles Recknagel, "Iraq: Mystery Surrounds Iran's About-Face On Oil Smuggling," *RFE/RL*, June 21, 2000.

[221] "Iran detaining 10 tankers with Iraqi oil," *Alexander's Gas and Oil,* April 11, 2000.

Khatami moderates, Iraqi smuggling through Iranian waters had re-commenced[222] and quickly climbed to an estimated 100,000 bpd.[223]

In hindsight, US officials may have speculated as to the reasons behind Iran's resumption of their laissez-faire attitude toward the smuggling. Had the hard-line in Tehran cracked down on concrete manifestations of a rapprochement between Iran and the US? Was the sanctions-lifting "carrot" not big enough? Had Iraq made a better offer? Was the divide between Iran and the US too wide to be bridged by such incremental steps? Or did the lure of hard currency simply win out in the end?

Iran may also be a field in which the struggle for power between Udai and Qusai plays out. As noted above, Udai was thought to have business arrangements with a son of Iranian leader Hashem Rafsanjani. In August 2002, Rafsanjani's daughter, Faezeh Hashemi, visited Baghdad in her capacity as the chairperson of Islamic Countries' Women's Sport Federation. Upon her return to Tehran and in response to speculation in the Iranian press, Hashemi was compelled to issue a statement saying that although she had met with officials of the Iraqi Olympic Committee, she had not met with Udai Hussein, the IOC president.[224] At nearly the same time, Qusai Hussein was rumored to have traveled to Iran in order to seek weaponry and political support in Iraq's confrontation with the US.[225] It is thought that he was unsuccessful in his mission.

International response

In 1991, the UN authorized the establishment of the Multinational Interception Force (MIF) to deploy ships to the international waters of the Persian Gulf in order to interdict Iraqi oil exports.[226] The MIF is a largely American force bolstered by the UK, Canada, Australia and New Zealand. US aircraft carriers and accompanying vessels are deployed, with the dual purpose of monitoring the oil shipments and enforcing the US/UK no-fly zones. Using radar and overflights, all ships into and out of Iraqi ports are tracked,[227] and the MIF boards and physically inspects on average two ships per day.[228] However, the MIF has no authorization from the Iranians to enter their waters and hence can only sit and watch the barge traffic hugging the Iranian coast. Due to its exclusion from Iranian territorial waters, the MIF estimates that it interdicts less than five percent of the ships carrying smuggled Iraqi oil.[229]

On occasion, when a ship is boarded and sanctions-busting oil is found, the cargo and ship are usually turned over to UAE or Omani authorities, who put them on auction and

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[222] "Iranian policy shift opens sea lanes to illegal Iraqi Oil," *Alexander's Gas and Oil* from *Reuters*, June 6, 2000.
[223] "US accuses Iran of helping Iraq to smuggle oil," *Alexander's Gas and Oil* from *Energy24*, July 3, 2000.
[224] "Iran News Carries 'Press Review' Feature for 7 August ", FBIS-NES-2002-0807, August 7, 2002
"ISNA says foreign ministry aware of Faezeh Hashemi's visit to Iraq", FBIS-NES-2002-0807, August 7, 2002.
[225] "Report: Saddam's son secretly visited Iran", *UPI*, July 22, 2002.
[226] UN Security Council Resolution 665 (1990), http://www.fas.org/news/un/iraq/sres/sres0665.htm
[227] Linda D Kozaryn, "U.S. Sailors Divert Arabian Gulf Smugglers," *American Forces Press Service*, October 21, 1998.
[228] Ibid.
[229] Charles Recknagel, "Mystery Surrounds Iran's About-Face On Oil Smuggling," *RFE/RL*, June 21, 2000.

give the proceeds to the UN.[230] It is believed that those oil traders whose ships and cargos have been seized often buy the goods back at auction. There may even be an understanding among traders in the UAE not to compete with each other at these auctions.[231] No other punitive measures are taken; hence, the few interdictions simply become another business expense.

Nevertheless, because traders don't wish to risk using expensive shipping assets or having them tied up for weeks or months, they assign their outdated and/or ill-fitted vessels to this trade, which, inevitably, has increased pollution in the Gulf. In early 1998, one overloaded barge spilled 30,000 barrels off the northern coast of the UAE. Iranian resort islands are also said to have been sullied by such spills.[232]

Early in the year 2000, US naval forces boarded and detained two Russian ships carrying Iraqi oil that had been loaded in Iran. The first, a tanker named the Volgoneft-147,[233] was owned by the private Russian firm SFAT (SovFinAmTrans), a joint venture among the Russian Ministries of Railroad and Petrochemicals and an American company, Transcisco, with financing provided by the European Bank for Reconstruction and Development (EBRD).[234] One of SFAT's main activities is the construction, maintenance and leasing of railway tankers for the petroleum industry; a minor activity is the shipment of oil by sea.

Although US officials claimed not to have uncovered the owner of the cargo,[235] the Russian government paper, *Rossiyskaya Gazeta*, said that the firm Transpetro-Volga, a SFAT subsidiary, had leased the vessel, and the cargo was owned by a British Virgin Islands company, Primstar.[236] A report by an Estonia-based, non-governmental think-tank claimed that the Volgoneft-147 and a sister ship had made 40 trips smuggling Iraqi oil.[237] Another account maintains that the US officials had been complaining for some time about Russian-flagged ships violating the embargo.[238] The cargo of the Volgoneft-147 was seized and auctioned. The second instance, in April 2000, involved a Russian tanker owned by Novorossiisk Shipping, whose cargo of over half a million barrels -- about 100,000 of which were alleged to be Iraqi -- was owned by Royal Dutch/Shell. Shell denied knowledge that there was Iraqi oil on board, claiming that the ship, destined for Singapore, had loaded its oil in Iran. The US claimed chemical analysis determined the

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[230] Charles Recknagel, "Iraq: Oil Smuggling Produces High Profits," *RFE/RL*, June 21, 2000.
[231] Robyn Allen, "Iraq oil smuggling bonanza nets Dollars 2bn a year," *Financial Times*, October 4, 2000.
[232] "Emirates want to stop the smuggling of Iraqi oil," *Alexander's Oil and Gas*, January 20, 1998.
[233] David Storey, "Boarded Russian Oil Tanker in Gulf Is Detained," *Reuters*, February 3, 2000.
[234] Transisco Industries 10-K Annual Report, March 1996.
[235] Steven Lee Myers, "UN Concludes, Fining Shell, That Tanker Carried Iraq Oil," *New York Times*, April 26, 2000.
[236] Alexei Baliev, "All in all suspected of smuggling," *Rossiyskaya gazeta*, February 9, 2000, http://www.rg.ru/english/Archiv/2000/0209/2.htm
[237] "Boris Birshtein and relatives of the Minister of Railways of Russia Nikolay Aksenenko," *Russia Monitor*, http://www.russiamonitor.org/en/main.asp?menu_id=1_a_177_25
[238] David Storey, "Boarded Russian Oil Tanker in Gulf Is Detained," *Reuters*, February 3, 2000.

Iraqi origin of both cargoes. The oil was released to its owner after Shell Oil paid a $2 million fine, even as the firm continued to claim that all the oil was of Iranian origin.[239]

The smuggling continues: in late May 2002, the British frigate HMS Portland stopped and seized its second ship of the year bearing illegal cargo,[240] the MV Devo, containing over 20,000 barrels of Iraqi crude on board.[241] This was not the first time that the Burmese ship, flying a Bahamian or Honduran flag of convenience, had run into international difficulties.[242]

Table IV: Iraqi-Iranian-Gulf Oil Trade outside Oil-for-Food

Estimated Revenue (in millions)[243]

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Avg bpd	25,000	49,000	70,000	90,000	75,000	52,000	45,000
Iraq	$117	$222	$314	$402	$336	$235	$205
Iran	$ 53	$ 97	$135	$172	$144	$107	$ 89
Smugglers	$ 4	$ 21	$ 37	$ 51	$ 40	$ 23	$ 18

[239] Steven Lee Myers, "UN Concludes, Fining Shell, That Tanker Carried Iraq Oil," *New York Times*, April 26, 2000.
[240] "Birthday surprise for Saddam Hussein," *Navy News*, May 8, 2002.
[241] "Navy frigate stops Iraqi smugglers," *BBC*, May 30, 2002.
[242] "Violation of Burmese Seafarer's Basic Rights Continues Unabated," *BurmaNet News*, March 4, 2002, and ICFTU, "Annual Survey of Violations of Trade Union Rights in Burma (2001)," http://rebound88.tripod.com/sp/fl/sicftu2001.html
[243] Barrels per day are calculated from press reports based on US officials and oil industry analysts. To figures for smuggling by sea, another 20,000 bpd have been added to account for oil trucked into Iran. Iran's cut has been estimated at $6/bbl for the trucked oil (on par with other neighboring states), and $5 for oil smuggled by sea. (Press accounts usually cite $7/bbl or $50/ton; however, not all the oil smuggled by sea goes through Iranian waters.) Smugglers include foreign partners for the trade by sea only, and here the authors have put a figure of $2bbl.

IV. Minor Sources of Iraqi Government Income

Transport

Iraqi-Jordanian Land Transport Company (IJLTC)

The company, sometimes called the Jordanian-Iraqi Overland Transport Company, was established as a joint venture of the two governments in 1980 to handle the increased imports from the port of Aqaba through Jordan to Iraq.[244] The closure of the Gulf ports during the Iran-Iraq war provided a great boost to the new company, as most of Iraq's trade shifted to Aqaba.

IJLTC handles the trucking of --

- Iraqi oil exports to Jordan (on which IJLTC has a monopoly);
- Iraqi imports such as fertilizer from Jordan (on which IJLTC collects a percentage);
- Iraqi imports from the port of Aqaba, including Oil-for-Food goods (of which IJLTC collects 16 percent).[245]

Jordan's former Minister of Transport, Issa Ayoub, was also chairman of both IJLTC and the Port of Aqaba. The responsible minister on the Iraqi side is Dr. Ahmed Murtada, a longtime member of the government. The Jordanians pay Iraq for the oil transport, resulting in an estimated net flow to Baghdad of $50-80 million a year. It is not clear how this relates to the ostensible "joint venture" nature of the partnership.[246] This extraordinary arrangement has left only some $350,000 in profits to be split between the two governments.[247] The joint venture is important enough to warrant the attention of the King of Jordan, who is briefed at least annually on the state of the firm.

IJLTC is also important enough to have warranted the attention of the US government's Department of the Treasury, Office of Foreign Assets Control, which has put the firm on its Special Designated National List, thereby subjecting it to US sanctions.[248]

Iraqi-Syrian Land Transport Company (ISLTC)

Land transportation of people and goods between the two countries has been seen as vital since the beginning of the rapprochement in 1997. The first concrete sign of cooperation was the establishment of regular bus service between the capitals in July 1997.[249] In 1999, a Udai Hussein-controlled company, Al-Hoda, held the monopoly on transporting

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[244] Laurie A Brand, *Jordan's Inter-Arab Relations: The Political Economy of Alliance Making*, Ch. 6, Columbia University Press, New York, 1994.

[245] Ahmed Naser, "Jordanian-Iraqi company examines expanding land transport fleet," *Jordan Times*, June 30, 1998, and Ahmed Naser, "King, Crown Prince meet with Iraqi transport minister," *Jordan Times*, July 2, 1998.

[246] "Jordan, Iraq Oil Pipeline Reportedly Attracts Thirty Potential Contractors," *Jordan Times*, FBIS-NES-2002-0219, February 19, 2002.

[247] Ahmed Naser, "King, Crown Prince meet with Iraqi transport minister," *Jordan Times*, July 2, 1998.

[248] http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf

[249] "Syria-Iraq bus link," *ArabicNews*, July 4, 1997.

pilgrims, mainly Iranian, to the Shi'i holy sites, *via* Syria.[250] By spring of 2001, the al-Dhilal company, thought to be controlled by Iraqi intelligence services and hence under the sway of Qusai Hussein, had taken over the passenger and some of the cargo runs from Damascus[251] and made plans to expand to Beirut. By the fall of last year an agreement had been reached to establish the ISLTC, and in March 2002 an expansion of its fleet was authorized.[252] The ISLTC is headquartered at Syria's main port, Tartous,[253] in order to facilitate the vastly increased use of the Syrian route for imports to Iraq, both within and outside of the UN Oil-for-Food program. The relationships between the ISLTC and al-Hoda and/or al-Dhilal are unclear.

Exports other than oil: Sulfur

Late in 2000, the Jordan Phosphates Mine Company (JPMC) a state-owned enterprise slated for privatization in 2002, began importing sulfur from the Mishraq Sulfur Company, part of the Iraqi Ministry of Industry and Minerals, located south of Mosul on the Tigris River. Jordan uses the sulfur as a component in manufacturing fertilizer. In the 1980s Jordan and Iraq had an agreement by which Iraq provided sulfur and received fertilizer in return. As distinct from its arrangement to obtain oil, throughout the 1990s Jordan has not challenged the sanctions regime in its procurement of sulfur, importing it instead from Saudi Arabia and the UAE.[254]

But in October 2000, Iraq offered to provide sulfur at a 33-percent discount from the price of the Saudi sulfur.[255] The Iraqi sulfur would be transported by sea from Umm Qasr to the port of Aqaba. In the year 2000, 100,000 tons were to be traded, at a cost to Jordan of a little over $3 million. The 2001 trade in sulfur was intended to reach some 700,000 tons, equaling the peak of Iraqi sulfur exports from the late 1980s.[256] That volume would bring revenues of over $20 million into Iraq.

During the 1980s, UK officials, concerned that the sulfur would be used as a component in the production of nerve gas, refused governmental backing under the Export Credit Guarantee Department for a credit application by a British firm that wished to undertake a 5.4-million-pound refurbishment of the Mishraq Sulfur Company.[257]

Trade Fairs

In 1995, for the first time since the imposition of sanctions, the annual Baghdad International Fair took place. Fifteen countries sent over 400 companies to participate.[258]

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[250] "Iraq Fleeces Iranian Pilgrims," *RFE/RL*, April 16, 1999.
[251] "Iraqi security use Transport Company on Baghdad-Damascus Line," *Iraq Press*, May 7, 2001.
[252] "Iraq, Syria sign joint cooperation minute," *Iraq News Agency*, March 23, 2002.
[253] "Syria, Iraq sign transport agreement," *Syria Live*, March 26, 2002.
[254] Saad G. Hattar, "Jordan strikes delicate balance by improving Iraq ties while maintaining good relations with US," *Jordan Times*, November 5, 2000.
[255] "Iraq To Start Shipping Sulfur to Aqaba," *Jordan Times*, FBIS-NES-2000-1030, October 30, 2000.
[256] UNCTAD Handbook of International Trade and Development Statistics, 1995, and "Iraq To Start Shipping Sulfur to Aqaba," *Jordan Times*, FBIS-NES-2000-1030, October 30, 2000.
[257] http://www.iraqwatch.org/government/uk/scott%20report/d2-65.htm
[258] State Company for Iraqi Fairs, http://www.businesslink.co.ae/facility.html

By 2001, the ten-day fair's exhibitors had grown to 1650 companies representing 48 nations, with an attendance of 631,000 people.[259] European countries such as France, Germany, Turkey, Sweden, Denmark, Italy, Austria and Russia send major delegations, as do most Arab countries.[260] In 2001 Palestine brought 325 companies, Russia and Turkey over 200 companies each, and France and Egypt were each represented by roughly 150 firms.[261]

Both the host country and commercial delegations are keenly aware of the Trade Fair's political impact. Held during the first 10 days of November, the event is usually opened by such luminaries as Vice-President Taha Yassin Ramadan, who in 1999 held forth on the much-vaunted plaint that the sanctions are a "terrorist weapon" responsible for the deaths of over a million Iraqi children, then concluded by pledging to direct Oil-for-Food contracts toward countries that oppose the sanctions.[262] Participants also see the politics involved in this ostensibly purely commercial event, as the *Daily Star* of Beirut put it: "Competitive prices without sound political stands will not tempt Iraqi authorities to strike business deals."[263]

The Iraqis have become very effective at using the annual Trade Fair for their wider purposes. In 2000, fair attendees witnessed a parade of foreign dignitaries flying into Baghdad airport, actively skewing in the Iraqis' favor a liberal interpretation of whether or not international flights were a violation of sanctions. [264] In 2001, at least six foreign government ministers, including the Jordanian Prime Minister, attended the fair,[265] and some of them used the opportunity to sign wide-ranging trade agreements with Iraq.[266]

Noticeably absent from the Baghdad International Fair are Kuwait, Japan, the US and the UK.[267] Those nations' companies do not miss out entirely, however: some foreign subsidiaries or agents companies from these countries have been known to attend.[268] British businessmen, too, appear to be eager for their piece of the action. In response to a query from the Foreign Affairs Committee of the House of Commons, the Foreign Office stated:

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[259] http://www.imag.de/english/imag/home.html

[260] "Sanctions? What sanctions?" *Alexander's Oil and Gas* from *Reuters* and *Energy24*, November 7, 2001.

[261] "170 Egyptian Companies to Attend Baghdad International Fair," *People's daily*, October 28, 2001, "Foreign Delegations Arrive for Baghdad International Fair," *RFE/RL*, November 2, 2001.

[262] "Iraq Holds Grand Baghdad International Fair," *China Radio International*, November 2001, and "Baghdad Stages Trade Fair," *RFE/RL*, November 5,1999.

[263] Dania Saadi, "Iraqi Trade Fair Is A Political Event - Opposing Sanctions Will Secure Deals," *Daily Star* (Beirut), November 6, 2001.

[264] "Foreign ministers and traders attend Baghdad's trade fair," *Alexander's Oil and Gas* from *Reuters*, November 1, 2000.

[265] "Baghdad Fair Attracts 1500 Firms," *RFE/RL*, November 3, 2000.

[266] "Iraq, Tunisia, Morocco to Boost Trade Relations, Algeria Iraq Set Up Free Trade Zone, Lebanon Iraq to Sign Free Trade Agreement," *RFE/RL*, November 9, 2001.

[267] "Sanctions? What sanctions?" *Alexander's Oil and Gas* from *Reuters* and *Energy24*, November 7, 2001.

[268] Chuck Sudetic, "The Betrayal of Basra," *Mother Jones*, November/December 2001. The German firm IMAG helps to organize such participation in the fair. http://www.baghdad-international-fair.de/

> . . . the annual Baghdad Trade Fair is not in itself a breach of sanctions. The UN "Oil for Food" humanitarian program, with revenue of about $14 billion since SCR 1284 was passed in December 1999, offers considerable opportunities for legitimate trade with Iraq. We are supporting British companies in their efforts to win a share of this trade.[269]

Nominally, exhibitors must have approval of the UN Sanctions Committee even to bring display goods to Baghdad. However, there is little oversight that might stop a firm either from ignoring the Sanctions Committee and shipping in display goods directly, or from disposing of their samples after the fair is over by selling or "donating" them locally. Fair regulations do not allow exhibitors to engage in retail transactions from their booths but do permit exhibitors to apply for a "sales quota." The regulations also note that, "...purchase priority [is] given to the public sector."[270]

Along with the annual Baghdad International Fair, the fairgrounds are used throughout the year for trade fairs from a wide variety of countries that come to display their goods and wares. Over the last two years Turkey, Egypt, Morocco, the Philippines, Syria, Lebanon, Algeria and the UAE have sponsored fairs in Baghdad. As a part of the recent warming of relations, Saudi Arabia held a trade fair in mid-September 2002. In 2001 the Ukraine went so far as to sponsor a trade fair in conjunction with the main Iraqi weapons-procurement agency, the Military Industrial Commission.[271] Iraq also reciprocates by displaying its companies at fairs in other countries, in the hope of expanding relations. The investment has paid off: an Iraqi trade fair in Cairo in August 2001 led to an increased Egyptian presence, including the attendance of two ministers, at the Baghdad International Fair last November.[272] Iraq has had an increasingly large showing at the annual Paris International Fair,[273] which was quickly followed by the Fourth International Commercial Fair held in Sana' Yemen,[274] and a large presence in Turkey in August 2002 at the Izmir International Fair.[275]

Aside from the political spin-off and financial advantage gained from negotiating contracts on their home turf, the Iraqis profit from the trade fairs in a more immediate sense by collecting the fees and costs incurred by visiting delegations. For the Baghdad International Fair, floor space rents for between $50 and $100 per square meter, depending on location, with a minimum allotment that brings the rental fee to $2000 per exhibitor; on top of that is a mandatory construction and furnishing fee of $30 per square meter.[276] In 2001, nearly 28,000 square meters of indoor floor space and 18,000 square meters of outdoor space were used.[277] Finally, water, telephones and taxes bring the fee to around $3,000 per exhibitor. Fees for those ten November days alone, therefore,

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[269] http://www.parliament.the-stationery-office.co.uk/pa/cm200001/cmselect/cmfaff/428/428ap13.htm
[270] http://www.krysalex.de/baghdad/terms.html
[271] "Ukrainian firms stage trade exhibit in Baghdad," *Iraq Press,* May 14, 2001.
[272] "Baghdad to Hold Trade Fair in Cairo," *RFE/RL,* August 24, 2001, and "Egyptian Minister to Visit Baghdad in November," *RFE/RL,* October 12, 2001.
[273] "Iraq participates in Paris International Fair," *Iraq News Agency,* May 4, 2002.
[274] "Iraq participates in 4th International Commercial Fair," *Iraq News Agency,* May 21, 2002.
[275] For a spreadsheet of participants see http://www.izmirfair.com.tr/kat_olog.xls
[276] http://www.krysalex.de/baghdad/appl.html
[277] "Iraq Holds Grand Baghdad International Fair," *China Radio International,* November 2001.

brought $4.5 million into the Ministry of Trade's State Company for Iraqi Fair's Account #20006, at the Baghdad branch of the Rafidain Bank- Al-Mansour.

On top of these fees are the hard-currency expenses of the attendees, which average a little less than two people per exhibitor -- meaning that just under 3000 business people attended the most recent Baghdad International Fair at an estimated $100 per day for 10 days, bringing in another $3,000,000.

Numerous sectoral fairs are also held throughout the year. The First International Specialized Motor Show, held in late November of 2001, with rates of $150 per square meter, was organized by the Dubai-based company Business Link, which facilitates conferences in Iraq, the UAE and the region.[278] The Oil and Gas Product Exhibition was held in 1999, where mostly British, French, Italian and Canadian "firms lobbied furiously for contracts to revamp Iraq's ailing oil industry."[279]

More recently, the First Arab International Construction Fair was held in late March 2002, the twelfth Baghdad fair organized by Lebanese company Imaco/GBF.[280] According to the *Iraqi News Agency*, the General Manager of the Lebanese company cited two objectives for the fair: to promote the notion of taking advantage of the $17 billion worth of available contracts under the Oil-for-Food program, and, somewhat contradictorily, to help the Iraqis "break unjust sanctions."[281] Booth space fees for this fair, reflecting its more exclusive nature, were $225 per square meter, to be remitted to the organizing firm's account at the Banque Libano-Francais.[282] For $65,000, a foreign exhibitor was invited to become "a Star Sponsor," which would furnish him or her not only with booth space, but also VIP treatment, including an HIV test waiver and "Private One to One meetings with Iraqi VIPs & Officials."[283]

Free Trade

Over the past two years the Iraqi government, led by Trade Minister Mohammed Mehdi Salih and Vice President Ramadan, has been energetically negotiating, signing and ratifying free trade agreements with other states. By June 2002, eleven agreements had been signed, with several more in negotiations.

Ramadan articulates the goal of the Iraqis.

> The free market agreements are steps on the road of Arab economic integration and unity. This is Iraq's principled stand. Unlike some of the industrialists, we do not view every stage and every step that we take in this regard from the angle of loss and profit. This is a

[278] http://www.businesslink.co.ae/about.html
[279] "Iraq happy to see so many firms interested to supply spare parts," *Alexander/s Oil and Gas* from *AP*, September 25, 1999.
[280] http://www.icf2002site.com/main.htm
[281] Shahla al- Azzawi, "The First Arab and International Fair for Construction in Baghdad concludes its activities," *Iraqi News Agency*, March 2002.
[282] http://www.icf2002site.com/REGISTR%20F.pdf
[283] http://www.icf2002site.com/star.htm

> huge strategic action. Any pan-Arab step has gains and may have losses although we do not consider them as losses from our principled and pan-Arab perspective.[284]

Iraq stands to gain from these agreements on several fronts. First, it gets the immediate political benefit of publicizing agreements that can demonstrate domestically and internationally the ongoing erosion of sanctions. Second, the agreements enable Iraq to increase its presence in the Arab world, which has ongoing trade negotiations both among Arab nations and with other key partners, particularly under the EU-Mediterranean free-trade pact. Iraq's apparent objective here would be to solidify its standing with regard to a future Arab Common Market. Third, these agreements, once ratified -- and so far, only the UAE and Tunisia have done so – will guarantee Iraq preferential trading access as soon as sanctions are lifted.

For the partnering states, the downsides incurred by making agreements with a pariah state appear to be more than offset by the elimination of Iraqi customs fees when trading under the UN Oil-for-Food program. Iraq has also promised to increase Oil-for-Food trade with signatories, but the record so far is spotty: Egypt and Syria, both signatories, have increased their trade significantly, while Jordan, which has not yet signed, is nevertheless a major trader. With non-Arab trading partners such as Turkey and Iran, Iraq has said that a free trade arrangement would be premature.

Agreements	**Signed**
Egypt	January 2001
Syria	February 2001
Tunisia	February 2001
Yemen	August 2001
Algeria	October 2001
UAE	November 2001
Sudan	March 2002
Bahrain	March 2002
Oman	April 2002
Lebanon	April 2002
Qatar	June 2002

Under Discussion	**Last Talks**	**Status**
Jordan	July 2002	Preliminary accord signed
Saudi Arabia	May 2002	Border post re-opened
Morocco	June 2002	Cooperation being discussed

Luxury goods: Cigarettes

According to defector Abbas al-Janabi, chief aide for years to Udai Hussein, Udai has long controlled the importation of cigarettes into Iraq. Indeed, Mr. al-Janabi, who claims to have negotiated with foreign suppliers on Udai's behalf, insists that "hundreds of

[284] "Iraqi VP Taha Yasin Ramadan Interviewed on Current Events, Situation," *Baghdad Al-Ittihad,* FBIS-CHI-2002-0824, August 24, 2002

million of dollars" were at stake in the deal he was working on just prior to his defection in February 1998.[285]

Iraqis are heavy smokers, consuming some 18 billion cigarettes annually,[286] about 75 percent of which are produced domestically. Roughly four billion cigarettes, then, are imported each year, as are over 2000 tons of tobacco leaves.

Cypriot-registered companies appear to be the main organizers of this trade. According to US Department of Agriculture and World Health Organization figures, in the mid-1990s Cyprus was importing nearly 25 billion cigarettes annually, of which 10 billion, worth over $100 million, came from the US.[287] The Cypriots also produced about five billion per year. During the same period Cyprus exported about 3.5 billion per year, leaving some 26.5 billion to be consumed, or about 44,000 cigarettes per man, woman and child per year (or six packs a day each).[288] While Cyprus is infamous for smuggling cigarettes to many countries, particularly to the former Yugoslavia, it would seem to have had ample quantities left over for the Iraqi market.[289]

According to the European Union, this is exactly what happened: Iraq became a prime market for cigarettes smuggled *via* Cyprus. The EU has long been chasing cigarette smugglers and on several occasions has sued American firms in American courts. In November 2001 the EU launched another suit against RJ Reynolds and Phillip Morris, charging such "violations of the Racketeer Influence and Corrupt Organizations (RICO) Act of 1970" as "money laundering, wire fraud and mail fraud."[290] The EU is also arguing that among the beneficiaries of the cigarette trade are terrorist organizations and sponsors of such: "There is a clear and direct link between cigarette smuggling in this case and the Kurdistan Worker's Party (PKK) and the Iraqi regime," claims a supporting document submitted in the suit.[291]

As for the scale of cigarette and alcohol trade with Iraq, the British Foreign Office released some figures in October 2000. According to the Foreign Minister:

> "In the last 6 months, and these figures incidentally have been provided through the United Nations Security Council, Saddam Hussein has

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[285] "Interview of Defector (Abbas al Janabi) with *Al Hayat*," *Iraq News*, from Laurie Mylroie, October 18-22, 1998.

[286] Figures used in this paragraph come from the Center for Disease Control and the World Health Organization, which uses the Tobacco Marketing Association as its source. http://www.cdc.gov/tobacco/who/iraq.htm

[287] http://www5.who.int/tobacco/repository/tld101/Cyprus.pdf

[288] http://www5.who.int/tobacco/repository/tld101/Cyprus.pdf. Coincidentally, in May 1998, just after the defection by al-Janabi, the US exports to Cyprus plummeted. They have slowly been regaining market share but are only back to just over seven billion cigarettes per year.

[289] "Local firm could face court after seizure of contraband cigarettes," *Cyprus Mail*, December 13, 2001.

[290] Erik Schelzig and Mary Beth Warner, "Tobacco Firms Used Suspected Drug Traffickers, EU Lawsuit Claims," http://www.public-i.org/story_01_110700.htm

[291] Plaintiff's Memorandum of Law in Support of Motion to Submit a Proffer of Evidence Concerning the Link Between Cigarette Smuggling in their Case and Terrorism, United States District Court, Eastern District of New York, Case No: 01-Civ-5188.

imported over 300 million cigarettes, 38,000 bottles of whisky per month, 230,000 cans or 115,000 liters of beer per month, over 120,000 cans or 40,000 liters of vodka per month and almost 19,000 bottles of wine a month."[292]

Fleecing Pilgrims

Because of its world-renowned archeological and holy sites, prior to the imposition of sanctions Iraq attracted about one million visitors per year.[293] But during the 1990s, the number of tourists dwindled to a trickle. Yet there are a couple of ways in which Iraq has managed to generate revenue from tourism: from visitors (mostly Shi'i en route to the religious sites); and from Iraqis leaving (mostly on *hajj* to Saudi Arabia).

Pilgrimages to the Shi'i shrines

In 1998, following a visit to Tehran by Iraqi Foreign Minister Muhammad al-Sahaf and a meeting on the border between Saddam's son Qusai and the Iranian Minister of Intelligence, Iraq and Iran came to an agreement by which Iranian Shi'i pilgrims could, for the first time since 1980, visit the holy shrines in Najaf and Karbala.[294] For the Iraqis the issue involved more than just how much money they stood to gain; these southern Iraqi cities had been hotbeds of Shi'i insurrection in 1991. Saddam's army had violently put down the uprising and deliberately targeted the shrines, and repeated crackdowns have occurred ever since. Along with the Iranians, visitors to the shrines come mainly from Pakistan, India and Lebanon.[295] At first visitors were routed through Damascus, Syria. To control the pilgrims' movements, the government of Iraq has not only compelled them to transfer into Iraqi-provided buses from the Al-Hoda company, thought to be under the sway of Udai Hussein,[296] but to stay in specifically designated hotels. At first Al-Hoda charged $350 for a six-day visit, then $435 for an eight-day visit.[297] The charge quickly doubled to $900, which broke down in the following manner: $600 directly to the Iraqi government; $100 for the visa, and $150 for the ticket and food, not to mention the requisite exchange into dinars of $50 at the border.[298] The trade ground to a halt later in the year, after a renewed falling out between the two governments.

Late in 2000 Iranians were once again allowed to visit the Iraqi shrines.[299] The two governments agreed to allow an increase from 3000 visitors per year to 4800. The $435 fee for an eight-day visit brings in just over $2 million to the Iraqi hosts.[300] Others, however, put the visitors' costs and resulting Iraqi income much higher. Using Iraqi

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[292] UK Briefing on Iraq By Peter Hain, Minister of State, Foreign and Commonwealth Office, UK *Extract from Foreign and Commonwealth Office, UK,* October 23, 2000.
[293] "Tourists returning to controversial Iraq," *USA Today,* October 14, 1998.
[294] Michael Evans, "Iran and Iraq forge anti-West pact," *Times of London*, February 12, 1998, and "New road opened between Iran and Iraq," *Arabic News,* May 19, 1998.
[295] "Tourists returning to controversial Iraq," *USA Today,* October 14, 1998.
[296] "Iraq Mistreats Iranian Pilgrims," *RFE/RL,* May 10, 1999.
[297] "Iraq Fleeces Iranian Pilgrims," *RFE/RL,* April 16, 1999.
[298] "Iraq Mistreats Iranian Pilgrims," *RFE/RL,* May 10, 1999.
[299] "Iranian Pilgrims To Resume Visits to Holy Shrines in Iraq," *Iran News Agency,* FBIS-NES-2000-1028, October 28, 2000.
[300] Ibid.

government figures, the Iraqi opposition press puts the figures as high as 12,000 visitors a week, with annual revenues of a half-billion dollars.[301] A Swiss press account said 3000 a week were allowed to cross, resulting in an Iraqi revenue stream of $45-50 million per year.[302] Whatever the actual number, the Iranians need no longer fly to Damascus, but can cross at the recently refurbished Khosravi post, which is expected to be able to handle up to 10,000 people daily.[303] Most recently, the Iranian embassy in Kabul said they would be willing to facilitate travel by Afghanis through Iran to the religious sites in Iraq.[304]

Iraqis on Hajj

According to the quota system set up by the Saudi authorities, one percent of a country's population can perform the *hajj* in any given year. Prior to the imposition of sanctions, Iraq's quota was 18,000 per year and has recently been raised to 24,700. However from 1991 to 1997, Iraq would only permit 1000 Iraqis to go on the pilgrimage. The government increased this to 3000 in 1997. The route was through Jordan, as the land crossing between Iraq and Saudi Arabia was closed.

In April 1997, in an attempt to flout or re-interpret sanctions, Iraq sent unannounced a planeload of pilgrims to Jiddah, in Saudi Arabia. The UN Security Council made only mild protestations, aware perhaps of the political downside in the Muslim world of taking visible steps to block pilgrims.[305] By the next year's *hajj*, Iraq had upped the ante by requesting that Oil-for-Food funds be used to pay for these trips. In principle, the UN Sanctions Committee agreed and began considering mechanisms by which this could happen. The Iraqis proposed the simplest procedure -- transferring $2000 per pilgrim from the UN's BNP escrow account to the Iraqi Central Bank, with the government handling it from there. France, Russia and China thought that sounded reasonable; the US, the Netherlands and the UK objected.[306]

Over the next three years the Sanctions Committee and the OIP proposed a range of alternatives to avoid direct transfers of cash to the Iraqi government. These included using Jordanian travel agents, the Saudi government and UN Development Program or UN Office of the Humanitarian Coordinator in Iraq (UNOCHI) as third-party implementers. The Iraqi government stuck to its line: the Central Bank or nothing.[307] Given the prospect of having Oil-for-Food pay the way, the government raised the numbers of Iraqis permitted to go on *hajj* to take full advantage of their 24,700-person quota. The amounts requested by the Iraqis: $50 million.[308]

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[301] "Slump in tourism spurs government to amend law," *Iraq Press,* June 27, 2001.
[302] "Iranian Pilgrims Visit Shiite Shrines in Iraq," *RFE/RL*, citing *Neue Zuercher Zeitung*, January 12, 2001.
[303] "Iran's Largest Border Terminal Inaugurated; To Serve Pilgrims Visiting," *Iran News Agency,* March 6, 2002.
[304] "Iran to facilitate visits to Iraqi holy sites by Afghan nationals", Iran News Agency, FBIS-NES-2002-0805, August 05, 2002.
[305] "Security Council Says Iraqi Flight to Saudi Arabia Proceeded Without Consultation with Sanctions Committee," UN Press Release, April 16, 1997.
[306] "Sanctions Committee Decisions on Iraqi Hajj Pilgrims," USIS "Info File," March 2, 2000.
[307] Ibid.
[308] United Nations, "Letter Dated 24 February 2000 from the Secretary-General to the President of the Security Council," S/2000/166, March 1, 2000.

In 1999, after negotiations with the UN broke down, the Iraqis tried a different tack. The government bused some 18,000 Iraqi pilgrims to the Saudi border, where they proceeded to storm the desert border crossing, closed since 1990, stopping only at the outskirts of the town of Ar'ar.[309] There the pilgrims began demonstrating against the Saudis, demanding that they be allowed to proceed and that the Saudis release frozen Iraqi assets to pay for their trip. Iraqi television crews accompanied the pilgrims to provide footage for domestic and international consumption. Saudi King Fahd yanked the rug out from under the Iraqis' intended public-relations coup, however, when he welcomed the pilgrims in. Furthermore, he promised that Saudi Arabia would provide all necessary arrangements for the Iraqi pilgrims *gratis*.[310] But, he added, there would be no bank transfers or freeing of Iraqi government assets. Saddam immediately recalled all 18,000 pilgrims to Baghdad, and the foreign press reported that the mood on the pilgrims' ride home was despondent.

Since then the Saudi-Iraqi border post has been officially re-opened, not only for *hajj* pilgrims, but to facilitate the increasing trade between the two countries. Pilgrims are allowed to cross, but they are not funded under Oil-for-Food. Each year Iraq also sends some flights to Saudi Arabia, and each year the UN Security Council chastises the Iraqi authorities for not providing it with advance notice.

Miscellaneous

In addition to the numerous revenue sources discussed above, according to Kroll Associates -- the high-profile financial investigations firm which, under contract to the Kuwaiti government, attempted more than a decade ago to track Saddam's assets in order to have them seized or at least frozen -- as of 1992, Saddam and his family are believed to have amassed a personal fortune of up to ten billion dollars.[311] Of this, Kroll suspected, about one billion was invested in European companies. The largest such investment publicly announced was an 8.4-percent stake in the French publishing firm Hachette, worth $70 million.[312]

There are several other sources of hard currency for Saddam, his sons and cronies which we have not yet developed sufficient information to document. Under the Oil-for-Food program these include kickbacks on import contracts; transportation fees paid to logistics firms and the re-export of Oil-for-Food goods such as medicines, lentils, baby food and vehicles. Outside Oil-for-Food, these sources include port and customs fees; over-flight and landing fees; commissions on foreign travel arrangement; visa fees for foreigners as well as Iraqis; exports of Iraqi-produced goods such as grain, dates and cement, and the manipulation of currency and foreign exchange.

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[309] "Pilgrimage politics," *Al-Ahram Weekly*, March 25-31, 1999.
[310] Ibid.
[311] John Greenwald, "Did Saddam Skim Billions?" *Time*, April 8, 1991.
[312] "On Saddam's Money Trail," *Newsweek*, April 8, 1991.

Table V: Estimated Revenue from Minor Sources of Iraqi Government Income (in millions annually)[313]

	Low	High
IJLTC (Ministry of Transport)	$ 50	$ 80
Sulfur exports (Ministry of Industry)	$ 3	$ 25
International Trade Fairs (Ministry of Trade)	$ 15	$ 30
Cigarettes	$ 30	$ 100
Tourism	$ 6	$ 40
Total	$104	$ 275

Table VI: The Bottom Line

Iraq's Estimated Revenue Outside the UN System (in $ millions)[314]

	1996	1997	1998	1999	2000	2001	2002
From Turkey (diesel)	**$ 99**	**$ 82**	**$ 99**	**$ 339**	**$ 301**	**$ 100**	**$ 52**
From Turkey (crude)					**$ 347**	**$ 356**	**$ 438**
From Jordan	**$185**	**$249**	**$199**	**$ 162**	**$ 190**	**$ 430**	**$ 424**
From Syria					**$ 205**	**$ 854**	**$1,175**
From Iran/Gulf	**$117**	**$222**	**$314**	**$ 402**	**$ 336**	**$ 235**	**$ 205**
From Minor Sources	**$ 70**	**$ 70**	**$ 70**	**$ 80**	**$ 125**	**$ 125**	**$ 125**
From Oil Contract Kickbacks						**$ 175**	**$ 100**
Total	**$471**	**$623**	**$682**	**$983**	**$1,504**	**$2,275**	**$2,519**

Another way to project Iraq's 2002 approximate income is to base estimates on a range of oil exports to the various countries, positing $20 per barrel as the Iraqis' cut.

	Bpd		$ millions	
Exports to	**Low**	**High**	**Low**	**High**
Turkey	**10,000**	**80,000**	**73**	**584**
Jordan	**60,000**	**135,000**	**438**	**985**
Iran	**10,000**	**100,000**	**73**	**730**
Syria	**100,000**	**280,000**	**730**	**2044**
Total	**180,000**	**560,000**	**1314**	**4343**

[313] Figures are based on published estimates. IJLTC figures are also included in The Tankers to Jordan section above. For some sources, such as ISLTC, insufficient data make it all but impossible to produce useful estimates. Estimated income on Saddam's international investments portfolio has also been omitted.

[314] These figures are compilations of the figures from the tables in the text. In all instances the authors have tended toward a conservative approach, usually taking the lower of a range of estimates, unless there is corroborating evidence to show why higher estimates are more accurate. There are other factors which also tend to result in under-estimations, e.g., only crude oil prices have been used here, even though possibly up to one-third of the illicit exports are refined products, such as diesel fuel, which command a higher price. The authors have also estimated that the Iraqis sell oil at a $6/bbl discount; others think the discount is less.

V. The Family

Saddam Hussein has always awarded the highest positions in his government, Army, and myriad intelligence and security services to members of his close and extended family, including people from both his al-bu Nasir tribe and his hometown, Tikrit. These are the only individuals with access to lucrative business dealings and intimate knowledge about what Saddam seems to consider "the family jewels:" oil, money and weapons. This capsule rundown of the most prominent financial players in Saddam's inner circle illustrates both the extent of these relatives' power and the reportedly brutal and often criminal methods used in their revenue-generating activities.

In recent years the circle of empowered associates has grown smaller and smaller, as Saddam has eliminated potential rivals and alleged spies, coup plotters and mere opportunists whom he suspects of prizing their own political or financial gain above his own. Because Tikritis and other relatives have figured so prominently -- holding important positions in the Republican Guard, the special Republican Guard,[315] the sundry security services and key ministries throughout the government -- they have also numbered high among those given the axe.

The net effect of these layers of countervailing influence and authority has been to concentrate the rivalry for succession, once spread among an array of senior officials, within the immediate family – primarily, that is, between his two sons, Udai and Qusai.[316] While both men have shown themselves to be brutal, ruthless and remorseless, they have very different styles, rarely see eye-to-eye and are longtime rivals in their respective quests for power.

Many commentators have long considered the allocation of spoils to be roughly as follows: Qusai exerts primary control over the regime's defense, intelligence and security apparatus, while Udai's bailiwick concentrates on making money, primarily through the sanctions-busting oil trade, accompanied by lucrative smuggling operations in other commodities. However, as mentioned above, a closer reading of the evidence over time suggests a recent shift. Although Udai has long been making millions by virtue of his protected status and insider knowledge, over the past few years Qusai has significantly eroded his brother's sources of revenue. Where Udai, assuming his position as heir-in-waiting was safe, has chosen the path of hedonism and personal enrichment, Qusai, instead of amassing a personal fortune, has quietly undertaken to channel the illicit earnings into state mechanisms under his control that he can exploit to solidify his grasp on power. This financial consolidation on Qusai's part has run parallel to Saddam's tendency in recent years of showering appointment after appointment on his younger son, clearly advertising Saddam's preference for Qusai as his chosen heir.

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[315] An elite unit within the Republican Guard that Saddam packed heavily with members of the Al-bu Nasir tribe.

[316] Saddam and Sadjida Hussein have five children, three girls - Raghad, Rana and Halan - and two boys, Udai and Qusai. Saddam has a sixth child, Ali, by his second wife, Samira.

In addition to profiling Udai and Qusai, this section offers brief precis of the lives and business activities of Lt. Gen. Hussein Kamel, Saddam's murdered son-in-law and once a close associate, weapons procurer and a Baghdad-based organizer of the regime's illicit finances; and Saddam's half-brother, Barzan Ibrihim al-Tikriti, formerly a Swiss-based member of the Iraqi financial brain trust who is currently out of favor and residing in Baghdad.

Udai Hussein

Born in 1964 when his father was in jail, Udai considers himself, as the eldest child, his father's rightful heir. However, Udai's propensity for murder, rape and extortion, compounded by his physical and mental disabilities resulting from a 1996 assassination attempt, has given his father doubts as to the wisdom of anointing his eldest son. To this point, the highest political office he has attained was his 1999 "election" to Iraq's rubber-stamp General Assembly, for which he received, according to his own television station, 100 percent of the vote from his Baghdad constituency.[317] Subsequently he conspired to be named the Assembly speaker.[318] His father, who may have feared Udai's grasp at such a high-profile political position, particularly at the expense of a senior Shi'i, Sa'dun Hammadi, thwarted him in the Ba'athist hierarchy.[319]

Udai has taken on several other key roles. In 1995, with his father's blessing, he created the Saddam Fedayeen, or Saddam's Martyrs, a privileged paramilitary force of some 30,000 that is outside the control of other military structures such as the Republican Guard. Having grown from a far smaller and more rag-tag unit, the Fedayeen has nevertheless had mixed results in the field -- it was claimed they were routed by an organized tribal force in early 2000 in the south of the country.[320] Qusai has several times attempted, unsuccessfully, thus far, to wrest control of the Fedayeen from Udai.[321] Recently the group has acquired the collective persona of a feared band of black-garbed thugs with a penchant for executions and such gruesome public spectacles as extracting the tongues of the President's critics.

Udai is also Iraq's preeminent media mogul. All non-state print media are under his control, and he runs the country's most popular radio and television stations, on which he has not hesitated to broadcast popular, even Western offerings prohibited on the state-run stations. These media outlets promote Udai as a key political figure and often feature government ministers making pilgrimages to his office. They also give him an outlet to express his views on democratization and reform, as he stakes out positions that distinguish himself from his father, Qusai and incipient business rivals by openly criticizing government corruption and the regime's trade practices and partners.[322]

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[317] "Uday: election victory a message to Iraq's enemies," *AFP*, March 29, 2000.

[318] "Sa'dun Hammadi Unmoved by Criticism from Udayy Organization," *Al-Sharq al-Awsat*, FBIS-NES-2000-1025, October 25, 2000.

[319] "Saddam's son voted Iraq's 'heir-apparent,'" *Iraq Press*, May 18, 2001.

[320] "A Crushing Defeat for a Special Unit of 'Saddam's Fedayeen,'" *Iraq News* No. 108, March 31, 2000.

[321] "Saddam moves to strip elder son of military clout," *Iraq Press*, May 21, 2000.

[322] "Report of Saddam illness said to be absurd," *Financial Times*, January 4, 2001, and "Uday Saddam Husayn Comments on Democracy," *Babil* newspaper (Baghdad), FBIS-NES-92-177, September 11, 1992.

Udai heads Iraq's Football Federation, Bar Association, Student Federation, Association of Artists and Cultural Creators, virtually all the nation's unions and has eked tremendous mileage out of his position as President of the Iraqi National Olympic Committee.[323]

On the diplomatic front, in the fall of 2000, Udai's deputy at the Olympic Committee, Asil Tabra, was the official greeter at the Baghdad airport for a series of sanctions-stretching flights arriving into Iraq.[324] The implicit Olympic-torch backdrop lent a shade of palatability to this charade of placing athletes alongside artists, businessmen and politicians on planes that, quite literally, flew in the face of UN sanctions.

A second abuse of the Olympic shield to expand Udai's political power is the alleged use of Olympic warehouses to store commodities imported under the UN's Oil-for-Food program.[325] Whether these humanitarian goods, food and medicines are distributed as Iraqi government welfare or sold to the highest bidder, the end-user has no choice but to recognize the chosen middleman: the Olympic Committee, run by Udai Hussein. Reportedly, any potential importer or exporter must first gain permission from this office.[326]

Udai has also exhibited sophistication in using the Olympic symbol to co-opt another actor in the international humanitarian community: the International Committee for the Red Cross (ICRC). In an ill-considered humanitarian initiative, the ICRC funded the inclusion of a description of its own activities on Olympic lottery tickets.[327]

Udai has not resisted using his Iraqi sporting status either to feather his own financial nest or to indulge his more sadistic appetites. There have been several high-profile defections from Iraqi athletic teams over the past few years in response to Udai's rage at Iraqi losses in international sporting events. At first, Udai responded to sporting losses by treating his athletes to whippings and tortures such as being beaten on the soles of the feet, dragged through a gravel pit and immersed in sewage. But the defections continued, provoking Udai to devise a more sophisticated preventive strategy: touring athletes must now post bonds and identify accountable family members, lest they defect. Then in December 2001 Udai granted traveling athletes permission to change dinars into dollars at the official rate -- that is, 0.330 dinars to the dollar – as long as they agree to surrender $300 of the $400 they are allowed to exchange.[328]

Finally on the sports front, Udai has shown himself to be a man of vision. In preparation for Iraq's bid to host the 2012 Summer Olympics, the Committee has been entertaining bids, through a Jordanian company, to build a 100,000-seat stadium that would anchor a

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[323] http://www.olympic.org/uk/organisation/noc/noc_uk.asp?noc_initials=IRQ. The Iraqi National Olympic Committee is officially recognized by the International Olympic Committee.
[324] "Jordanian, Syrian planes land in Baghdad," *Reuters,* November 24, 2000.
[325] Interview of Defector (Abbas al Janabi) with *Al Hayat,* October 18-22, 1998, provided by *Iraq News* from Laurie Mylroie.
[326] David Rose, "Iraq's Arsenal of Terror," *Vanity Fair*, May 2002.
[327] ICRC, "Annual Report 1998 The Gulf: Iraq," http://www.icrc.org/Web/eng/siteeng0.nsf/iwpList74/C2137F85DA60D8E8C1256B890033D62C
[328] "Iraqi athletes flee," *Iraq Press*, February 10, 2002.

new, 300-acre Olympic sports complex.[329] It is hard to fathom whether the regime or Udai actually believe the IOC will consider Iraq a serious candidate, or whether the much-touted effort represents some combination of domestic public relations, patronage disbursement of locally-generated funds and/or international kickbacks from a money-laundering scheme, should the bid fail. In any case the project is to get a jumpstart. The Distribution Plan for Phase 12 of the UN's Oil-for-Food program, approved by the Secretary-General on June 13, 2002, includes a $20 million project for construction of the Olympic Stadium.

Perhaps Udai's most important role has been in the export of Iraqi oil outside of the restrictions imposed by UN sanctions. Much of what has been outlined in the previous section was initiated, supervised and at times spoiled by Udai Hussein. Luckily for his father, and to Udai's everlasting chagrin, a second son was born.

Qusai Hussein

Two years younger than Udai, Qusai appears to be more calculating, less impulsive and less flamboyant. In contrast to Udai's loose-cannon killings, the crimes for which Qusai bears responsibility appear to be more consistently premeditated and of an overtly political nature. Unlike Udai, who is not above abducting women off the streets and forcing them to one of his palaces to do his bidding, Qusai has one wife and three children, lives quietly and steers clear of the public eye.

Qusai's path toward the presidency has been through the security and military mechanisms of the state. He did not work his way up through the ranks, nor did he extort positions or assets, as did Udai. Every one of his posts has come as an appointment by his father. Qusai now heads or is his father's deputy of the most powerful military, security and intelligence organizations, including the Republican Guard, the Directorate of Intelligence (Mukhabarat), Military Intelligence and the National Security Council.[330] He also heads Amn al-Khass, an intelligence unit tasked with surveillance of key personnel in military, security and other intelligence units, along with the Special Security Organization (SSO), the agency responsible both for dealing with UN weapons inspectors and for hiding the WMD activities from them. The SSO now monitors international telecommunications between Iraq and the outside world, including, most recently, the satellite broadcast of pleas for exiled dissidents' prompt return, made by their clearly desperate and tormented family members.[331] It was reportedly Qusai who managed the situation that resulted in UNSCOM's departure in 1998, marking his public debut in the realm of international political controversy. Finally, Qusai is responsible for his father's personal security, through the Himaya, or palace guard.

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[329] "Baghdad to bid for 2012 Olympics," *Washington Times*, March 5, 2002. According to Udai Hussein's website, in early June Iraq signed an agreement with a Turkish company to build an 80,000-seat stadium "within the Saddam Sports City" in Baghdad. The report states that the new stadium is being built with UN approval, as will the construction of an 8000-seat Indoor Hall, to follow.

[330] "Saddam Prepares Qusayy for Presidency," *Al-Sharq al-Awsat*, FBIS-NES-1999-0721, July 17, 1999.

[331] "Iraq tightens noose on dissidents' families," *Iraq Press*, March 4, 2002.

Over the past two years Saddam has appointed Qusai to several more critical posts. He is now deputy commander of the Army, a position believed to be senior to that held by the Minister of Defense.[332] As commander also of the northern Army, he would be responsible for any future attempts to retake the Kurdish areas outside of the control of Baghdad.[333] In 2000 Qusai was named "caretaker of the presidency" in the event that Saddam should become incapacitated and was reportedly made head of a family council that would govern in the event of Saddam's death. In May 2001, Qusai was appointed to the 18-member Ba'ath Party's Regional Command, further rankling his elder brother, who does not hold a seat on this important party governance board.[334]

Making money has not appeared to have been Qusai's highest priority in his climb to power. However, from his positions as head of intelligence and the northern Army, he appears to have wrested control of the lucrative Turkish trade from Udai. The trade is much more orderly than previously and has been set up on a firmer government-to-government basis. He also seems to have moved in on the Syrian oil deal and, as mentioned above, enjoys far better relations with Syrian President Bashar Assad than does Udai.[335] Qusai's Mukhabarat, or secret service, reportedly has embroiled itself in a fierce turf struggle with Udai over the lucrative cigarette-smuggling business (see section above on Minor Sources of Iraqi Government Income).[336] Qusai is likely able to make good use of the money, not so much to support a lavish lifestyle as to retain the loyalty of the thousands of members of his various services.

Barzan Ibrihim al-Tikriti

Barzan is a half-brother to Saddam Hussein, born in 1951 to Saddam's mother's second husband. He was very close to Saddam in the regime's early days, when he helped create and then headed the Mukhabarat secret service. He was stripped of his intelligence position in the mid-1980s, reportedly when he objected to the betrothal of Saddam's eldest daughter Raghad to Hussein Kamel, insisting that Raghad should instead marry Barzan's own son. His compensation or punishment was to have his daughter married off to Udai. The marriage didn't last long, and Raghad fled to her parents in Geneva, where her father was serving as ambassador to Switzerland and as Iraq's permanent representative to the UN in Geneva.[337] From this post Barzan is thought to have created a web of companies which held covert and widely diversified investments.

At the outset of his new career in international investing, the money believed to be under Barzan's control was a rumored $30 billion that Saddam had stashed overseas for any future contingencies -- which, of course, became vital once sanctions were imposed. Barzan anticipated the pinch: immediately after Iraq's August 2, 1990, invasion of Kuwait, he called in tens of millions of dollars of investments from all over Europe,

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[332] "Saddam promotes son to general," *Iraq Press,* May 8, 2001.
[333] "Iraqi Official on Qusay's Rise to Power," *RFE/RL,* August 13, 1999.
[334] "Baghdad Television Announces Iraq Command Members, Including Qusay," *Republic of Iraq Television,* FBIS-NES-2001-0517, May 17, 2001.
[335] "Saddam mulls fresh cabinet reshuffle to boost son's standing," *Iraq Press,* August 18, 2001.
[336] "Saddam's son in clash with Mukhabarat over smuggling," *Iraq Press,* August 14, 2001.
[337] Ian Black, "Saddam half-brother 'defects' amid feuds in Iraq's ruling clan," *The Guardian*, September 9, 1999.

which he moved into Iraq through Jordan's Central Bank, fearing the international embargo that quickly ensued. In that one timely move, he rendered the assets fungible for the regime's purposes and kept them from being frozen by international investigators.

In 1998 he fell out with Baghdad, in part because of his daughter's breakup with Udai. Barzan was recalled from Geneva but delayed his return for several months and was rumored to be considering defecting, with $10 billion of Iraqi assets under his control said to be unaccounted for.[338] On his way home Barzan took care to withdraw from an Amman bank approximately $5 million which he apparently owed Udai.[339] Upon his arrival in Baghdad, Barzan was watched closely and then interrogated by agents under Qusai's direction and by Udai himself. Iraq's chief diplomat for a decade Barzan, was accused of having met with American politicians and intelligence agents during his years in Europe and of embezzling the $10 billion.

Nearly a year later, in September 1999, Barzan al-Tikriti left Iraq, traveling to Switzerland and the UAE, amid rampant speculation that he had defected, but all parties -- Barzan, the Iraqis and the UAE -- denied it.[340] Barzan and the Iraqi government claimed he was visiting family in Geneva, while the Iraqi opposition claimed he was trying to clear up embezzlement charges allegedly filed against him by the government of Iraq.[341] Still others said he was tidying up financial arrangements in both Switzerland and the UAE. In any case, two months later he returned to Baghdad, where he was once again investigated. Since then Barzan has served as an adviser to the President,[342] a post that may have been intended more to keep Barzan under surveillance than for any investment tips he may have to offer. In March 2002 Barzan was further demoted, when his Ba'ath party leadership position in Baghdad was revoked.[343]

Lt. Gen. Hussein Kamel Hassan al-Majid

Cousin of Saddam Hussein and husband to Saddam's daughter Raghad, Hussein Kamel and his brother Saddam Kamel were brought into the upper ranks of the regime by their Uncle Hassan Ali al-Majid, or, as he became known for his brutality against the Kurds, "Chemical Ali." Thanks to Ali al-Majid, the two were admitted to the Republican Guard as presidential motorcade motorcycle drivers.[344] Raghad swiftly fell in love with the dashing young biker, and with the active backing of her mother, convinced her father to spurn Barzan's son and allow her to marry Hussein Kamel, whereupon the young man's future was assured.[345] Hussein's brother also moved up: Saddam Kamel became

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[338] "Saddam's Half-brother Leaves Iraq," *RFE/RL*, September 10, 1999.
[339] Ibid.
[340] Ian Black, "Saddam half-brother 'defects' amid feuds in Iraq's ruling clan," *The Guardian*, September 9, 1999.
[341] "Barzan on 'Private Business' in the UAE," *Al-Sharq al-Awsat*, FBIS-NES-1999-0910, September 10, 1999.
[342] http://www.polisci.com/world/nation/IZ.htm
[343] Saddam sidelines half brother," *Iraq Press*, March 18, 2002.
[344] Mohammad al-Khaffan, "The Mysterious Amman Massacre May Be Linked to Funds Embezzled by Saddam's Murdered Sons-in-Law," *Washington Report*, April 1998.
[345] Al-Majallah, "Saddam's Family Relations, Secrets Revealed," FBIS-NES-95-217-S, August 20, 1995.

commander of the Special Security Service, putting him in charge of the bodyguard units constituting Saddam's Presidential Security, a near-sacred position in Saddam's hierarchy. Indeed, it is thought that Saddam married his second daughter, Rana, to Saddam Kamel to curry favor among his bodyguards.

Hussein Kamel rose fast. He was tapped to manage Saddam's personal security during the Iran-Iraq war, when he also managed to greatly expand the elite Republican Guard and other special forces. He later served as a senior commander during the Anfal campaign in the late 1980s against the Kurds in northern Iraq. He was promoted to Lieutenant General and put in charge of intelligence operations, which post he exploited both to recruit talented scientists and engineers and to purchase conventional armaments, missiles and the critical components for the production of advanced chemical, nuclear and biological weapons. He oversaw the build-up of the non-conventional weapons program and the transformation of Soviet Scuds into long-range missiles, all the while reportedly profiting handsomely from the commissions he negotiated on the arms purchases.

In 1987 Saddam appointed Kamel Minister of Industry and Military Industries and head of the Military Industrial Commission (MIC), that portion of the state bureaucracy tasked with special projects by the President. Weapons procurement, particularly WMD components or other military equipment intended to be hid from international inspectors, falls under its purview. The draining of the southern marshes, a vital component in the genocide of the Marsh Arabs, was also a task undertaken by the MIC during Hussein Kamel's tenure.[346]

It was in this post as MIC head that Hussein Kamel locked in his fortune. Weapons procurement in the 1980s was rife with kickbacks to the buyer, and Hussein Kamel was the buyer on behalf of Iraq, armed with billions to spend on arming his country. Former Iraqi intelligence chief Wafiq al-Sammarra'i, who defected in early 1995, claimed that Kamel made $60 million on one deal alone, by buying missiles from the Chinese.[347]

The Jordanian weekly A*l-Bilad* reported that Kamel developed an elaborate network of agents and officers abroad and moved vast amounts of money into offshore bank accounts used to purchase information and materials that would help strengthen Iraq's nuclear, biological and chemical programs. Only Kamel himself had knowledge of and access to these accounts.[348]

After Iraq's defeat at the hands of the US-led coalition in 1991, Hussein Kamel adopted a pragmatic stance with regard to the UN weapons inspection program, urging Saddam to comply with UN resolutions so that sanctions might be lifted. He also began urging reconciliation with the Kurds. Udai, nursing a bitter rivalry with Kamel that dated back years, fiercely disputed both these positions.

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[346] "Plant Seized for Canal Project," *Middle East Economic Digest*, July 1, 1992.
[347] "Former Intelligence Chief al-Sammarra'I," *Al-Shariqah al-Khalij*, FBIS-NES-95-217-S, November 9, 1995.
[348] "Story of Power Struggle, Defections Detailed," *Al-Bilad*, FBIS-NES-95-159, August 17, 1995.

A more abrasive source of friction between the two, predictably, was money. As master of the kickback, Kamel had developed the authority and expertise in acquiring a fortune. But by the early 1990s Udai felt it time to take these matters into his own hands. At first, the two ran smuggling operations side by side, and one gets a sense that Udai was the junior partner or apprentice.[349] But by 1993 the brothers-in-law had begun to fall out over the sanctions-busting oil trade with Iran. Udai, feeling proprietary about what he believed was his special relationship with Iranian President Rafsanjani's son Mehdi, tried to muscle Hussein Kamel, the senior partner, out of the deal. It appears Udai was not able to succeed on his first attempt, but then, flaunting his closer connection to Saddam Hussein -- son rather than son-in-law – he persisted,[350] and by 1994 he is believed to have taken over most of the Iraq-Iran oil trade. Shortly thereafter, Hussein Kamel went to Jordan for brain surgery and remained there to recuperate. Saddam appointed Udai to replace Kamel as acting director of the Ministry of Industry,[351] a lucrative post Udai may well have anticipated would become permanent, assuming that Kamel would thenceforth be out of the picture. Kamel's full recovery and the discovery that his tumor was benign frustrated Udai's ambition to run these posts to his exclusive advantage and thereby exacerbated the tension between the two.

Before long, their partnerships, of which the oil smuggling to Iran was the most lucrative, led to rivalry, threats and violence. Udai went on the attack, demanding that Hussein Kamel account for every dinar spent on military industries since 1987.[352] Kamel didn't oblige. Well aware, however, that the groundwork was being laid to discredit and marginalize him, in July 1995 he made a foray to Amman to scout it out as a possible refuge in the event that he should feel compelled to leave Iraq.

Kamel returned to Baghdad and, sensing it was indeed time to go, began preparing his family's orderly departure. However, he was forced to flee more hurriedly than expected when, after a bitter family argument reportedly over whether or not to cooperate with weapons inspections, Udai shot his own uncle, Barzan's brother and former interior minister Watban Ibrahim Takriti, along with several others. Udai allegedly also threatened Kamel, who piled his family into a car and headed that same night for Amman, along with his brother Saddam Kamel and *his* family, an entourage of some 30 others, exclusive knowledge of the secret foreign bank accounts and some $35 million in cash.[353] Rumor had it that a coup was brewing, possibly led by Kamel's uncle, Hassan al-Majid, or "Chemical Ali."

Once in Amman, having been graciously welcomed by Jordan's King Hussein, Kamel and his brother anointed themselves leaders of an Iraqi liberation movement. Few Iraqi exiles signed up for his resistance movement, though: opposition members – and reportedly King Hussein, as well -- were suspicious of his longstanding, deep and bloody

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[349] Michael Theodoulou, "Sons of Iraq and Iran rulers join to flout UN embargo," *The Times of London*, February 24, 1994.
[350] "Saddam Family Dispute Over Oil Sales Reported," *Voice of Iraqi People*, FBIS-NES-93-187, September 29, 1993.
[351] "Udayy 'Temporarily' Running Industry Ministry," *Al-Sharq al-Awsat*, FBIS, February 22, 1994.
[352] "Story of Power Struggle, Defections Detailed," *Al-Bilad*, FBIS-NES-95-159, August 17, 1995.
[353] "IBC Reports Details," *Iraqi Broadcasting Corporation*, FBIS-NES-95-159, August 17, 1995.

ties to the regime. Hussein Kamel reportedly stashed his funds in Amman, presumably for safekeeping and investment, with other Iraqi exiles from Saddam's regime.[354]

Only six months after his widely publicized defection, Hussein Kamel was issued a formal pardon and multiple assurances from Baghdad, whereupon he moved his family back to Iraq. Almost immediately upon his arrival Hussein and Saddam Kamel, another brother, their father and some passersby were murdered at the father's home. The murder was carried out under the close supervision of Udai and, in a rite of "family purification," by their uncle, "Chemical Ali," the man responsible for bringing them into the family business in the first place. Apparently eager to atone for the disgrace of Kamel's defection and to prove his loyalty, Ali, aka Hassan al-Majid, felt obliged to murder his nephews.

Summary

The surreptitious movement of large quantities of crude oil is difficult to accomplish. Oil's sheer bulk is hard to hide, and by and large, Iraq has not attempted to do so. Rather the Iraqis have taken the opposite tack, practically flaunting their sanctions-busting activities and denouncing the UN regimen as an unjust infringement on their sovereignty. With exports to Jordan and Syria, Iraq has been very public with its intentions and its progress toward fulfilling them. At the Turkish and Jordanian borders and the Gulf ports, any observer can see the extent of the trade. The Iraqis have attempted to undermine the sanctions regime by demonstrating in broad daylight how easy and profitable it can be to flout it.

From Baghdad's perspective, the neighboring states are partners that can be bought, bullied and set at competition with each other. Nor has the regime been wrong in this judgement: the governments of Turkey, Syria, Jordan, Iran and even that of the autonomous Kurdish areas have all succumbed to the financial temptations of cooperating with Baghdad. Other interested parties, such as Saudi Arabia, Kuwait, the US and its allies, have at times impeded the sanctions-busting activity -- most successfully with the Multinational Interception Force -- but have never taken any serious action to shut the trade down.

Once having successfully hooked the governments of the neighbor states on the hard-currency windfalls, the government in Baghdad has found it a fairly simple task to open or restrict the tap according to the political comportment of the neighboring state.

A little harder to fathom is how the relationship and rivalry between Saddam's two sons fit into an economic overview. Where Udai seems to make lavish use of violence and extortion to feather his own nest, Qusai prefers to do so on behalf of the state, albeit one he intends to rule. Although Udai was on top during the mid-1990s, Qusai now controls

[354] Mohammad al-Khaffan, "The Mysterious Amman Massacre May Be Linked to Funds Embezzled by Saddam's Murdered Sons-in-Law," *Washington Report*, April 1998.

not only the security and military apparati, but, in a form of internal and external trade war, has pulled some of the key economic assets out from under his older brother. Both the Turkish and Syrian trade in oil outside of the UN are primarily government-to-government, thereby benefiting Qusai to the detriment of Udai. It is not clear how Saddam Hussein views this tussle between his sons: having witnessed and been enraged by a number of Udai's egregious excesses, has he now assumed a more defensive posture, masterminding his own succession, of "divide and rule?" Or has he simply chosen Qusai but not yet managed to overcome the formidable power base that Udai has built for himself?

Finally, after the co-optation of the neighbors and the family's intra-scholastics, dealing with the UN has been a breeze. Whenever Saddam Hussein wishes to increase his hard currency earnings at the expense of the Oil-for-Food program, the Iraqis shut down the export or claim lack of spares and imminent infrastructure collapse, and, as if on cue, his supporters in the international community warn of the horrific consequences that will befall the already miserable Iraqi people. The UN eases the sanctions regime, Saddam gets his hard currency and the oil fields are maintained to a level sufficient for his purposes.

H JE06A

TAB 43

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/2001/OIL/COMM.06
13 February 2001
ORIGINAL: ENGLISH

Letter dated 13 February 2001 from the Overseers addressed to the Chairman of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

S/AC.25/2001/OIL/1330/OC.10 13 February 2001

Sir,

With reference to the attached communication dated 13 February 2001 from the State Oil Marketing Organization (SOMO) of Iraq, submitting for the approval of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait the revised pricing mechanisms for loadings of crude oil during 13-28 February 2001 in accordance with paragraphs 5 and 6 of the Procedures to be employed by the Committee in the discharge of its responsibilities as required by paragraph 12 of Security Council resolution 986 (1995), the Overseers have the following assessment:

On 6 February the Committee endorsed the revised prices (OSP's) for February loading crude oil that is destined for the European and US markets. Since then the attractiveness of Iraqi crude oil in these markets has deteriorated further.

Notwithstanding this deterioration, end-users have been confronted with fob offers of Iraqi crude oil which reflect in general a substantial premium over OSP's: say between 20 and 70 cents a barrel. In an essentially risk-free environment these premia should be considered as excessive. Although many end-users have shied away from paying high premia for legal reasons, there have been temporary market conditions under which these could be justified economically. There have also been moments however, at which the economics should have dictated a smaller premium or even a discount, as could be expected at this moment. However, no such reduced premia or discounts have occurred for some months.

Export levels seem to have been negatively affected under those conditions in which, for legal or commercial reasons, end-users were not prepared to pay a substantial premium.

The current situation can be summarized as follows:

- By far the largest part of Iraqi crude oil is nowadays sold via middlemen and traders rather than directly to end-users (refiners). The former have a very short term profit perspective and often look at this issue on a cargo-by-cargo basis.

- The markets have moved in such a way that the OSP's for Europe and the US are currently too high to allow any sales to end-users to take place without the middlemen/traders accepting negative or zero premia.
- In absence of end-users paying premia of at least around 20-25 cents per barrel the oil is apparently not exported.

In the context of the foregoing, the Oil Overseers would like to make the following observations:

- The need for price revisions more than once a month is mostly a direct consequence of the nature of the contractual structures between SOMO and the end-users.
- SOMO's contract holders' requests for excessive premia in combination with the erratic nature of the exports has been damaging for the income into the UN-Iraq account.
- The Oil Overseers recommendation is motivated by their objective of maximizing oil exports and income into the UN Iraq account within the contractual structure as has been chosen by SOMO.
- This contractual structure asks for market responsive pricing and, as the Oil Overseers do not allow a substantial built-in "profit cushion", price revisions may occur more often if markets are volatile.
- The Oil Overseers are concerned that, under the current arrangement, price revisions can only go in one direction (i.e. downwards) since there is no mechanism, apart from SOMO's request, to increase prices .

Notwithstanding the observations above, given the current situation, the Oil Overseers would like to recommend to the Committee the proposed SOMO adjustments of the pricing mechanisms for US and European destinations for loadings during 13-28 February.

Accept, Sir, the assurances of our highest consideration.

The Overseers

Alexandre Kramar Morten Buur Jensen Michel Tellings

SENT BY: 2- 7- 1 ; 16:36 ; UN SECURITY COUNCIL→ 4154271:# 3/ 4

H JE07

ECURITY COUNCIL COMMITTEE ESTABLISHED
RESOLUTION 661 (1990) CONCERNING THE
SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/2001/COMM.83
7 February 2001
ORIGINAL: ENGLISH

LETTER DATED 6 FEBRUARY 2001 FROM THE CHARGE D'AFFAIRES, A.I. OF THE PERMANENT MISSION OF THE UNITED STATES TO THE UNITED NATIONS ADDRESSED TO THE CHAIRMAN

The United States Mission to the United Nations presents its compliments to the Chairman of the Security Council Committee established pursuant to Resolution 661 (1990) concerning the situation between Iraq and Kuwait and would like to take this opportunity to share our concerns about the oil pricing mechanism. The United States has consistently supported the oil overseers' assessments regarding Iraqi oil prices. We recognize that it has been particularly difficult for the overseers to carry out their responsibilities over the last several weeks, and we are appreciative of their efforts and professionalism.

Our support for the overseers' assessments has been based on the assumption that a fair market value price offers the most effective protection against an oil purchaser being in the financial position to pay any unauthorized surcharge or kickback to the seller. We are very troubled, therefore, by continuing reports in the business press and communications we have received from companies that SOMO is demanding, and some oil buyers are paying, a surcharge of 10-50 cents a barrel, to be paid directly to Iraq. Although this is clearly a contravention of UNSC resolutions, as well as written instructions provided to all buyers by the overseers with the agreement of the 661 Committee on December 15, 2000, some reports indicate that many buyers are not still not aware of these facts or are simply ignoring them. A February 2 report from Reuters is typical, and it outlines a very sophisticated surcharge mechanism that has been changed in reaction to market:

> "Iraq has meanwhile eased its oil surcharge demand considerably from an initial 50 cents per barrel over the official selling price, but the Iraqi government is by no means backing down from its policy. Indeed, industry sources said Iraq has softened its cash request in a bid to reflect market conditions. "Retroactive to December 1, lifters to Europe must pay 25 cents a barrel and lifters to the U.S. must pay 30 cents a barrel," said an official in the Iraqi capital. "Some customers have paid the 40 cents and they will be reimbursed the difference."

It is important that the overseers not recommend to the Committee a pricing mechanism that leaves room for a surcharge. We request that the oil overseers prepare a written report to the Committee on this issue to include: what their monitoring of the oil industry has indicated regarding payment of the surcharge, an explanation for Iraq's much lower than normal shipments of crude in January and December, the value of revenues lost to the Oil-for-Food program as a result of decreased oil exports and whether or not there is room in the most recent pricing mechanism proposed by SOMO for imposition of a surcharge. We further request that when the report is completed, the overseers give a presentation on their findings and observations to the Committee in a formal meeting.

While we do not object to the pricing mechanism proposed in your note of 1 February, we hope that the overseers report and presentation will provide the Committee with a basis for improved evaluations of future pricing mechanisms and consideration of actions to address problems.

Finally, we request that this note be circulated to members of the Committee.

Accept, Sir, the assurances of my highest consideration.

Sincerely,

James B. Cunningham
Chargé d'Affaires, a.i.

JC23

From:
Sent: Tuesday, March 05, 2002 9:41 AM
To:
Cc:

Subject: RE: Truck briefing points

Ed: here are some points building on work Henry did yesterday. Bill W. should approve. Other needed clearers are:
NEA
NP
INR - since this is a briefing of cleared intel.

Part of the function of the Iraq sanctions committee is for members to share information to improve the operation of the sanctions regime.

U.S. recently became aware that Iraq is diverting to its military certain trucks needed for humanitarian purposes and approved on that basis. We intend to present that information to the committee this week.

Diversion of this type demonstrates again how the Iraqi regime seeks to manipulate the Oil-for-Food program rather than use it as intended for the benefit of the Iraqi people. It indicates the need for great caution and verification when dealing with proposals for exports to Iraq.

U.S. and its partners will continue cooperation to prevent re-armament of the Iraqi regime while working to improve situation of Iraqi people.

Background: Financial Times reported that US will present briefing to the Iraq sanctions committe on Iraqi diversion to its military of trucks purchased under the Oil for Food program. Briefing is scheduled for Wednesday, March 6 and will include cleared imagery.

-----Original Message-----
From:
Sent: Monday, March 04, 2002 3:48 PM
To:
Subject: Truck briefing

Hello, my name is and I'm a pol officer working with Tom Duffy (who suggested I get in contact with you). wants some guidance on what he can reveal to the press prior to the NIMA briefing on Wednesday to the 661 committee about Iraqi diversion of OFF trucks. Tom said that you would have some insight about what details he can reveal. Please call me at 44346 when you get the chance.
Thanks,

JC61

Iraq: Oil Pricing

H

Policy Option	Comment	Likely Outcome
Maintain status quo (retroactive pricing)	Russia, China, France oppose; U.S., UK accept pending Committee agreement on viable alternative	U.S. end-users will continue to boycott purchase of Iraqi oil unless/until GOI eliminates surcharge Oil-for-Food revenue shortfall worsens
French proposal -- 15-day proactive pricing -- revise list of oil buyers approved to lift Iraqi oil	does not prevent GOI from imposing surcharge; France, Russia, China Endorse immediate return to proactive pricing; U.S., UK currently oppose resumption of proactive pricing absent obligation to lift	unlikely U.S. end-users would resume purchase of Iraqi oil absent clear indication the GOI had terminated imposition of surcharge
UK proposal -- retroactive pricing for buyers on current list; -- proactive pricing with mandatory lift for buyers on "Green List (list selected by Committee)"	Russians oppose mandatory lift and creation of "Green List" selected by Committee	
Russian proposal -- immediate end to retroactive pricing; return to 30-day proactive pricing; -- Committee to finalize approval of oil cash component	U.S., UK oppose renewal of proactive pricing absent lift obligation and	

TAB 47

H DC 26 B059

Batarseh, John M

From:
Sent: Tuesday, October 03, 2000 12:39 PM
To:

Cc:

Subject: RE: Follow up on OFF medicines smuggling

I just talked to a public relations official at Glaxo who verified that 15,000 units of Ventolin inhalers out of a total of 1.4 million shipped (in multiple lots) under the OFF program had been diverted to Lebanon (sic?.) He had no details on the chain of custody of the medicine after it left Glaxo, other than to note his belief that it was delivered to the UN for distribution. The firm was originally notified by a Lebanese pharmacist who noted the influx into his area, and reported it to the company. Glaxo referred the issue to the UN for investigation, and apparently the UN recovered some of the inhalers.

The company's position is that:

a. such diversions pose a health and safety risk, since it is a prescription medicine that should only be provided under a physician's order.

b. these diversions also undercut the companies legitimate sales in the affected area.

-----Original Message-----
From:
Sent: Tuesday, October 03, 2000 11:10 AM
To:
Cc:

Subject: Follow up on OFF medicines smuggling

See London 7109 which I drafted in London last Friday. It looks like we've got the goods on one example of smuggled OFF medicines (Ventolin appearing in Damascene pharmacies).
will check with Radio Free Iraq and/or Glaxo-Wellcome on confirming the sample we have is traceable to a Glaxo OFF medicine contract.
If that proves correct, we need to develop a plan on how to raise with UN to expose and rectify the problem and in-house our own use for PD purposes. This could be very helpful in dismissing the myth that sanctions prohibit medicines or sufficient quantities of medicines from going to Iraq.

Your views? **LONDON 7109**

Subject: SMUGGLING OF IRAQI OIL FOR FOOD MEDICINES: CASE OF VENTOLIN

Cable Text:
TED3704
ACTION EUR-00

INFO	LOG-00	AID-00	CEA-01	CIAE-00	COME-00	CTME-00	DODE-00
	SRPP-00	EB-00	EXIM-01	E-00	UTED-00	VC-00	FRB-00
	H-01	TEDE-00	INR-00	IO-00	ITC-01	AC-01	NEA-00
	NSAE-00	NSCE-00	OIC-02	OMB-01	OPIC-01	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TRSE-00	USIE-00	G-00	SAS-00
	/009W						

----------8BF160 300154Z /21

has the item. We should discuss this at PD meeting. But we or the UN need to confirm the item is actually from one of the batches of medicines of an OFF contract before we roll anything out.

—Original Message—
From:
Sent: Monday, October 02, 2000 5:51 PM
To:
Subject: SMUGGLING OF IRAQI OIL FOR FOOD MEDICINES: CASE OF VENTOLIN

Is this something to discuss further at Iraq PD meeting? Do we have the actual item in our hands as a prop for a rollout or briefing?

LONDON 7109

Printed By: Daniel X Sreebny 10/02/2000 05:52:34 PM
Subject: SMUGGLING OF IRAQI OIL FOR FOOD MEDICINES: CASE OF VENTOLIN

Cable Text:

```
TED3704
ACTION EUR-00

INFO  LOG-00   AID-00   CEA-01   CIAE-00  COME-00  CTME-00
DODE-00
      SRPP-00  EB-00    EXIM-01  E-00     UTED-00  VC-00
FRB-00
      H-01     TEDE-00  INR-00   IO-00    ITC-01   AC-01
NEA-00
      NSAE-00  NSCE-00  OIC-02   OMB-01   OPIC-01  ACE-00
SP-00
      SSO-00   SS-00    STR-00   TRSE-00  USIE-00  G-00
SAS-00
        /009W
                  ------------------8BF160  300154Z /21
R 291604Z SEP 00
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9105
INFO IRAQ COLLECTIVE
AMEMBASSY DAMASCUS
USMISSION GENEVA
USMISSION USUN NEW YORK

UNCLAS LONDON 007109


SENSITIVE
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DEPT ALSO FOR NEA/PD - DAN SREEBNY AND FARNAZ KHADEM
DEPT ALSO FOR IO/PHO - BILL GRANT AND IO/UNP - HENRY ENSHER;
USUN ALSO FOR ECON - GENE YOUNG AND POL - TOM DUFFY

E.O. 12958: N/A
TAGS: PHUM, PREL, ETRD, IZ, SY, UK
SUBJECT: SMUGGLING OF IRAQI OIL FOR FOOD MEDICINES: CASE OF VENTOLIN

1. (U) SUMMARY: AN IRAQI OPPOSITION GROUP HAS PROVIDED USG OFFICIALS WITH SPECIFIC INFORMATION (AND A SAMPLE AND RECEIPT) ABOUT ONE EXAMPLE OF THE SMUGGLING OF MEDICINE SUPPLIED UNDER THE IRAQI OIL-FOR-FOOD PROGRAM: AN ASTHMATIC MEDICINE, "VENTOLIN," NOW APPEARING IN DAMASCUS PHARMACIES. DEPT AND USUN MAY WISH TO CONSIDER BEST WAYS TO EXPOSE, PUBLICIZE, AND RECTIFY THIS ABUSE OF THE UN OIL-FOR-FOOD PROGRAM. END SUMMARY.

2. (SBU) IRAQI NATIONAL CONGRESS (INC) OFFICIALS BASED IN LONDON PROVIDED VISITING SPECIAL COORDINATOR FOR TRANSITION IN IRAQ (SCTI) AND NEA/NGA DEPUTY DIRECTOR SEPT 28 DETAILED INFORMATION ON ONE SPECIFIC CASE OF SMUGGLING TO SYRIA OF A MEDICINE INTENDED FOR DISTRIBUTION INSIDE IRAQ UNDER THE UN OIL-FOR-FOOD PROGRAM. A MEMBER OF THE IRAQI OPPOSITION (WHOSE IDENTITY IS KNOWN TO INC LEADERS) PURCHASED A 200 UNIT VENTOLIN INHALER, A COMMON PRESCRIPTION MEDICINE FOR TREATING ASTHMA, IN DAMASCUS SEPT 20 FROM A PHARMACIST IN THE DAMASCUS SUBURB OF SAYYID AL-ZAINAB. THE PHARMACY SELLING THE VENTOLIN WAS "PHARMACISTS UNION" BRANCH IN THE JURISDICTION OF "RIF DIMASHQ." THE PRICE PAID WAS 175 SYRIAN POUNDS, OR APPROXIMATELY 3.50 DOLLARS.

3.(U) WHEN THE PURCHASER ASKED TO BUY VENTOLIN, THE PHARMACIST REPORTEDLY ASKED WHICH BRAND HE PREFERRED, "THE IRAQI, THE SAUDI, OR THE CHINESE," AND NOTING THAT THE IRAQI WAS "THE CHEAPEST." THE PHARMACIST ADDED THAT THERE WAS A GREAT DEAL OF IRAQI MEDICINE ON THE SYRIAN MARKET: IT WAS WIDELY AVAILABLE AND WIDELY DISTRIBUTED TO PHARMACISTS BY "MERCHANTS," NOT THROUGH SYRIAN GOVERNMENT PHARMACEUTICAL CHANNELS. THE PHARMACIST REPORTEDLY BOASTED THAT THERE IS "MORE IRAQI MEDICINE DISTRIBUTED IN SYRIA THAN IN IRAQ."

4, (SBU) VISITING NEA/NGA DEPUTY DIRECTOR ASKED INC LEADERS FOR MORE DETAILS ABOUT THE PROVENANCE OF THE MEDICINE TO THE PHARMACY. IN HIS PRESENCE, AN INC LEADER SEPT 28 EVENING TELEPHONED THE PURCHASER AND ASKED FOR MORE EXPLANATION.

5. (U) THE PURCHASED ADDED THESE DETAILS. WHEN HE ASKED THE PHARMACIST HOW HE HAD GOTTEN IRAQI MEDICINE TO SELL, THE PHARMACIST REPORTEDLY ANSWERED THAT SOMEONE, A RETAIL MERCHANT, HAD BROUGHT HIM 200 VENTOLIN INHALERS TO SELL. HE EXPLAINED THAT VENTOLIN WAS IN SHORT SUPPLY IN THE SYRIAN GOVERNMENT PHARMACEUTICAL STOCKS. IN GENERAL, THE PHARMACIST COMMENTED THAT THE RETAIL MERCHANTS RESELLING THE IRAQI MEDICINES GET THEM EITHER FROM DRIVERS WHO BRING THEM FROM IRAQ FOR RESELL OR FROM DRIVERS WITH CARGOS DESTINED FOR IRAQ BEFORE THEY EVER ENTER IRAQ.

6. (U) VISITING USG OFFICIALS WERE PROVIDED THE VENTOLIN INHALER AND RECEIPT, WHICH WILL BE BROUGHT BACK TO THE DEPT. IT IS A 200-DOSE VENTOLIN INHALER, MANUFACTURED BY GLAXO-WELLCOME. WRITTEN ON THE CONTAINER IS "MADE FOR GLAXO GROUP LTD BY GLAXO OPERATIONS UK LTD, GREENFORD, ENGLAND." STAMPED ON THE CONTAINER IS "LOT 10507203 (NOTE: OR POSSIBLY 10567203, THE FOURTH DIGIT IS HARD TO READ, IT IS EITHER 0 OR 6), MANFD MAY 1998, EXP MAY 2001."

7. (SBU) COMMENT: THE SMUGGLING OF VENTOLIN FROM IRAQ TO SYRIA IS NOT A NEW STORY, HAVING APPEARED IN EARLY SEPTEMBER IN THE ARAB PRESS AND ON PRAGUE-BASED RADIO FREE IRAQ. HOWEVER, NOW THE USG IS IN POSSESSION OF AN INHALER WITH SPECIFIC MARKINGS, WHICH OUGHT TO BE TRACEABLE TO AN OIL FOR FOOD MEDICINE SHIPMENT TO IRAQ THROUGH THE UN SANCTIONS COMMITTEE AND GLAXO-WELLCOME. WE HAVE NO REASON TO DOUBT THE ACCURACY OF THE INFORMATION AND SAMPLE PROVIDED BY THE INC. UN SANCTIONS AGAINST IRAQ ARE WIDELY BUT FALSELY CRITICIZED FOR NOT ALLOWING MEDICINES, OR SUFFICIENT QUANTITIES OF MEDICINES, INTO IRAQ. DEPT MAY WISH TO WORK WITH USUN ON THE BEST WAYS TO EXPOSE AND PUBLICIZE THIS MEDICINE SMUGGLING, AN ABUSE OF THE OIL FOR FOOD PROGRAM, AND WITH THE UN ON MEASURES TO STEM THIS ILLICIT TRADE. DEPT MAY ALSO WISH TO PUBLICIZE THE ABUSE MORE IN USG IRAQ PUBLIC DIPLOMACY EFFORTS.
LADER
NNNN

End Cable Text

Printed By: [ ] 10/02/2000 05:52:34 PM

H. - DC B076

[ ] DC

From: [ ] DC
Sent: Friday, March 02, 2001 9:13 PM
To: [ ] DC
Cc:
Subject: Iraqi Cheating on Contracts and the [ ] C-6

Just got off the phone with an industry analyst, who passed on two interesting items.

First, the analyst says Iraq has started charging an even heftier illicit "in-land transportation fee" as part of commodities contracts. The fee far exceeds the actual costs of in-land transportation. For example, on recent rice contracts, Iraq charged $50 per ton. (Iraq purchased about 1.1 million tons of rice last year. At $50 dollars per ton, they would make $55 million on rice alone.) The fee is, of course, payable to an Iraqi bank account, not the UN escrow account. During phases VII and most of VIII, Iraq actually wrote the fee into commodities contracts. It is now writing the fee into a side letter. The analysts also points out that Iraq's contracts are generally very generous, so there's plenty of room for influence buying and kickbacks, etc. If we want to keep money out of the regime's hands, we should probably look for ways to stop this type of cheating.

C-6

Second, Iraq has apparently begun giving the gift-giving [ ] OFF contracts, which he then sells to traders at a nice profit. He apparently just put up for sale a contract for 25,000 tons of rice. At current rice prices, he'll pocket about $625,000 from this contract alone. As far as I can tell, there is no readily available way to know, at least at the time of the initial transaction, that the Iraqis are giving him a contract. Traders in the market find out when he offers it up for sale. Depending on how the deal is structured, the UN could possibly find out when the contract is submitted to OIP. Assuming we can determine a contract is his, any way to stop payment under OFF?

TAB 48

TAB 49

UNITED NATIONS  **NATIONS UNIES**

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/2001/OIL/1330/OC.26 26 January 2001

TO: JSC "ZARUBEZHNEFTEGAZ" RUSSIA	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO.: 011-7095-331-1297	FAX NO.: (212) 963-1628
ATTENTION: Mr. A. T. KONDRATYUK	REF.: OIL-FOR-FOOD ARRANGEMENT
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 1	

Re: Contract Number: **M/09/19** UN REF: **S/AC.25/2001/OIL/1330/COMM. 19**
Between: **SOMO and "ZARUBEZHNEFTEGAZ"**
Date of Receipt: **26 January 2001**
Quantity: **12,000,000 bbls**
Quality: **Basrah Light**
Pricing Formula: **Europe and/or USA Markets**
Port of Loading: **Mina al-Bakr**

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN:

☒ **APPROVED**

cc:
SOMO
BNP Paribas
SAYBOLT ROTTERDAM
PERMANENT MISSION OF IRAQ TO THE UN

01/26/01 FRI 16:11 FAX 212 963 1628 UNHQ NYK 001

****
*** TX REPORT ***
****

TRANSMISSION OK

TX/RX NO	2255
CONNECTION TEL	901170953311297
CONNECTION ID	
ST. TIME	01/26 16:11
USAGE T	00'27
PGS. SENT	1
RESULT	OK

UNITED NATIONS **NATIONS UNIES**

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/2001/OIL/1330/OC.26 26 January 2001

TO: JSC "ZARUBEZHNEFTEGAZ" RUSSIA	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO.: 011-7095-331-1297	FAX NO.: (212) 963-1628
ATTENTION: Mr. A. T. KONDRATYUK	REF.: OIL-FOR-FOOD ARRANGEMENT
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 1	

Re: Contract Number: **M/09/19** UN REF: **S/AC.25/2001/OIL/1330/COMM. 19**
Between: **SOMO and "ZARUBEZHNEFTEGAZ"**
Date of Receipt: **26 January 2001**
Quantity: **12,000,000 bbls**
Quality: **Basrah Light**
Pricing Formula: **Europe and/or USA Markets**
Port of Loading: **Mina al-Bakr**

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN:

01/26/01 FRI 16:07 FAX 212 963 1628 UNHQ NYK 001

****
*** TX REPORT ***
****

TRANSMISSION OK

TX/RX NO	2256
CONNECTION TEL	901196265932007
CONNECTION ID	SOMO (AMMAN)
ST. TIME	01/26 16:06
USAGE T	01'18
PGS. SENT	1
RESULT	OK

UNITED NATIONS **NATIONS UNIES**

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/2001/OIL/1330/OC.26 26 January 2001

TO: JSC "ZARUBEZHNEFTEGAZ" RUSSIA	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO.: 011-7095-331-1297	FAX NO.: (212) 963-1628
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TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 1	

Re: Contract Number: **M/09/19** UN REF: **S/AC.25/2001/OIL/1330/COMM. 19**
Between: **SOMO and "ZARUBEZHNEFTEGAZ"**
Date of Receipt: **26 January 2001**
Quantity: **12,000,000 bbls**
Quality: **Basrah Light**
Pricing Formula: **Europe and/or USA Markets**
Port of Loading: **Mina al-Bakr**

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN:

01/26/01 FRI 16:20 FAX 212 963 1628 UNHQ NYK 001

****
*** TX REPORT ***
****

TRANSMISSION OK

TX/RX NO	2257	
CONNECTION TEL		32086
CONNECTION ID	TREASURY	
ST. TIME	01/26 16:20	
USAGE T	00'29	
PGS. SENT	1	
RESULT	OK	

UNITED NATIONS **NATIONS UNIES**

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/2001/OIL/1330/OC.26 26 January 2001

TO: JSC "ZARUBEZHNEFTEGAZ" RUSSIA	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO.: 011-7095-331-1297	FAX NO.: (212) 963-1628
ATTENTION: Mr. A. T. KONDRATYUK	REF.: OIL-FOR-FOOD ARRANGEMENT
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 1	

Re: Contract Number: **M/09/19** UN REF: **S/AC.25/2001/OIL/1330/COMM. 19**
Between: **SOMO and "ZARUBEZHNEFTEGAZ"**
Date of Rcceipt: **26 January 2001**
Quantity: **12,000,000 bbls**
Quality: **Basrah Light**
Pricing Formula: **Europe and/or USA Markets**
Port of Loading: **Mina al-Bakr**

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN:

01/26/01 FRI 16:33 FAX 212 963 1628 UNHQ NYK 001

****
*** TX REPORT ***
****

TRANSMISSION OK

TX/RX NO	2261
CONNECTION TEL	901131104353600
CONNECTION ID	SAYBOLT
ST. TIME	01/26 16:33
USAGE T	00'31
PGS. SENT	1
RESULT	OK

UNITED NATIONS **NATIONS UNIES**

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/2001/OIL/1330/OC.26 26 January 2001

TO: JSC "ZARUBEZHNEFTEGAZ" RUSSIA	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO.: 011-7095-331-1297	FAX NO.: (212) 963-1628
ATTENTION: Mr. A. T. KONDRATYUK	REF.: OIL-FOR-FOOD ARRANGEMENT
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 1	

Re: Contract Number: **M/09/19** UN REF: **S/AC.25/2001/OIL/1330/COMM. 19**
Between: **SOMO and "ZARUBEZHNEFTEGAZ"**
Date of Receipt: **26 January 2001**
Quantity: **12,000,000 bbls**
Quality: **Basrah Light**
Pricing Formula: **Europe and/or USA Markets**
Port of Loading: **Mina al-Bakr**

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN:

01/26/01 FRI 16:28 FAX 212 963 1628 UNHQ NYK 001

****
*** TX REPORT ***
****

TRANSMISSION OK

TX/RX NO	2258
CONNECTION TEL	97721794
CONNECTION ID	IRAQ
ST. TIME	01/26 16:28
USAGE T	00'19
PGS. SENT	1
RESULT	OK

UNITED NATIONS **NATIONS UNIES**

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

S/AC.25/2001/OIL/1330/OC.26 26 January 2001

TO: JSC "ZARUBEZHNEFTEGAZ" RUSSIA	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO.: 011-7095-331-1297	FAX NO.: (212) 963-1628
ATTENTION: Mr. A. T. KONDRATYUK	REF.: OIL-FOR-FOOD ARRANGEMENT
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Between: **SOMO and "ZARUBEZHNEFTEGAZ"**
Date of Receipt: **26 January 2001**
Quantity: **12,000,000 bbls**
Quality: **Basrah Light**
Pricing Formula: **Europe and/or USA Markets**
Port of Loading: **Mina al-Bakr**

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN:

AH, MT, MAJ OC.28

CONTRACT M/09/19
SOMO(Iraq) - ZARUBEZHNEFTEGAZ(Rusia)

Appendix II

APPLICATION FORM TO REQUEST APPROVAL OF CONTRACT

The attached contract with the Iraqi State Oil Marketing Organization (SOMO) for the purchase of petroleum and/or petroleum products is submitted for approval in accordance with paragraph 1 (a) of Security Council resolution 986 (1995), Security Council resolution 1111 (1997), Security Council resolution 1143 (1997), Security Council resolution 1153 (1998), Security Council resolution 1210 (1998) Security Council resolution 1242 (1999) Security Council resolution 1281 (1999) Security Council resolution 1302 (2000) Security Council resolution 1330 (2000) and the procedures of the Security Council committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, adopted at its 142nd meeting held on 8 August 1990.

Information about the Purchaser

Name of purchasing entity :	JSC "ZARUBEZHNEFTEGAZ"
Place of registration :	Moscow, Russia
Address :	MOSCOW 117939, STROITELEI STR. 8/1
Contact person :	U. P. MALACHAEV
Telephone :	7-095-332-5258
Telefax :	7-095-331-1297
Telex :	485123 GAZ RU
E-mail :	zargaz@go.ru

Summary of Contract terms

Quantity of Crude Oil : 12,000,000 BBLS
Quality of Crude Oil : SOMO Standard Export Quality
Pricing Formula : SOMO Standart Applicable Pricing Mechanism
Date(s) of Loading at Ceyhan :
Date(s) of Loading at Mina Al-Bakr :
Name of vessel and destination (if available) :
Payment details (draft of irrevocable L/C, etc.) :

Please find attached a copy of the contract, draft irrevocable

Latter of Credit to be opened and all supporting documents.

Signature : .....

FROM : SBFI PHONE NO. : 9584355 Jan. 25 2001 09:06PM P1

ЗАРУБЕЖНЕФТЕГАЗ
ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
Россия, 117420, Москва, ул. Новочеремушкинская, 69 а
Тел. (095)332-52-58 Факс (095)331-12-97

ZARUBEZHNEFTEGAZ
JOINT STOCK COMPANY
69 a, Novocheremoshkinskaya str., 117420, Moscow, Russia
Tel. (095)332-52-58, Fax (095)331-12-97

Ref К02-3/017 Date 25.01.2001г.

Нефтяному контролеру
от Российской Федерации в ООН
г-ну **А.В. Крамеру**

Уважаемый Александр Васильевич!

Просим Вас произвести экспертизу контракта **№ М-09/19** от 11 января 2001 г. между ЗАО «Зарубежнефтегаз» и SOMO Республики Ирак и оказать содействие в его регистрации в комитете № 661 ООН.

С уважением,

Генеральный директор **А.Т. Кондратюк.**

FROM : SBFI PHONE NO. : 9584355 Jan. 25 2001 09:07PM P2

11-JAN-01 THU 22:26 SOMO. BAGHDAD FAX NO. 0096412853925 P. 1

Ale, MT M/35
25/1/01

REPUBLIC OF IRAQ
MINISTRY OF OIL
STATE OIL MARKETING
S O M O

REF : M1/ 614
DATE: 11/2001

TO : JSC "ZARUBEZHNEFTEGAZ" - MOSCOW
FAX : 7095 292 98 49

ATT: MR. V. KONDRACHUK - DIRECTOR

RE : CRUDE OIL CONTRACT M/09/19 DATED 11/1/2001

DEAR SIR,

WE ARE PLEASED TO ATTACH HEREWITH SECTION ONE (SPECIFIC PROVISIONS) OF THE ABOVE CONTRACT, DULY SIGNED BY OUR SIDE, PLUS APPENDICES ONE AND TWO.

WE KINDLY REQUEST YOU TO SIGN THE CONTRACT AND FAX IT BACK TO US. ALSO PLEASE FAX SAID CONTRACT TO U.N. OVERSEERS.

THANKING YOU.

SADDAM Z. HASSAN
EXECUTIVE DIRECTOR GENERAL
S O M O

ATTACHED / AS ABOVE

ADDENDUM NO. (1) TO CONTRACT
NO. M/09/19 DATED 11/01/2001.

STATE OIL MARKETING ORGANIZATION (SOMO) AND JSC ZARUBEZHNEFTGAS - MOSCOW AGREED THAT ARTICLE THREE (1) QUANTITY AND QUALITY IS AMENDED TO READ :-

TYPE OF CRUDE	QUANTITY	PORT OF LOADING
BASRAH LIGHT	12,000,000 BBLS	ALBAKR

ALL OTHER TERMS AND CONDITIONS SHALL REMAIN UNCHANGED.

DONE AND SIGNED ON THE 18TH DAY OF JANUARY 2001.

FOR SELLER
SADDAM Z. HASSAN
EXECUTIVE DIRECTOR GENERAL
S O M O

FOR BUYER
A.T. KONDRATYUK
GENERAL DIRECTOR

FROM : SBF1 PHONE NO. : 9584355 Jan. 25 2001 09:23PM P29

18-JAN-01 FRI 15:03 FROM BAGHDAD FAX NO. 00964[illegible] P. 1

File: A:ZARUGAS 10:08:12 18 Jan 2001 Page: 1

REPUBLIC OF IRAQ
MINISTRY OF OIL
STATE OIL MARKETING
S O M O

REF : M1/ 1038
DATE: 18 /1/2001

TO : ZARUBEZHNEFTGAS - MOSCOW
FAX : 7095 2000 645 / 7095 331 12 97
ATT : MR. HASAN
RE : CRUDE OIL CONTRACT NO. M/09/19

WITH REFERENCE TO ARTICLE FOUR (PRICE) OF OUR ABOVE CONTRACT, PLEASE FIND HERE BELOW OUR APPLICABLE PRICING MECHANISMS FOR LOADINGS DURING THE PERIOD 1ST UPTO 31ST JANUARY 2001 AS FOLLOWS

1- FOR THE EUROPEAN MARKET :-

- KIRKUK EX CEYHAN = BRENT DATED LESS U.S. DLRS. - 3.00/BBL
- BASRAH LIGHT EX-AL BAKR = BRENT DATED LESS U.S. DLRS. 5.20/BBL

2- FOR THE U.S. MARKET :-

- BASRAH LIGHT EX AL-BAKR FOR LOADING DURING 1-31 JAN. 2001.
  = WTI (SECOND MONTH) - U.S. DLRS 8.70/BBL.
  KIRKUK EX CEYHAN FOR LOADINGS DURING 20 DEC. 2000 UPTO 31 JAN. 2001.
  = WTI (FIRST MONTH) LESS U.S. DLRS. 7.80/BBL
- API ESCALATION / DE - ESCALATION
  THE RESULTING KIRKUK PRICE IS TO REDUCED BY U.S. DLR. 0.01 FOR THE EACH WHOLE ONE TENTH OF A DEGREE API BELOW 36.00 DEGREES AND TO BE INCREASED BY U.S. 0.01 FOR EACH WHOLE ONE TENTH OF A DEGREE API ABOVE 36.00 DEGREES.
  AND THE RESULTING BASRAH PRICE IS TO BE REDUCED BY U.S. DLR. 0.01 ONE TENTH OF A DEGREE API BELOW 34.00 DEGREES AND TO BE INCREASED BY U.S. DLR. 0.01 FOR EACH ONE TENTH OF A DEGREE API ABOVE 34.00 DEGREES.

THE FINAL CRUDE OIL PRICE IN US DOLLARS PER BARREL FOR EACH SHIPMENT SHALL BE CALCULATED AS PER SOMO'S STANDARD PRICING MECHANISM. THE CALCULATED PRICE SHALL BE CONVERTED INTO EURO CURRENCY. TO BE STIPULATED IN THE COMMERCIAL INVOICE, BY USING THE EURO/US DOLLAR EXCHANGE RATE OF THE EUROPEAN CENTRAL BANK (ECB) FOREIGN EXCHANGE REFERENCE RATE QUOTED AT 2.15 PM C.E.T. AS REPORTED ON THE ECB WEB SITE WWW. ECB. INT., ROUTED TO 4 DECIMAL PLACES, ON THE LAST QUOTATION DAY OF THE PRICING PERIOD FOR THAT SHIPMENT.
IF NO ECB EXCHANGE RATE IS REPORTED ON THE LAST QUOTATION DAY THEN THE RATE REPORTED ON THE LAST BUSINESS DAY BEFORE SUCH LAST QUOTATION DAY SHALL BE USED.
THE FINAL UNIT PRICE WILL BE ROUNDED OFF TO 3 DECIMAL PLACES.

BEST REGARDS.

SADDAM Z. HASSAN
EXECUTIVE DIRECTOR GENERAL
S O M O

FROM : SBFI PHONE NO. : 9584355 Jan. 25 2001 09:07PM P3
11-JAN-01 THU 22:27 SOMO. BAGHDAD FAX NO.: [redacted]

STATE OIL MARKETING ORGANIZATION

CRUDE OIL SALES CONTRACT

NO. M/09/ /9

FROM : SBFI PHONE NO. : 9584355 Jan. 25 2001 09:08PM P5
11-JAN-01 THU 22:27 SOMO. BAGHDAD FAX NO. 0096412853925 P. 3

SECTION ONE

SPECIFIC PROVISIONS

F.O.B. CRUDE OIL SALES CONTRACT

FOB SALES CONTRACT
CONTENTS

Section One

Section Two

FROM : SBFI PHONE NO. : 9584355 Jan. 25 2001 09:12PM P2
11-JAN-01 THU 22:32 SOMO BAGHDAD FAX NO. 009641285392 5 P. 1

Contract between State Oil Marketing Organization (SOMO) (hereinafter called SELLER) of the one part and JSC " ZARUBEZHNEFETGAZ" - MOSCOW (hereinafter called BUYER) of the other part.

Whereby it is agreed as follows :-

SECTION ONE

Wherever the General Provisions of Section Two, attached and herein incorporated in this Contract, are at variance or in conflict with this Section One, the provisions of Section One shall govern.

ARTICLE ONE

DEFINITIONS

As used in this Contract, unless otherwise provided, the following words and terms shall have the following meanings :-

Barrel	:	means forty-two (42) U.S. Gallons at sixty degrees (60°) Fahrenheit and at normal atmospheric pressure.
Day	:	means a period of twenty-four (24) running hours Commencing at 00.01 hours local time at the port of loading.
Barrel per Day (B/d)	:	means the average number of barrels of crude oil supplied during a calendar day as defined above.
F.O B.	:	means "Free on Board" as referred to in the ICC Incoterms 1990.
Dollar ($)	:	The currency of the United States of America.
Euro	:	The currency of the European Union
Month	:	means Gregorian Calendar month commencing at 00.01 hours local time at the port of loading on first day of the month.
Quarter	:	means a period of three (3) consecutive months Beginning on a 1st January or a 1st April or a 1st

Year	:	means a Gregorian Calendar Year.
Api Gravity	:	means scale adopted by the American Petroleum Institute for expressing the specific Gravity of crude oil.
SCR 986	:	means Security Council resolution 986 (1995) of 14 April 1995.
SCR 1111	:	means Security Council resolution 1111 (1997) of 4 June 1997.
SCR 1143	:	means Security Council resolution 1143 (1997) of 4 December 1997.
SCR 1153	:	means Security Council resolution 1153 (1998) of 20 February 1998.
SCR 1210	:	means Security Council resolution 1210 (1998) of 24 November 1998.
SCR 1242	:	means Security Council resolution 1242 (1999) of 21 May 1999.
SCR 1281	:	means Security Council resolution 1281 (1999) Of 10 December 1999.
SCR 1302	:	means Security Council resolution 1302 (2000) of 8 June 2000.
SCR 1330	:	means Security Council resolution 1330 (2000) Of 5 December 2000.
661 Committee	:	means the Security Council Committee established by Security Council Resolution 661 (1990).
Procedures	:	means the procedures to be employed by the 661 Committee (United Nations document S/1996/636, dated 8 August 1996).
Overseers	:	means the independent experts in international Oil trade appointed by the Secretary-General of The United Nations pursuant to SCR 986 and the procedures.
Inspectors	:	means the independent oil inspection agents Appointed by the Secretary-General pursuant to SCR 986.

ARTICLE TWO

PERIOD :

1. Subject to Article Eight below, this Contract shall become effective on the 11TH day of January, 2001, and shall continue thereafter until the 31ST of March 2001, unless renewed by mutual agreement.
2. The ultimate consumer of the crude oil sold under this Contract shall be Europe and/or U.S.A. Markets.
   Any change in the destination is subject to the prior approval of Seller.

ARTICLE THREE

QUANTITY AND QUALITY :

1. SELLER undertakes to sell and deliver FOB and BUYER undertakes to purchase, receive and pay for the following:-

Type of Crude	Quantity	Port of Loading
KIRKUK	8,000,000 BBLS	CEYHAN
BASRAH LIGHT	4,000,000 BBLS	ALBAKR

2. The quality of the crude oil shall be the standard export quality available at the port of loading from time to time.
3. Quantities shall represent contracted quantities or number of barrels per day contracted multiplied by the number of days of the relevant period stipulated in sub Article 2.1
4. Quantities shall be lifted as evenly as possible over the course of such delivery period in lots of approximate barrels and as will be agreed between BUYER and SELLER.

5. Quantities lifted under allowed operational vessel slippage shall be deemed as part of the contracted quantities of the period.

6. In case when SELLER, for reasons technical or otherwise that are beyond his control, is unable to meet his full contractual commitments, SELLER shall have the right to reduce the contracted quantities for the duration of the period when such circumstances shall prevail. SELLER shall advise BUYER as soon as possible before the beginning of any period during which supplies to all buyers are to be reduced.

7. In no event shall any loading start beyond the 3rd of June, 2001, unless the Security Council has authorized sales beyond that date.

ARTICLE FOUR

PRICE :

1. The price(s) of the crude oil to be delivered under this contract shall be as follows:-

TYPE OF CRUDE	API	PORT OF LOADING
KIRKUK	36.00	CEYHAN
BASRAH LIGHT	34.00	ALBAKR

Price Mechanism in EURO per Barrel FOB

Price shall be the standard SOMO price as agreed upon between SOMO and the United Nations from time to time.

ARTICLE FIVE

REOPENER:

Each party shall have the right not later the 15th day of any month to request a review of the pricing mechanism of this Contract.

If following a request for a review, the parties are unable to agree within a period of ten (10) days from the date upon which such request was made, either party may elect to terminate this Contract by serving written notice of phase-out to the other party and termination shall be effective at the end of the month following the month during which the notice of termination has been received.

But if the parties are able to agree within the above mentioned ten (10) days period, any agreed upon adjustment to the pricing mechanism shall be subject to the approval of the 661 Committee.

However, of such approval has not been granted by the 661 Committee, this Contract shall be considered as terminated as of the end of the month following the month during which the above mentioned ten (10) days period ends unless the parties agree otherwise.

In case of Contract termination under any of the above mentioned events, this Contract shall remain in full force and effect at the pricing mechanism applicable in accordance with this Contract terms and conditions up to the effective date of termination and such termination shall not affect the parties' rights and obligations therefrom, unless the parties agree otherwise during the period prior to the effective date of termination.

ARTICLE SIX

PAYMENT:

1. BUYER shall establish in respect of each shipment lifted under this Contract an irrevocable documentary letter of credit issued by a bank acceptable to Banque Nationale de Paris, S.A. ("BNP")for confirmation, in the form set out in Appendix I hereof.

   In all cases, the Letter of Credit shall be established, confirmed and accepted at least seven (7) days prior to loading date.

2. BUYER irrevocably undertakes that payment for each cargo of crude oil lifted shall be made out of the proceeds of the confirmed Letter of Credit directly to United Nations Iraq Account Euro sub account account number 0200-201752-002-05 established by the Secretary-General of the United Nations, pursuant to paragraph 7 of SCR 986, at BNP (New York Branch) (hereinafter "United Nations Iraq Account Euro sub Account"), upon presentation to BNP of the documents required by the Letter of Credit, including but not limited to the Commercial Invoice and the Bill of Lading.

3. All charges within Iraq are for SELLER, whereas all charges outside Iraq are to be borne by BUYER.
4. Unless otherwise provided herein, payment shall be made not later than thirty (30) days from B/L date, in same date funds.

   If payment falls due on a Saturday or Bank holiday other than Monday in the place where payment is to be made then payment shall be made on the last preceding banking day. If payment falls due on a Sunday or a Monday Bank holiday in the place where payment is to be made then payment shall be made on the next succeeding banking day.

ARTICLE SEVEN

SOMO STANDARD DOCUMENTATION:

Bill of Lading	9 (3 orig. & 6 copies)
Certificate of Origin	4
Certificate of Quality and Quantity	4
Loading Time Sheet	4
Ullage Report	4
Master's Receipt for Samples	4
Distribution of Documents	4

Two sets of documents are handed to Master, one being for consignee. SELLER shall advise BUYER by telex or cable within forty eight (48) hours following each loading with the following details:-

(a) Vessel's Name .
(b) Loading Port .
(c) Commenced loading Date.
(d) Completed Loading Date.
(e) Sailing Date .
(f) Gross and net quantities in metric tons, long tons and U.S. barrels.
(g) API Gravity.

ARTICLE EIGHT

APPROVAL OF CONTRACT :

This Contract is subject to the approval of the Overseers on behalf of the 661 Committee. Such approval shall be obtained in accordance with the Procedures, utilizing the form set out in Appendix II hereof.

ARTICLE NINE

SPECIAL CONDITIONS :

1. Loading of any shipment of crude oil shall be subject to the authorization of the Inspectors at the port of loading. The Inspectors shall also have the authority to stop the loading if they determine that there is any evidence of irregularity.

2. Notwithstanding Sub Article 4-3 of Section Two of this Contract, the accepted date of arrival of the vessel at the loading ports shall be fixed on a one (1) day range. All related Articles of Section Two of the Contract will read to that effect and conformity.

3. Notwithstanding Sub Article (6-5) of Section Two of this Contract SELLER shall be allowed as laytime at Al Bakr Terminal as follows :-

Laytime (hrs)	Vessel DWT (MT)
36	Up to 129 999
54	130 000 – 199 999
65	Over 200 000

All related Articles of Section Two of the Contract will read to that effect and conformity.

4. In addition to the events specified in Sub Article 6-6 of Section Two, any time consumed due to the Inspectors prohibiting loading shall not count as used laytime.
5. This Contract shall terminate forthwith in the event that the Security Council terminates the authorization to import petroleum or petroleum products originating in Iraq.
6. Assignment of the rights or obligations of the SELLER or BUYER shall be subject to the approval of the 661 Committee.
7. Any claims from BUYER under Sub Article 1-3 or Article Seven of Section Two, and any analyses carried out under Sub Articles 1-5 and 1-6 of Section Two, shall copied to the Overseers. Payments or other awards under Article Thirteen of Section Two, in respect of claims under Articles one and Seven of Section Two are subject to the approval of the 661 Committee. Any sum to be paid by BUYER in settlement of a dispute under Article Thirteen of Section Two relating to the proceeds of the sale of crude oil under this Contract shall be paid by BUYER directly to the United Nations Iraq Account, Euro sub account.

8. Payments to SELLER under SUB Article 5-5 and Sub Article 6-7 of Section Two, and any other Payments or awards under Article Thirteen of Section Two, are subject to the approval of the 661 Committee.
9. This Contract shall be subject to SCR 986, SCR 1111, SCR 1143 SCR 1153, SCR 1210, SCR 1242, SCR 1281, SCR 1302, SCR 1330, the Procedures and the Memorandum of Understanding between the Secretariat of the United nations and the Government of Iraq on the implementation of SCR 986 (United Nations document S/1996/356, dated 20 May 1996).

ARTICLE TEN

ADDRESSES:

In addition to the notices, declarations and other communications required under Article Fourteen, notices, approvals, declarations and Communications required above for the Overseers, on behalf of the 661 Committee, shall be effected at the addresses below:-

FOR SELLER:
STATE OIL MARKETING ORGANIZATION
P.O. BOX 5118
BAGHDAD – IRAQ
TELEX : 212198 – 212199 SOMO IK
TELEPHONE: 964-1-2869561
964-1-7742040 - 10 Lines
FAX : 964-1-8853925

FOR BUYER:
JSC ZARUBEZHNEFTEGAZ – MOSCOW
117939, STROITELEI STR. 8 KOK.1,
MOSCOW, RUSSIA
FAX : 7095 2 92 98 49
7095 209 79 69 - 7095 331 12 97
TEL : 7095 999 0 11 0

FOR OVERSEERS
UNITED NATIONS, NEW YORK, U.S.A.
FAX : 212 – 963 – 1628

All other terms and conditions as per (Section Two) General conditions of F.O.B. crude oil sales contract and attached appendices 1 & 2 attached .

This Contract has been done and signed on the 11TH day of January, 2001

FOR SELLER
SADDAM Z. HASSAN
EXECUTIVE DIRECTOR GENERAL
S O M O

FOR BUYER
V.T. SHUDRATYUK
GENERAL DIRECTOR
ЗАО "ЗАРУБЕЖНЕФТЕГАЗ"
НАЧАЛЬНИК
ДОГОВОРНО-ПРАВОВОГО ОТДЕЛА
17.01.01
Ю.П.МАЛАХОВ

FROM : SBFI PHONE NO. : 9584355 Jan. 25 2001 09:15PM P11
11-JAN-01 THU 22:42 SOMO. BAGHDAD FAX NO. UU96412853925 P. 11

Appendix 1

SAMPLE LETTER OF CREDIT TO COVER OIL PURCHASES - OPENED BY ANOTHER BANK ACCEPTABLE TO BNP

To : **BANQUE NATIONALE DE PARIS S.A.**
NEW YORK BRANCH
TELEX NO. 6737018

DATE :

FROM: (OPENING BANK)

TEST KEY :

PLEASE ADVISE OUR FOLLOWING IRREVOCABLE DOCUMENTARY CREDIT TO THE BELOW MENTIONED BENEFICIARY ADDING YOUR CONFIRMATION . FOR INFORMATIONAL PURPOSES ONLY PLEASE FORWARD A COPY OF THIS LETTER OF CREDIT TO THE CENTRAL BANK OF IRAQ FOR PURPOSES OF ADVISING STATE OIL MARKETING ORGANIZATION (SOMO) PURSUANT TO THE 661 COMMITTEE PROCEDURES . WE HAVE OBTAINED THE NECESSARY GOVERNMENTAL AUTHORIZATION FOR THE ISSUANCE OF THIS LETTER OF CREDIT . (OR : NO GOVERNMENTAL AUTHORIZATION IS REQUIRED FOR THE ISSUANCE OF THIS LETTER OF CREDIT) .

QUOTE :

OUR REF : (LETTER OF CREDIT NO)

BY ORDER OF : (ACCOUNT PARTY)

INFAVOR OF : THE UNITED NATIONS

FOR A MAXIMUM AMOUNT OF EURO __(EURO AMOUNT SPELLED OUT) FOB .

THIS CREDIT IS AVAILABLE BY DEFERRED PAYMENT AT THIRTY (30) DAYS FROM BILL OF LADING DATE (INCLUDING B/L DATE) AGAINST PRESENTATION NOT LATER THAN ____/____2000 (insert validity date) OF THE FOLLOWING DOCUMENTS AT THE COUNTERS OF BANQUE NATIONALE DE PARIS, S.A., 200 LIBERTY STREET, NEW YORK, NEW YORK .

ATTN : TRADE FINANCE SERVICES ;

1- THIRTY (30) DAYS DATE DRAFT DRAWN BY THE UNITED NATIONS ON BANQUE NATIONALE DE PARIS NEW YORK BRANCH AND PAYABLE TO THE UNITED NATIONS IRAQ ACCOUNT, EURO SUB-ACCOUNT ACCOUNT NUMBER 0200-201752-002-05 . SUCH DRAFT MUST BE DATED THE ON BOARD DATE ON THE BILL OF LADING .

2- SOMO'S DULY SIGNED ORIGINAL COMMERCIAL INVOICE PLUS ( ) COPIES COVERING_____(QUANTITY) OF BARRELS (PLUS OR MINUS FIVE PERCENT) OF KIRKUK OR BASRAH LIGHT CRUDE OIL FROM (PORT OF SHIPMENT) TO _____(DESTINATION) ON M/T TBN .

INVOICE TO SHOW QUANTITIES IN METRIC TONS, LONG TONS AND U.S.BARRELS .

PRICE : (AS AGREED) (PLEASE SEE ATTACHMENT A)

INVOICE MUST STATE THAT PAYMENT IS TO BE MADE TO THE UNITED NATIONS AT BANQUE NATIONALE DE PARIS, S.A. NEW YORK BRANCH FOR CREDIT TO THE UNITED NATIONS IRAQ ACCOUNT, EURO SUB-ACCOUNT, ACCOUNT NUMBER 0200-201752-002-05 .

INVOICE TO ALSO INDICATE THE FOLLOWING :

- API GRAVITY AT 60 DEG F OF THE CARGO LOADED . (NO GRAVITY ESCALATION) .
- PRICE CALCULATED AS PER PRICE CLAUSE ABOVE .
- B/L DATE .
- CONTRACT NO.
- SHIPMENT NO .
- BNP CONFIRMATION NO .
- OPENING BANK L/C NO .

3- FULL SET CLEAN ON BOARD OCEAN BILLS OF LADING IN 3/3 ORIGINAL AND ( ) NON-NEGOTIABLE COPY(IES) DATED ON BOARD AND ISSUED TO THE ORDER OF _____SHOWING SHIPMENT FROM_____TO MARKED" FREIGHT PAYABLE BY BUYER AS ARRANGED" .

EACH ORIGINAL BILL OF LADING TO BE ORIGINALLY SIGNED AND STAMPED BY VESSEL'S MASTER AND MARKED WITH THE SHIPMENT NUMBER .

4- CERTIFICATE OF IRAQI ORIGIN ISSUED BY SOMO IN ( ) ORIGINAL AND ( ) COPY .

5- QUANTITY AND QUALITY CERTIFICATE IN ( ) ORIGINAL AND ( ) COPY

COVERING THE SALE OF ( ) BARRELS (PLUS OR MINUS FIVE PERCENT) OF CRUDE OIL FOB CEYHAN AND OR AL BAKR TERMINAL

SPECIAL CONDITIONS :

- THE AMOUNT OF THE PRESENT LETTER OF CREDIT IS AUTOMATICALLY ADJUSTED TO CORRESPOND TO THE FINAL INVOICE PRICE WITHOUT ANY AMENDMENT TO THIS LETTER OF CREDIT .
- SHIPMENT : FROM THE PORT OF _____AT THE LATEST
- WHERE COPIES OF DOCUMENTS ARE CALLED FOR , PHOTOCOPIES ARE ACCEPTABLE .
- THIS LETTER OF CREDIT IS NOT ASSIGNABLE AND NOT TRANSFERABLE .
- PARTIAL SHIPMENT IS PERMITTED .
- TRANSSHIPMENT PROHIBITED .
- DOCUMENTS PRESENTED LATER THAN 21 DAYS AFTER BILL OF LADING DATE BUT STILL WITHIN THE CREDIT VALIDITY ARE ACCEPTABLE .
- CHARTER PARTY BILLS OF LADING ACCEPTABLE .
- ALL BANKING CHARGES WITHIN IRAQ ARE FOR THE SELLER'S ACCOUNT, WHEREAS ALL CHARGES OUTSIDE IRAQ INCLUDING BANQUE NATIONALE DE PARIS S.A. NEWYORK BRANCH CHARGES AND FEES ARE FOR BUYER'S ACCOUNT .
- IN THE EVENT THE ORIGINAL DUE DATE FALLS ON A SATURDAY OR ON A NEW YORK BANK OR FRENCH BANK HOLIDAY OTHER THAN MONDAY, SUCH PAYMENT SHALL BE MADE ON THE LAST PRECEDING NEW, YORK AND FRENCH BANKING DAY. IN THE EVENT THE ORIGINAL PAYMENT DUE DATE FALLS ON A SUNDAY OR A MONDAY NEW YORK OR FRENCH BANK HOLIDAY , PAYMENT SHALL BE MADE ON THE NEXT SUCCEEDING NEW YORK AND FRENCH BANKING DAY .
- PROVIDED ALL TERMS AND CONDITIONS OF THIS LETTER OF CREDIT ARE COMPLIED WITH, PROCEEDS OF THIS LETTER OF CREDIT WILL BE IRREVOCABLY PAID INTO THE UNITED NATIONS IRAQ ACCOUNT, EURO SUB-ACCOUNT, ACCOUNT NUMBER 0200-201752-002-05 WITH BANQUE NATIONALE DE PARIS, S.A. NEW YORK BRANCH. THESE INSTRUCTIONS WILL BE FOLLOWED IRRESPECTIVE OF ANY CONFLICTING INSTRUCTIONS CONTAINED IN THE SELLER'S COMMERCIAL INVOICE OR ANY TRANSMITTED LETTER .

WE HEREBY ENGAGE WITH THE BENEFICIARY AND BANQUE NATIONALE DE PARIS S.A., NEW YORK BRANCH THAT DOCUMENTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED UPON PRESENTATION AS SPECIFIED .

THIS TELEX IS THE OPERATIVE INSTRUMENT AND WILL NOT BE FOLLOWED BY A WRITTEN CONFIRMATION (IF ORIGINAL IS TRANSMITTED, THIS WOULD NOT APPLY) .

THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION) INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500.

UNQUOTE :

SPECIAL INSTRUCTIONS TO BANQUE NATIONALE DE PARIS S.A., NEW YORK BRANCH :

WE HEREBY UNDERTAKE TO HONOR YOUR TELEX/SWIFT REIMBURSEMENT REQUEST FOR PRINCIPAL AND ALL OF YOUR CHARGES , INCLUDING CONFIRMATION AND NEGOTIATION FEES FOR PAYMENT AT MATURITY, ACCORDING TO YOUR PAYMENT INSTRUCTIONS . IF OUR COVER DOES NOT REACH YOU IN TIME TO REIMBURSE YOU FOR YOUR PAYMENT UNDER THE CREDIT ON DUE DATE, WE HEREBY UNDERTAKE TO COMPENSATE YOU FOR ANY LOSS OF INTEREST INCURRED BY YOU DUE TO THIS DELAY .

REGARDS,
(OPENING BANK)

FROM : SBFI PHONE NO. : 9584355 Jan. 25 2001 09:17PM P15
11-JAN-01 THU 22:48 SOMO BAGHDAD FAX NO. 00964128539925 P. 15

SECTION TWO

GENERAL CONDITIONS

F.O.B. CRUDE OIL SALES CONTRACT

ARTICLE ONE
MEASUREMENT AND SAMPLING

1- Measurement of the quantities and the taking of four (4) samples for the purpose of determining the quality of the crude oil in each shipment shall be carried out in accordance with good standard practice at the port of loading at the time of the shipment in question .

2- The bill of lading shall indicate the quantity of crude oil delivered in conformity with measurements at the port of loading and shall be considered final and binding upon both parties after deduction of bottom sediments and water .

3- Any claims from BUYER as to determinations made at the loading port relating to the quality delivered shall be sent to SELLER within sixty (60) days from the date of the bill of lading .

4- No claim submitted by BUYER for one lot of the crude oil shall be regarded as a reason for rejecting any other lot of the crude oil to be delivered under the present contract .

5- In case of a dispute arising over the quality of the delivered crude oil, BUYER and SELLER will refer to the analysis of the two samples to be carried out independently by the two parties . These analyses will be binding upon both parties provided they are found in agreement with each other within the reproducibilities of IP or ASTM methods .

6- Should these analyses prove different , however , the other two samples shall be analyzed by a third laboratory , to be agreed upon by both parties . The result of this analysis shall be final and the cost thereof shall be borne by the party losing the claim .

ARTICLE TWO
RISK AND PROPERTY

Title to the crude oil and all risks thereof shall pass to BUYER when the oil passes the flange connection between the delivery hose and the vessel's permanent hose connection at the loading port. However, any loss of or damage to the oil during loading, if caused by the vessel, shall be as between the parties hereto, for the account of BUYER who shall bear all prejudicial consequences thereof.

ARTICLE THREE
LIFTING PROGRAMME

1- BUYER shall lift the quantities of crude oil agreed upon in this contract as follows : -

A- Quantities to be lifted under this contract shall be fairly evenly spread.

B- BUYER shall notify SELLER of quarterly requirements for the full calendar year at least sixty (60) days before commencement of the relevant year or at date of signature of new contracts if later then November 1st of the preceding year.

C- BUYER shall specify monthly liftings during each quarter at least forty five (45) days before commencement of the relevant quarter.

2- The above - mentioned tentative schedules, which are to be supplemented to cover all contracted quantities, may be altered by express request of BUYER, subject to SELLER'S approval SELLER shall not unreasonably withhold its approval, and will notify BUYER within fifteen (15) days of the request.

3- If, during any calendar quarter, BUYER fails to take deliveries of any quantities of crude oil provided for during such quarter ; SELLER , after allowing for normal operational slippage of a nominated and accepted vessel between the quarters and a previously accepted tolerance of up to five percent (5%) of the quarterly contracted quantity, may deduct such quantities from the total quantities of crude oil to be delivered under this contract .

ARTICLE FOUR
NOMINATION OF VESSELS

1- BUYER shall notify SELLER twenty (20) days before the beginning of each month of its loading programme for that month. Such programme shall specify for each vessel : -

- The expected date of arrival of each vessel .
- Quality and Quantity of crude oil to be loaded, five percent (5%) more or less .
- Vessel's name or TBN .
- Port(s) of discharge and destinations .
- Instructions needed by SELLER to issue documents in accordance with effective export regulations .

2- SELLER shall notify BUYER not later than ten (10) days after receipt of the notice specified hereinabove whether it accepts or refuses schedules or nominations . In case of refusal, SELLER shall propose other dates which shall be as close as possible to those proposed by BUYER . Dates thus determined shall be deemed accepted by BUYER unless the latter advises SELLER to the contrary within three (3) working days following receipt of SELLER'S notification .

3- The date of arrival of the vessel at the loading port shall be as follows : -

a) For Mediterranean ports ; the date of arrival shall be within a range of three (3) days extending one (1) day before and one (1) day after the expected date of arrival .

b) For Arabian Gulf ports ; the date of arrival shall be within a range of five (5) days extending two (2) days before and two (2) days after the expected date of arrival .

However an accepted date of arrival may be changed at any time by BUYER with SELLER'S consent .

4- BUYER shall require vessel's master to advise loading port by radio or cable of vessel's expected day and time of arrival at least seventy two (72) hours, forty eight (48) hours and twenty four (24) hours before arrival .
Failure to give any notice at least twenty four (24) hours in advance of arrival of any vessel will increase laytime allowed SELLER by an amount equal to the difference between twenty four (24) hours and the number of hours prior to arrival of such vessel that notice of such ETA is received by SELLER .

5- Nominations quoted as TBN shall be replaced by firm vessel nomination with the same accepted date range and to load a similar quantity of crude oil at least five (5) days before the firm date of arrival .
Should BUYER fail to give the above notice of at least five (5) days, the deemed arrival date of the vessel shall be the fifth day after the date when notice is received by SELLER .

6- Should BUYER wish to substitute a vessel of different size to load a different quantity, this shall be subject to prior approval of SELLER .

7- BUYER shall specify when the nominated vessel is for part cargo and advise SELLER the DWT of the vessel and cargo on board (if any) which should not exceed the allowed limits set by port authorities .

ARTICLE FIVE
VESSEL BERTHS

1- Each vessel shall comply with all regulations in force at the loading port .

2- Loading berth indicated by SELLER'S representative shall enable a vessel, to proceed thereto, lie thereat, and depart therefrom always safely afloat .

3- SELLER'S representative may shift the vessel at the loading port from one berth to another, and shall then assume all extra expenses in connection therewith . Such shifting time shall be counted as used laytime .

4- Vessel shall vacate her berth as soon as loading is completed . In the event of failure to do so, BUYER shall pay SELLER for any resultant demurrage, loss or damage which SELLER may incur including such as may be incurred due to resulting delay to other vessels awaiting their turn to load .

5- If in the course of entering berth or mooring or loading or unmooring or leaving berth, the vessel or her crew damage any of the terminals, sea or shore installations or equipment due to negligence or any reason, BUYER shall be responsible for all claims, damages, costs, and expenses arising therefrom .

ARTICLE SIX
LOADING CONDITIONS

1- Vessels arriving within their agreed period shall be loaded in order of tendering their notice of readiness .

2- Upon arrival of the vessel at the loading port, the master or his representative shall tender to SELLER'S representative notice of readiness of the vessel to load crude oil, berth or no berth .

3- Laytime shall commence six (6) hours after notice of readiness to load has been tendered by the master to SELLER or SELLER'S representative, subject to BUYER'S and vessel's compliance with all other provisions of this Contract and if the notice is tendered within the range of days as defined in Article Four para . (3) of this Section .

If the notice is tendered before the beginning of the period as defined in Article Four para (3) of this Section, then laytime shall commence at 6 A . M . local time on the on the first day of such period . However if the vessel is moored at loading berth before 00.01 hours on the first day of the period hereinabove indicated, then laytime shall commence six (6) hours after completion of vessel's mooring berth or on commencement of loading, whichever shall first occur .

If the notice is tendered after the expiration of the period as defined in Article Four para . (3) of this Section, loading will be made in accordance with SELLER'S possibilities and laytime will commence upon commencement of loading . However, SELLER may refuse to load a vessel which has arrived more than ten (10) days after noon time of the date determined as in Article Four para (3) of this Section .

If notice is tendered at a time when there was bad weather at the loading port, laytime shall commence six (6) hours after the end of the bad weather . However, if the bad weather lasted beyond the accepted range, then laytime shall commence upon commencement of loading and the vessel shall not lose its loading turn .

4- Laytime shall end when loading hoses have been disconnected after completion of loading .

5- SELLER shall be allowed as laytime within which to complete each shipment at each port of loading one - half the total laytime as published in the worldScale, i.e. thirty six (36) hours laytime, Fridays and Local Public Holidays excluded, unless actually used in the loading of such shipment .

6- Any time consumed due to the following shall not count as used laytime : -

- Delay to the vessel in reaching or clearing her berth caused by conditions beyond SELLER'S control .

- Delay to the vessel during loading, including delay due to inability of the vessel's facilities to load the cargo within the time allowed and generally speaking any time lost on account of vessel

- If BUYER or owner or master of the vessel or port authorities prohibit loading at any time .

- Any delay on account of bad weather after remittance of notice or during loading .

- Discharging of ballast and changing type of crude .

- Awaiting customs and immigration clearance and pratique .

- Awaiting pilot or tugs, or while moving from anchorage to place of loading .

7- In case of dirty ballast or overflows on board or pollution of sea water by oil or loss of oil due to overflows or leaks of oil on board or ashore caused by the vessel, BUYER will be fully responsible before the port authorities and SELLER for all claims, losses, costs and expenses arising therefrom .

ARTICLE SEVEN
DEMURRAGE

1- For the period that used laytime at the loading port exceeds the allowed laytime specified in Article six para (5) of this Section, SELLER shall pay to BUYER demurrage computed on an hourly basis in accordance with the rate published in WORLDSCALE in force on the day when loading begins, for the size vessel in question per day and prorate to any part of the running day, and the size of cargo loaded plus five percent (5%) in case of part cargo loading .

The WORLDSCALE flat rate is the ceiling to be adjusted by either of the following as the case may be :

a. Charter party rate when the BUYER is the charterer of the vessel, or

b. The AFRA rate if the vessel is on time charter or under BUYER'S control, or

c. Published London market single voyage charter rate at the date of loading for a vessel of a similar size in a similar trade to the vessel in question .

2- However, if demurrage occurs at the loading port because of fire or explosion in or about the plant of SELLER, or because of breakdown of machinery or equipment of SELLER, the rate of demurrage shall be reduced to one - half .

3- Notwithstanding the above, no demurrage shall be payable in the event SELLER is prevented from or delayed in delivering all or any part of the crude oil for reasons of force majeure; or if the claim for demurrage is received by SELLER after sixty (60) days from the date of the Bill of Lading ; or if the fully documented claim itself for demurrage is received by SELLER after ninety (90) days from the date of the Bill of Lading .

ARTICLE EIGHT
TAXES AND DUTIES

1- BUYER shall bear alone port dues and fees charged on vessels at the port of loading .

2- Dues and other charges on the crude oil loaded or to be loaded shall be borne by SELLER .

ARTICLE NINE
TERMINATION IN THE EVENT OF LIQUIDATION OR DEFAULT

SELLER may terminate this contract forthwith on giving to BUYER notice in writing to that effect in the event that :

- BUYER goes into liquidation or enters into an arrangement or composition with its creditors ; or

- BUYER shall be in arrears with the payments due to SELLER under this Contract ; or

- Whereby the terms of the Contract , a minimum quantity of crude oil is to be taken by BUYER within any specified period , BUYER fails in the said period to take delivery of the said minimum quantity ; or

- In the event of any breach of Article Ten or Eleven by BUYER ; or

- In case of any change in ownership , shareholding , country of registration or premises etc . that relate to BUYER as a contracting party .

ARTICLE TEN
ASSIGNMENT

1- Neither party shall have the right to assign its rights and obligations under this Contract in whole or in part without the written consent of the other.

2- In the event of an approved assignment , assignor shall be jointly held responsible with assignee for the full performance of its obligations towards the other party .

3- It is expressly understood that BUYER will process crude oil sold under this Contract in its own processing facilities or under processing arrangements with other refiners for BUYER'S own account for which SELLER'S prior approval must be obtained .
BUYER also undertakes that under no circumstances shall BUYER resell or exchange the said crude oil in its original form or blend it with any other crude oil or crude oil derivatives for purposes of resale or exchange .

ARTICLE ELEVEN
DESTINATION

Except to the extent inconsistent with the laws of BUYER'S country and laws applicable to Banque Nationale de Paris :

1- BUYER acknowledges that all laws , regulations and rules of the Republic of Iraq relating to destination of crude oil purchased hereunder shall apply to BUYER .

2- BUYER undertakes that all laws , regulations and rules of the Republic of Iraq shall apply to vessels employed by him to transport crude oil covered by this Contract .

3- BUYER undertakes, whenever required , to submit to SELLER or his representative within a reasonable time , the discharge certificate of each shipment duly endorsed by the Iraqi Representation (or any other acceptable Representation) in the country of destination .

ARTICLE TWELVE
FORCE MAJEURE

1- Failure or omission to carry out or to observe any of the terms , provisions or conditions of this Contract shall not give rise to any claim

by one party hereto against the other or be deemed to be a breach of this Contract if this is due to force majeure .

2- If by reason of force majeure the fulfilment by either party of any terms and conditions of this Contract is delayed for a period not exceeding three (3) months the period of such delay shall be added to the duration of this Contract . If , however , the period of delay exceeds three (3) months , either party at any time after the expiry of the three (3) months shall have the right to terminate this Contract by giving written notice .

ARTICLE THIRTEEN
ARBITRATION

1- The two contracting parties shall settle in good faith any dispute arising from this Contract through negotiations by the representatives of the two parties . If no agreement can be reached within a period of thirty (30) days , the two parties shall settle the dispute by way of arbitration as stated in paragraph (2) of this Article .

2- The Arbitration Board shall be composed of three members , each contracting party shall select one member . The two selected arbitrators shall together select an umpire to be the President of the Board . If the two parties fail to select the arbitrators in the manner shown above within a period of three (3) months , the members of the Arbitration Board shall be appointed in accordance with the rules of arbitration of the International Chamber of Commerce and the arbitration place shall be Baghdad or any other place mutually agreed upon .

ARTICLE FOURTEEN
NOTICES

1- Any notices , declarations and other communications which either party may be required to give or make to the other party shall , unless otherwise specifically provided elsewhere , be given in writing within the required time and sent by post , by telegraph or by telex to the address of the other party specified for this purpose in the Contract and shall , unless otherwise specifically provided herein , be deemed to have been given or made on the date of receipt by the other party .

2- Either party , by not less than fifteen (15) days notice in writing to the other party , may from time to time change its address .

ARTICLE FIFTEEN
APPLICABLE LAW

This Contract shall be construed and governed in accordance with the laws of the Republic of Iraq .

File: A:ZARUGAS1 11:39:07 18 Jan 2001 Page:

REPUBLIC OF IRAQ
MINISTRY OF OIL
STATE OIL MARKETING
S O M O

REF : M1/1007 BAGHDAD 18/1/2001

TO : ZARUBEZHNEFTGAS, MOSCOW
TLX : 485123 GAS RU
FAX : 7095 331 12 97
ATT : MR. A.T.KONDRATYUK
FROM: SOMO TLX. 212198 IK

RE: CRUDE OIL CONTRACT M/09/19 DATED 1/11/2001

WE ATTACH HEREWITH ADDENDUM NO. (1) TO OUR ABOVE CONTRACT CONFERING QUANTITY AND QUALITY.
PLEASE SIGN THE AMENDMENT AND FAX IT BACK TO US. ALSO PLS FAX IT TO THE U.N. OVERSEERS IN NEW YORK.

BEST REGARDS.

SADDAM Z. HASSAN
EXECUTIVE DIRECTOR GENERAL
S O M O

C.C.: TO THE U.N. OVERSEERS
FAX : 12 12 963 16 28 NEW YORK
FOLLOWING OUR FAX NO. P/615 DATED
11/01/01 KINDLY APPROVE THE ABOVE.

ADDENDUM NO. (1) TO CONTRACT
NO. M/09/19 DATED 11/01/2001.

STATE OIL MARKETING ORGANIZATION (SOMO) AND JSC ZARUBEZHNEFTGAS - MOSCOW AGREED THAT ARTICLE THREE (1) QUANTITY AND QUALITY IS AMENDED TO READ :-

TYPE OF CRUDE	QUANTITY	PORT OF LOADING
BASRAH LIGHT	12,000,000 BBLS	ALBAKR

ALL OTHER TERMS AND CONDITIONS SHALL REMAIN UNCHANGED.

DONE AND SIGNED ON THE 18TH DAY OF JANUARY 2001.

FOR SELLER
SADDAM Z. HASSAN
EXECUTIVE DIRECTOR GENERAL
S O M O

FOR BUYER
A.T. KONDRATYUK
GENERAL DIRECTOR

16-JAN-01 TUE 12:22 SOMO. BAGHDAD FAX NO. 0096412853925 P. 1

File: A:ZARUGAS 09:57:55 16 Jan 2001 Page:

REPUBLIC OF IRAQ
MINISTRY OF OIL
STATE OIL MARKETING
S O M O

AK
MT MBJ

REF : M1/ 818 BAGHDAD 16/1/2001

TO : ZARUBEZHNEFTGAS, MOSCOW
TLX : 485123 GAS RU
FAX : 7095 331 12 97
ATT : MR. A.T.KONDRATYUK
FROM: SOMO TLX. 212198 IK

RE: CRUDE OIL CONTRACT M/09/19 DATED 1/11/2001

WE ARE PLEASED TO ATTACH HEREWITH PAGE (10) OF A/M CONTRACT DULY SIGNED BY OUR SIDE WITH THE REQUESTED CORRECTED NAME OF MR. A.T. KONDRATYUK, WE KINDLY ASK YOU TO SIGN THIS PAGE AND FAX IT BACK TO US, ALSO FAX SAID CONTRACT TO THE U.N. OVERSEERS FOR APPROVAL.

BEST REGARDS.

SADDAM
SADDAM Z. HASSAN
EXECUTIVE DIRECTOR GENERAL
S O M O

C.C.: TO THE U.N. OVERSEERS
FAX : 12 12 963 16 28 NEW YORK
FOLLOWING OUR FAX NO. P/615 DATED 11/01/01 KINDLY NOTIFIED THAT THE SIGNATORY NAME FOR BUYER HAS BEEN CORRECTED.

8. Payments to SELLER under SUB Article 5-5 and Sub Article 6-7 of Section Two, and any other Payments or awards under Article Thirteen of Section Two, are subject to the approval of the 661 Committee.
9. This Contract shall be subject to SCR 986, SCR 1111, SCR 1143 SCR 1153, SCR 1210, SCR 1242, SCR 1281, SCR 1302, SCR 1330, the Procedures and the Memorandum of Understanding between the Secretariat of the United nations and the Government of Iraq on the implementation of SCR 986 (United Nations document S/1996/356, dated 20 May 1996).

ARTICLE TEN

ADDRESSES:

In addition to the notices, declarations and other communications required under Article Fourteen, notices, approvals, declarations and Communications required above for the Overseers, on behalf of the 661 Committee, shall be effected at the addresses below:-

FOR SELLER:
STATE OIL MARKETING ORGANIZATION
P.O. BOX 5118
BAGHDAD – IRAQ
TELEX : 212198 – 212199 SOMO IK
TELEPHONE: 964-1-2869561
964-1-7742040 - 10 Lines
FAX : 964-1-8853925

FOR BUYER:
JSC ZARUBEZHNEFTEGAZ – MOSCOW
117939, STROITELEI STR. 8 KOK.1,
MOSCOW, RUSSIA
FAX : 7095 2 92 98 49
7095 209 79 69 - 7095 331 12 97
TEL : 7095 999 0 11 0

FOR OVERSEERS
UNITED NATIONS, NEW YORK, U.S.A.
FAX : 212 – 963 – 1628

All other terms and conditions as per (Section Two) General conditions of F.O.B. crude oil sales contract and attached appendices 1 & 2 attached.

This Contract has been done and signed on the 11TH day of January, 2001.

FOR SELLER	FOR BUYER
SADDAM Z. HASSAN	A.T. KONDRATYUK
EXECUTIVE DIRECTOR GENERAL	GENERAL DIRECTOR
S O M O	

11-JAN-01 THU 21:04 SOMO, BAGHDAD FAX NO. 0096412853925 P. 1

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة النفط
هيئة التسويق
سومو

REPUBLIC OF IRAQ
MINISTRY OF OIL
STATE OIL MARKETING
S.O.M.O

AK, MT, MBJ

Ref. P/615
Date 11/1/2001

FAX TRANSMISSION

TO : THE OVERSEERS
FAX : 001212 963 1628 NEW YORK

FROM : SOMO – BAGHDAD – IRAQ
FAX : 00964-1-8853925
NO. OF PAGE : ( ) INCLUDING COVER PAGE

APPLICATION FORM TO REQUEST APPROVAL OF CONTRACT

THE ATTACHED CONTRACT WITH JSC "ZARUBEZHNEFTEGAZ" - MOSCOW FOR THE PURCHASE OF PETROLEUM IS SUBMITTED FOR APPROVAL IN ACCORDANCE WITH PARAGRAPH 1 (A) OF SECURITY COUNCIL , RESOLUTION 986 (1995), RESOLUTION 1111 (1997) RESOLUTION 1143 , RESOLUTION 1153 (1998) , RESOLUTION 1210 (1998) RESOLUTION 1242 (1999) , RESOLUTION 1281 (1999) , RESOLUTION 1302 (2000), RESOLUTION 1330 (2000), AND THE PROCEDURES OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT, ADOPTED AT ITS 142ND MEETING ON 8 AUGUST 1996.

SUMMARY OF CONTRACT TERMS

CONTRACT NO. : M/ 09 / 19 DATED 11/ 1 / 2001

	KIRKUK	BASRAH LIGHT
QUANTITY OF CRUDE OIL	8,000,000 BBLS	4,000,000 BBLS
PRICING FORMULA	EUROPE AND/OR U.S MARKETS	EUROPE AND / OR U.S. MARKETS

PLEASE FIND ATTACHED A COPY OF THE CONTRACT (SECTION ONE AND APPENDIX I AND APPENDIX II) . (SECTION TWO) AS PER SOMO'S STANDARD CONTRACT.

BEST REGARDS.

SIGNATURE : SADDAM
NAME OF SIGNATORY: SADDAM Z. HASSAN
TITLE : EXECUTIVE DIRECTOR GENERAL
STATE OIL MARKETING ORGANIZATION (SOMO)

ص.ب ٥١١٨ بغداد العراق تلكس ٢١٢١٩٨ - ٢١٢١٩٩ IK INCOMART تلفون ٧٧٤٢٠٤٠ - ١٠ تلكس
P. O. Box : 5118 Baghdad - IRAQ Telex : 212148 - 212199 IK INCOMART Tel. : 7742040 - 10 Line - Fax : 7198500

STATE OIL MARKETING ORGANIZATION

CRUDE OIL SALES CONTRACT

NO. M/09/19

SECTION ONE

SPECIFIC PROVISIONS

F.O.B. CRUDE OIL SALES CONTRACT

FOB SALES CONTRACT
CONTENTS

Section One

Section Two

Contract between State Oil Marketing Organization (SOMO) (hereinafter called SELLER) of the one part and JSC " ZARUBEZHNEFETGAZ" - MOSCOW (hereinafter called BUYER) of the other part.

Whereby it is agreed as follows :-

SECTION ONE

Wherever the General Provisions of Section Two, attached and herein incorporated in this Contract, are at variance or in conflict with this Section One, the provisions of Section One shall govern.

ARTICLE ONE

DEFINITIONS

As used in this Contract, unless otherwise provided, the following words and terms shall have the following meanings :-

Barrel	:	means forty-two (42) U.S. Gallons at sixty degrees (60°) Fahrenheit and at normal atmospheric pressure.
Day	:	means a period of twenty-four (24) running hours Commencing at 00.01 hours local time at the port of loading.
Barrel per Day (B/d)	:	means the average number of barrels of crude oil supplied during a calendar day as defined above.
F.O B.	:	means "Free on Board" as referred to in the ICC Incoterms 1990.
Dollar ($)	:	The currency of the United States of America.
Euro	:	The currency of the European Union
Month	:	means Gregorian Calendar month commencing at 00.01 hours local time at the port of loading on first day of the month.
Quarter	:	means a period of three (3) consecutive months Beginning on a 1st January or a 1st April or a 1st July or a 1st October.

Year	:	means a Gregorian Calendar Year.
Api Gravity	:	means scale adopted by the American Petroleum Institute for expressing the specific Gravity of crude oil.
SCR 986	:	means Security Council resolution 986 (1995) of 14 April 1995.
SCR 1111	:	means Security Council resolution 1111 (1997) of 4 June 1997.
SCR 1143	:	means Security Council resolution 1143 (1997) of 4 December 1997.
SCR 1153	:	means Security Council resolution 1153 (1998) of 20 February 1998.
SCR 1210	:	means Security Council resolution 1210 (1998) of 24 November 1998.
SCR 1242	:	means Security Council resolution 1242 (1999) of 21 May 1999.
SCR 1281	:	means Security Council resolution 1281 (1999) Of 10 December 1999.
SCR 1302	:	means Security Council resolution 1302 (2000) of 8 June 2000.
SCR 1330	:	means Security Council resolution 1330 (2000) Of 5 December 2000.
661 Committee	:	means the Security Council Committee established by Security Council Resolution 661 (1990).
Procedures	:	means the procedures to be employed by the 661 Committee (United Nations document S/1996/636, dated 8 August 1996).
Overseers	:	means the independent experts in international Oil trade appointed by the Secretary-General of The United Nations pursuant to SCR 986 and the procedures.
Inspectors	:	means the independent oil inspection agents Appointed by the Secretary-General pursuant to SCR 986.

ARTICLE TWO

PERIOD :

1. Subject to Article Eight below, this Contract shall become effective on the 11TH day of January, 2001, and shall continue thereafter until the 31ST of March 2001, unless renewed by mutual agreement.
2. The ultimate consumer of the crude oil sold under this Contract shall be Europe and/or U.S.A. Markets.
   Any change in the destination is subject to the prior approval of Seller.

ARTICLE THREE

QUANTITY AND QUALITY :

1. SELLER undertakes to sell and deliver FOB and BUYER undertakes to purchase, receive and pay for the following:-

Type of Crude	Quantity	Port of Loading
KIRKUK	8,000,000 BBLS	CEYHAN
BASRAH LIGHT	4,000,000 BBLS	ALBAKR

2. The quality of the crude oil shall be the standard export quality available at the port of loading from time to time.
3. Quantities shall represent contracted quantities or number of barrels per day contracted multiplied by the number of days of the relevant period stipulated in sub Article 2.1
4. Quantities shall be lifted as evenly as possible over the course of such delivery period in lots of approximate barrels and as will be agreed between BUYER and SELLER.

5. Quantities lifted under allowed operational vessel slippage shall be deemed as part of the contracted quantities of the period.

6. In case when SELLER, for reasons technical or otherwise that are beyond his control, is unable to meet his full contractual commitments, SELLER shall have the right to reduce the contracted quantities for the duration of the period when such circumstances shall prevail. SELLER shall advise BUYER as soon as possible before the beginning of any period during which supplies to all buyers are to be reduced.

7. In no event shall any loading start beyond the 3rd of June, 2001, unless the Security Council has authorized sales beyond that date.

ARTICLE FOUR

PRICE :

1. The price(s) of the crude oil to be delivered under this contract shall be as follows:-

TYPE OF CRUDE	API	PORT OF LOADING
KIRKUK	36.00	CEYHAN
BASRAH LIGHT	34.00	ALBAKR

Price Mechanism in EURO per Barrel FOB

Price shall be the standard SOMO price as agreed upon between SOMO and the United Nations from time to time.

ARTICLE FIVE

REOPENER:

Each party shall have the right not later the 15th day of any month to request a review of the pricing mechanism of this Contract.

If following a request for a review, the parties are unable to agree within a period of ten (10) days from the date upon which such request was made, either party may elect to terminate this Contract by serving written notice of phase-out to the other party and termination shall be effective at the end of the month following the month during which the notice of termination has been received.

But if the parties are able to agree within the above mentioned ten (10) days period, any agreed upon adjustment to the pricing mechanism shall be subject to the approval of the 661 Committee.

However, of such approval has not been granted by the 661 Committee, this Contract shall be considered as terminated as of the end of the month following the month during which the above mentioned ten (10) days period ends unless the parties agree otherwise.

In case of Contract termination under any of the above mentioned events, this Contract shall remain in full force and effect at the pricing mechanism applicable in accordance with this Contract terms and conditions up to the effective date of termination and such termination shall not affect the parties' rights and obligations therefrom, unless the parties agree otherwise during the period prior to the effective date of termination.

ARTICLE SIX

PAYMENT:

1. BUYER shall establish in respect of each shipment lifted under this Contract an irrevocable documentary letter of credit issued by a bank acceptable to Banque Nationale de Paris, S.A. ("BNP")for confirmation, in the form set out in Appendix I hereof.

   In all cases, the Letter of Credit shall be established, confirmed and accepted at least seven (7) days prior to loading date.

2. BUYER irrevocably undertakes that payment for each cargo of crude oil lifted shall be made out of the proceeds of the confirmed Letter of Credit directly to United Nations Iraq Account Euro sub account account number 0200-201752-002-05 established by the Secretary-General of the United Nations, pursuant to paragraph 7 of SCR 986, at BNP (New York Branch) (hereinafter "United Nations Iraq Account Euro sub Account"), upon presentation to BNP of the documents required by the Letter of Credit, including but not limited to the Commercial Invoice and the Bill of Lading.

3. All charges within Iraq are for SELLER, whereas all charges outside Iraq are to be borne by BUYER.
4. Unless otherwise provided herein, payment shall be made not later than thirty (30) days from B/L date, in same date funds.

   If payment falls due on a Saturday or Bank holiday other than Monday in the place where payment is to be made then payment shall be made on the last preceding banking day. If payment falls due on a Sunday or a Monday Bank holiday in the place where payment is to be made then payment shall be made on the next succeeding banking day.

ARTICLE SEVEN

SOMO STANDARD DOCUMENTATION:

Bill of Lading	9 (3 orig. & 6 copies)
Certificate of Origin	4
Certificate of Quality and Quantity	4
Loading Time Sheet	4
Ullage Report	4
Master's Receipt for Samples	4
Distribution of Documents	4

Two sets of documents are handed to Master, one being for consignee. SELLER shall advise BUYER by telex or cable within forty eight (48) hours following each loading with the following details:-

(a) Vessel's Name .
(b) Loading Port .
(c) Commenced loading Date.
(d) Completed Loading Date.
(e) Sailing Date .
(f) Gross and net quantities in metric tons, long tons and U.S. barrels.
(g) API Gravity.

ARTICLE EIGHT

APPROVAL OF CONTRACT :

This Contract is subject to the approval of the Overseers on behalf of the 661 Committee. Such approval shall be obtained in accordance with the Procedures, utilizing the form set out in Appendix II hereof.

ARTICLE NINE

SPECIAL CONDITIONS :

1. Loading of any shipment of crude oil shall be subject to the authorization of the Inspectors at the port of loading. The Inspectors shall also have the authority to stop the loading if they determine that there is any evidence of irregularity.

2. Notwithstanding Sub Article 4-3 of Section Two of this Contract, the accepted date of arrival of the vessel at the loading ports shall be fixed on a one (1) day range. All related Articles of Section Two of the Contract will read to that effect and conformity.

3. Notwithstanding Sub Article (6-5) of Section Two of this Contract SELLER shall be allowed as laytime at Al Bakr Terminal as follows :-

Laytime (hrs)	Vessel DWT (MT)
36	Up to 129 999
54	130 000 – 199 999
65	Over 200 000

All related Articles of Section Two of the Contract will read to that effect and conformity.

4. In addition to the events specified in Sub Article 6-6 of Section Two, any time consumed due to the Inspectors prohibiting loading shall not count as used laytime.
5. This Contract shall terminate forthwith in the event that the Security Council terminates the authorization to import petroleum or petroleum products originating in Iraq.
6. Assignment of the rights or obligations of the SELLER or BUYER shall be subject to the approval of the 661 Committee.
7. Any claims from BUYER under Sub Article 1-3 or Article Seven of Section Two, and any analyses carried out under Sub Articles 1-5 and 1-6 of Section Two, shall copied to the Overseers. Payments or other awards under Article Thirteen of Section Two, in respect of claims under Articles one and Seven of Section Two are subject to the approval of the 661 Committee. Any sum to be paid by BUYER in settlement of a dispute under Article Thirteen of Section Two relating to the proceeds of the sale of crude oil under this Contract shall be paid by BUYER directly to the United Nations Iraq Account, Euro sub account.

8. Payments to SELLER under SUB Article 5-5 and Sub Article 6-7 of Section Two, and any other Payments or awards under Article Thirteen of Section Two, are subject to the approval of the 661 Committee.
9. This Contract shall be subject to SCR 986, SCR 1111, SCR 1143 SCR 1153, SCR 1210, SCR 1242, SCR 1281, SCR 1302, SCR 1330, the Procedures and the Memorandum of Understanding between the Secretariat of the United nations and the Government of Iraq on the implementation of SCR 986 (United Nations document S/1996/356, dated 20 May 1996).

ARTICLE TEN

ADDRESSES:

In addition to the notices, declarations and other communications required under Article Fourteen, notices, approvals, declarations and Communications required above for the Overseers, on behalf of the 661 Committee, shall be effected at the addresses below:-

FOR SELLER:
STATE OIL MARKETING ORGANIZATION
P.O. BOX 5118
BAGHDAD – IRAQ
TELEX : 212198 – 212199 SOMO IK
TELEPHONE: 964-1-2869561
964-1-7742040 - 10 Lines
FAX : 964-1-8853925

FOR BUYER:
JSC ZARUBEZHNEFTEGAZ – MOSCOW
117939, STROITELEI STR. 8 KOK.1,
MOSCOW, RUSSIA
FAX : 7095 2 92 98 49
7095 209 79 69
TEL : 7095 999 0 11 0

FOR OVERSEERS
UNITED NATIONS, NEW YORK, U.S.A.
FAX : 212 – 963 – 1628

All other terms and conditions as per (Section Two) General conditions of F.O.B. crude oil sales contract and attached appendices 1 & 2 attached .

This Contract has been done and signed on the 11TH day of January, 2001.

FOR SELLER	FOR BUYER
SADDAM Z. HASSAN EXECUTIVE DIRECTOR GENERAL S O M O	V. KONRACHUK DIRECTOR

Appendix 1

SAMPLE LETTER OF CREDIT TO COVER OIL PURCHASES - OPENED BY ANOTHER BANK ACCEPTABLE TO BNP

To : **BANQUE NATIONALE DE PARIS S.A.**
NEW YORK BRANCH
TELEX NO. 6737018

DATE :

FROM: (OPENING BANK)

TEST KEY :

PLEASE ADVISE OUR FOLLOWING IRREVOCABLE DOCUMENTARY CREDIT TO THE BELOW MENTIONED BENEFICIARY ADDING YOUR CONFIRMATION . FOR INFORMATIONAL PURPOSES ONLY PLEASE FORWARD A COPY OF THIS LETTER OF CREDIT TO THE CENTRAL BANK OF IRAQ FOR PURPOSES OF ADVISING STATE OIL MARKETING ORGANIZATION (SOMO) PURSUANT TO THE 661 COMMITTEE PROCEDURES . WE HAVE OBTAINED THE NECESSARY GOVERNMENTAL AUTHORIZATION FOR THE ISSUANCE OF THIS LETTER OF CREDIT . (OR : NO GOVERNMENTAL AUTHORIZATION IS REQUIRED FOR THE ISSUANCE OF THIS LETTER OF CREDIT) .

QUOTE :

OUR REF : (LETTER OF CREDIT NO)

BY ORDER OF : (ACCOUNT PARTY)

INFAVOR OF : THE UNITED NATIONS

FOR A MAXIMUM AMOUNT OF EURO __(EURO AMOUNT SPELLED OUT) FOB .

THIS CREDIT IS AVAILABLE BY DEFERRED PAYMENT AT THIRTY (30) DAYS FROM BILL OF LADING DATE (INCLUDING B/L DATE) AGAINST PRESENTATION NOT LATER THAN _____ / 2000 (insert validity date) OF THE FOLLOWING DOCUMENTS AT THE COUNTERS OF BANQUE NATIONALE DE PARIS, S.A., 200 LIBERTY STREET, NEW YORK, NEW YORK .

ATTN : TRADE FINANCE SERVICES :

1- THIRTY (30) DAYS DATE DRAFT DRAWN BY THE UNITED NATIONS ON BANQUE NATIONALE DE PARIS NEW YORK BRANCH AND PAYABLE TO THE UNITED NATIONS IRAQ ACCOUNT, EURO SUB-ACCOUNT ACCOUNT NUMBER 0200-201752-002-05 . SUCH DRAFT MUST BE DATED THE ON BOARD DATE ON THE BILL OF LADING .

2- SOMO'S DULY SIGNED ORIGINAL COMMERCIAL INVOICE PLUS ( ) COPIES COVERING_____(QUANTITY) OF BARRELS (PLUS OR MINUS FIVE PERCENT) OF KIRKUK OR BASRAH LIGHT CRUDE OIL FROM (PORT OF SHIPMENT) TO _____(DESTINATION) ON M/T TBN .

INVOICE TO SHOW QUANTITIES IN METRIC TONS, LONG TONS AND U.S.BARRELS .

PRICE : (AS AGREED) (PLEASE SEE ATTACHMENT A)

INVOICE MUST STATE THAT PAYMENT IS TO BE MADE TO THE UNITED NATIONS AT BANQUE NATIONALE DE PARIS, S.A. NEW YORK BRANCH FOR CREDIT TO THE UNITED NATIONS IRAQ ACCOUNT, EURO SUB-ACCOUNT, ACCOUNT NUMBER 0200-201752-002-05 .

INVOICE TO ALSO INDICATE THE FOLLOWING :

- API GRAVITY AT 60 DEG F OF THE CARGO LOADED . (NO GRAVITY ESCALATION) .
- PRICE CALCULATED AS PER PRICE CLAUSE ABOVE .
- B/L DATE .
- CONTRACT NO.
- SHIPMENT NO .
- BNP CONFIRMATION NO .
- OPENING BANK L/C NO .

3- FULL SET CLEAN ON BOARD OCEAN BILLS OF LADING IN 3/3 ORIGINAL AND ( ) NON-NEGOTIABLE COPY(IES) DATED ON BOARD AND ISSUED TO THE ORDER OF _____SHOWING SHIPMENT FROM_____TO MARKED" FREIGHT PAYABLE BY BUYER AS ARRANGED" .

EACH ORIGINAL BILL OF LADING TO BE ORIGINALLY SIGNED AND STAMPED BY VESSEL'S MASTER AND MARKED WITH THE SHIPMENT NUMBER .

4- CERTIFICATE OF IRAQI ORIGIN ISSUED BY SOMO IN ( ) ORIGINAL AND ( ) COPY .

5- QUANTITY AND QUALITY CERTIFICATE IN ( ) ORIGINAL AND ( ) COPY

COVERING THE SALE OF ( ) BARRELS (PLUS OR MINUS FIVE PERCENT) OF CRUDE OIL FOB CEYHAN AND OR AL BAKR TERMINAL

SPECIAL CONDITIONS :

- THE AMOUNT OF THE PRESENT LETTER OF CREDIT IS AUTOMATICALLY ADJUSTED TO CORRESPOND TO THE FINAL INVOICE PRICE WITHOUT ANY AMENDMENT TO THIS LETTER OF CREDIT .
- SHIPMENT : FROM THE PORT OF _____AT THE LATEST
- WHERE COPIES OF DOCUMENTS ARE CALLED FOR , PHOTOCOPIES ARE ACCEPTABLE .
- THIS LETTER OF CREDIT IS NOT ASSIGNABLE AND NOT TRANSFERABLE .
- PARTIAL SHIPMENT IS PERMITTED .
- TRANSSHIPMENT PROHIBITED .
- DOCUMENTS PRESENTED LATER THAN 21 DAYS AFTER BILL OF LADING DATE BUT STILL WITHIN THE CREDIT VALIDITY ARE ACCEPTABLE .
- CHARTER PARTY BILLS OF LADING ACCEPTABLE .
- ALL BANKING CHARGES WITHIN IRAQ ARE FOR THE SELLER'S ACCOUNT, WHEREAS ALL CHARGES OUTSIDE IRAQ INCLUDING BANQUE NATIONALE DE PARIS S.A. NEWYORK BRANCH CHARGES AND FEES ARE FOR BUYER'S ACCOUNT .
- IN THE EVENT THE ORIGINAL DUE DATE FALLS ON A SATURDAY OR ON A NEW YORK BANK OR FRENCH BANK HOLIDAY OTHER THAN MONDAY, SUCH PAYMENT SHALL BE MADE ON THE LAST PRECEDING NEW YORK AND FRENCH BANKING DAY. IN THE EVENT THE ORIGINAL PAYMENT DUE DATE FALLS ON A SUNDAY OR A MONDAY NEW YORK OR FRENCH BANK HOLIDAY , PAYMENT SHALL BE MADE ON THE NEXT SUCCEEDING NEW YORK AND FRENCH BANKING DAY .
- PROVIDED ALL TERMS AND CONDITIONS OF THIS LETTER OF CREDIT ARE COMPLIED WITH, PROCEEDS OF THIS LETTER OF CREDIT WILL BE IRREVOCABLY PAID INTO THE UNITED NATIONS IRAQ ACCOUNT, EURO SUB-ACCOUNT, ACCOUNT NUMBER 0200-201752-002-05 WITH BANQUE NATIONALE DE PARIS, S.A. NEW YORK BRANCH. THESE INSTRUCTIONS WILL BE FOLLOWED IRRESPECTIVE OF ANY CONFLICTING INSTRUCTIONS CONTAINED IN THE SELLER'S COMMERCIAL INVOICE OR ANY TRANSMITTED LETTER .

WE HEREBY ENGAGE WITH THE BENEFICIARY AND BANQUE NATIONALE DE PARIS S.A., NEW YORK BRANCH THAT DOCUMENTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED UPON PRESENTATION AS SPECIFIED .

THIS TELEX IS THE OPERATIVE INSTRUMENT AND WILL NOT BE FOLLOWED BY A WRITTEN CONFIRMATION (IF ORIGINAL IS TRANSMITTED, THIS WOULD NOT APPLY) .

THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION) INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500.

UNQUOTE :

SPECIAL INSTRUCTIONS TO BANQUE NATIONALE DE PARIS S.A., NEW YORK BRANCH :

WE HEREBY UNDERTAKE TO HONOR YOUR TELEX/SWIFT REIMBURSEMENT REQUEST FOR PRINCIPAL AND ALL OF YOUR CHARGES , INCLUDING CONFIRMATION AND NEGOTIATION FEES FOR PAYMENT AT MATURITY, ACCORDING TO YOUR PAYMENT INSTRUCTIONS . IF OUR COVER DOES NOT REACH YOU IN TIME TO REIMBURSE YOU FOR YOUR PAYMENT UNDER THE CREDIT ON DUE DATE, WE HEREBY UNDERTAKE TO COMPENSATE YOU FOR ANY LOSS OF INTEREST INCURRED BY YOU DUE TO THIS DELAY .

REGARDS,
(OPENING BANK)

SECTION TWO

GENERAL CONDITIONS

F.O.B. CRUDE OIL SALES CONTRACT

ARTICLE ONE
MEASUREMENT AND SAMPLING

1- Measurement of the quantities and the taking of four (4) samples for the purpose of determining the quality of the crude oil in each shipment shall be carried out in accordance with good standard practice at the port of loading at the time of the shipment in question .

2- The bill of lading shall indicate the quantity of crude oil delivered in conformity with measurements at the port of loading and shall be considered final and binding upon both parties after deduction of bottom sediments and water .

3- Any claims from BUYER as to determinations made at the loading port relating to the quality delivered shall be sent to SELLER within sixty (60) days from the date of the bill of lading .

4- No claim submitted by BUYER for one lot of the crude oil shall be regarded as a reason for rejecting any other lot of the crude oil to be delivered under the present contract .

5- In case of a dispute arising over the quality of the delivered crude oil, BUYER and SELLER will refer to the analysis of the two samples to be carried out independently by the two parties . These analyses will be binding upon both parties provided they are found in agreement with each other within the reproducibilities of IP or ASTM methods .

6- Should these analyses prove different , however , the other two samples shall be analyzed by a third laboratory , to be agreed upon by both parties . The result of this analysis shall be final and the cost thereof shall be borne by the party losing the claim .

ARTICLE TWO
RISK AND PROPERTY

Title to the crude oil and all risks thereof shall pass to BUYER when the oil passes the flange connection between the delivery hose and the vessel's permanent hose connection at the loading port. However, any loss of or damage to the oil during loading , if caused by the vessel , shall be as between the parties hereto, for the account of BUYER who shall bear all prejudicial consequences thereof .

ARTICLE THREE
LIFTING PROGRAMME

1- BUYER shall lift the quantities of crude oil agreed upon in this contract as follows : -

A- Quantities to be lifted under this contract shall be fairly evenly spread .

B- BUYER shall notify SELLER of quarterly requirements for the full calendar year at least sixty (60) days before commencement of the relevant year or at date of signature of new contracts if later then November 1st of the preceding year .

C- BUYER shall specify monthly liftings during each quarter at least forty five (45) days before commencement of the relevant quarter .

2- The above - mentioned tentative schedules, which are to be supplemented to cover all contracted quantities, may be altered by express request of BUYER, subject to SELLER'S approval SELLER shall not unreasonably withhold its approval, and will notify BUYER within fifteen (15) days of the request .

3- If, during any calendar quarter, BUYER fails to take deliveries of any quantities of crude oil provided for during such quarter ; SELLER , after allowing for normal operational slippage of a nominated and accepted vessel between the quarters and a previously accepted tolerance of up to five percent (5%) of the quarterly contracted quantity, may deduct such quantities from the total quantities of crude oil to be delivered under this contract .

ARTICLE FOUR
NOMINATION OF VESSELS

1- BUYER shall notify SELLER twenty (20) days before the beginning of each month of its loading programme for that month. Such programme shall specify for each vessel : -

- The expected date of arrival of each vessel .
- Quality and Quantity of crude oil to be loaded, five percent (5%) more or less .
- Vessel's name or TBN .
- Port(s) of discharge and destinations .
- Instructions needed by SELLER to issue documents in accordance with effective export regulations .

2- SELLER shall notify BUYER not later than ten (10) days after receipt of the notice specified hereinabove whether it accepts or refuses schedules or nominations . In case of refusal, SELLER shall propose other dates which shall be as close as possible to those proposed by BUYER . Dates thus determined shall be deemed accepted by BUYER unless the latter advises SELLER to the contrary within three (3) working days following receipt of SELLER'S notification .

3- The date of arrival of the vessel at the loading port shall be as follows : -

a) For Mediterranean ports ; the date of arrival shall be within a range of three (3) days extending one (1) day before and one (1) day after the expected date of arrival .

b) For Arabian Gulf ports ; the date of arrival shall be within a range of five (5) days extending two (2) days before and two (2) days after the expected date of arrival .

However an accepted date of arrival may be changed at any time by BUYER with SELLER'S consent .

4- BUYER shall require vessel's master to advise loading port by radio or cable of vessel's expected day and time of arrival at least seventy two (72) hours, forty eight (48) hours and twenty four (24) hours before arrival .
Failure to give any notice at least twenty four (24) hours in advance of arrival of any vessel will increase laytime allowed SELLER by an amount equal to the difference between twenty four (24) hours and the number of hours prior to arrival of such vessel that notice of such ETA is received by SELLER .

5- Nominations quoted as TBN shall be replaced by firm vessel nomination with the same accepted date range and to load a similar quantity of crude oil at least five (5) days before the firm date of arrival .
Should BUYER fail to give the above notice of at least five (5) days, the deemed arrival date of the vessel shall be the fifth day after the date when notice is received by SELLER .

6- Should BUYER wish to substitute a vessel of different size to load a different quantity, this shall be subject to prior approval of SELLER .

7- BUYER shall specify when the nominated vessel is for part cargo and advise SELLER the DWT of the vessel and cargo on board (if any) which should not exceed the allowed limits set by port authorities .

ARTICLE FIVE
VESSEL BERTHS

1- Each vessel shall comply with all regulations in force at the loading port .

2- Loading berth indicated by SELLER'S representative shall enable a vessel, to proceed thereto, lie thereat, and depart therefrom always safely afloat .

3- SELLER'S representative may shift the vessel at the loading port from one berth to another, and shall then assume all extra expenses in connection therewith . Such shifting time shall be counted as used laytime .

4- Vessel shall vacate her berth as soon as loading is completed . In the event of failure to do so, BUYER shall pay SELLER for any resultant demurrage, loss or damage which SELLER may incur including such as may be incurred due to resulting delay to other vessels awaiting their turn to load .

5- If in the course of entering berth or mooring or loading or unmooring or leaving berth, the vessel or her crew damage any of the terminals, sea or shore installations or equipment due to negligence or any reason, BUYER shall be responsible for all claims, damages, costs, and expenses arising therefrom .

ARTICLE SIX
LOADING CONDITIONS

1- Vessels arriving within their agreed period shall be loaded in order of tendering their notice of readiness .

2- Upon arrival of the vessel at the loading port, the master or his representative shall tender to SELLER'S representative notice of readiness of the vessel to load crude oil, berth or no berth .

3- Laytime shall commence six (6) hours after notice of readiness to load has been tendered by the master to SELLER or SELLER'S representative, subject to BUYER'S and vessel's compliance with all other provisions of this Contract and if the notice is tendered within the range of days as defined in Article Four para . (3) of this Section .

If the notice is tendered before the beginning of the period as defined in Article Four para (3) of this Section, then laytime shall commence at 6 A . M . local time on the on the first day of such period . However if the vessel is moored at loading berth before 00.01 hours on the first day of the period hereinabove indicated, then laytime shall commence six (6) hours after completion of vessel's mooring berth or on commencement of loading, whichever shall first occur .

If the notice is tendered after the expiration of the period as defined in Article Four para . (3) of this Section, loading will be made in accordance with SELLER'S possibilities and laytime will commence upon commencement of loading . However, SELLER may refuse to load a vessel which has arrived more than ten (10) days after noon time of the date determined as in Article Four para (3) of this Section .

If notice is tendered at a time when there was bad weather at the loading port, laytime shall commence six (6) hours after the end of the bad weather . However, if the bad weather lasted beyond the accepted range, then laytime shall commence upon commencement of loading and the vessel shall not lose its loading turn .

4- Laytime shall end when loading hoses have been disconnected after completion of loading .

5- SELLER shall be allowed as laytime within which to complete each shipment at each port of loading one - half the total laytime as published in the worldScale, i.e. thirty six (36) hours laytime, Fridays and Local Public Holidays excluded, unless actually used in the loading of such shipment .

6- Any time consumed due to the following shall not count as used laytime : -

- Delay to the vessel in reaching or clearing her berth caused by conditions beyond SELLER'S control .

- Delay to the vessel during loading, including delay due to inability of the vessel's facilities to load the cargo within the time allowed and generally speaking any time lost on account of vessel

- If BUYER or owner or master of the vessel or port authorities prohibit loading at any time .

- Any delay on account of bad weather after remittance of notice or during loading .

- Discharging of ballast and changing type of crude .

- Awaiting customs and immigration clearance and pratique .

- Awaiting pilot or tugs, or while moving from anchorage to place of loading .

7- In case of dirty ballast or overflows on board or pollution of sea water by oil or loss of oil due to overflows or leaks of oil on board or ashore caused by the vessel, BUYER will be fully responsible before the port authorities and SELLER for all claims, losses, costs and expenses arising therefrom .

ARTICLE SEVEN
DEMURRAGE

1- For the period that used laytime at the loading port exceeds the allowed laytime specified in Article six para (5) of this Section, SELLER shall pay to BUYER demurrage computed on an hourly basis in accordance with the rate published in WORLDSCALE in force on the day when loading begins, for the size vessel in question per day and prorate to any part of the running day, and the size of cargo loaded plus five percent (5%) in case of part cargo loading .

The WORLDSCALE flat rate is the ceiling to be adjusted by either of the following as the case may be :

a. Charter party rate when the BUYER is the charterer of the vessel, or

b. The AFRA rate if the vessel is on time charter or under BUYER'S control, or

c. Published London market single voyage charter rate at the date of loading for a vessel of a similar size in a similar trade to the vessel in question .

2- However, if demurrage occurs at the loading port because of fire or explosion in or about the plant of SELLER, or because of breakdown of machinery or equipment of SELLER, the rate of demurrage shall be reduced to one - half .

3- Notwithstanding the above, no demurrage shall be payable in the event SELLER is prevented from or delayed in delivering all or any part of the crude oil for reasons of force majeure; or if the claim for demurrage is received by SELLER after sixty (60) days from the date of the Bill of Lading ; or if the fully documented claim itself for demurrage is received by SELLER after ninety (90) days from the date of the Bill of Lading .

ARTICLE EIGHT
TAXES AND DUTIES

1- BUYER shall bear alone port dues and fees charged on vessels at the port of loading .

2- Dues and other charges on the crude oil loaded or to be loaded shall be borne by SELLER .

ARTICLE NINE
TERMINATION IN THE EVENT OF LIQUIDATION OR DEFAULT

SELLER may terminate this contract forthwith on giving to BUYER notice in writing to that effect in the event that :

- BUYER goes into liquidation or enters into an arrangement or composition with its creditors ; or

- BUYER shall be in arrears with the payments due to SELLER under this Contract ; or

- Whereby the terms of the Contract , a minimum quantity of crude oil is to be taken by BUYER within any specified period , BUYER fails in the said period to take delivery of the said minimum quantity ; or

- In the event of any breach of Article Ten or Eleven by BUYER ; or

- In case of any change in ownership , shareholding , country of registration or premises etc . that relate to BUYER as a contracting party .

ARTICLE TEN
ASSIGNMENT

1- Neither party shall have the right to assign its rights and obligations under this Contract in whole or in part without the written consent of the other.

2- In the event of an approved assignment , assignor shall be jointly held responsible with assignee for the full performance of its obligations towards the other party .

3- It is expressly understood that BUYER will process crude oil sold under this Contract in its own processing facilities or under processing arrangements with other refiners for BUYER'S own account for which SELLER'S prior approval must be obtained .
BUYER also undertakes that under no circumstances shall BUYER resell or exchange the said crude oil in its original form or blend it with any other crude oil or crude oil derivatives for purposes of resale or exchange .

ARTICLE ELEVEN
DESTINATION

Except to the extent inconsistent with the laws of BUYER'S country and laws applicable to Banque Nationale de Paris :

1- BUYER acknowledges that all laws , regulations and rules of the Republic of Iraq relating to destination of crude oil purchased hereunder shall apply to BUYER .

2- BUYER undertakes that all laws , regulations and rules of the Republic of Iraq shall apply to vessels employed by him to transport crude oil covered by this Contract .

3- BUYER undertakes , whenever required , to submit to SELLER or his representative within a reasonable time , the discharge certificate of each shipment duly endorsed by the Iraqi Representation (or any other acceptable Representation) in the country of destination .

ARTICLE TWELVE
FORCE MAJEURE

1- Failure or omission to carry out or to observe any of the terms , provisions or conditions of this Contract shall not give rise to any claim

by one party hereto against the other or be deemed to be a breach of this Contract if this is due to force majeure .

2- If by reason of force majeure the fulfilment by either party of any terms and conditions of this Contract is delayed for a period not exceeding three (3) months the period of such delay shall be added to the duration of this Contract . If , however , the period of delay exceeds three (3) months , either party at any time after the expiry of the three (3) months shall have the right to terminate this Contract by giving written notice .

ARTICLE THIRTEEN
ARBITRATION

1- The two contracting parties shall settle in good faith any dispute arising from this Contract through negotiations by the representatives of the two parties . If no agreement can be reached within a period of thirty (30) days , the two parties shall settle the dispute by way of arbitration as stated in paragraph (2) of this Article .

2- The Arbitration Board shall be composed of three members , each contracting party shall select one member . The two selected arbitrators shall together select an umpire to be the President of the Board . If the two parties fail to select the arbitrators in the manner shown above within a period of three (3) months , the members of the Arbitration Board shall be appointed in accordance with the rules of arbitration of the International Chamber of Commerce and the arbitration place shall be Baghdad or any other place mutually agreed upon .

ARTICLE FOURTEEN
NOTICES

1- Any notices , declarations and other communications which either party may be required to give or make to the other party shall , unless otherwise specifically provided elsewhere , be given in writing within the required time and sent by post , by telegraph or by telex to the address of the other party specified for this purpose in the Contract and shall , unless otherwise specifically provided herein , be deemed to have been given or made on the date of receipt by the other party .

2- Either party , by not less than fifteen (15) days notice in writing to the other party , may from time to time change its address .

ARTICLE FIFTEEN
APPLICABLE LAW

This Contract shall be construed and governed in accordance with the laws of the Republic of Iraq .

AH. A. KRAMER

Appendix II

APPLICATION FORM TO REQUEST APPROVAL OF CONTRACT

The attached contract with the Iraqi State Oil Marketing Organization (SOMO) for the purchase of petroleum and/or petroleum products is submitted for approval in accordance with paragraph 1 (a) of Security Council resolution 986 (1995), Security Council resolution 1111 (1997), Security Council resolution 1143 (1997), Security Council resolution 1153 (1998), Security Council resolution 1210 (1998), Security Council resolution 1242, Security Council resolution 1281 (1999), Security Council resolution 1302 (2000), Security Council Resolution 1330 (2000), and the procedures of the Security Council committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, adopted at its 142nd meeting held on 8 August 1990.

Information about the Purchaser

Name of Purchasing entity: Joint Stock Company "Zarubezhneftegaz"
Place of registration: Moscow Chamber of Registration
Address: 8, ulitsa Stroiteley korpus 1, Moscow, Russia.
Contact Person: Alexandr Gontcharenko
Telephone: 331-92-22 Telefax: 331-12-97 Telex: 485123 GAZ RU

Summary of Contract Terms

Quantity of Crude Oil: 1.000.000 BBLS
Quality of Crude Oil: Kirkuk
Pricing Formula: OSP of SOMO/UN
Date(s) of Loading at Ceyhan: TBN
Date(s) of Loading at Mina Al-Bakr: —
Name of Vessel and destination (if available): TBN
Payment details (draft of irrevocable L/C, etc.): L/C TBN

Please find attached a copy of the contract, draft irrevocable Letter of Credit to be opened and all supporting documents.

Signature: .....
Name of Signatory: A. Gontcharenko
Title: Dy. General Director

We agreed to accept section N2 as per our contract M/09/19.
General Director /A. Kondratiuk/

Contract between State Oil Marketing Organization (hereinafter called SELLER) of the one part and ZARUBEZHNEFTEGAZ JOINT STOCK COMPANY (hereinafter called BUYER) of the other part.

Whereby it is agreed as follows:-

SECTION ONE

Wherever the General Provisions of Section Two, attached and herein incorporated in this Contract, are at variance or in conflict with this Section One, the provisions of Section One shall govern.

ARTICLE ONE

DEFINITIONS

As used in this Contract, unless otherwise provided, the following words and terms shall have the following meanings:-

Barrel :	means forty-two (42) U.S. Gallons at sixty degrees (60°) Fahrenheit and at normal atmospheric pressure.
Day :	means a period of twenty-four (24) running hours commencing at 00.01 hours local time at the port of loading.
Barrel per Day (B/d):	means the average number of barrels of crude oil supplied during a calendar day as defined above.
F.O.B:	means "Free on Board" as referred to in the ICC Incoterms 1990.
Dollar ($):	The currency of the United States of America.
Euro :	Thw currency of the European Union.

8. Payments to SELLER under Sub Article 5-5 and Sub Article 6-7 of Section Two, and any other payments or awards under Article Thirteen of Section Two, are subject to the approval of the 661 Committee.

9. This Contract shall be subject to SCR 986, SCR 1111, SCR 1143, SCR 1153, SCR 1210, SCR 1242, SCR 1281, SCR 1302, SCR 1330, the Procedures and the Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq on the implementation of SCR 986 (United Nations document S/1996/356, dated 20 May 1996).

Other Terms and Conditions as per the standard SOMO General Conditions F.O.B. Crude Oil Sales Contract (Section Two).

ARTICLE-TEN

ADDRESSES:

In addition to the notices, declarations and other communications required under Article Fourteen, notices, approvals, declarations and communications required above for the Overseers, on behalf of the 661 Committee, shall be effected at the addresses below:-

FOR SELLER:

STATE OIL MARKETING ORGANIZATION
P.O.BOX 5118
BAGHDAD - IRAQ

TELEX: 212198 - 212199 SOMO IK
TELEPHONE: 964-1-2869561
964-1-7742040 - 10 Lines
FAX: 964-1-2853925

FOR BUYER:

ZARUBEZHNEFTEGAZ JOINT STOCK COMPANY
69 A, NOVOCHEREMUSHKINSKAYA STR.
MOSCOW, 117418, RUSSIA
TEL: (095) 331-92-22
FAX: (095) 331-12-97

FOR OVERSEERS:

UNITED NATIONS, NEW YORK, U.S.A
FAX: 212 - 963 - 1628

This Contract has been done and signed on the 18th day of Jan. 2001.

FOR SELLER
SADDAM Z. HASSAM
EXECUTIVE DIRECTOR GENERAL

FOR BUYER
ALEXANDER A. GONCHARENKO
GENERAL DIRECTOR

ZNG
joint-stock company

AH A. KRAMER

Appendix II

APPLICATION FORM TO REQUEST APPROVAL OF CONTRACT

The attached contract with the Iraqi State Oil Marketing Organization (SOMO) for the purchase of petroleum and/or petroleum products is submitted for approval in accordance with paragraph 1 (a) of Security Council resolution 986 (1995), Security Council resolution 1111 (1997), Security Council resolution 1143 (1997), Security Council resolution 1153 (1998), Security Council resolution 1210 (1998), Security Council resolution 1242, Security Council resolution 1281 (1999), Security Council resolution 1302 (2000), Security Council Resolution 1330 (2000), and the procedures of the Security Council committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, adopted at its 142nd meeting held on 8 August 1990.

Information about the Purchaser

Name of Purchasing entity: Joint Stock Company "ZARUBEZHNEFTEGAZ"
Place of registration: Moscow Chamber of Registration
Address: 8, ULITSA STROITELEY KORPUS 1, Moscow, Russia.
Contact Person: ALEXANDR GONTCHARENKO
Telephone: 331-92-22 Telefax: 331-12-97 Telex: 485123 GAZ

Summary of Contract Terms

Quantity of Crude Oil: 1.000.000 BBLS
Quality of Crude Oil: KIRKUK
Pricing Formula: OSP OF SOMO/UN
Date(s) of Loading at Ceyhan: TBN
Date(s) of Loading at Mina Al-Bakr: —
Name of Vessel and destination (if available): TBN
Payment details (draft of irrevocable L/C, etc.): L/C TBN

Please find attached a copy of the contract, draft irrevocable Letter of Credit to be opened and all supporting documents.

Signature: .....

Name of Signatory: A. Gontcharenko

Title: DY. GENERAL DIRECTOR

TAB 50

Oil for Food -- Newspaper Articles

January 30, 1991	French Defense Minister Resigns Amid Dispute Over Military Aims (The Washington Post)
December 6, 2000	Saddam Plays the Oil Card to Have His Way with West (Denver Rocky Mountain News)
December 18, 2000	Iraqi Lifter Says Baghdad Waives 40 CT Surcharge (Platt's Oilgram News)
February 4, 2002	Syria Takes Record Volume of Iraqi Oil, Taunting UK (Energy Intelligence Briefing)
May 2, 2002	Secret Pipeline: How Iraq Reaps Illegal Oil Profits – Saddam Diverts Millions Destined for Food Aid; Fuel for a War Machine – U.N.'s Failure to Plug Leaks
August 20, 2002	U.S. Companies Slash Imports of Iraqi Oil (The Washington Post)
September 19, 2002	Threats and Responses: Commerce; Europeans Strive to Tighten Trade Ties With Iraq (The New York Times)
December 10, 2004	Big Spender: was the US-led coalition a careless steward of Dollars 20bn of Iraqi funds? A United Nations resolution demanded that Iraq's assets be spent transparently and in the interests of its people. (The Financial Times London)
January 13, 2005	US ignored warning on Iraqi oil smuggling: Washington accused of taking part in a conspiracy that violated sanctions and enriched Saddam Hussein (The Financial Times London)
January 21, 2005	Oil smuggling suspects awarded Pentagon Iraq contract (The Financial Times London)
February 3, 2005	All Players Gained from 'Oil for Food' on the UN Security Council, competing national interests and economic stakes in Iraq chilled willingness to scrutinize the program (LA Times)
February 16, 2005	E-Mail Shows Jordan Seeking Approval on Oil (The Washington Post)

The Washington Post

View Related Topics

January 30, 1991, Wednesday, Final Edition

SECTION: FIRST SECTION; PAGE A26

LENGTH: 677 words

HEADLINE: French Defense Minister Resigns Amid Dispute Over Military Aims

SERIES: Occasional

BYLINE: William Drozdiak, Washington Post Foreign Service

DATELINE: PARIS, Jan. 29, 1991

BODY:
Defense Minister Jean-Pierre Chevenement, whose skepticism about allied military objectives against Iraq provoked controversy at home and abroad, became the first major political casualty of the Persian Gulf War when he resigned under fire today.

Chevenement, a left-wing Socialist with close ties to the party's pacifist wing, will be replaced by Interior Minister Pierre Joxe, a presidential spokesman announced. Joxe, who has earned high marks for his handling of law-and-order issues, is one of President Francois Mitterrand's closest political allies and is expected to prosecute the war strictly according to the president's wishes.

The departure of Chevenement, who scarcely concealed his conviction that going to war with Iraq could have disastrous consequences for French interests in the Arab world, came as no surprise given the growing embarrassment his views were causing for Mitterrand.

A founding member of the **French-Iraqi friendship society** who has cultivated close ties throughout the Arab world, Chevenement stirred resentment among France's allies with his stated reluctance to be drawn into an American-led conflict that he feared would consume the entire region. His views also drew attacks by French conservatives, who accused him of sapping the morale of French troops in the gulf.

Shortly after the war began, Chevenement insisted that French military operations be limited to Kuwaiti territory in keeping with his declared aim to employ force solely to liberate Kuwait and not to destroy Iraq. He contended that this view was consistent with United Nations Security Council resolutions that France, as a permanent member, was committed to defend.

But Mitterrand overruled Chevenement's position last week, saying French air and ground forces would launch forays inside Iraq.

As he stepped down, Chevenement repeated his belief that France is being prodded by the United States toward more controversial aims of destroying Iraq's military-industrial complex and dismantling Iraqi President Saddam Hussein's government. "The logic of war risks pushing us further every day from the objectives laid down by the United Nations," he said in his resignation letter.

As the war moves toward possible involvement of ground troops, Mitterrand wants France to be fully engaged in the allied military effort and is determined to avoid creating any fissures in the multinational coalition opposing Iraq, according to well-informed officials. The French head of state also wants to maintain an irreproachable relationship with the United States during the war so that France, as a loyal partner, will have earned the right to play an important role in shaping a new postwar order in the Middle East, the officials said.

Since Iraq's Aug. 2 invasion of Kuwait, Chevenement had been one of the most active members of the French government in promoting a peaceful compromise in the gulf conflict. A week before bombing raids began, Chevenement urged the United States to alter its stand against linking the Iraqi invasion with the Israeli-Palestinian conflict and make "a very little gesture" by endorsing an international Middle East conference. Washington refused.

Chevenement's quest for a peaceful exit from the crisis badly damaged his relationship with Defense Secretary Richard B. Cheney, who believed that Chevenement's views threatened the international coalition's unity, Western sources said.

After war began, the government's conservative opposition seized on Chevenement's stand to accuse Mitterrand of waging a "part-time war." Leaders of the moderate right demanded Chevenement's resignation.

Chevenement had offered his resignation to Mitterrand on several occasions, aides said, but the French leader had refused to accept it. Officials close to Mitterrand said he did not want to weaken France's image abroad by dropping his defense minister during a crisis. He also did not want to deepen a factional conflict within his party over the wisdom of fighting what some left-wing members call "the American war."

GRAPHIC: PHOTO, JEAN-PIERRE CHEVENEMENT

Denver Rocky Mountain News (Colorado)

December 6, 2000, Wednesday

SECTION: Local; Ed. Final; Pg. 40A

LENGTH: 734 words

HEADLINE: SADDAM PLAYS THE OIL CARD TO HAVE HIS WAY WITH WEST

BYLINE: Holger Jensen

BODY:
You have to hand it to Saddam Hussein.

He lost the Gulf War, and with it control of his skies and oil revenues. He has endured a decade of economic sanctions. And his country is repeatedly being bombed by American and British aircraft responding to radar "locks" by Iraqi anti-aircraft sites.

Yet Saddam has successfully ended the embargo on civilian air travel to **Iraq,** is chipping away at other U.N. sanctions, making friends with former Arab enemies and panicking the West by toying with a volatile oil market.

The reaction from Washington has been muted because the United States and Britain are virtually alone in trying to keep him isolated.

American policymakers are not about to admit to an "Iraqi crisis" in the midst of an undecided presidential election. The other three permanent members of the U.N. Security Council - China, Russia and France - are eager to cut lucrative oil deals with **Iraq** and openly encouraging Saddam's defiance of sanctions.

And some of our key Middle Eastern allies, anxious to distance themselves from Washington's perceived favoring of Israel in its current confrontation with the Palestinians, also are flocking to Baghdad. They include Turkey, Jordan, Egypt, Saudi Arabia and the United Arab Emirates,

Sanctions were imposed as punishment for **Iraq's** 1990 invasion of Kuwait and kept in force to curb Saddam's weapons programs. Only recently, Defense Secretary William Cohen reiterated the U.S. position that they cannot be lifted until Saddam allows U.N. weapons inspectors to verify he is not producing weapons of mass destruction - something he has consistently refused to do.

But Russia and France led a charge to break the air travel ban, sending planeloads of parliamentarians and businessmen to an Iraqi trade fair last month. Arab nations then piled in with thinly disguised "humanitarian" flights, arguing that sanctions only hurt the Iraqi people, causing malnutrition and disease, while Saddam continues to live a life of luxury.

Iraq resumed domestic air travel Nov. 5, forcing Washington to announce that it would only fire on

military flights in the "no-fly" zones. Last week saw the first commercial flight to Baghdad by Royal Jordanian Airlines. Russia's Aeroflot plans to follow suit. And on Monday, Jordan and Tunisia were reported to have agreed to return 10 Iraqi airliners impounded since the Gulf War.

Now **Iraq** is contesting the compensation it must pay Kuwait and demanding that the United Nations set aside money from every barrel of oil sold to help maintain its own oil industry.

Iraq is allowed to sell 2.3 million barrels of oil per day under a U.N.- administered **oil-for-food** program designed to compensate victims of the Kuwaiti invasion and meet some of **Iraq's** humanitarian needs.

Previously, 30 percent of **Iraq's** oil revenue went to Kuwait. But Russia in June objected to a $15.9 billion award to the Kuwait Petroleum Co., and France then spearheaded a compromise that cut Kuwait's portion to 25 percent. The rest is used to purchase food and medicines for **Iraq.**

Baghdad is now demanding a 50 cent a barrel surcharge, paid directly to Saddam's regime instead of the United Nations. To back up the demand and win U.N. approval of a new **pricing** structure, it stopped pumping oil for two days, then resumed production Monday saying it would only honor existing contracts through January.

Iraq has the world's second largest oil reserves and accounts for about 5 percent of production. With oil prices high and winter demand for heating oil peaking, the mere threat of a cutoff causes worldwide jitters, despite assurances that Saudi Arabia and other Gulf producers would make up the shortfall and the United States would dip into its strategic oil reserves to keep prices stable.

Saddam's brandishing of his oil weapon will, of course, further erode international support for sanctions. As will the Energy Department's shame- faced admission that we buy more oil from **Iraq** than Kuwait.

Secretary of State Madeleine Albright didn't seem to know how dependent we are on Iraqi oil. After telling ABC news in October that the United States does not buy Iraqi oil, she belatedly learned that **Iraq** is our sixth biggest supplier, shipping an average of 585,000 barrels per day in the first seven months of this year.

That makes our sanctions policy even more laughable.

NOTES:
Foreign Affairs
Holger Jensen is international editor. E-mail: hjens@aol.com. His column also appears on the Internet at www. RockyMountainNnews.com / jensen /

LOAD-DATE: December 7, 2000

platts Oilgram News

Platt's Oilgram News

December 18, 2000

SECTION: Vol. 78, No. 242; Pg. 4

LENGTH: 237 words

HEADLINE: IRAQI LIFTER SAYS BAGHDAD WAIVES 40 CT SURCHARGE

DATELINE: London

BODY:
A trader said Dec 15 he had ships loading Iraqi Basrah Light crude at the Persian Gulf export terminal of Mina al-Bakr but had not paid the 40 cts/bbl surcharge demanded by Iraq's State Oil Marketing Organization.

SOMO had asked for the money to be paid outside of UN accounts in contravention of UN sanctions policy. The surcharge is the main stumbling block to an agreement with the United Nations on the full resumption of Iraqi crude exports (ON 12/15) The trader said it was not clear whether SOMO had changed its policy, but thought SOMO may be willing to let lifters who have incurred demurrage costs lift crude without paying the surcharge.

Indian Oil Corp has also been allowed to lift crude without paying the surcharge, traders said.

No liftings are likely at Turkey's Ceyhan terminal, the other main outlet for Iraqi crude, because of a lack of ships. Traders said there are no ships available for Ceyhan until Dec 25, even if the surcharge issue is resolved.

Iraq has not exported crude from Ceyhan since Nov 30 due to the dispute with the UN over the surcharge.

Meanwhile, Iraq Dec 15 submitted its first phase-nine oil contract to UN **overseers** under the organization's **oil-for-food program** with the country, a UN spokeswoman said. Details of the contract will not be available until after the contract has been approved by the UN, she said. The eighth phase of the program ended Dec 5.

LOAD-DATE: February 01, 2001

Energy Intelligence Briefing

February 4, 2002 Monday

LENGTH: 1998 words

HEADLINE: Syria Takes Record Volume Of Iraqi Oil, Taunting UK

BODY:
Syria's reply to UK accusations last week that it is illegally importing crude oil from Iraq is less than subtle: Syrian sanctions busting imports from Iraq are set to reach a record high of 253,000 barrels per day in February. In its official reply at the United Nations sanctions committee, where the UK launched its attack, Syria vehemently denied that it imports any crude from Iraq as these imports 'were not economically feasible.'

But the Syrian loading schedule for February shows that the country plans to export 465,000 b/d this month, compared with 405,000 b/d last month. Syria had only a mere 212,000 b/d of its own crude to export in February, based on estimated production of 506,000 b/d and domestic consumption at 294,000 b/d. UN diplomats have no doubt that the pipeline from Kirkuk to Banias is open and supplying the difference.

Exports are 1792 tons in February versus 1720 tons the previous month, but the slight increase is spread over February's 28 days, instead of January's 31 days. The import record is just 3,000 b/d over last year's high of 250,000 b/d, also set in February. According to EIG estimates, Iraqi exports to Syria averaged 192,000 b/d last year, at deeply discounted prices. These exports are valued at well over $700 million per year. Iraq's smuggling to Syria is Baghdad's main source of illegal income outside UN sanctions. With the quality of Syrian exports unchanged apart from a well-flagged lightening of Syrian Light, it is assumed that Sytrol pushes the Iraqi crude through its refineries thus freeing up its own production for export.

On Feb.1, Syria's representative on the UN sanctions committee, Counselor Fayssal Mekhdad, told the UK that Syriahas agreed with Iraq to build a new pipeline and that Syria plans to bring any imports via that pipeline under UN control. But Syria, a member of the Security Council from Jan. 1, accused the UK and the US of applying double standards at the closed-door meeting. The UK and US have blocked the delivery of humanitarian aid contracts to Iraq worth over $5 billion.

Apart from bombing the pipeline, there is very little action the UK or any other power can take to stop the traffic. The circumstantial evidence of an illegal Iraq-Syria oil link is extremely strong, and Syria--apart from a predictably supportive

Syrian Loading Schedule For February 2002

Syrian Light ex Banias

	Date	Trader
Feb	1-3	TUPRAS
3-5		BP
5-7		TFE
7-9		CONOCO

Souedieh ex. Tartous

Vol. +	Date	Trader
80	Feb 4-6	AGIP
806-8		API
8012-14		STASCO*
8014-16		SLAVNEFT*

8-10	RHEINOEL	8018-20	SOCAP
10-12	VEBA	8021-23	ARCADIA
12-14	STASCO	4022-24	RHENOEL
13-15	BP	8025-27	TFE*
14-16	SLAVNEFT	4026-28	VEBA
15-17	GALAXY	80 Total	
17-19	API	80	
19-21	TFE	80Grand Total	
21-23	ARCADIA	40	
24-26	SI NOCHEM	80	
26-28	OMV	80	
27-28	TFE	40	
27-28	REPSOL	80	
Total		1200	

+ 1,000 tons. * After Banias

Russia-- stood isolated during the meeting. London and Washingtonmay hope that the embarrassment of continuing pressure will help dampen Syrian criticism of the more general sanctions regime.

Syria's higher exports also show that the country -- for now at least -- has no intention of cutting term contracts by 20%-30% as state marketer Sytrol warned customers at the end of last year. The increase in the February program comes from an extra 152,000 tons of heavy Souedieh crude, while the Syrian Light schedule actually shows one cargo less than in January.

Windfall

When the January schedules were released just before Christmas, the market looked as if it would tie gift ribbons around all the Syrian barrels and present Sytrol with a windfall. The Mediterranean unofficial benchmark, Russian Urals, was trading at near-parity with dated Brent, basis c.i.f. Italy, because of a supply shortage arising from weather-related loading delays in the Black Sea.

Iraqi Loading Schedule For February 2002

Ship's Name	Cargo++	Dest.	Seller/Buyer	Status
Ceyhan				
Licorne Pacifique	1.9	USG	Bayoil	loaded Feb.1
Front Sky	1.0	--	--	arrived Feb.3
Sintra	0.6	Med	Shell	exp. Feb.5
Arion	2.1	USG	Vitol	exp. Feb.10
Lucky Sailor	1.0	Med	Total Fina Elf	exp. Feb. 10
Genmar Alta	1.0	USG	Bayoil	exp. Feb 12
Arteaga	1.0	Med	Western Petr.	exp. Feb.20
Olympic Loyalty	2.1	USG	Glencore	exp. Feb.22
Mina al-Bakr				
Tina	2.5	--	--	loaded Feb.2
Nichiryu	1.9	--	--	loaded Feb.3
Kolossi	1.9	Taiwan	Sinochem	loaded Feb.4
Astra Sygnus	--	--	--	exp. Feb.5
Alster Ore	2.2	--	--	exp. feb.6
Hellesp. Capitol	2.6	USG	Chevron	exp. Feb.7
New venture	2.0	India	Reliance	exp.Feb.10
Universal Prime	1.9	Taiwan	Sinochem	exp. Feb.15
Noto	2.0	USG	El paso	exp. Feb.20
Clovely	1.8	China	Sinochem	exp. Feb.22
Skopelos	1.9	USG	Vitol	exp.Feb.23

++ In million barrels

Riding on that strength, Sytrol pushed for a January official selling price (OSP) of dated Brent plus 5cents -- which elicited howls of protest from its customers. Not least because some of them in December had been forced to pay as much as OSP plus 30cents as a gravity escalation clause triggered a penalty on the buyer of 15cents for each degree of API gravity higher than the official 36degrees gravity. For the past several months Syrian Light had grown lighter because of condensate from the Deir el-Zur gas project being injected into the stream. Sytrol stood its ground, however, and eventually declared the dated Brent plus 5cents price official. It also announced that Syrian Light from February onwards would sport an average official API gravity of 37.7degrees with a range of 37.4degrees to 38degrees.

But Christmas didn't last as long as Sytrol might have hoped. During the second half of January, Urals prices in the Mediterranean crashed more than $2/bbl to dated Brent minus $2.20 under the combined weight of a clutch of factors: Poor refining margins and high stocks; fear of buying into a falling market which had yet to be convinced of Opec's and Nopec's will and ability to deliver promised production cuts; the resulting buying resistance being exacerbated by an increasing lack of price transparency in the dated Brent market because of a major trading play. Under pressure from unhappy customers, Sytrol accepted the need to lower its February OSP by $1.45 to dated Brent minus $1.50 for Syrian Light.

Going East

The UK's actions against Syria run in parallel with an earlier battle started by the UK to subvert Iraq's demand for illegal surcharges on official exports under UN control, under the umbrella of the **oil-for-food program.** The UK has introduced a system of retroactive pricing for crude oil going to the US and to Europe, but is now planning to introduce a similar system for crude going East, as volumes to Asia are rising drastically.

The system of retroactive pricing is not a formalized UN mechanism, but a de facto practice, as the UK and the US typically put price proposals from Iraq's marketing arm Somo on hold, and only approve -- or amend -- the price after the crude has been lifted. Both countries argue that the system allows the UN to set Iraqi crude prices that closely follow market developments, with less room for kickbacks to Baghdad. But the pricing system is hurting exports, as traders are unwilling to commit themselves to large volumes, when they do not know the price they're going to pay for crude.

While Iraq's total export volumes have been declining in the past two months, volumes to Asia rose in January, and look strong again for February. In the second half of last year, Asia imported on average 50,000 b/d from Iraq. Currently, it is around 500,000 b/d, sources say. China, Taiwan, and India are topping the Asian list. The US remains the preferred destination, although volumes are falling, as are the number of European-bound cargoes.

A UK diplomat said that the UN oil **overseers** -- who advice the sanctions committee on oil contracts and prices -- have calculated that there is a premium in prices set for Asia, which would leave room for middlemen to pay surcharges. Earlier, the UK claimed that the attack on surcharges had deprived Iraqi leaders of $25 million in illegal income since the pricing action took effect last August.

But some diplomats are hesitant to extend the pricing system to Asia, as overall export volumes are dropping severely. "We have to be cautious now and look at the consequences. The costs could be greater than the benefits," one diplomat said. Iraqi liftings have been slow in December and January, the first two months of phase 11 of the **oil-for-food program.** December exports averaged 1.4 million b/d, down from 2.1 million b/d in November, and January exports averaged 1.5 million b/d.

The drop in exports has cost Iraq over $700 million in revenue for its UN funds, of which Iraq can spend 72% on food, medicine, and spare parts for the oil industry. Somo sent a letter to the UN complaining that retroactive pricing is hurting traders, and the Iraqi people, and asked for the system to be abolished. But the UK and the US said that only Iraq is to blame for dropping export volumes, because Baghdad continues to insist on illegal revenue.

With the US and the UK increasing diplomatic pressure, and Washington talking louder about military attacks on Iraq, President Saddam Hussein has offered to open a dialogue with the UN, without any preconditions. Iraq has started a charm offensive amongst Arab stated, Russia, and China to discuss the US military threat and the US demand to allow arms inspectors back into the country to check Iraq's capability of producing weapons of mass destruction. Iraq kicked out UN inspectors in December 1998.

Some analysts wonder why Iraq's president Saddam Hussein is making such a big deal about the surcharges, as he might be cutting his nose to spite his face by insisting on the kickbacks. If he had toed the UN line on oil pricing, and export volumes had stayed at previously sustained levels of around 2.1 million b/d, the extra revenue accruing to the humanitarian aid budget would have been some $500 million.

Had Baghdad used the funds to purchase non-controversial goods only, the 10% kickback that suppliers of food and medicine have to pay Saddam Hussein for the privilege of a contract, would have amounted to roughly $50 million in income outside UN control -- or twice the amount the UK claimed the retroactive pricing discipline has deprived him off so far.

By Axel Bush in London and John van Schaik in New York

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THE WALL STREET JOURNAL.

Secret Pipeline: How Iraq Reaps Illegal Oil Profits --- Saddam Diverts Millions Destined for Food Aid; Fuel for a War Machine --- U.N.'s Failure to Plug Leaks

By Alix M. Freedman and Steve Stecklow
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Ever since its defeat in the Persian Gulf War, Iraq has been required to channel all its revenue from oil exports into a United Nations program that provides humanitarian aid and war reparations. In recent years, U.S. and U.N. officials have suspected -- but could never prove -- that Iraq has illegally siphoned off as much as $300 million of that revenue, and funneled much of it into Saddam Hussein's war chest.

For the first time, evidence uncovered by The Wall Street Journal shows the siphoning scheme at work. Interviews and documents reveal how Iraq has imposed illegal surcharges on every barrel of oil it has sold, using a maze of intermediaries to cover its tracks.

It is now clear that a program intended to cleanse the moral taint of buying oil from an oppressive dictator has acquired a taint of its own. Part of the blame lies with the U.N. itself. From the start, a divided Security Council gave Iraq extraordinary control over its oil sales, while leaving U.N. officials little power to police the program. At the same time, there are powerful incentives to keep it going. Giant U.S. oil companies, led by ChevronTexaco Corp., Exxon Mobil Corp., and Valero Energy Corp., have devoured nearly half of the oil exported from Iraq, which has the world's second-largest oil reserves, after Saudi Arabia. And both the Clinton and Bush administrations have encouraged participation in the program as a way to help the Iraqi people.

"To fully eliminate the payments to Saddam, you would have to stop buying Iraqi barrels," says Larry Goldstein, president of the oil industry-supported Petroleum Industry Research Foundation Inc.

For the moment, that's the case: Last month, Mr. Hussein announced he was temporarily shutting off all oil exports to protest Israel's occupation of Palestinian towns. Soon after, the U.S. Senate one-upped him by approving an amendment to a proposed energy bill that would ban U.S. imports of Iraqi oil. But Mr. Hussein can't hold out indefinitely, and a U.S. embargo, which the Bush Administration and the U.S. oil industry oppose, isn't expected to become law. When Iraqi oil flows again, so will the illegal surcharges -- unless the Security Council can agree on a way to stop them. So far, it has shown little willingness to do so.

In simplest terms, the surcharges work like this: Iraq sells oil at a U.N.-approved price to dozens of middlemen, mostly little-known overseas companies. But Iraq also demands a secret, additional fee for each barrel. When the middlemen turn around and sell to big oil-trading companies, they pass along the illegal surcharge. The middlemen deposit the surcharge into Iraqi-controlled bank accounts; their legitimate payments go as required into a U.N. bank account for the humanitarian fund. As for the oil-trading companies, they in turn pass along the surcharge to their customers, the giant refining companies, though they typically don't break out the surcharge separately on their bills.

Despite some recent efforts, the U.N. has failed to stamp out these surcharges. U.N. officials estimate that Iraq has levied illegal surcharges ranging from 20 cents to 70 cents on every barrel of oil it has sold through the oil-for-food program since late 2000 -- adding up to as much as $300 million. U.N. diplomats say Mr. Hussein also smuggles about $1 billion worth of oil outside the oil-for-food program to Syria each year. In addition, Iraq smuggles huge quantities to Turkey and Jordan. All told, U.S. State Department officials believe Mr. Hussein reaps $2.5 billion a year in illicit oil revenue, which they say he uses to develop weapons of mass destruction and consolidate his power.

Though the surcharge scheme doesn't account for the largest share of Iraq's illicit revenue, it is the area where the U.N., the U.S. oil companies -- and ultimately, ordinary Americans filling their gas tanks -- are implicated. "Indirectly, the U.S. oil companies feed the hidden bank accounts of the Iraqi regime," says one member of the Security Council's Iraq sanctions committee.

The director of the oil-for-food program, Benon Sevan, concedes that it has been easily exploited by Iraq and middlemen. "They're happy making money," he says. But Mr. Sevan says he just carries out the directives of the Iraq sanctions committee, and has "no mandate" to change the program. The committee's chairman and Norway's ambassador to the U.N., Ole Peter Kolby, declined to comment.

U.S. oil companies defend their Iraqi oil purchases, which last year accounted for 8.5% of crude-oil imports and which surged to record levels following Sept 11. They say they have no reason to investigate whether the traders who sell them Iraqi oil are passing along illegal surcharges -- since traders routinely tack on perfectly legal commissions and costs of doing business such as shipping fees. The companies also say their contracts stipulate that no payments have been made directly to Iraq. In addition, the companies note that if the U.S. didn't buy Iraqi oil, other countries would.

"Maybe there is a hole somewhere, but the oil has to be moved and marketed so there is humanitarian aid for the people of Iraq," says Wade Upton, president of supply and trading at Valero, which was Iraq's biggest U.S. customer last year. At ChevronTexaco, spokesman Chris Gidez says it is the U.N.'s responsibility to police Iraq's oil sales. "If the U.N. found the program was corrupt and chose to fix or cancel it, obviously the company would follow that," he says.

Iraq has repeatedly denied levying illegal surcharges. But a document reviewed by the Journal is among the evidence that indicates otherwise. Swara Kadir, a manager at two privately held British companies, says Iraq recently furnished his businesses with a list of conditions for purchasing oil in 2002. According to the list, Iraq's government-controlled State Oil Marketing Organization, or SOMO, required the companies to make a payment equivalent to 30 cents a barrel for cargo bound for the U.S. market, and 25 cents for cargo headed elsewhere.

The document specifies that the money is to be deposited "in the name of SOMO" at the Jordan National Bank in Amman. Mr. Kadir says that neither of his companies, Farkha Investments Ltd. and Griffin Marketing Ltd., entered into a contract with SOMO. Officials at SOMO declined to respond to repeated requests for comment.

One reason Iraq has been able to game the system is that, at least until recently, the U.N. has given Iraq surprising influence over the official price of its oil. After all, Iraq remains under economic sanctions imposed by the U.N. as punishment for Baghdad's invasion of Kuwait; the oil-for-food program was conceived as a way to make sure the Iraqi people didn't starve as a result of those sanctions.

In order for its skimming scheme to work, Iraq needs to keep the official price of its oil low, so that surcharges can be built in without pushing the ultimate price to refiners too high. Under U.N. rules, Iraq sets the official per-barrel price for its own oil, with input from a group of three U.N. oil-pricing experts known as "oil overseers," and subject to the approval of the Iraq sanctions committee. The committee, composed of representatives of the 15 member nations of the Security Council, has tended to give its approval. Iraq isn't on the Security Council, but it has exerted influence through its key supporters, especially Russia.

Maurice Lorenz, a former Exxon executive who served as a U.N. oil overseer from 1996 to 1998, recalls "continually fighting" with his Russian counterpart Alexander Kramer over the price of Iraqi oil. Mr. Kramer, who remains an overseer, declined to comment, as did a spokesman for the Russian delegation to the U.N.

As a result, even with the built-in surcharges, Iraq managed to keep the official U.N. selling price so low that its oil was still considered a bargain, and much coveted by U.S. companies. The Petroleum Industry Research Foundation estimates that, at least until very recently, Iraqi oil was priced some 35 cents to 65 cents below competing crudes.

Mohammed Al Douri, Iraq's ambassador to the U.N., says his country's oil is priced to "sell more easily" in an effort to increase market share, not to allow for surcharges. "We want to sell more oil to finance the oil-for-food program," he says. He also says Iraq has no weapons of mass destruction and isn't spending "even one penny" to develop them. The U.S. State Dept. has said it has proof that this is a lie.

U.N. officials and diplomats believe the illegal payments started soon after the oil-for-food program's official launch in 1996. Initially, Iraq is believed to have demanded relatively modest payments of a nickel or a dime a barrel. Iraq discovered it could do this more easily by not selling directly to the big refiners -- as do Saudi Arabia, Kuwait and Iran, among others -- but instead selling to oil-trading companies, which draw less scrutiny.

Then, in late 2000, Iraq became even bolder. First, SOMO informed all its customers that they had to pay a 50-cent-per-barrel surcharge to SOMO starting Dec. 1. Some oil traders were reluctant to go along with such a blatant violation of U.N. sanctions, so Iraq briefly turned off its oil spigot to put pressure on them, U.N. diplomats say.

When shipments resumed, Iraq also interposed a new layer between itself and the traders: It began selling oil almost exclusively to a new group of obscure and undercapitalized entities, choosing from a list of hundreds of

bidders that included a British fashion firm, a Thai rice company, an Armenian tobacco company and many Russian companies. U.N. diplomats suspected that the participating companies were chosen for their willingness to abide by Iraq's cardinal rule: "No surcharge payment, no oil contract," as expressed in a British summary distributed by Sir Jeremy Greenstock, British Ambassador to the U.N., to the Security Council last year.

U.N. oil overseers began hearing that refiners were paying 20 cents to 50 cents a barrel more than the official U.N. selling price for Iraqi oil. The size of the markup seemed way out of line with profits enjoyed by other middlemen. In September, oil overseers told the Security Council that middlemen who buy oil from other countries typically make a profit of one cent to five cents a barrel.

Although U.N. diplomats believed the entities that dealt with Iraq were little more than a conduit for illegal payments, it couldn't prove it. SOMO denied it, as did the middlemen themselves, and U.N. rules don't allow oil-for-food officials to see any contracts other than the official one between Iraq and the middleman. U.N. rules also don't give officials power to order Iraq to stop dealing with the middlemen and resume selling solely to big refiners. "The basic principle is that Iraq chooses its own buyers," says Hasmik Egian, a spokeswoman for the oil-for-food program. "The U.N. can't stop that."

In many ways, such deference to Iraq reflects a paradox of the oil-for-food program: Although sanctions were imposed upon Mr. Hussein to punish him, his cooperation is crucial to the oil-for-food program's goal of helping the Iraqi people. So the U.N. has been forced to make compromises.

One of the compromises was leaving plenty of room for both Baghdad and the intermediaries to profit. For example, Trafigura Beheer BV, a Dutch-based oil-trading company with major operations in London, says that during the last few years, it has paid middlemen "premiums" -- the industry's term for commissions and other legal markups -- that "have varied between zero and 50 cents a barrel." In April, when it bought 1.96 million barrels of Iraqi oil from a small middleman called Ibex Energy France, Trafigura says it paid Ibex the U.N.'s official price plus a "premium" of 40 cents a barrel -- amounting to a payment of $760,000 over the official U.N. selling price. Trafigura says it paid market price for the oil and doesn't know if any of the money it paid ended up in Baghdad.

Ibex, which itself had bought the Iraqi oil from a state-owned Russian oil company, declined to comment. The Russian company, Zarubezhneft, also declined to comment.

Trafigura says it sold the cargo to a big, privately held refiner, Koch Petroleum Group LP, of Wichita, Kan., passing along the 40-cent surcharge and adding another five cents a barrel -- meaning that Koch's purchase price was a total of 45 cents a barrel over the official U.N. selling price. The U.N. price is published in trade journals and known to oil buyers. Koch, which recently changed its name to Flint Hills Resources LP, says it doesn't comment on its transactions and wouldn't explain why it paid a significant premium over the official U.N. selling price. The company says it has "worked diligently to insure that our purchases are fully in line with the oil-for-food requirements," and declined to elaborate.

This reticence is shared by other U.S. refiners. Prem Nair, an Exxon Mobil spokeswoman, says the company doesn't want "to go into detail" about surcharges, but says the company pays "premiums" that aren't "out of line." Exxon Mobil, she adds, "pays exactly what the other companies are paying."

The U.S. and British governments have attempted to fix fundamental flaws in the oil-for-food program -- but with limited success. Both countries last year tried to persuade the other members of the Iraq sanctions committee -- especially Russia, China and France -- to approve a proposal that in part would have set tough financial standards for all companies purchasing Iraqi oil. The objective: To eliminate the participation of many of the shadowy companies that are believed to pay surcharges to the Iraqis. But the Russians balked and the proposal died. One reason, some diplomats say, is that Russian middlemen are among the biggest beneficiaries of the oil-for-food program. In fact, the document provided to Mr. Kadir, the British manager, stipulates that "companies favored by SOMO at present are those from Russia, China, Syria and Qatar only."

Vladimir Safronkov, an official at the Russian Mission to the U.N., says he is unaware that Russian middlemen are paying illegal surcharges to Iraq. He says it isn't appropriate for the U.N. to "impose on Iraq the companies it has to do business with." In addition, he says it's unfair to blame Russia for problems with the oil-for-food program, since the U.S. has been the largest consumer of Iraqi oil. "Don't try to shift responsibility from the main buyer of Iraqi oil to Russia's shoulders," he says.

In September, the U.S. and British members of the sanctions committee tried another way to discourage surcharges -- one that didn't require consensus from the rest of the committee. It was called "retroactive pricing." Essentially, the U.S. and British members of the Iraq sanctions committee delayed their approval of the official Iraqi oil selling price -- the official price SOMO was allowed to charge -- as long as possible. Previously, the sanctions committee would regularly sign off on prices that would apply for the next few weeks. This enabled traders to set their price to refiners at a level that would lock in a profit, including the surcharge.

But the stalling tactic forced the sanctions committee to approve prices for a period that had already elapsed, and to take into account how the oil market actually performed. In general, this meant traders were forced to gamble that the price that refiners had agreed to pay them would be higher than the official price -- and by a wide-enough margin to allow for Iraq's surcharge and a profit.

But the net effect was a fall in Iraqi oil exports, not the elimination of surcharges. Some oil traders say they suffered losses under the new pricing system, and stopped buying Iraqi oil even before Mr. Hussein announced his moratorium. As a result, in the first few months of this year, when the new pricing system really took hold, Iraqi exports fell significantly. U.N. diplomats estimate that, because of the drop in exports, the new pricing system kept some $60 million in potential surcharges away from Mr. Hussein.

However, some traders were still able to sell oil profitably under the new pricing system, and Iraq continued to demand surcharges on the barrels it sold to them. As a result, the goal of retroactive pricing -- the total abandonment of illegal surcharges -- remained elusive. Oil overseers in late March reported to the sanctions committee that SOMO continued to exact surcharges of 30 cents to 45 cents a barrel -- almost the same markup as before.

The most striking consequence of retroactive pricing was an unintended one: Depriving the humanitarian fund of much-needed cash. U.N. officials estimate that the drop in exports in December and January alone meant a loss in potential revenue to the U.N.'s humanitarian fund of about $750 million. Now, of course, as a result of Mr. Hussein's moratorium, the losses are even steeper: The U.N. estimates the fund was deprived of $1.3 billion last month alone.

Since the oil-for-food program began, it has generated $52 billion in total revenue, the U.N. says. Of that, a significant portion has been earmarked for reparations to Kuwait and payment to the Kurds of Northern Iraq, who were gassed with chemical weapons in brutal attacks ordered by Mr. Hussein in 1988. Thousands of Iraqi Kurds are believed to have died in the attacks.

A total of $21.4 billion of humanitarian supplies and equipment has been delivered to Iraq through the U.N. progam; another $10 billion is on its way, the U.N. says. However, $5.1 billion in contracts has been held up by the U.S. and British members of the sanctions committee, who claim these contracts have a military purpose.

For now, no one knows for sure when Mr. Hussein will restart the pumps. Earlier this week in Baghdad, Iraq's oil minister said Iraq would reconsider the issue on May 8 -- the date the temporary moratorium is set to expire. Some oil experts believe Iraq may wait longer, in an effort to pressure the U.N. to back down on retroactive pricing. "This oil is our oil," says Mr. Al Douri, Iraq's U.N. ambassador. "If we sell, it's at our price and our convenience."

Foreign Sources

The countries from which the U.S. imported the most oil in 2001

COUNTRY	BARRELS IN MILLIONS	PERCENT OF TOTAL U.S. OIL IMPORTS
Saudi Arabia	587.65	17.6%
Mexico	503.34	5.1%
Canada	481.80	14.4%
Venezuela	467.57	14.0%
Nigeria	296.75	8.9%
Iraq	283.97	8.5%
Angola	114.61	3.4%
Norway	97.46	2.9%
Colombia	89.43	2.7%
Kuwait	85.05	2.5%
Rest of World	330.69	10.0%
Total	3,338.29	

Source: U.S. Department of Energy

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washingtonpost.com

U.S. Companies Slash Imports Of Iraqi Oil

By Colum Lynch
Special to The Washington Post
Tuesday, August 20, 2002; Page A01

UNITED NATIONS, Aug. 19 -- U.S. oil companies have dramatically slashed imports of Iraqi oil over the past five months, contributing to a steep decline in Baghdad's oil exports and cutting into President Saddam Hussein's ability to siphon money from the U.N.-supervised oil-for-food program, according to U.S. and U.N. officials.

The retreat by U.S. oil companies from Iraq's oil market comes as the Bush administration is seeking to increase pressure on Hussein and weighing options for how to meet its goal of removing the Iraqi leader from power.

U.S. diplomats and industry analysts said U.S. oil companies have been driven out of the Iraqi oil market because of Baghdad's demands for kickbacks and because a set of cumbersome U.N. oil purchasing procedures make it impossible for oil traders to determine the price of oil before buying it.

But they said their flight may also signal a desire to locate alternative sources of crude in the event of U.S. military action in the region.

"If you think that within the next eight months this significant source of crude oil may suddenly be out of reach, you will want to develop alternative sources," said James Placke, a former U.S. diplomat and specialist on the Iraqi oil industry.

A U.N. expert on Iraq's oil industry, Michel Tellings, told a U.N. Security Council committee in a closed-door session today that U.S. imports of Iraqi crude have fallen from about 1 million barrels a day five months ago to between 100,000 and 200,000 barrels a day. The reduction amounts to as much as $20 million a day, U.S. and U.N. officials say.

Iraq accounted for more than 8 percent of U.S. oil imports last year.

Tellings said Iraq's Asian customers have also begun to search for alternative sources of oil, citing concerns that Iraq is becoming an increasingly unreliable long-term source of crude.

Although Iraq has been subject to U.N. sanctions since it invaded Kuwait in 1990, the Security Council established the oil-for-food program in 1996 to allow Iraq to sell oil to buy food and medicine and to rebuild its infrastructure. Although proceeds of oil sales must be placed in U.N. escrow accounts, with the aim of channeling the money to the Iraqi people and not the Hussein government, a senior U.S. official said today that Baghdad makes more than $1.8 billion a year on illicit oil sales.

Most of that, he added, was profits from the illegal sale of oil to Syria. The Syrian government denies that it is illegally importing Iraqi oil.

U.S. officials contend that the money is helping fuel Hussein's weapons development programs.

U.S. oil giants, including ChevronTexaco Corp., Exxon Mobil Corp. and Valero Energy Corp., have been stung by charges that they may have indirectly enriched Hussein by purchasing oil from intermediaries that have been forced to pay kickbacks to purchase Iraqi oil. U.N. officials said Iraq has required that all buyers of Iraqi oil pay an illegal surcharge of 20 to 50 cents on each barrel of oil.

U.S. officials said they have urged U.S. oil firms, which recently have consumed about half of Iraq's exports under the oil-for-food program, to make sure that they are not in violation of U.N. sanctions against Baghdad. But they said they have not encouraged them to stop doing business with Iraq.

"We have made it clear that all American companies and industry should observe Security Council resolutions," said James B. Cunningham, the deputy U.S. representative to the United Nations. "We haven't gone to oil producers specifically and said don't buy Iraqi oil. We want purchases of Iraqi oil because we want money to go into the oil-for-food program."

Cunningham said large U.S. and other foreign oil refiners had been pulling out of the Iraqi oil market because they "generally do not [want] to be involved in an oil process that has surcharges attached to it." Cunningham reported that U.N. officials told the council session that the decline in imports also was prompted by U.S.- and British-imposed oil pricing procedures that made it difficult for Iraq to exact kickbacks.

Industry analysts said the procedures, known as retroactive pricing, that went into effect in September have cooled oil companies' interest in the Iraqi market. Under the procedures, oil companies are not told what price they will pay for a barrel of oil until after they take possession.

John Felmy, the chief economist at the American Petroleum Institute, said companies have been unable to predict oil prices in a market that has been plagued by dramatic fluctuations. "How can you do business if you don't know what the price is?" he said. "That seems to be what's driving it right now."

U.N. officials said the decline in the Iraqi oil trade is jeopardizing the U.N.'s capacity to fund its humanitarian program in Iraq. "This will have serious consequences on the humanitarian situation in Iraq," said Hasmik Egian, a spokeswoman for the U.N. humanitarian program for Iraq. "As of a week ago, there were about $2.4 billion worth of contracts approved for which no funds are available."

Gennady M. Gatilov, Russia's deputy representative to the United Nations, told the council that Iraq had pledged to end its demand for a surcharge, estimated at 20 cents a barrel, if the council changes its pricing procedure. "If they go back to the original pricing scheme, then Iraq drops the surcharge and then we are all set," he said.

But Cunningham rejected the proposal, saying that "the surcharge needs to be eliminated as a first step to dealing with this problem. Then we are willing to consider ways others have advanced to maximize exports."

Staff writers Kenneth Bredemeier and Peter Slevin in Washington contributed to this report.

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Europeans Strive to Tighten Trade Ties With Iraq

BYLINE: By JOHN TAGLIABUE

DATELINE: PARIS, Sept. 18

BODY:

One day after President Bush's demand that Iraq comply with United Nations arms control resolutions, three French parliamentary deputies flew to Iraq on what they described as a personal visit to urge Baghdad to comply with the demands.

The visit set off a political storm in France, where much is riding on the outcome of the diplomatic struggle over Iraq. While a humanitarian gesture, the trip also illustrated in part how countries are positioning themselves for an end of trade penalties.

One of the three legislators, Thierry Mariani, 44, of President Jacques Chirac's Union for a Presidential Majority, told French television that the purpose of the trip was to urge Iraqi compliance with the United Nations' demands. But he was also quoted in Le Monde as justifying the trip with "the defense of French economic interests in Iraq."

Last year, France ranked No. 1 among European countries doing business with Iraq, with $1.5 billion in trade, followed by Italy, with $1 billion. Among the countries that trade with Iraq under the oil-for-food program, France ranked third, with $3.1 billion in trade since the program's start 1996. French trade under the program was surpassed only by Russia, with $4.3 billion, and Egypt, according to United Nations diplomats.

The French oil giant TotalFinaElf has the largest position in Iraq, with exclusive negotiating rights to develop Majnoon, a field on the Iranian border with estimated reserves of 10 billion barrels, and Bin Umar, with an estimated production potential of 440,000 barrels a day, according to oil industry executives.

The biggest deals after that were expected to go to ENI of Italy, to develop the Nassiriyah field at a cost of $1.9 billion. Moscow has a $3.5 billion, 23-year agreement with Baghdad to rehabilitate

several Iraqi fields that would vastly benefit a Russian oil consortium led by LukOil, they said.

At the United Nations, France has sought to buffer Iraq from American ire. Baghdad's recent pledge to accept United Nations inspectors won praise from French diplomats, who have been insistent on a two-stage approach to resolutions that would delay a military threat. The preferred French outcome would be a resolution demanding unfettered inspections, followed by a measure backing the use of force, depending on Iraq's response.

Mr. Mariani and the other two deputies, Didier Julia, 68, and Eric Diard, 37, are from the Gaullist wing of Mr. Chirac's party. The minister for the environment in Mr. Chirac's government, Roselyne Bachelot-Narquin, is the founder of a **French-Iraqi friendship society.**

Many experts contend out when a government is brought down by trade penalties, the bureaucracy is likely to be left intact. While those close to power do not survive, the trade bureaucracy consists of technicians, not politicians, and the calculation is that they will continue doing business with past trade partners.

"A lot of countries are already positioning themselves," said Barbara Oegg, a trade expert at the Institute for International Economics in Washington.

Russia has made no secret of its desire to cultivate Iraq. Baghdad owes Moscow $8 billion in debt incurred before the Gulf War, and has used trade under the oil-for-food program to curry Moscow's favor, dangling oil investment deals to be signed after penalties were lifted.

In Britain this month, the Middle East Association, a trade group, wrote Prime Minister Tony Blair expressing "deep misgivings" about the damage to trade that military action in Iraq could produce, according to David Lloyd, a spokesman for the group. The Middle East Association is seeking to send 10 to 15 British companies to the Baghdad trade fair in November, which would be the first time that British companies have attended the fair since 1989.

The French legislators' trip was organized by a consulting company, the French Office for the Development of Industry and Culture. According to its director, Francois Girard-Hautbout, it seeks to promote Gaullist pro-Arab policies, including economic ties with the region.

Under the six-year-old United Nations oil-for-food program, Iraq determines where it will shop using the proceeds from oil sales.

Roland Bareilles, a founder and honorary president of the French-Iraqi Association for Economic Cooperation, said France had assumed the first rank among Iraq's trade partners after the start of the oil-for-food program, but fell back recently to Russia's benefit. "Contracts are part of their political strategy," he said of Iraqi officials.

Among French companies, Peugeot sells cars in Iraq while Alcatel landed several contracts to rebuild the country's battered telephone system. Klaus Wustrack, an Alcatel spokesman, said Alcatel originally installed the telephone system in the 1980's. But he emphasized that all the contracts fell within the oil-for-food project.

At Peugeot, a spokeswoman said the company delivered 500 cars to Iraq in the first half of the year under the oil-for-food program, about the number it delivered annually before the Gulf War.

Some trade transactions have set off greater disagreement.

In March, Nabel Musawi of the London-based Iraqi National Congress told ABC News that Baghdad bought seven refrigerated trucks from Renault Trucks, the French company that is owned by Volvo of Sweden, and converted them into biological arms laboratories. Bernard Lancelot, a Renault Trucks spokesman, said the deal was approved under the oil-for-food program. "What the client does with the trucks later," he said, "we don't know."

URL: http://www.nytimes.com

GRAPHIC: Photo: Thierry Mariani, one of three French legislators who traveled to Iraq to urge it to comply with United Nations resolutions, visiting a former nuclear site south of Baghdad. The visit set off a political storm in France. (Reuters)

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HEADLINE: Big spender: was the US-led coalition a careless steward of Dollars 20bn of Iraqi funds? A United Nations resolution demanded that Iraq's assets be spent transparently and in the interests of its people. Next week an audit panel is expected to say there is reason to doubt that this was always the case, writes Thomas Catan

BYLINE: By THOMAS CATAN, STEPHEN FIDLER and DEMETRI SEVASTOPULO

BODY:

Barely a month before the US-led Coalition Provisional Authority ended its rule over occupied Iraq, a little-known committee charged with approving the authority's spending met for the penultimate time in one of Saddam Hussein's Baghdad palaces.

By the time the meeting of the so-called Program Review Board broke up a few hours later, some Dollars 2bn had been approved for disbursement - part of what one US official describes as a last-minute "spending binge" by the provisional authority before it handed power to an Iraqi interim government.

The money was not from US taxpayers. It came out of Iraqi funds - the proceeds of Iraqi oil sales, government bank accounts frozen since the 1991 Gulf War and funds left over from the UN-administered "oil-for-food" programme that managed Iraqi oil sales before the US invasion.

From the same Iraqi funds the provisional authority, in the final two months of its existence, sent nearly Dollars 1.8bn in cash to the Kurdish regional government, over and above its regular financing to the region. The Kurds have refused to provide UN-mandated auditors with access to their records but have insisted they have not spent any of it. A spokesman for the Kurdish regional government said the payment was part of Dollars 4.5bn in funds it claims the UN owed the region as part of the now defunct oil-for-food programme. Behind the scenes, however, the Kurds have been in talks with several international banks to ship part of that money to Switzerland, guided by a Washington lobbying firm with close ties to the US Republican party.

No one has accused any of these parties of acting improperly. But the lack of transparency is fuelling questions over the payment to the Kurds, as well as dozens of others totalling billions of dollars made from Iraqi oil revenues during the CPA's rule.

Altogether, the CPA spent, or made commitments to spend, nearly Dollars 20bn in Iraqi money - a sum greater than the annual gross domestic product of Iraq. Evidence suggests the money was spent in a chaotic and haphazard way and that occupation officials routinely violated CPA procedures.

Next week a UN audit panel is set to give its verdict on how Iraq's money was spent. The CPA's inspector

general is also finalising a report that is expected to be sharply critical of the stewardship of Iraqi funds.

Auditors have found that the lack of controls left funds open to fraud, loss or theft. Hundreds of millions of dollars in Iraqi oil revenues may also have been squandered. The office of the CPA inspector-general is investigating at least 27 cases of alleged corruption by CPA officials. A person with knowledge of the investigations says there is evidence of fraud and abuse.

Paul Bremer, the former administrator of Iraq, did not respond to several interview requests. But before Mr Bremer left Baghdad at the end of June the CPA said, in written answers, that the Iraqi funds had been "expended in the interests of the Iraqi people" and in a transparent manner - conditions set by the UN when it authorised the provisional uthority to spend Iraqi oil revenues.

Those contentions are being questioned by auditors and others. "I don't think we sustained our obligations," said one US official. "We just threw the money over the fence."

In its reconstruction of Iraq the CPA had two main sources of money to draw on. The first was an Dollars 18.4bn allocation from the US Congress. The second was the Development Fund for Iraq (**DFI**), an account set up under UN resolution 1483 that concentrated billions of dollars in Iraqi assets dispersed worldwide. Also at the Americans' disposal were millions of dollars worth of cash, rugs, jewels and other loot seized by US soldiers from Baathist properties.

By the time it was dissolved on June 28 the CPA had spent or committed virtually all the funds that had passed through the development fund. By contrast, the authority had spent just Dollars 366m of the US funds on reconstruction, and earmarked around Dollars 5bn for projects. (The total amount spent has since risen to about Dollars 1.2bn.)

Part of the reason for the disparity is that the US funds were difficult to spend. Rules designed to ensure that money was not wasted or misused slowed the signing of contracts. CPA officials including Mr Bremer also complained that the Pentagon had taken control of US reconstruction funds and was reluctant to let them spend the money.

By contrast, the development fund was readily available for spending and could be controlled from Baghdad. Those charged with meeting Iraq's massive and urgent needs felt they had no option but to start spending freely from the Iraqi account.

"One of the advantages of the Iraqi accounts was that money could be delivered faster," says Walt Slocombe, the CPA's special adviser on security and defence until November 2003. "Bremer took the position under legal advice that he was in charge of the money - that he could spend it without rattling what he affectionately called 'the Washington squirrel cage'."

To handle the growing number of requests for funding from the Iraqi account the CPA established the Program Review Board. The review board was designed to ensure that spending was transparent and in the interests of the Iraqi people, as stipulated by the UN resolutions.

In the chaotic early days of the occupation, however, the review board often failed to observe its own rules. Meetings often failed to attract the eight voting members required to approve a project, but projects were often approved regardless. In other cases approval for projects was given outside formal meetings and not reflected in official minutes. An Iraqi representative was meant to sit in on meetings but turned up to just two of the 43 board meetings held in 2003.

By the standards applied to US money, projects funded with Iraqi money received cursory examination. According to figures from the Open Society Institute, funded by George Soros, the financier, 73 per cent of all contracts worth more than Dollars 5m were not competitively bid. "In 2003, (the review board) was a rubber stamp," says a US official.

Initially the review board's members approved relatively small projects relating to the country's day-to-day running in the aftermath of war: getting back-up generators, restoring oil pipelines and outfitting and training Iraqi police. Other projects appeared less urgent: Dollars 3,500 was set aside to pay actors, stagehands and producers at a Baghdad Theatre Festival.

As time went on, more and bigger projects came before the review board. Because of the delays in getting US money some multi-billion dollar projects were also being funded with Iraqi money. This was the case in a Dollars 1.4bn project to rebuild Iraq's oil infrastructure, granted to Halliburton, the US oil services company formerly headed by Dick Cheney, the US vice president, without competitive tender. The contract made Halliburton the largest single recipient of Iraqi funds.

"I know I spent some money from (the development fund) on it," says retired Rear Admiral David Oliver, the former chief financial officer for the CPA. "It purely was the matter that we'd run out of US money."

So many requests were made for changes to the sources of financing that, in January 2004, the review board's members wrote to Mr Bremer voicing their concern. The Iraqi finance minister objected that the UN-stipulated criteria were not being met.

The Dollars 2bn in projects approved by the board during its meeting on May 15 often replicated funds already assigned by the US Congress. The amount of Iraqi funds to be spent on security in the run-up to the handover of power was increased to Dollars 1bn, even though the US Congress had already assigned Dollars 3.2bn for that purpose. Similarly, the board assigned Dollars 315m in Iraqi funds to the electricity sector when the US Congress had already assigned Dollars 5.5bn to its reconstruction.

The minutes of the review board's final session two weeks later reflect deep unease among some members of the panel about the pace of spending. With Iraqi funds nearly depleted Yusaf Samiullah, the UK representative, urged the board to consider only proposals that were urgent or a matter of national security. He was overruled. However the board did overrule Mr Bremer's proposal that Dollars 10m be set aside for a museum to remember Saddam Hussein's victims.

It was not just the review board that had stepped up its spending. In June 2004, the CPA sent nearly Dollars 1.8bn in development fund money to the Iraqi ministries, more than double the monthly average that year. The CPA said the unusually large transfer would help to cover obligations following the transfer of authority. Just in case, it also set aside Dollars 800m from Iraqi funds to cover contracts after CPA officials had gone home. everal audit panels were established shortly after the US invasion to oversee its spending of the Iraqi funds. But many billions of dollars were spent before they were up and running.

UN resolution 1483 established the International Advisory and Monitoring Panel (IAMB), made up of representatives from the International Monetary Fund, the World Bank, the UN and the Arab Development Fund. But disagreements with the US over the panel's remit meant its chosen auditors, from accounting firm KPMG, did not start work in Iraq until a year later.

The CPA, for its part, named Stuart Bowen as its inspector-general. But he did not arrive in Iraq until February 2004, nine months after the authority began spending Iraqi funds.

With both sets of auditors now having managed to produce several reports, the picture that emerges is that inexperienced and overwhelmed CPA staff struggled to keep track of billions of dollars in spending.

Accounting systems were improvised and inadequate, both sets of auditors have found, leaving Iraqi funds open to fraud and abuse. Though neither set of auditors has yet concluded that any money is missing, they have found many troubling anomalies that are being investigated.

"There's a couple of cases where we were told that the CPA has the suspicion that one of their guys was

taking money and they're doing their own investigation," says an IAMB official.

In the case of one Dollars 2.6m payment authorised by the CPA's senior adviser to the Ministry of Oil, IAMB auditors were unable to find a contract, evidence of tender procedures or evidence of any services rendered. In another case, a contract was entered into in spite of objections from the Iraqi representative to the review board. The contract was wrongly signed by a CPA senior adviser, and an advance payment of Dollars 3m made "without justification", the IAMB auditors said. "The contract was later cancelled and the adviser subsequently left the CPA," the IAMB report noted.

With multiple investigations probing allegations of corruption in the UN's oil-for-food programme during the last years of Saddam's regime, the IAMB has been reluctant to discuss with the US the touchy issue of its spending of

Iraqi funds. But its audit reports obliquely refer to a series of incidents that raise questions about the conduct of some White House appointees in Iraq.

Many relate to the use of Iraqi funds by the health ministry - headed at the time by James Haveman, a CPA senior adviser appointed to the post by President George W. Bush. Mr Haveman - who was praised for having done a "superb job" by Donald Rumsfeld, the US defence secretary - appears, from the auditors' report, personally to have controlled hundreds of millions of dollars in Iraqi cash, granting contracts on his own authority, circumventing procurement rules and failing to keep adequate records.

Auditors found that Mr Haveman controlled the bank account that held the ministry's cash - nearly Dollars 5m at the time of the handover. The ministry's records wrongly recorded the asset as an expense. They also found that cheques were made out personally to Mr Haveman, instead of contractors.

Records of transfers made between the development fund and health ministry were out by Dollars 610,000; the ministry's trial balance was out by Dollars 1.3m. In three cases, contracts granted by the ministry were not publicly tendered. Millions of dollars in contracts were supported only by a letter from Mr Haveman. The ministry refused to explain the accounting discrepancies or provide auditors with any tender documents.

Mr Haveman declined to be interviewed about the discrepancies detailed by the auditors. He cast doubt on the quality of KPMG's audit report, saying in an e-mail that "to comment would give credence to it". He added: "We had a clear separation between myself and the funds expended and this was done as a matter of policy and integrity."

Many of those who worked with Mr Haveman expressed their admiration for his work, as well as scepticism that he would have sought to benefit from the large amounts of cash apparently passing through his hands. Auditors said it was likely that he and other CPA officials had "cut corners" and ignored regulations in an effort to get quick results.

The CPA's Mr Bowen has been even more critical of the way Iraqi money was handled. Iraq had no functioning banking system, so making local payments meant moving convoys of cash around the country. Hundreds of millions of dollars in cash was kept in a vault in a Baghdad palace. However investigators working for the inspector-general watched in surprise as a CPA official left the open vault unattended. When locked, the key was placed in an unsecured backpack. The CPA did not keep a proper inventory of valuables seized by US soldiers from former regime officials, the inspector-general found, so it was unable to "ensure that non-cash assets would be available for the use and benefit of the Iraqi people". Mr Bowen also found that the CPA did not issue any standard operating procedures or develop an effective system to monitor or review contracts.

Files were often missing or incomplete, hindering the CPA's ability to "demonstrate the transparency required of ...contracts using **DFI** funds", concluded Mr Bowen, a former lawyer for Mr Bush.

Charles Krohn, a former aide to David Nash, the retired US Navy admiral who was running the US reconstruction effort in Iraq, says: "When I was there, there was a general concern about the nature of the contracts to Halliburton and so on . . . The thought was that these were not tightly-constructed contractual devices and that the oversight wasn't really what it could be."

Under its own rules the CPA was required to hire an independent auditing firm to assist in the accounting of the Iraqi fund. But the firm appointed, at a cost of Dollars 1.4m, was not a certified public accountant but rather a consulting firm. It never carried out the job. hose charged with the difficult and dangerous task of overseeing Iraq's reconstruction make no apologies for the way they spent Iraqi oil revenues. They say any accounting discrepancies must be seen in the context of the scale and urgency of the task they faced.

"The whole place was at a standstill - it was dying on its feet," says Sir Jeremy Greenstock, former UK special representative to Iraq. "Of course, from the point (of view) of democratic, and particularly American, accounting procedures, there were corners cut," he says. "They were cut in the interests of getting the Iraqi economy jump-started again."

With just 1,200 people working in dangerous conditions it was unrealistic to expect the CPA to uphold the standards of a fully-fledged civil service, Sir Jeremy says.

Others say the inspector-general and IAMB were inappropriately applying US contracting standards to the Iraqi system. "I, candidly, was not interested in having an army of auditors because I thought you had to slide into the Iraqi system as quickly as possible in order encourage them to take responsibility," says Mr Oliver.

In its written answers before its dissolution the CPA strongly denied breaching the UN resolutions governing how Iraqi funds could be spent. "Great care was taken to put in place management processes to ensure **DFI** funds were expended pursuant to the standards contained in (the resolutions) . . . The standards established by CPA will stand up to outside scrutiny," it predicted in June.

Additional reporting by Stephen Fidler and Demetri Sevastopulo

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HEADLINE: US ignored warning on Iraqi oil smuggling: Washington accused of taking part in a conspiracy that violated sanctions and enriched Saddam Hussein, reports Claudio Gatti

BYLINE: By CLAUDIO GATTI

BODY:

For months, the US Congress has been investigating activities that violated the United Nations **oil-for-food** programme and helped Saddam Hussein build secret funds to acquire arms and buy influence.

President George W. Bush has linked future US funding of the international body to a clear account of what went on under the multi-billion dollar programme.

But a joint investigation by the Financial Times and Il Sole 24 Ore, an Italian business daily, shows that a tanker seen at Iraq's Khor al-Amaya terminal by a UN inspector was involved in the single largest and boldest smuggling operation in the **oil-for-food** programme - and that the operation was conducted with the knowledge of the US government.

"Although the financial beneficiaries were Iraqis and Jordanians, the fact remains that the US government participated in a major conspiracy that violated sanctions and enriched Saddam's cronies," a former UN official said. "That is exactly what many in the US are now accusing other countries of having done. I think it's pretty ironic."

Overall, the operation involved 14 tankers engaged by a Jordanian entity to load at least 7m barrels of oil for a total of no less than Dollars 150m of illegal profits. About another Dollars 50m went to Mr Hussein's cronies.

In February 2003, when US media first published reports of this smuggling effort, then attributed exclusively to the Iraqis, the US mission to the UN condemned it as "immoral".

However, FT/Il Sole have evidence that US and UK missions to the UN were informed of the smuggling while it was happening and that they reported it to their respective governments, to no avail.

Oil traders were told informally that the US let the tankers go because Amman needed oil to build up its strategic reserves in expectation of the Iraq war.

Last week Paul Volcker, head of the independent commission created by the UN to investigate failures in the **oil-for-food** programme, confirmed that Washington allowed violations of the oil sanctions by Jordan in recognition of its national interests.

However, only a fraction of the oil smuggled out of Iraq reached the Jordanian port of Aqaba. Most was sold to the Middle East Oil Refinery, in Alexandria, Egypt; to a refinery in Aden, Yemen; and to Malaysia and China. "This operation was not permitted under the Security Council resolutions dealing with the **oil for food** programme," said Michel **Tellings,** one of the two UN inspectors responsible at the time for the implementation of the programme. "The volume of oil was not inspected and payments were not made to the UN escrow account, as required by the programme."

In January 2003, Millenium, a little-known Jordanian company, asked Odin Marine, a shipping broker based in Stamford, Connecticut, to find tankers to load millions of barrels of Iraqi oil. Odin declined to comment.

"The shipowners were very wary," recalled another broker involved in the deal. "They received papers from Jordan with all kind of government stamps claiming it was legitimate, but never actually received anything from the UN."

In fact, no UN papers could have been provided since Millenium was not allowed to lift oil from Iraq, and the port of loading, Khor al-Amaya, did not have UN authorisation to operate.

Nevertheless, shipping companies willing to take the cargo were found. "One of the vessels I fixed was the Argosea, which was owned by the Greek shipping company Tsakos," the broker said.

At the same time, Millenium chartered a couple of supertankers, including the Empress des Mers, to hold its oil in the Gulf.

According to a spokesman for the Bahamian-based company that owned the Empress des Mers, the vessel was to be loaded at sea from other tankers and sit in the territorial waters of the United Arab Emirates off Fujairah, a port at the entrance of the Gulf.

The operation was too big to go unnoticed. In the middle of February 2003, UN inspectors began receiving calls from companies that were lifting oil from Mina al-Bakr, the only UN-authorised port in southern Iraq.

The companies complained that tankers had suddenly appeared a few miles away in Khor al-Amaya. Their activities had halved the pace of loading in Mina, which was served by the same pipeline, leading to delays that were causing demurrage fees.

Furious because the Iraqis had a history of refusing to reimburse those costs, the lifters informed Mr **Tellings** who in turn notified the US and UK missions to the UN.

Mr **Tellings** provided detailed information, including the names of some of the ships spotted by inspectors in the area. He believed the tankers would be challenged by the Multinational Interception Force (MIF), the force led by the US navy that had been enforcing the embargo on Iraq.

"Three or four days later, I chased (the US and UK representatives) and asked them what had happened with my information. They told me that they had communicated it to their capitals and that they were puzzled themselves by the lack of action."

US mission spokesman Richard Grenell said: "We were tireless advocates to bring to the attention of the committee any and all oil smuggling and illegal activity. But while the **(oil-for-food)** investigation is going on we are not going to talk about specific issues."

Mr **Tellings** was not the only one who informed US authorities. Saybolt, the Dutch company hired by the UN to oversee oil loading operations in Iraq, reported the incident to the MIF.

On February 21 2003, when reports of the smuggling first appeared in the US press, Jeff Alderson, spokesman for the Maritime Liaison Office (MLO), the US navy office in Bahrain that co-ordinated the MIF activities, was quoted as saying that he had "no information" about it.

His successor, Jeff Breslau, confirmed to Il Sole/FT that "we have no record that we were warned" about the smuggling. But Il Sole/FT has discovered that on February 17 2003, Saybolt sent an e-mail to the MLO about smuggling that specifically mentioned the Argosea. The same day, the MLO sent a reply to Saybolt acknowledging that notification.

For months, international traders looked for ways to make the cargo legal.

"There were plenty of letters from the Jordanian ministry claiming that the oil was legitimate," said one trader. "But we concluded that there was no way that it could be legally bought."

Eventually, however, customers willing to take a chance were found. "After six months, we were asked to discharge the oil," said the spokesman for the Empress des Mers. The cargo was taken to Egypt, he added.

Out of this operation, traders estimate, Iraqis pocketed about Dollars 50m, all off the UN books, while subsequent sale of the oil netted Dollars 150m in profits.

Among Millenium's principal shareholders, according to a company search, is Khaled Shaheen, a Jordanian magnate who is president of Shaheen Investment & Business (SBIG).

However, Millenium clearly operated with the approval of the Jordanian government. Papers exchanged with the shippers, and e-mails to Odin Marine describe the company as "Millenium, for the trade of raw materials and mineral oils for and on behalf of the Ministry of Energy and Mineral Resources".

An e-mail sent on March 6 2003 from Odin Marine to confirm the fixing of one of the vessels mentioned that "the Jordanian government through the Ministry of Energy and Mineral Resources empowered Millenium to conduct this transaction on their behalf, as per the attached power of attorney".

Claudio Gatti is a New York-based investigative reporter for Il Sole 24 Ore, the Italian business daily

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HEADLINE: Oil smuggling suspects awarded Pentagon Iraq contract

BYLINE: By CLAUDIO GATTI

BODY:

A Jordanian family implic-ated in **oil smuggling** in violation of United Nations sanctions against Iraq was awarded a Dollars 72m (Euros 55.5m, Pounds 38m) Pentagon contract to supply fuel to coalition forces after the fall of the Saddam regime.

The contract was cancelled after just one week, once it became clear that the company, which had little experience in the fuel supply and transportation sector, would be unable to meet its obligations.

The episode, in March 2004, is further evidence of the problems that arose in the allocation of contracts for supply and reconstruction in Iraq after the US-led invasion.

The contract was the result of one of 10 tenders arranged after KBR, a Halliburton subsidiary, was accused by US congressmen of overcharging the US Army Corps of Engineers by up to Dollars 61m for petrol supplied to troops in Iraq - a charge Halliburton denies.

The Pentagon asked the Defense Energy Supply Center (DESC), the government procurement office that took over fuel supply from the US Army Corps following the Halliburton controversy, to award contracts through "competitive procedures to the maximum extent practicable".

In March 2004, one of the contracts was awarded to Millennium, a Jordanian holding company owned by Khaled Shaheen and his brothers Riyadh and Akram.

According to an investigation by the FT and Il Sole 24 Ore, published last week, the Shaheen brothers were involved in an operation in 2003 to smuggle more than 7m barrels of oil from Iraq.

The Pentagon contract to supply 23.8m gallons of petrol and 35.7m barrels of diesel was awarded in 2004.

According to DESC, Shaheen Business and Investment Group (SBIG), the holding company owned by the Shaheen brothers, was chosen for three reasons: price, technical capacity and company reliability. Of the 15 offers received, SBIG's was "the lowest priced, technically acceptable and responsible offeror", the DESC said.

The Shaheens had interests in engineering, construction and telecommunications, ran a joint venture with Land Rover in Jordan and a food factory in Dubai. But - excluding the 7m barrels of oil shipped from Iraq

in breach of the UN embargo in 2003 - they had little expertise in fuel transportation and supply.

SBIG's reliability was also open to question. In 1995, Arab Bank, Jordan's biggest bank, sued SBIG in London over Dollars 40m in outstanding loans (the debts were rescheduled before the case went to court). In June 2000, a Jordanian court froze their assets following a claim by the Standard Chartered Bank of London that they had failed to repay bank loans of Dollars 77m.

Asked by FT-Il Sole why the SBIG contract was rescinded so quickly, the DESC said that "a mutual agreement regarding termination of performance was reached between the DESC and SBIG". Then it provided a different explanation: "SBIG failed to meet their obligations." SBIG declined requests to comment.

On April 8, the contract was taken over by Trigeant Petroleum, a company formed in 2001 by A.J. Brass, a Texas refinery owner, and Harry Sargeant III, from Florida, who owns Sargeant Marine.

The DESC said that "a new solicitation (for the contract) was not issued" but that, having participated to the original tender, Trigeant was "the next offeror in line for award". Claudio Gatti is a New York based investigative reporter for Il Sole 24 Ore, the leading Italian business daily

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Los Angeles Times
latimes.com.

http://www.latimes.com/news/nationworld/iraq/complete/la-fg-oilforfood3feb03,1,423508.story?coll=la-iraq-complete&ctrack=2&cset=true

THE WORLD

All Players Gained From 'Oil-for-Food'

On the U.N. Security Council, competing national interests and economic stakes in Iraq chilled willingness to scrutinize the program.

By Maggie Farley
Times Staff Writer

February 3, 2005

UNITED NATIONS — It was the summer of 1990, and Saddam Hussein's Republican Guard had just stormed into oil-rich Kuwait. The U.N. Security Council, hoping to induce Iraq to withdraw and disarm, responded by imposing sanctions.

Nearly 15 years, two wars and a regime change later, those sanctions and the multibillion-dollar "oil-for-food" program that followed them still shadow the United Nations. Eight investigations are underway in Washington and New York into how Hussein subverted and the U.N. mismanaged a program that was meant to deny the Iraqi dictator funds for weapons but instead buoyed his regime.

The 15 members of the U.N. Security Council, including the United States, were at best complacent and at times complicit in Hussein's exploitation of the program, diplomats and U.N. officials say. Competing national interests and economic stakes in one of the world's biggest oil producers chilled the council's willingness to scrutinize the program, which allowed Iraq to sell oil in exchange for cash intended to be used only to buy food, medicine and other essentials.

Systemic corruption on Hussein's part, inaction of world governments and mismanagement by the United Nations combined to allow one of the greatest frauds in U.N. history.

In the seven years of the program, which took effect in 1996, Security Council members had many opportunities to plug the holes that allowed money to continue flowing into Hussein's coffers. But they often chose to look the other way, or even actively block reforms, say diplomats who were on the program's sanctions committee. The members made a Faustian bargain: Hussein's side deals were the price to pay for keeping him from rebuilding his weapons program.

Instead, Hussein used the program to amass billions of dollars and consolidate his control. Although the program helped feed the Iraqi population and blocked Hussein from massive re-arming, the skimmed windfall helped pay for the very weapons it was designed to block: missile components, surveillance equipment and tank barrels.

Hussein "was playing the international community like a violin," Condoleezza Rice said last month during her confirmation hearings for secretary of State. "And we can't let that happen again."

All five permanent members of the Security Council diminished the sanctions. Even the United States, Iraq's most implacable adversary, made a crucial compromise when the original sanctions were put in place. For 12 years, citing national interests, Washington exempted Turkey's and Jordan's substantial illegal trade from a law that would have blocked U.S. aid to countries that violated the sanctions on Iraq.

The U.S. and Britain also looked the other way when their citizens and businesses traded favors for oil and brought it into the country in ways that skirted legality, say U.N. officials who oversaw oil contracts.

Russia was Iraq's best customer and most powerful ally on the Security Council; it blocked several U.S. and British attempts to tighten controls on Iraqi imports and told Hussein's government in advance when and where U.N. weapons inspections would take place, a former U.N. official said.

China was a consistent opponent of sanctions and interference with another country's sovereignty, wary of precedents that could be used against it.

France fought attempts to reduce kickbacks that traders paid to Hussein's regime for the right to buy discounted oil, and sent charter flights to Baghdad in a brazen challenge to sanctions it had voted to enact.

To prevent a recurrence and to pinpoint blame, the eight pending investigations, five of them launched by Congress, will try to unravel the failures of the oil-for-food program, including the possibility that U.N. officials accepted Iraqi bribes to tolerate illicit trade or to block efforts to tighten the sanctions. A preliminary report by former Federal Reserve Chairman Paul Volcker, in an investigation commissioned by U.N. Secretary-General Kofi Annan, is expected to be released today.

An opinion piece in today's Wall Street Journal previews Volcker's findings: The awarding of contracts to firms responsible for monitoring the program was "tainted," the U.N.'s internal audit process was ineffective, and the program's chief, Benon Sevan, helped pick oil purchasers, an "irreconcilable conflict of interest."

Problems Began Early

But to understand what went wrong with the oil-for-food program, it is necessary to understand what went wrong with the sanctions program that predated it. Even in the earliest days of the sanctions, Hussein exploited diplomatic fissures, foreshadowing his skillful upending of the oil-for-food program.

When the U.N. first imposed sanctions on Iraq in 1990, Turkey and Jordan complained that the penalties would also damage their economies, which were dependent on Iraqi oil. So the United States and the rest of the Security Council quietly allowed Iraq to export oil to its neighbors in return for cash or bartered goods in "trade protocols." Often, they later discovered, those goods included military supplies.

Every year, the State Department acknowledged the trade when it exercised a waiver necessary to give aid to countries that traded with Iraq in violation of sanctions. The waivers concluded that continued support of Jordan, which backed U.S. goals in the region, and Turkey, a North Atlantic Treaty Organization ally, was in America's interest.

"From the beginning, there was a policy decision made not to press Jordan and Turkey," former U.S. Deputy Ambassador Peter Burleigh said. "That was the price of keeping the sanctions effort in place."

But the scope of the trade was much larger than anyone imagined, bringing Hussein's regime an estimated $8 billion in a dozen years, according to a September report by the CIA's Iraq Survey Group led by former U.N. weapons inspector Charles A. Duelfer. Other congressional estimates put it closer to $14 billion.

The sanctions devastated the Iraqi people but the regime profited from illicit trade. Reports of malnourished children, hospitals without medicines, and food shortages were frequent.

Under intense popular pressure, the U.N. created the oil-for-food program to cushion the effects of the sanctions. Under the plan, U.N. officials would be responsible for controlling oil sales, keeping the money and distributing the goods, to prevent the Iraqi regime from diverting funds to buy arms.

The new program dramatically widened Iraq's trade, but the exceptions for Turkey and Jordan quickly became the rule for its neighbors. Soon, Iran, Bahrain, the United Arab Emirates and Egypt all were receiving Iraqi oil, entirely outside the oil-for-food program.

Most audacious of all, in November 2000, Syria reopened a pipeline from Iraq that carried 200,000 barrels a day. Britain wanted to halt the flow with a Security Council resolution, but the U.S. preferred to deal with Damascus quietly and directly. In 2001, Secretary of State Colin L. Powell received several promises from the Syrian government and others to put their trade under the oil-for-food program to keep the revenue out of the Iraqi government's control. But Syria never came through.

When the U.S. and Britain asked the council in 2001 to confront Syria over its illicit oil trade, France and Russia argued that Syria should not be singled out for punishment while Turkey and Jordan were merely winked at.

The issue died when the U.S. wouldn't tackle the special deals with Turkey and Jordan, said a French official long involved with the Security Council's oil-for-food committee.

"Why should those countries get special consideration?" the official said. "We said we wanted to deal with the smuggling comprehensively. Then we went back to square one."

Syria ended up being the main supplier of black-market military goods to Iraq. Syria was the transit point for Iraq-bound Czech Scud missiles, rockets and guidance systems, according to the Iraq Survey Group report. And Jordan alone provided about half of Iraq's black-market oil revenue, an estimated $4.4 billion, the report said.

Crucial Loophole

The oil-for-food program contained a crucial loophole that Hussein had been angling for: Iraq was allowed to choose its business partners. Hussein insisted that maintaining control of the country's spending was a matter of sovereignty, and held out until the Security Council gave in, in May 1996. In a pattern that would echo throughout the next seven years, Russia, France and China backed Hussein's right to make decisions for his country.

"We had to make a judgment," said Patrick F. Kennedy, the U.S. ambassador for U.N. management and

reform. "It was something less robust than we wanted, or nothing at all. We wanted a wall; we had to settle for a screen. But having any filter there at all made it more difficult and expensive for Iraq to cheat."

But that program gave Iraq new means to cheat, and new evidence suggests that the built-in holes were not an accident. An Iraqi American businessman, Samir A. Vincent, testified in a federal court in January that he had received millions of dollars from the Iraqi government to lobby U.S. officials and pass money on to an unnamed U.N. official to shape the oil-for-food program to benefit Iraq.

Hussein was well-versed in the parties' ultimate interests and how to play them off one another: The United States and Britain wanted, above all else, to keep Iraq from re-arming. Russia, France and China had significant economic interests in the country and growing concern about the sanctions' humanitarian consequences. The U.N. wanted to keep relief goods flowing to Iraq's population.

Attuned to such divisions, Hussein and his chiefs made a list of prominent politicians, religious figures, community leaders and journalists they believed could influence Security Council countries to support Iraq during negotiations. Those on the list were granted vouchers for discounted oil that they could sell to oil companies or middlemen for a large profit. The list included dozens of Russian and French figures, as well as Sevan. Except for Vincent, Hussein's lobbyist, all have denied wrongdoing.

Although many of those listed appear to have collected their oil, according to Iraqi Oil Ministry documents, there is no evidence that any of them actually influenced the Security Council members' decisions. An examination of the patterns of the nations' support shows that they were well-established before Hussein began trying to bribe individuals. But some of those individuals were effective in rallying public opinion.

American and British diplomats knew there was a risk that the system could be manipulated, but they believed that suspect contracts would be red-flagged as they went through the system.

Yet of 36,000 contracts that ultimately passed through the countries' missions and the Security Council committee, according to the Office of the Iraq Program, the committee didn't reject any because of questions about overpricing, the quality or the humanitarian necessity of the items, even after warnings on 70 cases by U.N. staff. They did put contracts worth $5 million on hold because of suspicions of potential weapons use.

"The U.S. was so concerned about dual-use items and militarily relevant equipment," Burleigh said, "that these other issues didn't seem so important at the time."

Sanctions Erode

By 2000, the sanctions had begun to erode under their own weight. The U.S. and Britain continued to argue that the program, although flawed, was feeding the people and seemingly stopping weapons imports.

In a pointed challenge to the sanctions, French humanitarian groups and politicians exploited a loophole to charter a flight to Iraq in September 2000, the first in nearly 10 years. Russia, Jordan and others followed, adding to the sense that the sanctions were about to crumble.

"It seemed like everybody but us was out there trying to weaken the sanctions," Kennedy said. "It was

clearly a combination of political and economic reasons. They did not see Saddam Hussein in the same light we did."

Realizing that the sanctions were under serious threat, the United States and Britain proposed a streamlined system of "smart sanctions" that would speed delivery of humanitarian goods while tightening up monitoring systems at borders and ports to stop the flow of military goods. It called for Syria, Turkey and Jordan to bring their illicit oil sales into the system.

Russia threatened to veto, arguing that the council should be relaxing sanctions, not tightening them, and the U.S. and Britain withdrew their proposal in July 2001.

After nearly a year of wrangling, the Security Council approved a diluted resolution in May 2002 that loosened controls over humanitarian purchases but failed to tighten monitoring over the actual imports.

"There was no endpoint to sanctions. We thought we should give Iraq a light at the end of the tunnel," said a Russian diplomat who served on the committee for years. "America wanted to make the sanctions indefinite: regime change or nothing. We believed that approach didn't work."

Russia also had a financial stake to protect. It received 32% of contracts during the oil-for-food program, according to the Duelfer report and Russian diplomats. It also had entered into a $40-billion agreement for Russian exploration of several Iraqi oil fields over a 10-year period.

Emboldened, Hussein publicly demanded surcharges on oil in 2000. The U.S. and Britain urged changes in the oil-pricing process. But Russia, France and the program's chief, Sevan, would not change the process until they had seen evidence that companies had paid the illegal surcharge. No one came forward.

In 2001, the U.S. and Britain proposed a new pricing mechanism to stop the surcharges. Russia and France again tried to block the move, saying it would cause oil sales to plunge and cut funds for humanitarian goods.

After 11 months of deadlock, and more than 40 meetings, the U.S. and Britain withheld their approval of all oil contracts until the committee adopted the new pricing regime in October 2001. It cut the illegal oil charges by $60 million, and U.S. and British diplomats said they considered the move the best example of their vigilance. But it also deprived the program of millions more, as wary oil traders backed out of the uncertain market.

"We could have monitored better, but it wasn't that Saddam hoodwinked us, nor that France and Russia screwed the rest of us," said George Lopez, an Iraq analyst who helped create the "smart sanctions" proposal. "Every member knew that they all had domestic actors who wanted more oil business."

In the end, national interests trumped vigilance, even for the U.S. and Britain. In one of the biggest and most blatant cases of oil smuggling, 14 tankers hired by a Jordanian company illegally lifted at least 7 million barrels of oil from an Iraqi port not approved or monitored by the U.N. in February 2003, one month before the U.S.-led invasion of Iraq.

Authorized oil traders at a nearby port reported the illegal lifting to a U.N. overseer after it interrupted the flow of oil to their ships. The overseer, Michel Tellings, passed detailed information, including the names of the ships, to the American and British missions at the U.N. so their joint interdiction force could challenge the smugglers.

Nothing happened.

"Everybody in the oil industry knows that the oil went out unchallenged," Tellings told The Times.

Oil traders were told informally that the U.S. let the tanks go because Amman needed oil to build up its strategic reserves before the U.S.-led invasion of Iraq, according to a joint report by the Financial Times and the Italian business daily Il Sole 24 Ore that was confirmed by U.N. officials. But Jordan sold most of the oil to Yemen, China and Malaysia.

Poor Oversight

At the heart of the probes now underway is to what extent the U.N. could have detected and stopped Iraq's exploits under either the sanctions or oil-for-food programs, and how well member states monitored their companies' adherence to sanctions.

Recently released internal audits of the program's administration, however, described systemic mismanagement and poor oversight, with inspections companies such as Lloyd's Register, Cotecna and Saybolt Eastern Hemisphere billing the U.N. for millions of dollars for inspection work they didn't do — the audits were never shared with the sanctions committee — a fundamental example of the communications breakdown between the two bodies that worsened the program's failures.

Diplomats acknowledge that their countries knew of some fraud and abuse allegations, but didn't — or couldn't — act on them. The reason? The committee operated by consensus, which meant the objections of just one of its 15 members could stall action on an issue indefinitely. "Every country had a veto," said Kennedy.

In committee meetings in late 2000, Sevan, the chief of the U.N. program, reported that his office had been getting complaints about excessive oil surcharges being paid into a non-U.N. account. "All Security Council members heard him say that," said a British official on the committee. "But the people around the table didn't want to hear it."

And Sevan believed he didn't have time to pursue it. "He said, 'I have my hands full just making sure the people get their food. I don't have time to do investigations,' " said a former colleague of Sevan, who asked not to be named.

'Using Each Other'

Diplomats say there was a lack of consensus about who should be responsible for Iraqi compliance: the Security Council or the U.N.

A U.N. spokesman says it was the Security Council: "Iraq's compliance, as in all sanctions regimes, was the responsibility of the Security Council and member states. The Secretariat was implementing the program on behalf of the council."

Not entirely so, says the Security Council's most powerful member, the United States.

"The secretary-general will have to be accountable for those management problems," Powell said in a

Jan. 12 interview with Fox News. He added, however: "The responsibility does not rest entirely on Kofi Annan. It also rests on the membership, and especially on the Security Council. And we are a member of the Security Council."

But just as the responsibility for the oil-for-food program bounced from the members of the Security Council to the U.N. and back without ever coming to rest, so may the culpability.

"Everyone was playing their own game," said the Russian diplomat who dealt with the program. "Everyone was using each other. And everyone agreed to close their eyes a little."

Slippery oil deals

How oil-for-food evolved

Since the U.N. imposed sanctions, there has been evidence of mismanagement of Iraq's 'oil-for-food' program, including the smuggling of oil to its neighbors.

Aug. 2, 1990: Iraq invades Kuwait

Aug. 6, 1990: Security Council imposes broad sanctions on Iraq

Aug. 15, 1991: Iraq rejects first oil-for-food deal offered by Security Council

April 14, 1995: Security Council creates oil-for-food program to cushion effect of sanctions; Iraq refuses its terms

May 20, 1996: Iraq accepts program after receiving right to pick trade partners

Oct. 1997: U.N.'s Office of the Iraq Program established, with Benon Sevan as its chief

March 20, 2003: U.S. and British bombing of Iraq begins

March 22, 2003: Security Council lifts sanctions, agrees to terminate oil-for-food program within six months

Nov. 21, 2003: Program handed over to Coalition Provisional Authority

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HEADLINE: E-Mail Shows Jordan Seeking Approval on Oil

BYLINE: Colum Lynch, Washington Post Staff Writer

BODY:

A Jordanian oil firm sought approval from a U.S.-led international naval force to import millions of barrels of Iraqi crude through the Persian Gulf in violation of U.N. sanctions in February 2003, according to an internal company e-mail released yesterday by Sen. Carl M. Levin (D-Mich.).

Whether approval was granted was unclear, but the disclosure provided the first documentary evidence that could support allegations that the United States allowed Jordan to export large quantities of oil from an unauthorized Iraqi terminal to build up its strategic oil reserves in the weeks leading up to the U.S.-led invasion of Iraq. It also signaled that Levin intends to broaden a probe by the Senate Permanent Subcommittee on Investigations, which has focused on U.N.

mismanagement of the oil-for-food program in Iraq, into U.S. enforcement of sanctions.

A spokesman for the U.S. Central Command, which oversaw the U.S.-led Maritime Interdiction Force's effort to prevent smuggling in the Persian Gulf, referred calls to the Pentagon. A Pentagon spokeswoman said it was too late in the day to obtain comment.

At a subcommittee hearing yesterday, a senior U.S. official from the U.N. mission strenuously defended the U.S. decision to waive sanctions against Jordan and another key U.S. ally, Turkey, for illegally importing oil from Saddam Hussein's government.

"By ensuring that Jordan was not strangled by a lack of a critical resource, the Jordanian government was able to pursue policies of critical importance to U.S. national security in the region," said Patrick F. Kennedy, the U.S. representative for U.N. management and administration.

The $64 billion U.N. oil-for-food program was established in December 1996 to allow Iraq, which was placed under economic sanctions after its 1990 invasion of Kuwait, to sell oil so it could buy food, medicine and other humanitarian goods. Hundreds of companies paid the Hussein government as much as $2 billion in illegal kickbacks or bribes as the price of doing business with Iraq, according to U.S. and U.N.

investigators.

Subcommittee Chairman Norm Coleman (R-Minn.) urged U.N. Secretary General Kofi Annan to lift the diplomatic immunity of Benon Sevan, the former director of the program, so he could face criminal charges. A U.N. investigation has found that Sevan solicited the rights to purchase millions of barrels of Iraqi oil at a discount on behalf of a relative of former U.N. secretary general Boutros Boutros-Ghali.

"I believe that Mr. Sevan's misconduct goes well beyond a mere conflict of interest," Coleman said in his opening statement. Evidence gathered so far establishes "probable cause that Mr. Sevan's actions rose to the level of criminal liability," he said.

The panel also released Iraqi documents indicating that a Portuguese employee of Saybolt Eastern Hemisphere B.V., a Dutch company that monitored Iraq's oil exports, received more than $105,000 in bribes to allow a French company to load 500,000 barrels of oil outside the oil-for-food program.

Saybolt's attorney, John Denson, told the panel that his company would use the documents in an ongoing internal investigation into the allegations. "Saybolt does not take allegations of bribery by company employees lightly," he said in prepared testimony.

The subcommittee also pressed representatives of the Swiss company **Cotecna** Inspection S.A., which approved imports of humanitarian goods to Iraq, to describe the activities of Annan's son, Kojo Annan, a former **Cotecna** employee. The Senate panel and U.N. investigators are trying to establish whether Kojo Annan helped the company obtain the U.N. contract in 1998. He received $150,000 from **Cotecna** while it profited from the oil-for-food program.

Cotecna chief executive Robert M. Massey told the subcommittee Kojo Annan played no role in the company's Iraq operations and was primarily pursuing business deals for the firm in **Nigeria** and Ghana. The subcommittee, however, released a series of documents indicating that Kojo Annan's business dealings went beyond West Africa.

One document suggested he was pursuing business opportunities in the Middle East. In a September 1998 memo to Massey, Kojo Annan described his effort to establish the "machinery" in New York to develop fresh business opportunities of a "global nature."

Coleman said that Kojo Annan told the subcommittee's staff on Friday that he could not recall what the memo meant. "The memory lapse is troubling," Coleman said.

Citing reports that the Jordanian oil tankers "were escorted by American ships," Levin asked Kennedy to provide a written response to three new documents outlining U.S. support for the illicit trade.

The e-mail Levin released was from the Amman-based company Millennium to the Connecticut-based ship broker Odin Marine; it describe procedures for ships loading oil at Khor al-Amaya, the unauthorized terminal in Iraq.

The vessels coming into the terminal were instructed to provide the "U.N. naval check point" -- a reference to the U.S.-led naval interdiction force -- with the name of their vessel, the location of the loading terminal and the quantity of oil being exported. The president of Odin Marine, David E. Young, or the ship's master was then instructed to contact the U.S. commander, Harry French, to obtain approval for the ship's safe passage.

"The message that should be sent," the e-mail said, is that "we are loading crude oil from the

terminal . . . for Millennium; do you have any objections."

Young declined to comment on the e-mail yesterday, citing a confidentiality agreement. The author of the e-mail, Ahed Sokhon of Millennium, could not be reached at his office or on his cell phone.

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