

986(1995) and the Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq on the implementation of the Security Council resolution 986(1995) (MOU). Annex II, paragraph 4, of the MOU expressly provides for *independent inspection agents* to monitor Iraqi oil exports.

Various amendments of the contract were undertaken in response to the requests of the Security Council and its Committee established by resolution 661 (1990) that required urgent action. Fortuitously, the experience of the Government of Iraq with Saybolt presented the United Nations with a considerable advantage, one that cannot be cost evaluated, and which rendered the missions much more expeditious and effective.

The decision to manage the contract from OIP rather than UNOHCI was in order not to unduly compromise the latter's mandate. To the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharges its contractual responsibilities. It is realistic, however, to acknowledge that political actions may affect the manner in which the contractor discharges its responsibilities. For example, it is common knowledge that oil exports are interrupted periodically. The contractor, who has complained that the Government has refused to allow any additional contractor staff on a permanent basis, therefore occasionally deploys more staff to cope with peak periods of work.

The auditors failed to avail themselves of vital consultations that would have been useful to them in their work. Thus the audit objectives were carried out without a proper understanding of the background to the contract, the contract itself and its management.

Although the auditors undertook site visits to some of the locations where the independent inspection agents are located, they did not visit Mina Al Bakr to witness first hand the very difficult conditions under which the independent inspection agents operate. In addition, there was no consultation between the auditors and OIP officials, nor with Saybolt (the contractor) headquarters that would have helped clarify for the auditors some of the contentious issues. An exit conference might also have helped had one been held.

Comments on specific audit findings and recommendations are proffered hereunder:

A: Monitoring of invoice payments and financial matters

Procedures have not been implemented to monitor invoice payments:

Paragraph 8 of the draft report stated, *inter alia*, that the "number of inspectors, whether for oil or spare parts, is the only measurable parameter by which the UN authorized payment to the contractor. Hence an accurate attendance record is essential to support the monthly invoices submitted by the contractor."

The real parameter to measure the performance of the inspectors, whether for the export of oil or the monitoring of spare parts, are the detailed reports of all activities under Saybolt's area of contractual responsibility which come to OIP daily, weekly, and in special cases, as required. It should also be noted that through Amendment number 1 to Contract number PD/CO114/00, the

spare parts

number of ~~of~~ inspectors was increased from six to eight. Paragraph has the total number of inspectors as twenty. This error is significant as it influenced the subsequent findings and recommendations.

Paragraph 9(i) stated that "a review of 19 monthly invoices and supporting documents found "deficiencies". Among the deficiencies stated is ambiguity of the attendance record which reflected "from arrival to departure Amman". In the view of the auditors, payments should only be made for manning the locations in Iraq and Turkey.

Contract number PTD/127/0065-96 (the initial contract) determined the number of inspectors required at particular locations in Iraq and Turkey, and Article 7.1 provides for full payment for complete and satisfactory performance by the contractor of his obligations under the contract. As has been noted above, the contractor has on site more oil inspection agents than required under the contract, and is not being paid for the excess number. In that regard, it could be argued that once the requirement of satisfactory performance is met, the "deficiency" in the *attendance record* becomes a non-issue. Nonetheless, since December 2000 the *attendance record* has shown "Personnel Attendance on Location, from arrival to departure".

The draft report also illustrates that the auditors do not have a good understanding of the contract and the method used in the preparation of invoices by Saybolt. This misunderstanding led to a significant error in 'finding' that Saybolt overcharged some \$370,000 for services provided during the period 29 May 1999 to 28 June 2001. The auditors confused the billing mechanism, seemingly thinking that Saybolt's billing was based on contracted staff levels and not on staff on site. And, on that matter, the auditors confused the contracted number of Inspectors for oil spare parts and equipment. This is eight and not six as stated in paragraph 8 of the draft report.

There is a historical precedent in the preparation of invoices in line with the commencement date of the current contract. The invoice always covers the period between the 28th day of the previous month until the 29th day of the month the invoice is prepared. Thus, the invoice prepared at the end of June covers the last few days of May until the 28th of June inclusive. Reference is made in this regard to Amendment No. 8 to contract PTD/CON/127/0065/9, which covered the period 29th of May 1999 through 28th of November 1999, after which this invoicing scheme was implemented. A review of all invoices found one incorrect invoice issued for the month June 1999. This irregularity does not appear in any of the other invoices. No over billing occurred as a result of this split-month billing, except for the July 1999 bill that included "31 June 1999". This overcharge (17 Man days) will be deducted from a future payment. That the irregularity was not queried by OIP was because OIP understood the billing mechanism, which the auditors did not.

The lump sum payment method provided for in Contract PTD/127/0065-96 (the initial contract) was discontinued with effect from 28^{May} 1999 in the successor contract. Since June 1999, invoices have been accompanied by an attendance sheet.

Overpayment of monthly invoices needs to be recovered

Paragraph 10 of the draft report stated that the contractor had overcharged by approximately \$370,000, on short and excess stationing of staff. Except for the 1999 invoice where Saybolt billed for 31 June 1999, there did not appear to be any evidence of over billing. The invoices were in line with the attendance records. It would seem that the auditors only indicated the first 28 days of the month shown on the attendance record, and ignored the 29th, 30th and 31st day of the previous month, in determining the days of attendance. The other billing errors found were for December 2001, where Saybolt billed for 421 days for Oil Inspectors against 422 shown on the attendance sheet, so undercharging by one day, and June 1999, where a wrong code was used on the attendance sheet, although this did not have a financial consequence.

Regarding the short stationing of staff, as the invoices (since 29 May 1999) were based on staff as per the attendance sheet, no adjustment was required to the invoice for contracted staff that were not on duty, as the invoice did not include any charge for an absent Saybolt staff. As noted above, irrespective of the maximum allowed spare parts inspectors, during the initial stages of this work the contractor only deployed sufficient staff to effectively carry out the requirements of the 661 Committee, as there is an obvious time delay in ordering and physical arrival of spare parts and equipment. It would, thus, appear that the auditors did not differentiate between Saybolt's responsibilities.

Communication charges by the Contractor have been excessive

Paragraphs 11 and 12 stated that the tariff structure of the contract include communication expenses which is about 21 per cent of the total contract amount and that the Contract did not provide for any requirement to justify the expenses incurred through the use of a satellite communication system (Satcoms). The draft report also stated that the "UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the communication expenses significantly, apart from being transparent in terms of identification of all calls including personal ones....."

The auditors did not seem to take into consideration the geography of Iraq, the location of the sites where the independent inspection agents are stationed, the logistics that would have been involved in extending the UN telecommunication system to the various locations and also the political environment.

It must be noted that time is essential and the independent inspection agents have to transmit their reports from the location where they are based, using communication not limited to the various Satcom units alone. There is also daily on-line time from Saybolt's headquarters to the various locations in the field, to transmit data such as the authorization documentation for crude oil loadings. It should also be noted that "on-line-" costs was renegotiated in the current contract, PD/COI 14/00, resulting in substantial savings on communication costs.

OIP needs to recover personal phone calls made by the Contractor's staff

Paragraph 14 stated that Saybolt's "internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the total communications cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP."

The auditors seem to have confused the cost structure with the agreed billing procedure. As the contract is all-inclusive daily fee, the only mechanism for charging would be attendance on site of the contracted personnel and satisfactory performance of their duties.

The contract was awarded to Saybolt based on competitive tender and there is no evidence that alleged communication costs for private calls are charged to OIP. It must also be mentioned that the State Oil Marketing Organization (SOMO) has relied for quite some time upon Saybolt's communication systems after the military action in 1998. All costs involved amounting to USD 6,000., per month were absorbed by the contractor (Saybolt).

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However, the points raised in the draft report regarding the cost structure could be utilized in the negotiations for the next contract.

Accommodation and local transportation charges included in man-day billing rate have been excessive

Paragraphs 16 and 17 stated, *inter alia* that at Zakho and Mina-al-bakr, the Government of Iraq had provided accommodation for the Contractor's staff, and at Zakho, SOMO had also provided two cars for local transportation.

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With regard to questions related to costs for accommodation, transportation, communications, etc., in Iraq, it is a well-known fact that these types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements being made by the contractors, not just Saybolt, to ensure that these services, etc., would be provided.

Transport costs provided for in the Contract have been charged

Paragraph 18 stated that "notwithstanding specific provisions in the Contract to the contrary, amendment number three provided for computer equipment for two spare parts inspectors at a cost of \$17,800. Furthermore, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for spare parts inspectors was also authorized at \$39,000. In this regard, we note that the man-day rate provides for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the Contract for transportation and no justification was given for amending the Contract to provide additional transport. This arrangement was not transparent and appeared to double charge the UN for these costs".

To facilitate the execution of the contract, it was decided that Saybolt could purchase three vehicles and operate them independently and the vehicles would remain the property of the

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United Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices.

Non-expendable equipment purchased by the Contractor had not been adequately accounted for

Paragraph 20 stated that "the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like satcoms, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inspected by the UN. Furthermore, the equipment was not entered into OIP's inventory system, and there had been no periodic checks on these assets as required by UN financial rules".

Due to the political environment in which the contract is executed, it is not feasible to conduct physical inventory of the vehicles and equipment at site locations. However, OIP maintains a record of what has been purchased by Saybolt under the 2.2% account, and does not necessarily wish to cause unnecessary friction with the Government of Iraq.

Charges for additional services provided by the Contractor have been excessive and inadequately monitored

Paragraphs 21 to 25 stated, *inter alia*, that OIP accepted cost proposals from the contractor for additional services "without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc"

The auditors seem not to have a clear understanding of the nature of the work of OIP and the very sensitive and often urgent requests by the Security Council and its Committee established by resolution 661 (1990). The proposals referred to by the auditors relate to specific survey missions that were undertaken at the request of the Security Council within a tight timeframe. The proposals by the contractors are "all-in", i.e., including all relevant personnel for technical activities and analysis, as well as for ancillary services, such as report writing, presentations to the Security Council Committee, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of any contractor, and the Government's experience with Saybolt presented the United Nations with a considerable advantage - one that cannot be cost evaluated - and rendered the missions much more expeditious and effective.

It is also an erroneous assumption that OIP does not maintain comparative information to determine the "reasonableness" of proposals. OIP has always kept such information and has maintained on-going contact with professional societies and industrial organizations, and has thus been able to discuss quickly with experts whether technical and financial proposals were reasonable.

Regarding the comments on the round-trip from Amman-Baghdad-Amman, it is conceded that the charges were overstated. Consequently OIP is arranging a deduction of the

overcharge. But again it should be noted that the auditors seem not to have taken into consideration the question of the time factor, in that Saybolt was able to provide experts immediately from their rosters who were specialized in the areas necessary to undertake these missions, as well as having great technical familiarity with both Iraq and other countries in the region. And regarding the comments specifically on Paragraphs 24 and 25 on the reasonableness of the charges, it is essential to keep in mind that the contract was based on an "all-in" cost proposal.

The Contractor had not conducted "audit visits" as provided for in the Contract

Paragraph 26 stated that although the Contractor's proposal dated June 1996, provided for a coordinator from Rotterdam to "audit" their operation in Iraq every six weeks, no audit had been conducted. On the assumption that the costs of the visits would have been included in the overall price proposed by the Contractor, the auditors consequently calculated 36 such missed visits.

The assumption is incorrect, as the technical head of the Iraq team for Saybolt, Mr. Graham Brett, regularly undertakes missions to Iraq and the cost of these visits is included in the overall price of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for the oil sector, as well as customs experts and the Oil Overseers. It should also be pointed out that it is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for auditing functions on an on-going basis of review and action, than only periodic "audit" visits, which are after all *post facto*.

Services provided by UNOHCI have not been adequately charged to the Contractor

Paragraphs 27 and 28 have been duly noted.

B: Monitoring Contractor's performance

OIP officials charged with monitoring the Contract had not made inspection visits to Iraq

Regarding the comments on paragraphs 29 and 30, it should be noted that the contract is being executed in a politically sensitive environment. As has been already stated, in order not to compromise UNOHCI's mandate, it was decided to administer the contract from headquarters. OIP maintains oversight of the activities of Saybolt on a daily basis through reporting as well as daily consultations with Saybolt, the Oil Overseers, as well as the group of experts on oil spare parts.

Need for reduction in contract payment during "no work" periods

In paragraphs 31 and 32, the auditors opine that during times when oil is not being exported from Iraq, the contractors should not be paid. In this connection, it would be truly difficult to imagine any professional company of this type that would agree to such conditions in its contract with the United Nations. There is no way to know in advance when there will be a disruption in the oil exports, and it is illogical to expect that ships will wait until the

inspectors are back in place before they can load. To move inspectors in and out of Iraq on that kind of assumption would render the United Nations incapable of fulfilling its mandate in regard to monitoring of oil exports. The requirements of the Security Council and the Security Council Committee demand that a full time presence of inspectors be maintained in the designated sites.

Need to separate the cost of Contractor's equipment from the man-day fee structure

In paragraphs 33 to 35, and the auditors' corresponding recommendations, the report discusses the cost of equipment purchased under the contract with Saybolt. While the comments are too vague to constitute a valid finding, it is clear that the auditors did not take into consideration the ongoing maintenance, repair and replacement costs that are factored into the contract as well, when they speak of onetime costs for equipment and recommend reimbursement by Saybolt.

Scrutiny of CVs of Contract personnel have been ineffective

Correct

It would seem that the auditors did not understand the background of the issue of early pensioners. It was originally foreseen that the contractor would identify overseers. That idea was subsequently cast aside. In the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the sometimes, arduous conditions in Iraq.

It is also not correct that that CVs of contractor personnel are not reviewed. Whenever Saybolt sent a recommendation, it was reviewed by the appropriate staff at OIP and then forwarded to the Oil Overseers for their comments. OIP has at times questioned the selection of candidates for various reasons, including experience, language skills, and geographical distribution. This was all discussed during the daily contacts between Saybolt and OIP. Candidates were withdrawn by Saybolt from time to time following these discussions, and so there was no need for "rejection" by OIP.

In-house versus outsourcing of services

As was stated in the introductory comments, the Memorandum of Understanding between the Secretariat of the United Nations and the and Government of Iraq on the implementation of the Security Council resolution 986 (1995), Annex II, paragraph 4, provides that the "sale of petroleum and petroleum products originating in Iraq will be monitored by United Nations independent oil experts appointed by the Secretary- General of the United Nations to assist the 661 Committee. The monitoring of oil exports will be carried out by independent inspection agents at the loading facilities at Ceyhan and Mina ai-Bakr and, if the 661 Committee so decides, at the pipeline metering station at the Iraq-Turkey border, and would include quality and quantity verification. They would authorize the loading, after they receive the information from the United Nations oil experts that the relevant contract has been approved, and report to the United Nations".

It would therefore not be consistent with the above quoted provisions were the OIP to replace the independent inspection agents with United Nations personnel. It should also be pointed

out that nowhere in the United Nations is there an occupational group for petroleum engineers, experts or technicians. To create such an occupational group and 20 posts at the P-4 level for a temporary programme, and then subject those posts to the normal United Nations recruitment and placement procedures, would not be feasible. There is also the related cost of deploying these 20 P-4 staff members, i.e., transportation, accommodation, communication, etc.

In regard to the recommendations by the auditors, the memorandum forwarding the draft audit report stated, *inter alia*, that OIOS considered recommendations 3, 4, 6, 8, 9, 16, 17, 21, and 23 contained therein as being of critical importance. In light of the introductory remarks above, as well as the comments on specific paragraphs, it will be necessary to review each of the recommendations as stated hereunder:

Recommendation 3: Establish a contract management unit in Iraq whose functions should include reviewing invoices' supporting documentation, verifying Contractor's attendance records, monitoring additional requests for equipment and services by the Contractor and providing input for evaluation of the services provided (AF01/30/6/003).

This recommendation fails to take into consideration the fact that this would require additional resources and staffing, which are extraneous to UNOHCI's mandate and would not necessarily be agreed to by the Government of Iraq.

(i) **Recommendation 4:** OIP management should recover the overpayment of \$370,000 as indicated in Annex I, from the Contractor in subsequent billings (AF01/30/6/004)

This recommendation should be reviewed by OIOS. The \$370,000 seems to be significantly overstated. Ironically, Saybolt's review of its invoices revealed undercharging that may cancel any overcharging.

Recommendation 6: OIP management should in future contracts with the Contractor (or any other contractor) separate the communication expenses from the man-day tariff structure and reimburse these on presentation of detailed documentation (e.g. invoices from service providers) (AF01/30/6/006)

The recommendation is noted for the negotiation of future contract proposals.

Recommendation 8: OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AF01/30/6/008).

The contract is an all-inclusive, and there is no evidence that the contractor has separately charged OIP for private calls. Further, it would be contrary to the terms of the contract to demand such reimbursement.

Recommendation 9: OIP management should recover overpayments for accommodation and transportation of approximately \$471,000 from the Contractor (AF01/30/6/009)

The contract is all-inclusive, therefore under the terms of the contract, there is no reimbursement due.

(i) **Recommendation 16:** Implement procedures for procuring urgently required services, which should include: obtaining quotations from other suppliers; checking the reasonableness of quotations based on actual costs; and negotiating costs with the selected supplier (AF01/30/6/016).

As stated above, OIP maintains constant contact with professional societies and industrial organizations and is, therefore, current on the costs of services. However, the recommendation is noted.

Recommendation 17: OIP management should obtain details of "audit visits" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$270,000 for 36 such required visits up to phase nine (AF01/30/6/017).

It is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for auditing functions on an on-going basis of review and action, rather than only periodic "audit" visits, which are after *all post facto*. In this regard, OIP does not consider that any recovery is due.

Recommendation 21: OIP management should negotiate with the Contractor to recover approximately \$1 million paid for equipment in excess of its actual cost and to stop further payments for the equipment cost component in the current Contract (AF01/30/6/021).

This recommendation is rejected. OIP is bound by the terms of contract between Saybolt and the United Nations. However, the recommendation will be considered for future negotiations of contract proposals.

Recommendation 23: OIP management should consider the option of engaging UN staff members at the appropriate level, which is clearly a much more economical alternative to contracting

Memorandum

To : Office of the Iraq Programme
Attention : Mr. B. Sevan
Cc : Ms. Stephani Scheer
From : Peter W.G. Boks

Subject : OIOS Audit No. AF2001/30/6: Audit of the management of the oil
inspection services Contract.
Date : December 24, 2001

We refer to the draft audit reports as mentioned above, which we received on December 13, 2001. Although you mention in the covering note that the auditors spoke to us in Rotterdam, this is not the case. We only provided some information to our team-leader in Baghdad, in respond to questions addressed to him. At that time, we encouraged through our team-leader the auditors to contact us in Rotterdam. Unfortunately this never occurred.

Given the fact that the Executive Summary is overlapping the main body of the document, we will limit ourselves to the latter.

I. Introduction

In the introduction reference is made to our current contract, mentioning the present staffing levels. It should however be noted that Amendment No. 1 to Contract No. PD/CO114/01/00 allows us to deploy two additional spare parts inspectors. Given the fact that the GOI has refused to allow any additional staff on a permanent basis, we occasionally deploy more staff when considered absolutely essential to cope with peak periods of work. It must be underlined that under present circumstances the current requirements significantly exceed the allowed number of spare parts inspectors.

III. Audit Scope

Although we noticed that the auditors undertook site visits to some of the locations where our staff are located, they unfortunately did not visit Mina Al Bakr to witness first hand the very difficult conditions under which our staff are forced to operate, which we will refer to later. In addition, we underline that our Headquarters have not been directly contacted to discuss any of the contentious matters referred to in their report.

IV. Audit Findings and Recommendations

9 (i) Saybolt maintains throughout the year the following staff on site:

Ceyhan – Turkey	:	5 Staff members
Mina Al Bakr – Iraq	:	6 Staff members
Zakho – Iraq	:	3 Staff members

- (ii) Given the fact that there is a historical precedent in charging, the invoice covers always the period between the 28th day of the previous month until the 29th day of the month the invoice is prepared. Thus the invoice prepared at the end of June covers the last few days of May until the 28th of June inclusive. After review of all invoices, we found one incorrect invoice, issued for the month June 1999. This irregularity does not appear in any of the other invoices reviewed.
- 10 (i) A review per invoice is attached for your reference.
- (ii) Irrespective of the maximum allowed spare parts inspectors, during the initial stages of this work we only deployed sufficient staff to effectively carry out the requirements of the 661 Committee, as there is an obvious time delay in ordering and physical arrival of spare parts and equipment.
 - (iii) We refer to our review per invoice.
- 12 It must be noted that given the fact that time is essential, that our inspectors have to transmit there reports from the location where they are based. We are unaware that there are options to link in to the UN telecommunication system from locations such as Mina Al Bakr. In addition to that communication is not limited to the use of the various satcom units alone. There is also daily on-line time from our HQ in Rotterdam to the various locations in the field, to transmit data such as the authorisation documentation for crude oil loadings.
14. Essentially we feel that our contract has been awarded on the basis of a competitive tender.
16. OIP is well aware that Saybolt has subcontracted the services for transportation and accommodation within Iraq. Initially this was done directly with the Ministry of Oil, which was proven to be in contravention with UN regulations. It was than decided to subcontract this service through a company in Jordan, which to date still is the case.
17. For good order's sake there is no free transportation and/or accommodation within this contract.
18. The auditors refer to the provision of transportation to the spare parts monitors, which was originally arranged through UNOCHI and taken into consideration in our fee structure. When the United Nations concluded that this was proven an ineffective solution, it was decided that Saybolt could purchase three vehicles and operate them independently. The vehicles will remain the property of the United Nations. Saybolt has never quoted for the provision of transportation of the spare parts monitors.
20. A side-remark is that equipment purchased under this arrangement have in numerous cases been replaced by Saybolt. Are there any guidelines as to how we should cope with this?

26. Given the importance of this contract, it was decided that it would be more effective and efficient to appoint an overall team leader positioned within Iraq to have total responsibility for auditing functions on an on-going basis of review and action. In addition to that, visits were made by Executives from Rotterdam as and when required.
33. Essentially we feel that our contract has been awarded on the basis of a competitive tender. Side-remark is that equipment is an ongoing expenditure, such as laboratory consumables, replacing laboratory equipment, medical equipment, upgrading communication equipment and/or computers, gear for new staff etc. etc.
36. It would seem that the auditors did not understand the background of the issue of early-pensioners. This approach was chosen, when the proposal had to contain the provision of oil overseers as well. This requirement was however deleted, and therefore is irrelevant. In the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the sometimes-arduous conditions in Iraq.
38. Again a side-remark: The United Nations in promulgating the UNSCR 986 decided to subcontract the monitoring of Crude Oil exports from Iraq, to a Worldwide independent specialised company. The appointment of the successful bidder was by competitive tender. In addition to the 20 inspectors on-site, a much larger pool of staff is needed to maintain the 7 day's per week 24 hours a day operation, which is common practice in the oil business. It goes without saying that conditions at Mina Al Bakr are far from ideal. This is illustrated in virtually every weekly report, which is published to the United Nations. Accordingly, it is not realistic to assume that staff is prepared to work at this platform on the conditions mentioned by the auditors.
Additionally, a specialised team of 4 full time employees is involved in the ongoing management of the project, and in giving advice and guidance to the OIP on all matters pertaining to the Oil Industry in Iraq.

ANNEX I

ANALYSIS OF SAYBOLT INVOICES

<p>30th Although the contract allowed for 6 inspectors, the workload at that time required for staff deployed</p>	<p>1.725 On the other hand, we noticed that 3 per miss per day fee of USD 655 has been applied, which should have been USD 675 -</p>	<p>1.725 13 * 655 = 8775 30 * 12 * 17 = 4200 4200 - 8775 = -4575 5625</p>
<p>47.320 1 Sr. Spare parts inspector maintained short for 30 days on 2nd and from 3rd to 31st. 42 mandays short for Spare Parts Inspectors as shortage of 2 for 15 days from 1st to 12th and 29th to 31st and shortage of 1 on 13th, 18th to 28th. Although the contract allowed for 6 inspectors, the workload at that time required for staff deployed</p>	<p>1.725 Although the contract allowed for 6 inspectors, the workload at that time required for staff deployed</p>	<p>1.725 5775</p>
<p>53.150 31 mandays short for Sr.</p>	<p>1.725 3 mandays extra at Mina on 6th, 7th and 8th.</p>	<p>1.725 14 * 665 = 9310 4333 - 1.4200 13000</p>

July 99

June 99

for oil inspection services keeping in mind the relevant SCRs and MOU with the GOI (AF01/30/6/023).

This recommendation is inconsistent with the relevant Security Council resolutions and the MOU.

Audit.

Oct 1997.

From: Peter Boks on 10/28/97 06:26 PM
To: Avedons@un.org
cc:
Subject: UN Audit

Steve,

Please find herewith our comments on your telefax dated 27 October 1997:

1) Letters of Credit.

Letters of Credit are often not opened until the last moment and have to be processed via BNP Paris, thence to their correspondent Bank in New York and then to the UN Overseers for their approval after which we are advised in writing and loadings are allowed to commence. We note the Auditors comments but feel that this is a subject that should be addressed by the Overseers.

We do all we can to assist, and remain in close contact with the Overseers on this matter to ensure that vessels are not delayed.

2) Trafigura Claim.

A number of points are raised in this section.

My letters to Catoni-Persa (dd May 26th 1997) and to J J Stephanides (dd 27 May 1997) address the issue of Saybolt working jointly for buyer as well as UN. It is a moot point whether Catoni-Persa working independently for the buyer creates a "conflict of interest", and captioned letter to J J Stephanides also advises that (in contradiction to the statement by the UN Auditor that acting as agent for the seller and buyer is not consistent with normal commercial practices) this is indeed a normal commercial practice.

If required we could furnish evidence of this procedure for perusal by means of commercial sale/purchase confirmations, between buyer and seller, which clearly mention under the heading inspection:

quality/quantity to be determined by mutually acceptable independent inspectors,
whose findings to be final and binding for both parties, safe fraud or manifest error, costs to be shared 50/50 buyer/seller.

3) Shell International Trading & Shipping - "Nikoloas" loading.

Our previous report to the UN advises the sequence of events regarding this loading.

The question from the UN Auditor seems to revolve around the statement "how a different crude was loaded"?

Our answer is as follows:-

3.1. The Botas terminal was originally designed primarily as a loading terminal.

3.2. There has never been more than one valve separation between

the discharge and the loading line systems, a factor which was noted during initial site visits regarding the metering systems.

3.3. The vessel "Gebze" was discharging, for the account of Tupras, during the initial stages of the loading of "Nikoloas".

3.4. On completion of "Gebze" discharge Botas approached the Saybolt team stating they had observed a 30,000 barrel shortage in received quantity from the vessel, and that they were concerned as to it's eventual destination.

3.5. The Saybolt team initially checked the valves separating the discharge line used for the "Gebze" from the loading line used for the "Nikoloas". The one valve separating the two systems was registering closed on the terminal electronic system but proved to be slightly open owing incomplete seating.

3.6. We then stopped the "Nikoloas" loading, ullaged (measured) the ship's tanks and checked the shore tanks allocated for the UN loading. This exercise revealed that, at that stage, there was a 30,000 barrels apparent gain on the "Nikoloas". The UN team then contacted Rotterdam, and Rotterdam the buyer, advising them of the problem.

3.7. After some deliberation it was decided that the cargo already loaded to the "Nikoloas" should be discharged back to shore, replaced with uncontaminated oil, and eventually to be used in a forthcoming transfer to the Kirrikale refinery.

COMMENT

The Botas terminal was not specifically designed for the use it is being put to. It is a state of disrepair and the UN/Saybolt team acts to its best ability bearing in mind these constraints, as there are no functioning metering systems and the storage tank calibrations are old and unreliable. The agreed format for monitoring loaded volumes is vessel's figures adjusted for VEF and OBQ.

In the case of the "Nikoloas" the UN/Saybolt team carried out their monitoring role and when the problem became apparent, as a result of their intervention, Saybolt took steps to advise all parties to ensure that the "Nikoloas" loading was in line with UN requirements.

Kindest regards,

Peter Boks

Saybolt International B.V. - Rotterdam

Telefax



Fax number receiver : 00 1 212 963 1300
To : United Nations Headquarters, New York
Attention : Mr. Steve Avedon
From : Saybolt International B.V.

Subject : UN Audit reply
Date : October 27, 1997

Dear Steve,

In reply to your fax dated 24 October 1997, we would like to comment as follows;

Which of the two figures is closer to the actual quantity?

In view of the non-functional metering system, it is, as you know our procedure to measure:

1. The storage tanks before and after loading of a cargo (for reference and check).
2. The vessel is measured after loading, whereas the vessel's measurements are adjusted by Vessel's Experience Factor (VEF) and On Board Quantities (OBQ).

The measurements described under point 1. serve as reference and check, and the figures are recorded, and archived, against possible future requirement but owing to the relatively long time span since the storage tanks were independently calibrated the control mechanism described under point 2. is considered the more accurate determination, in the absence of accurate metering facilities, for monitoring purposes.

The difference of 26,851 barrels GSV can in our opinion be attributed to the loading of the T.V. "Hestia Prestige". This vessel arrived in Ceyhan after an extended period in dry dock during which alterations were made to the deck ullage points to allow use of MMC-type measuring apparatus. The vessel's calibration charts, as presented, were not adjusted for this structural alteration.

On completion of loading there was an apparent difference between the vessels figures (by reference to calibration charts) and shore figure, as follows: -

Vessel	986,182 barrels
Shore	958,106 barrels

Which equates to 28,076 barrels or 2.85 %.

How has the difference been adjusted?

After consultations with the UN Oil overseers and local SOMO representatives it was decided not to deviate from the procedure and that on establishment of the outturn of the vessel an adjustment with the client would be made. (Either by volume on a future lifting, or financially.)



This adjustment is in view of the difference (26,851 barrels) over the entire period in our opinion justified.

The adjustment has however as far as we know not yet been made.

Did not the buyers claim refund?

Obviously the buyers are, as a rule not involved in the measurements that are done for reference/check by Saybolt in conjunction with their tasks as UN observers. Moreover the bill of lading is based on the vessel's measurements adjusted by Vessel's Experience Factor (VEF) and On Board Quantities (OBQ).

However in the case of Tv. "Histria Prestige" the buyer has claimed refund, as they noticed consistent with the differences observed in loadport, an outturn loss at the discharge port.

Why difference arose?

Explanation is given earlier.

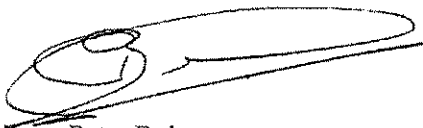
Could Saybolt have prevented this difference?

Separate from the acceptable differences which will always occur, in view of the relatively long time span since the storage tanks were independently calibrated or measurement error's with temperature readings or soundings, the difference in the case of Tv. "Histria Prestige" exceeded the acceptable difference and it was brought to the attention of all parties concerned. Subsequently it was decided not to deviate from the procedure.

It is therefore that Saybolt can not be blamed for this difference.

Steve, I trust this answers the queries, please contact me in case you need some clarification.

Best regards,



Peter Boks

Forward
next
at 9.30.

To: Mr. J. Stephanides
Dy. Director (DPA)
UNHQ/NY
Phone - 3-7878

From: BB Pandit
Team Leader, External Auditor
Room No. C-400
Tele: 963-1353
Fax No. : 212-963-9311

Date: 12nd Oct. 1997

Subject: CHECK OF OIL CONTRACTS

Ref: UNAUDIT/ESCROW/1

TO BE REPLIED: WITHIN 2 DAYS.
NO. OF PAGES :3.

During our test check of records related to sale of Iraqi oil, we noted that in all 51 contracts (in some contracts repeat loadings effected and separate LOCS opened for each shipment) signed between SONO and various oil companies had been approved by SC Committee 661 in between 12 Dec. 96 and 8 May 97 during the initial 180 days of the programme.

We noted that the general scheme & procedures laid down in UNSCR 986 (1995) for approval of oil contracts including advising SC Committee 661 on the pricing mechanism were in place as also reported by the Secretary General in his report of 2 June 97 to the Security Council.

Pursuant to the SCR 986 (1995) the sum of proceeds from sale of Iraqi oil including financial and other transactions directly related to it was not to exceed a total of one billion United States Dollars 90 days and this provision was to remain in force for an initial period of 180 days. Pipe line tariff charges for the transport of Iraqi petrol and petroleum products in Turkey were covered by sale of an additional amount of oil.

we note from accounts that the total proceeds from sale of Iraqi oil during initial 180 days period amounted to 2.011 Billion US\$ and the proceeds from sale of additional oil to meet pipe line fee amounted to 138 million US\$.

The pricing mechanism is related to the crude and the destination and is adjusted up or down during the period of contract in the same direction and magnitude cent for cent per barrel as the changes in the published price for Arab light Crude Oil as announced by the producer applicable for the same destination and month of loading. The prices are related to the quotations as published in the PLATTS Crude oil Marketwire.

21

We noted in the test check that there was by and large no inconsistency in the pricing mechanism.

As per Article 6 of Section one of the sale contract the LOC is to be established, confirmed and accepted at least seven days prior to loading date. We noted that this requirement had not been observed in all cases. In response to our observation we were informed that no loading had been permitted without a confirmed LOC.

During our discussion with the officers of the SOMO at Bagdad, they were critical of the LOC procedures. Their analysis had revealed that 80 per cent delays in shipments of oil were due to delay in confirmation of LOCs.

We feel that time is the essence of this provision. We recommend that the LOCs be established, confirmed and accepted at least seven days prior to loading date in accordance with the provisions of the sale contract.

We were informed that two claims, details here below, had been made against SOMO.

Claim of Trafigura Ltd. - LC # 705531

The loading of the above vessel at Cayhan was completed on 26 March 97 for the account of Trafigura Beheer BV, Amsterdam against Contract # M/01/13 and LC # L705531. In the absence of metering system the vessel figure of 986,182 Barrals was taken as loaded quantity and invoiced by SOMO. Vessel quantity on arrival at port of destination was reported as 990,153 barrels. Trafigura Ltd., however, claimed to have been overcharged by 28,000 barrels approx. valuing US\$ 1,000,000.

We note that the Treasurer had on 18 April 97 suggested reservation of US\$ 1,000,000 till the claim was resolved. This had not however been done. We were informed that the inspection agents viz. SAYBOLT had reached an agreement on the exact quantity of oil shifted and therefore, there was no need to reserve funds as suggested earlier.

We note from the oil overseers letters dtd. 25 April 97 that the claim was to be settled by SOMO and Trafigura and feel that till such settlement the reservation of US\$ 1,000,000 should have been made. We recommend that the anticipated liability be provided in accounts.

We further note from the overseer's letter dtd. 25 April 97 that the Inspecting Agents viz. SAYBOLT work at the same time for the UN and the buyer. While giving their views, the Legal Division opined on 16 May 97 that for SAYBOLT to act as Inspection Agent for both the UN and the purchaser creates a conflict of interest which cannot be permitted. This was more important as the contract with SAYBOLT, SCR 986 and the MOU described the Inspection Agents as 'independent' and representing the purchaser violates that status. They further considered that such activities contravened the provisions of the

general terms and conditions of contract which requires the contractor to refrain from any action which may adversely affect the UN and to fulfil its commitments with the fullest regard to the interest of the UN. the Legal Division had further recommended to get a written confirmation from Saybolt that they would comply with the requirement of not representing purchasers.

We may be informed of the action taken by the UN Sectt. in this regard.

To our understading also, action of Saybolt to act as an agent for both the seller and the buyer is not consistent with the normal commercial practice.

2. Shell International Trading and Shipping Co. - Mikoloas loading at Ceyhan

We were informed that the loading of containated Cargo belonging to Turkish State Oil Co. (TUPRAS) was noticed by the buyer during the course of loading in March 97. Nearly full cargo load had to be pumped back ashore and the vessel reloaded. This involved additional time and use of additional bunkers throughout the pumping operation. For the detention of vessel at the loading port the buyer had lodged on 9 May 97 a claim of 90,473 US\$ with the UN. We note from the Oil Overseer's letter dated 28 May 97 that the claim was not entertained by the UN, not being a party to the oil sales. The company was however, advised to address the claim to the seller.

In view of the responsibilities of SAYBOLT mentioned in Article 4 of the contract between the UN and the SAYBOLT, they are required to monitor the export of Iraqi oil.

We fail to understand how a different crude was loaded with the Inspection Agents stationed to monitor on site the movement of oil. This may be clarified to us.

File No : A:\obj12.wpd

g)

" RESEA " INVESTIGATIONS

APR/AUG 2001

Section 1 - Summary

Subject: "Exeter" loading investigations
Dates: May 16th, 2001 and August 27th, 2001
Location: Mina al-Bakr, Persian Gulf
Description: Actions taken

December 20th, 2001

Core Labs Administration
U.S. Headquarters,
6316 Windfern – 77040
Houston
Texas
U.S.A.

FAO: Kinga Doris – Assistant General Counsel

RE: T V “Essex”

Dear Kinga,

As per our telephone conversation of yesterday, regarding the matter of the vessel t.v. “Essex”, please find attached copies of documents from the working file held in Rotterdam.

Should you need any assistance on the identification of any of these documents please feel free to call me. I am normally based out of the Saybolt Crude Division in London, but will be traveling in Iraq during the earlier parts of January, 2002.

Kindest regards,

Graham Brett

cc Peter Boks, Saybolt, Rotterdam



Graham Brett
11/23/2001 04:49 PM

To: NB12@Saybolt, NB13@Saybolt
cc: Peter Boks@Saybolt, richard_barnes@saybolt.com, Marinus
Jansen@Saybolt
Subject: REVISED DAILY REPORTING PROCEDURES - CEYHAN & MINA
AL-BAKR

Gentlemen,

You will no doubt all be aware of the alleged illegal loadings from Mina al-Bakr involving the vessel "Essex", and the revised procedures that have been instituted at both Ceyhan and Mina al-Bakr to prevent the possibility of such occurrences in the future.

Bearing in mind that the Saybolt monitoring operations at Ceyhan and Mina al-Bakr are under the closest scrutiny from the United Nations, it is particularly disappointing to have to advise you that the quality of reporting to this office and to the UN Oil Overseers has, of late, significantly deteriorated.

Examples, in no particular order of merit, are:

- 1) Time logs with no completion, or sailing, times
- 2) Sailing wires with incorrect Bill of Lading dates, and incorrect notification of barrels loaded. The Office of the Iraq Program of the United Nations has written to Saybolt on this matter.

I do not have to labour the point that this level of performance is unacceptable.

We are a professional company appointed by a major humanitarian concern to carry out an important task. If we are not seen to act professionally, especially so soon after alleged illegal activities have taken place under our very noses, then we will all suffer the consequences.

In our monitoring function we are the "eyes and ears" of the United Nations, and the quality and content of our reporting function is the only benchmark by which the United Nations can judge our performance. Once discredited, confidence is hard to rebuild.

Since the inception of the "Oil for Food" program in late 1996 Saybolt has done a tremendous amount of good work. Unfortunately it is only our mistakes that are noticed, and of late there have been too many. Mistakes and omissions will not be tolerated.

THE FOLLOWING ACTIONS WILL NOW BE TAKEN:

- A) As from receipt of this message, both the Ceyhan and Mina al-Bakr operations will advise, as part of the daily report, comprehensive time

log activities per vessel covering at minimum the following times, split over a number of daily entries as they occur. I expect to see all these times reported; further pertinent details regarding de-ballasting etc can be added as appropriate:

END OF SEA PASSAGE/ARRIVAL AT ANCHORAGE
NOTICE OF READINESS TENDERED
PILOTS ON BOARD
LEFT ANCHORAGE
FIRST LINE ASHORE
ALL FAST BERTH No ?
NOTICE OF READINESS RECEIVED
GANGWAY IN POSITION
FREE PRATIQUE GRANTED
OBQ SURVEY COMPLETED
LOADING ARMS/FLEXES CONNECTED
COMMENCED LOADING
COMPLETED LOADING
LOADING ARMS/HOSES DISCONNECTED
ULLAGES AND SAMPLES COMPLETED
DOCS ON BOARD
VESSEL SAILED

B) As from receipt of this message, the sailing wire to the UN Oil Overseers MUST be counter-checked by at least one other member of the monitoring team before despatch.

C) The sailing wire will now be signed by two members of the Saybolt monitoring team, as follows:

- C.1) The inspector who prepares it, and,
- C.2) The inspector who checks it.

D) Whenever you have a problem, need advice, or require guidance on anymatter, call.

I, or Peter Boks, are always available; we need to know about, and react to, problems BEFORE they happen, rather than after.

For the record, my contact numbers are:

Office 44-207-222-0171
Mobile 31-653-975896
Home 44-1707-271794
E-mail

graham.brett@saybolt.nl

We have an important job to do, and we must all ensure we work together as a team to provide the level of professional service expected of us.

Thank you,

Graham Brett

If you are satisfied with our services do tell others. If you are NOT satisfied,

please do tell us:
<http://www.saybolt.com/complaint.nsf/>

All our activities are carried out under our general terms and conditions and in accordance with our code of practice. The general conditions can be consulted at <http://www.Saybolt.com/>, and will be sent upon request free of charge.

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Nov 22, 2001

You will no doubt all be aware of the alleged illegal loadings from Mina al-Bakr involving the vessel "Essex", and the revised procedures that have been instituted at both Ceyhan and Mina al-Bakr to prevent the possibility of such occurrences in the future.

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ALL FAST BERTH No ?
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FREE PRATIQUE GRANTED
OBQ SURVEY COMPLETED
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COMPLETED LOADING
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ULLAGES AND SAMPLES COMPLETED
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VESSEL SAILED

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D) Whenever you have a problem, need advice, or require guidance on any matter, call. I, or Peter Boks, are always available; we need to know about, and react to, problems BEFORE they happen, rather than after.

For the record, my contact numbers are:

Office	44-207-222-0171
Mobile	31-653-975896
Home	44-1707-271794
E-mail	graham_brett@saybolt.nl

We have an important job to do, and we must all ensure we work together as a team to provide the level of professional service expected of us.

Thank you,

Graham Brett



Peter Boks/Saybolt/NL
02/18/2002 04:45 PM

To saybolt_portugal@ip.pt
cc Graham Brett/Saybolt/NL@Saybolt
bcc
Subject Mr. Armando Oliveira

Dear Jorge,

Unfortunately, we have to discontinue Mr. Armando Oliveira's participation in the UN Program. Please let me know if you have an alternative candidate.

The reason is a recent error of judgement, which we can not tolerate from a team leader.

I look forward to hearing from you.

Kindest regards,

Peter Boks

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Graham_Brett@saybolt.nl
02/27/2002 05:36 PM

To saybolt_portugal@ip.pt
cc Peter Boks/Saybolt/NL@Saybolt, Richard Barnes@Saybolt
bcc
Subject MESSAGE FROM PETER BOKS

FAO MR JORGE GONCALVES

Dear Jorge,

As per message from Peter Boks regarding Armando ~~Olivera~~, please be advised that the matter to which he refers involves the loading of the vessel "CLOVELY" at Mina al-Bakr. The Letter of Credit approval for this vessel expired before the vessel berthed, and Armando and I discussed this matter after which I talked at some length with the United Nations Oil Overseers in New York, and then sent the message below to Armando. The UN Oil Overseers instructed me that this vessel should not commence loading without the necessary Letter of Credit amendment, and to keep them advised.

I think you will agree that the message is quite unambiguous - it says:

1) The L/C approval for the "CLOVELY" has expired on Feb 13th, 2002, and this vessel may not commence loading until an amendment has been received from the UN Oil Overseers.

The message further says that "if you have any problems, call me".

Nevertheless I came into my office on the following day to find that the vessel "CLOVELY" had commenced loading the morning of Feb 15th. At this time there was no Letter of Credit amendment, and I had not received any call at home.

I therefore called Armando and asked him why the vessel had commenced loading. He stated that SOMO had decided to load the vessel although he had advised them that this was not agreed to by the UN Oil Overseers, and that he had issued a "statement of facts" to SOMO which had been accepted.

I asked him why he had not called me. He said he did not think there was anything I could do about the situation. I asked him on what grounds he felt he could make decisions on behalf of the United Nations. He said he was sorry that he had not called me as instructed.

The situation then required me to call the United Nations Oil Overseers in the middle of their night-time to advise them that, contrary to their specific instructions, the vessel had commenced loading without them being informed.

The amendment to the Letter of Credit was not available until Saturday am CET.

I think further comment would be redundant.

Kindest regards,

Graham Brett

Graham Brett

14/02/2002 17:22
To: NB13@Saybolt
cc: Peter Boks@Saybolt

Subject: L/C's

Dear Armando,

Reference our recent conversation please note that I have discussed the Letter of Credit approvals for the vessels "CLOVELY" and "FRONT CENTURY" with the UN Oil Overseer Alexander Kramar as follows:

1) The L/C approval for the "CLOVELY" has expired on Feb 13th, 2002, and this vessel may not commence loading until an amendment has been received from the UN Oil Overseers.

2) The L/C approval for the "FRONT CENTURY" is valid until Feb 14th, 2002 and if the vessel is load-ready before this approval expires (ie 23:59 hrs Eastern Standard Time and 08:00 hrs local time Iraq) it may commence loading. If the vessel is not ready to commence loading by this time then it will have to await an amendment to the L/C approval.

If you have any problems, please call me at home (my mobile has ceased to function so please call the land-line on 44-1707-271794).

Kindest regards,

Graham Brett

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If you are satisfied with our services do tell others. If you are NOT satisfied, please do tell us:

661 COMMITTEE MEETING
UN NY NOV 5 TO 8TH, 2001
ACTION PLANS

THINGS TO DO:

1. Write/update Saybolt operational procedures for Mina al-Baqr and Ceyhan, based on API Chapter 17 Crude Oil Loading requirements, and factoring in additional requirements resulting from 661 Committee Meetings, for submission to OIP and then 661 Committee, to specifically include:
 - sealing of ship's manifold on completion of UN approved loading volume,
 - inclusion of seal numbers on vessel's Notification Letter, and the checking of seal numbers by UN monitors before vessel sails,
 - re-measurement of vessel if seals visually tampered with on "before sailing" check in conjunction with vessel and SOMO loading master, with advice to UN Oil Overseers if loaded volume increased over original measurements used for Bill of Lading calculations, for further guidance and possible M.I.F. intervention,
 - leaving one man on board after loading to remain on vessel until vessel sails, *↳ preferably two*
 - extra care with vessel's having >100,000 barrels ullage on completion of loading.
2. Prepare Action Plan for submission to OIP, for consideration by the 661 Committee, to include Item 1 points above, and:
 - recommendations for operational, calibrated metering system at Mina al-Bakr, possibly for Bill of Lading calculation purposes,
 - checking of seals prior to discharge,
 - independent outturn certification per parcel of UN approved cargoes
 - *bimonthly briefing to the committee for present periods under review*
3. Tighten up procedures and daily contact with Team Leaders at Mina al-Bakr and Ceyhan, to include twice daily telephone contact and discussion of the handling of vessel's with >100,000 barrels ullage after loading.
4. Team Leaders to advise, verbally and by "e-mail", of any problems encountered during a loading including OBQ and VEF disputes.
5. Arrange audit of Mina al-Baqr (and Ceyhan??) crude oil loading operations. In retrospect, possibly better carried out by Kees Paardekooper (or his new replacement)?

Quarterly.

↓
John Frost

6. *Arrange two sessions in which team members will be briefed.*

Review of staffing levels

Section 2 - Summary

Subject: "Exeter" loading investigations
Dates: May 16th, 2001 and August 27th, 2001
Location: Mina al-Bakr, Persian Gulf
Description: Legal papers and correspondence



Peter Boks

02/26/2003 03:40 PM

To: sevan@un.org

CC:

Subject: Tv. "Essex"

Dear Benon,

Just to advise you that two investigators visited our offices regarding the illegal crude oil loadings from Mina Al Bakr in 2001. Apart from an interview they laid claim to the following documents:

- Our Report on the alleged loadings of Crude Oil from Mina Al Bakr outside the UN Oil for Food Programme dated October 17, 2001
- four photograph's from Mina Al Bakr
- two maps of the region
- a copy of our time sheet and ullage report of the loading dated 16 May 2001

From the discussions, it became clear that Saybolt is not suspect and that they are still investigating whether Trafigura will face criminal prosecution.

Kindest regards,

Peter

25/2/2003

ECD De heer Boer
M. v/d Lans.

Tv. "Esseo"

Documenten. overzicht soc.
MAB

4 photos MAB

time sheet 1/4 beleding

Rapport aan de VN.

Uitlage report.

overzicht kaartje

memory. Our stance towards this legislation is very much fashioned by recent experience. We will do better for the future because we believe in a better system of economic policy—not only for the ethanol industry but for every single industry and company in this country that wants to do things the right, fair and decent way.

Mrs HULL (Riverina) (11.47 a.m.)—I have sat here and been accused of a whole host of measures by the member for Werriwa concerning, certainly, my election campaigns. I find the attack and the personal approach of the member for Werriwa in this debate on the Energy Grants (Cleaner Fuels) Scheme Bill 2003 and the Energy Grants (Cleaner Fuels) Scheme (Consequential Amendments) Bill 2003 to be quite outstanding. It is just incredible to hear the member for Werriwa speak of this company, Trafigura, as being a small business. Trafigura is not a small business. Trafigura is not in a small country town.

I will never walk away from defending small businesses and their rights in employment in country areas. The member for Werriwa consistently moves on with his economic rationalism, his economic pathway to reform and his competition policies and process that only ever benefit city jobs. The only people who benefit from economic rationalism and from economic pathways to reform are those with jobs in the city. There are more city jobs and fewer country jobs. It is there. It is documented. The only people who are losers are the people whom I represent. I will never stand back or move away from supporting those people who live and work in country New South Wales and country Australia.

The member for Werriwa continually indicated that Trafigura is a small business and that, following McEwenism, the National Party came in and took away the rights of the

small business. I have an excerpt from the *Wall Street Journal* web site that indicates that we had some significant difficulties with the food for oil program and some difficulties with Iraq gaining an illegal \$9 million by sneaking thousands of barrels of oil past UN inspectors at an oil platform off the coast of Iraq. In speaking about this process and the oil tanker named the *Essex*, the article states:

The *Essex* was chartered by Trafigura Beheer BV, a Dutch-based oil trading company with major operations in London. Trafigura had purchased its oil from a middleman, Ibex Energy France, which in turn had bought it from SOMO, the Iraqi government's oil monopoly. The entire cargo was eventually sold to U.S. refiners.

This article indicates that, in a sworn affidavit in a lawsuit between the two companies in the British High Court of Justice, Ibex's general manager said that Trafigura and Ibex split the proceeds 60-40, with Trafigura getting roughly \$383,000. In his affidavit, the same gentleman said:

... the scheme was cooked up by Trafigura to make up for an earlier loss on an Iraqi oil deal that fell through in 1999.

We could go on. There is more. But I do not want to waste the time of the House in dealing with allegations from the *Wall Street Journal* web site. I merely want to say that the portrayal of this company as a small business and the attack on me as representing small business does not equate to the facts. I will not say 'the truth', because that is generally the opposition's call—to call for truth. I just say that they are not generally the facts and that the member for Werriwa has utilised parliamentary privilege in here this morning to ensure that he could stand there and indicate that which was not fact. Not only that, he also smeared and slurred National Party people—great National Party people—from earlier times.

Today I want to speak about the Energy Grants (Cleaner Fuels) Scheme Bill 2003.

CHAMBER

MONITORING OF CRUDE OIL EXPORTS FROM IRAQ

The measurement of crude and refined petroleum product volumes and weights is carried out internationally to recognized published standards resulting in uniform reporting thus allowing accurate comparison between loaded and discharged volumes for fiscalization and loss control activities.

The standards adopted are those published by various technical committees of experts acting independently under the guidance of non-profit making international standards organizations such as the American Petroleum Institute (API) and the Institute of Petroleum (IP).

The monitoring of crude oil exports from Iraq differs from normal international practices in that:-

1. There are currently no internationally acceptable measurement systems operating in either of the loading facilities involved in the "Oil for Food" contract; the exported quantities are therefore ascertained by reference to the loading vessel's calibration charts.
2. The monitoring role requires that all crude oil exported from Iraq under the "Oil for Food" program is fully accounted for, and that no diversion of the oil from this intended use can be made.

LOADING TERMINALS.

Crude Oil Exports from Iraq are currently delivered to sea-going vessels from either the Ceyhan Tank Farm in Turkey, at the end of the Iraq/Turkey pipeline (ITP), or from the Mina Al-Bakr oil terminal at the head of the Gulf and are reported to the UN Overseers on a ship-by-ship basis.

LOADED VOLUMES.

The volume delivered at each loading is calculated by reference to the vessels calibration charts adjusted for any volume of oil and water ascertained on board prior to loading (the OBQ figure) and the vessels experience factor (VEF). This system, as previously agreed with the Iraqi authorities, is required as there are no accurate and "in calibration" metering systems operating at Ceyhan or Mina Al-Bakr, or accurate tank calibration charts at Ceyhan.

DELIVERIES FROM IRAQ.

Deliveries from Iraq to Turkey, via the ITP, are monitored out of Iraq via the MS-1 metering station at Zakho, and into the Ceyhan Tank Farm, Turkey, and reported to the UN Overseers on a 24 hr basis.

REPORTING PROCEDURES

All loadings to vessels are monitored by Saybolt staff at both installations, and a full loading report is issued to the UN Overseers from the Saybolt Rotterdam office, who monitor and collect all oil measurement and movement data, reporting direct to the UN Overseers both by Fax and electronically by the UN Database which is updated automatically every 12 hrs.

1. CEYHAN

Storage Tanks

There are 12 tanks in the terminal available for receiving and delivering of crude oil with a capacity of approximately 780,000 US Barrels each; at the moment tank D-602 is out of order. Maximum usable capacity is currently 7,480,000 US Barrels

Measurement

The storage tanks have Enraf level indication (automatic tank gauging system) but it is unreliable and is not acceptable for calculation of vessel's loaded quantities, or for quantities delivered by the ITP from Iraq. All such measurements are therefore effected by hand measurement.

The metering system is not functioning, although the meter provers have been recalibrated at the commencement of the "Oil for Food" program.

Loading facilities

There is one jetty with four loading platforms for vessels from 25,000 Mt. to 300,000 Mt.

There are 3 segregated lines for loading from the terminal and one line for discharging into Tupras Terminal, and the discharge of ballast.

The in-line sampling apparatus is not efficient, and needs replacing. Manual line samples are therefore drawn by the Saybolt inspector every 10% of the loading, for quality analysis,

Quantification of oil received from Iraq via the ITP.

Every 24 hours a comparison is made between the Enraf (auto-gauge) figures and those advised from MS-1 on the border of Iraq.

Both manual measurements and temperatures of the shore tanks are recorded before and after receiving from the ITP, and volumes ascertained calculated to Gross Standard Volumes.

A comparison of received quantity c.f. the MS-1 measured quantity is made on both a daily and monthly basis. Any unusual discrepancies are investigated and resolved.

Loading of vessels

Prior to commencement of loading, Saybolt ensures - in conjunction with the UN Overseers in New York - that for each cargo there is written evidence of a current contract between the buyer and SOMO; there is a Letter of Credit in place (approved by the Overseers); and that the volume to be loaded is fully covered by the Letter of

Credit.

After berthing the vessel is inspected and any residues of previous cargoes left on board - the "OBQ" quantity (either oil or water) - is determined by the Saybolt inspector.

The Vessel Experience Factor (VEF) is agreed with the master of the vessel and is used for calculating the Bill of Lading figures.

The nominated shore tanks will be manually measured and manual temperatures taken, for comparison only.

The in-line sample container will be inspected for cleanliness.

After loading the vessel will be manually measured and temperatures taken.

The in-line sample will be collected and analyzed by the Saybolt team. The Relative Density will be used for calculation of the Bill of Lading Figures; gross and net figures are calculated.

The utilized shore tanks will be manually measured and manual temperatures taken for comparison only.

The Bill of Lading figures will be calculated taking into account the OBQ and VEF measurements, and after comparison with the shore tank figures, advised to the Iraq personnel present at Ceyhan.

Pipeline transfer to Kirrikale Refinery, Ankara:-

The same process occurs except that the oil is transferred to the Kirrikale Refinery rather than loaded in to a vessel

2. MINA AL-BAKR

Mina al Bakr is located about 50 km out sea from the Port of Al Fao. It is a steel structure about 1000 meters long.

The Terminal consists of two loading platforms with two berths per platform inter-linked with mooring platforms, generator platforms and an accommodation block. At the northern end is the platform supporting the accommodation block and at the southern is the platform supporting a Helicopter landing pad.

The Main Loading platforms support all crude oil pipes, meter skids, chiksan loading arms, independent control rooms and emergency generators. Platform A is the northernmost platform.

Berth numbers 1 and 2 are located at Platform A, berths 3 and 4 are located at Platform B. Berth No. 3 is designed to accommodate the larger ships up to 300,000 deadweight

tons plus and berths 1, 2 and 4 can accommodate ships up to 250,000 deadweight tons.

In between the loading platforms are other platforms for Main Generators and for mooring dolphins. There are two generator platforms with two diesel-powered generators per platform. The total number of platforms making up the terminal is 12.

The Terminal was commissioned in 1972. It was destroyed during the Iran/Iraq war during the eighties. At the end of this war the accommodation block and Loading Platform A were rebuilt by international contractors, however, during the 1991 war both were again destroyed. Since the 1991 war the terminal has been completely rebuilt by Iraqi labor only. Construction materials, pipes and equipment have come mainly from the resources of the South Oil Company. These resources have been extremely limited and there is still a lot evidence remaining of the war damage.

There are two 48-inch diameters Crude Oil Sea Lines from Al Fao that extend to the terminal. A 48-inch diameter branch line from each sea line is connected to each loading platform.

Loading arrangements.

On Each Loading platform are two berths, equipped with four 16-inch diameter steel hydraulically operated chiksan loading arms.

Metering. The Meter Skid on platform A consists of Turbine meters with local and remote readout. The Meter Skid on Platform B consists of P/D meters with local and remote readout. There are prover loops fitted at each platform.

Sampling. Berth No. 4. On platform B has a 'Welker' automatic sampling device. This device is old and relies only upon pre-set grab settings and therefore is not accurate when loading rates are fluctuating as much as they do on this terminal. It is not time/rate/flow proportional. There are no automatic sampling devices at any other berth. Sampling each shipment is carried out by drawing from a sampling pipe on the main Crude line at each berth at pre-determined intervals. It has been considered that under the present circumstances and conditions that this is the only way a representative shore sample may be obtained but this is far from ideal or accurate.

Bills of Lading and Cargo Documents.

Calculations are based upon the ships measurements of quantity of crude oil loaded, less any volumes found on board before loading (OBQ), the resultant standard volume then has the Vessel Experience Factor (VEF) applied. For calculation purposes ASTM tables 24A and 29 are used for volume and weight determination.

3. ZAKHO.

The Zakho metering station is situated close to the border between Northern Iraq and Turkey and is therefore entirely suited as being the point at which the exported volumes from Iraq are ascertained. There are two pipelines that run from Iraq into Turkey, one (40") is currently in use, the second (46") is not used and has no current metering facilities in operation.

40" Kirkuk Crude Oil Metering Station

Three of the four crude oil meters/flow computer combinations are operational and functioning. The fourth flow meter/computer combination and summator (Danscan - which is faulty) cannot be used owing to lack of spare parts and this system is currently mechanically isolated from the pipeline flow.

The original telecommunications and data acquisition system (SCADA) which had been designed to communicate data and safeguard the installations between the metering station MS-1, IT1/2 Pump stations/tank farms and Ceyhan in Turkey have been destroyed. Operators at MS-1 are working blind with no pumping/pressure data with respect to up/downstream pumping operations and have only one unreliable/inaudible telephone link. The 40" pipeline flow capacities at this moment have been also de-rated (32 bar minus 30%) due to pipeline leakages at design operational pressures (52 bar).

46" Kirkuk / Basrah Crude Oil Metering Station

The metering station is mechanically isolated (spaded off) from the main pipeline and is non-operational. It is presently being repaired and prepared for future use together with the 40" pipeline to Ceyhan.

Metering Operations.

All meters are read once every hour, and collated into twelve-hour batches. Every 24 hrs (i.e. two batches) a comparison is made with the received quantity in Ceyhan. All data is recorded locally both in hard copy and electronically, and sent to Rotterdam on a 24 hr basis.

As a further back up (in case of catastrophic meter failure) the storage tanks at IT1-A (where the oil for transfer to Turkey is bulked prior to transfer) are gauged every 12 hrs and volumes calculated by reference to their calibration charts. This volume is then compared to the metered volume over MS-1.

The metered volumes recorded at MS-1, and the received volumes in Ceyhan, both daily and cumulatively per program, are reported electronically to the UN Overseers on a daily basis.

Report on alleged loadings of Crude Oil from Mina Al Bakr outside the United Nations Oil for Food Program.

Preamble

On 9 October 2001, the United Nations Oil Overseers received a letter from a Mr. Chiladakis Theofanis. Mr. Theofanis was the Master of TV "Essex" which has frequently loaded Basra Light Crude Oil at Mina al-Bakr.

According to Mr. Theofanis, there have been two occasions whereby after completion of the UN approved loading operation, and after the UN Inspectors left the vessel, additional volumes were loaded on board the vessel. Mr. Theofanis enclosed with his letter supporting evidence.

The Loading Platform at Mina al-Bakr

Mina al Bakr is located in the Persian Gulf about 50 km offshore from the Port of Al Fao. It is a steel structure about 1000 meters long. The Terminal consists of two loading platforms with two berths per platform inter-linked with mooring platforms, generator platforms and an accommodation block. At the northern end is the platform supporting the accommodation block and at the southern is the platform supporting a Helicopter landing pad.

The Main Loading platforms support all crude oil pipes, meter skids, chiksan loading arms, independent control rooms and emergency generators. Platform A is the northernmost platform.

Berth numbers 1 and 2 are located at Platform A, berths 3 and 4 are located at Platform B. Berth No. 3 is designed to accommodate the larger ships up to 300,000 deadweight tons plus and berths 1, 2 and 4 can accommodate ships up to 250,000 deadweight tons.

In between the loading platforms are other platforms for Main Generators and for mooring dolphins. There are two generator platforms with two diesel-powered generators per platform. The total number of platforms making up the terminal is 12.

The Terminal was commissioned in 1972. It was destroyed during the Iran/Iraq war during the eighties. At the end of this war the accommodation block and Loading Platform A were rebuilt by international contractors, however, during the 1991 war both were again destroyed. Since the 1991 war the terminal has been completely rebuilt by Iraqi labour only. Construction materials, pipes and equipment have come mainly from the

the terminal manager, and a Bill of Lading for the amount of US Barrels 1,799,735 or gross metric tonnes 247,851.254 was presented by the Mina al-Bakr terminal and signed by the Master. The same quantities were reported by the UN monitors to the UN Oil Overseers.

After the completion of this loading, and all documents were signed and the UN monitors had left the vessel, loading was resumed after one hour without informing the UN monitors. The vessel loaded an additional 229,756 barrels, after which the vessels tanks were re-measured. The revised ullage report was signed by the master and the terminal representative, and a second Bill of Lading was issued by the terminal covering the additional quantity, which was signed by the Master. By comparison with the "official" Bill of Lading this document can be seen to be prepared with a different font/type-face and has no SOMO logo. Another document entitled "Total Quantity on Board", verifying the additional quantity loaded on top of the initial quantity which was allowed by the Letter of Credit approved by the United Nations, was signed by the terminal representative and the representative of Falcon Navigation, the Greek representative of Trafigura who was aboard the vessel at that time.

The vessel then proceeded to the East Coast, USA, where part of the cargo was discharged at the Loop, and the balance at South Sabine. On arrival at the Loop the vessel's cargo tanks were measured by the charterer's cargo inspector and the receivers cargo inspector who confirmed the cargo on board to be 2,034,358 barrels or some 234,623 gross barrels in excess of the volume measured in the vessels tanks by the United Nations monitors at Mina al-Bakr on completion of the loading.

2. 2nd Loading

Vessel was fixed by Trafigura to load 1,800,000 barrels Basrah Light at Mina al-Bakr terminal. The same procedure as the first loading was followed. On completion of the loading, the volume of oil was measured in the normal way by the vessel, the terminal manager and the UN monitors. The vessel's ullage report was signed by the Master and the terminal manager, and a Bill of Lading for the amount of US Barrels 1,788,820 or gross metric tonnes 246,475.319 was presented by the Mina al-Bakr terminal and signed by the Master. The same quantities were reported by the UN monitors to the UN Oil Overseers.

After the completion of this loading, and all documents were signed and the UN monitors had left the vessel, loading was resumed after one hour without informing the UN monitors. The vessel loaded an additional 271,884 barrels, after which the vessels tanks were re-measured. The revised ullage report was signed by the master and the terminal representative, and a second Bill of Lading was issued by the terminal covering the additional quantity, which was signed by the Master. Another

document entitled "Total Quantity on Board", verifying the additional quantity loaded on top of the initial quantity which was allowed by the Letter of Credit approved by the United Nations, was signed by the terminal representative and the representative of Falcon Navigation, the Greek representative of Trafigura who was aboard the vessel at that time.

The vessel is scheduled to discharge the cargo at South Sabine, US Gulf Coast on, or about, October 14th, 2001.

The Master of the vessel at the time of both the above loadings has submitted to the United Nations Oil Overseers copies of all relevant documents.

The Facts

1st Loading

This loading was covered by the United Nations Oil Overseers Letter of Credit Approval dd May 7th, 2001 confirming a Letter of Credit (BNP Ref No D727182) for Euro 38,500,000 to be issued on behalf of Ibex Energy France against Contract No M/09/81 for 1,800,000 barrels +/- 5% of Basrah Light Crude Oil to USA on MT "Essex" or sub with latest shipment date of May 25th, 2001.

The vessel berthed on Berth No 1 at Mina al-Bakr, commenced loading at 17:45 hrs 13/05/01 and completed loading at 01:50 hrs 16/05/01 and the flexible hoses (chiksan arms) were disconnected at 02:10 hrs 16/05/01.

Measurement of vessels tanks and subsequent calculations were completed at 04:00 hrs 16/05/01, and loaded volumes submitted to the SOMO shipping office at 06:00 hrs 16/05/01. The vessel subsequently sailed at 19:00 hrs 16/05/01.

At no time after the completion of the loading of the volume approved by the United Nations Oil Overseers were the United Nations monitors advised by the terminal that a further loading was contemplated.

2nd Loading

This loading was initially covered by the United Nations Oil Overseers Letter of Credit Approval dd July 24th, 2001 confirming a Letter of Credit (BNP Ref No D729174) for Euro 46,000,000 to be issued on behalf of Ibex Energy France against Contract No M/10/08 for 2,000,000 barrels +/- 5% of Basrah Light Crude Oil to USA on MT "Stena Companion" or sub with latest shipment date of July 26th, 2001.

This was later amended as per Amendment No 2 dd August 20th, 2001 changing the number of barrels to be shipped from 2,000,000 to 1,800,000, changing the name of the vessel from "Stena Companion"/sub to "Essex"/sub and extending the validity date to October 13th 2001 and the latest shipment date to August 30th, 2001.

The vessel berthed on Berth No 1 at Mina al-Bakr, commenced loading at 15:00 hrs 25/08/01 and completed loading at 19:20 hrs 27/08/01 and the flexible hoses (chic-san arms) were disconnected at 19:50 hrs 27/08/01.

Measurement of vessels tanks and subsequent calculations were completed at 22:00 hrs 27/08/01, and loaded volumes submitted to the SOMO shipping office at 24:00 hrs 27/08/01. The vessel subsequently sailed at 11:00 hrs 28/05/01.

At no time after the completion of the loading of the volume approved by the United Nations Oil Overseers were the United Nations monitors advised by the terminal that a further loading was contemplated.

Remarks

It is not uncommon that on completion of a loading the vessel remains on the berth alongside the terminal (sometimes with the hoses still connected) for the following reasons:

- The vessel is waiting for the next high tide before sailing,
- The pilots and/or tug-boats are not available (these craft are used for staff transfer to and from shore)
- The weather conditions, especially strong winds, are such that the pilots will not move heavily laden vessels.
- Malfunction of the hydraulic systems, may require manual operation to disconnect the loading arms.

The subsequent investigation

In order to thoroughly investigate the allegations made by the Master of the vessel "Essex" on both the loadings reported above, the Team Leader who was present at both loadings, and who is a Saybolt employee for 6 years, previously Petrogal loading master for 16 years) was flown to the Saybolt Head Office in Rotterdam.

He confirmed that the standard Saybolt procedures for the calculation of volume loaded to vessels under the Oil for Food Program was applied in both cases, and that nothing untoward was noted during the procedures. The actual tank measurements on the first loading of the "Essex" were carried out by one of the Saybolt inspectors and the measurements and

calculations on the second loading were carried out by the Team Leader himself.

It is normal practice that on completion of measurements and calculations the monitor returns to the Saybolt office (in the accommodation module and facing due North) to complete the calculations which are then passed on to the SOMO representative for the Bill of Lading preparation; and to prepare the official "Notification" document which is then returned to the vessel where the Master signs for receipt.

The Team Leader added that, as is the case on Mina al-Bakr (and indeed most off-shore loading platforms) he had met with Captain Chiladakis Theofanis over dinner on more than one occasion and noted that he was a steady, middle-aged man who smoked a pipe. On the second loading he did not appear nervous but commented that this was his last trip and that he was looking forward to his forthcoming retirement after completing the voyage in question. At no time did the Team Leader meet with, or was introduced to, a representative of Falcon Navigation.

The Team Leader was closely questioned as to how, on two separate occasions, the loading hoses had been re-connected to the TV "Essex" and several hundred thousand barrels of oil loaded without the United Nations monitors noticing these events. The team Leader, who was visibly shocked by the events as described to him, answered that on completion of their monitoring duties the Saybolt staff tended to remain within the accommodation module as the external temperatures at that time of the year (May 37-42oC, August 42-46oC both with 100% humidity) were such that any outside activity meant severe discomfort, and was therefore avoided. The monitoring staff tends to keep to themselves within the accommodation module, and rarely venture outside unless there is a vessel to be attended.

The Team Leader confirmed that a loading could take place without the monitors hearing as one needed to be within a few feet from the incoming sea-lines to hear/feel the vibration of the moving oil. At this point there are also thermometers recording the temperature of the incoming oil, which are easily visible and would show a high reading if oil was flowing. The Saybolt office and the majority of the monitors accommodation faces North and therefore there is no "line of sight" to the berths; the Team Leader's accommodation, below which is the Saybolt mess room, is on the East side of the accommodation module but the view to Berth No 1 is limited by the window construction (the mess room is set back on a floor below the accommodation) there is no "line of sight" to the centre of the vessel where line re-connection would be noted.

In his professional opinion, the Team Leader considered that the alleged volume of oil loaded to the TV "Essex" after the official loading on both occasions would, under normal circumstances, take 5 to 7 hours but could

have been accomplished within 3 to 4 hours, but was astonished at the potential risks taken by those parties involved in that it would only have taken one monitor to walk down the platform to witness the operation taking place. Additionally such an operation would require the positive involvement of shore personnel to stop and start the pumps to deliver the oil and to ensure the availability of oil, terminal staff to connect and disconnect the loading arms, re-measure the vessel after the additional loading and prepare the documentation; and the positive involvement of both officers and crew on the vessel.

Finally the Team Leader confirmed that the United Nations Monitoring personnel present on Mina al-Bakr during both events were all responsible and hard-working staff with no evidence of any personal problems whatsoever.

Resumption of loading would therefore only be noticed by the United Nations monitors if there was occasion to walk South along the platform towards the 4 berths and the helicopter pad at the South end. This would only be required if a vessel was berthing or completing loading, or at the specific request of SOMO.

The choice of when to carry out such an additional loading – when there is no other activity on the platform requiring the presence of the United Nations monitors - would therefore be of paramount importance, to which would also apply a number of other factors including:

- A vessel on which the officers and crew were willing to become involved in an illegal activity, and which would have sufficient capacity to load a significant extra volume of oil after loading the official UN approved volume without exceeding the limited draft availability at Mina al-Bakr,
- A buyer in the chain of sale that was capable of arranging such an illegal activity with the supplier, and had the capacity to sell the extra oil and – presumably – obtain payment and distribute the proceeds,
- The implicit involvement of the supplier, both on the platform and on shore,
- The availability of Berth No 1 (used in both loadings in question) as this was the berth least likely to be overlooked from the accommodation module by the United Nations monitors.

An investigation into the berthing situation at Mina al-Bakr either side of the two loadings reveals that on the first loading the “Berge Borg” sailed at 15:30 hrs on May 15th, 2001 after which the “Essex” continued loading until completion of the official parcel loading at 01:50 hrs on May 16th, 2001. At this time there were no other vessels berthed, and 3 vessels on the anchorage as follows:

- a) "Kraka" arrived 01:50 hrs May 14th, 2001
- b) "Astro Beta" arrived 10:00 hrs May 14th, 2001 and confirmed by SOMO
- c) "Skopelos" arrived 17:30 hrs may 15th, 2001 and confirmed by SOMO

Normal SOMO procedure would be to berth vessels in laycan rotation; following this there were attempts to berth the "Astro Beta" during the day of May 16th, 2001 which failed as a result of very strong winds; berthing of this vessel was also cancelled during the day of May 17th, 2001.

As a result of the above, we may conclude that it was a deliberate decision to delay berthing of the "Astro Beta" to make certain that chances of Saybolt staff attending the platform's were minimised.

The second loading of the TV "Essex" commenced on Berth No 1 at 15:00 hrs on August 25th, 2001 at which time the "Settebello" was loading on Berth No 3. The "Settebello" completed loading at 22:55 hrs on August 26th, 2001 and sailed at 11:30 hrs on August 27th, 2001. In the meantime the "Barao de Maua" had berthed on Berth No 4 at 06:35 hrs on August 27th, 2001 and the tanks were inspected at 08:00 hrs August 27th, 2001 but the loading arms were not connected as SOMO stated they were waiting for the laycan to commence. The loading arms were connected at 11:45 hrs on August 28th, 2001 and loading commenced at 11:45 hrs August 28th, 2001.

The loading of the "Essex" completed at 19:20 hrs on August 27th, 2001 meaning that from this time until the time she sailed at 11:00 hrs on August 28th, 2001 no monitors were required on the platform as the hoses were not connected to the "Barao de Maua" until 11:45 hrs on August 28th, 2001.

Also here, we may conclude that it was a deliberate action, all the more as we have noticed that initially the TV. "Stena Companion" was nominated to load 2,000,000 bbls +/- 5 % under the contract #M/10/08 (nomination was dated 24 July 2001) and on 20 August 2001 the nomination was changed in 1,800,000 bbls to be loaded on Tv. "Essex".

The implications on other loadings

For the purposes of this investigation it was considered necessary to review all loadings from Mina al-Bakr during Phase 9, and Phase 10 to date. These two periods were chosen as they coincide with the heightening of tension surrounding the loadings exemplified by the issue of port charges, extra payments outwith the Oil for Food program direct to the supplier and the issue of bi-monthly pricing (OSP) policy.

All loadings during these two Phases were therefore investigated and the results are summarised on the attached spreadsheet.

For each vessel we calculated (where published) the difference between the published 95% loading volume capability, and the volume of oil actually

loaded. Loadings where sufficient space to load more than 100,000 extra barrels was available were highlighted (any volume below this being considered not worth the risk involved).

For each of these vessels we considered the draft available (the maximum draft available at Mina al-Bakr is 21.00 metres on the top of the tide) and deleted those where the actual sailing draft after the official loading was close to this limit.

We then considered the amount of time available between the end of the official loading and the sailing time and vessels where there was insufficient time to engage in a second loading were deleted; where there was a sufficient "window" (time period) to consider a second loading further loadings were deleted if there was other berthing or completing activity on other berths requiring the physical presence of monitors.

This investigation suggested that it was extremely unlikely that further unapproved loading(s) could have been effected during Phases 9 and 10.

Actions taken since the information on these two unofficial loadings was advised

1. On completion of all loadings at Ceyhan and Mina al-Bakr after the disconnection of the shore-side loading hoses all valves on the vessel at the loading manifold are to be sealed, and the seal numbers noted.
2. The seal numbers are noted on the "Notification" document presented to the vessel before sailing, which is signed by the Master, which should be checked as being intact prior to discharge.
3. If the vessel does not sail immediately on completion of loading and the normal formalities, these seals will be checked before the vessel sails. If found to be broken the vessel will be re-measured and the United Nations Oil Overseers informed accordingly of any significant changes.

Recommendations

In addition to the above actions it is recommended that the United Nations consider making it a requirement of the contract holders submitted by SOMO and approved by the United Nations Oil Overseers that they ensure that no further loadings take place on top of approved cargo volumes and that they undertake to supply documentary evidence of the vessels measurements on arrival at discharge port, and the official shore discharge figures compared to the Bills of Lading issued by SOMO.

APPENDIX No 1

Monitoring of Crude Oil Exports from Iraq

The measurement of crude and refined petroleum product volumes and weights is carried out internationally to recognised published standards resulting in uniform reporting thus allowing accurate comparison between loaded and discharged volumes for fiscalization and loss control activities.

The standards adopted are those published by various technical committees of experts acting independently under the guidance of non-profit making international standards organisations such as the American Petroleum Institute (API) and the Institute of Petroleum (IP).

The monitoring of crude oil exports from Iraq differs from normal international practices in that:

1. There are currently no internationally acceptable measurement systems operating in either of the loading facilities involved in the "Oil for Food" contract; the exported quantities are therefore ascertained by reference to the loading vessel's calibration charts.
2. The monitoring role requires that all crude oil exported from Iraq under the "Oil for Food" program is fully accounted for, and that no diversion of the oil from this intended use can be made.

LOADING TERMINALS.

Crude Oil Exports from Iraq are currently delivered to sea-going vessels from either the Ceyhan Tank Farm in Turkey, at the end of the Iraq/Turkey pipeline (ITP), or from the Mina Al-Bakr oil terminal at the head of the Gulf and are reported to the UN Overseers on a ship-by-ship basis.

LOADED VOLUMES.

The volume delivered at each loading is calculated by reference to the vessels calibration charts adjusted for any volume of oil and water ascertained on board prior to loading (the OBQ figure) and the vessels experience factor (VEF). This system, as previously agreed with the Iraqi

authorities, is required as there are no accurate and "in calibration" metering systems operating at either Ceyhan or Mina Al-Bakr, or accurate tank calibration charts at Ceyhan.

DELIVERIES FROM IRAQ.

Deliveries from Iraq to Turkey, via the ITP, are monitored out of Iraq via the MS-1 metering station at Zahko, and into the Ceyhan Tank Farm, Turkey, and reported to the UN Overseers on a 24 hr basis.

REPORTING PROCEDURES

All loadings to vessels are monitored by Saybolt staff at both installations, and a full loading report is issued to the UN Overseers from the Saybolt Rotterdam office, who monitor and collect all oil measurement and movement data, reporting direct to the UN Overseers both by Fax and electronically by the UN Database which is updated automatically every 12 hrs.

 *** TX RAPPORT ***

VERZENDING OK

TX/RX NR	1613	
TEL. AANSLUITING		00703485472
ID AANSLUITING		
ST. TIJD	24/10 13:24	
GEBR. T.	05'32	
PAG.	15	
RESULTAAT	OK	

10/10/01 12:43 FAX 212 963 5947

UN/OIP

002

Page 1

CHILADAKIS THEOFANIS
 IRINIS 27-29, tel: (01) 6392097
 AYIA PARASKEVI 153.41
 ATHENS, GREECE

To,
 UNITED NATIONS
 1 UN PLAZA, DC1-1572
 NEW YORK, NY 10017
 U.S.A.

ATHENS
 SEPTEMBER 21ST 2001

Attention: Mr Morten Buur Jensen

Subject: T/T ESSEX, Loading at AL BAKR Oil Terminal IRAQ, ignoring UN loading instructions.

Companies involved:

- A. TRAFIGURA LONDON, CHARTERERS/TRADERS
 TLX: 921187/9222166
- B. ELKA LONDON, OWNERS OF T/T ESSEX
 TEL: 44 171 258 3537 FAX: 44 171 724 1390
- C. SOMO LONDON, IRAQI OIL COMPANY, TLX: 212198
- D. EUROPEAN NAVIGATION, ATHENS, OPERATORS FOR T/T ESSEX
 TEL: (01) 8981581, FAX: (01) 8981588
- E. FALCON NAVIGATION, ATHENS, REPRESENTATIVES OF TRAFIGURA
 TEL: (01) 9607230 FAX: (01) 9616801

FIRST LOADING MAY 16TH 2001 (U.N. code : missing)

The above named vessel (T/T ESSEX) was fixed by TRAFIGURA to load

 *** TX RAPPORT ***

VERZENDING OK

TX/RX NR 1582
 TEL. AANSLUITING 000973724344
 ID AANSLUITING
 ST. TIJD 12/10 09:47
 GEBR. T. 09'26
 PAG. 20
 RESULTAAT OK

05/08/01 TUE 10:28 FAX 212 963 1628

UNHQ NYK

+++ SAYBOLT

001

UNITED NATIONS



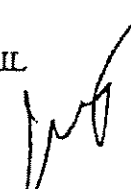


NATIONS UNIES

**SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990)
 CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT**

S/AC.25/2001/OIL/1330/LC.156

7 May 2001

TO: MS. SUZANNE BISHOPRIC TREASURER	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)   
FAX NO.: 3-2086	FAX NO.: (212) 963-1628
	REF.: OIL-FOR-FOOD ARRANGEMENT
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 1	

SUBJECT: LETTER OF CREDIT

PLEASE BE ADVISED THAT THE OVERSEERS HAVE CONFIRMED THAT THE TERMS AND CONDITIONS OF THE LETTER OF CREDIT (BNP Paribas REFERENCE D727182) IN THE AMOUNT OF EURO 38,500,000 TO BE ISSUED ON BEHALF OF IBEX ENERGY FRANCE (CONTRACT #M/09/81) CONFORMS TO THE TERMS AND CONDITIONS OF THE CONTRACT PREVIOUSLY APPROVED.

1. IBEX ENERGY FRANCE from MINA AL-BAKR covering 1,800,000 bbls \pm 5% of BASRAH LIGHT CRUDE OIL to USA on M/T "ESSEX" or SUB.

(Shipment Date: AT THE LATEST 25TH MA)

The passenger-boat is used only after the 'Crane' (near Kor-al-Amaya), and tugs used for Fao are restricted to pass the river bar at high tide and sometimes only at daylight high tide.

Main effect of this is that personnel due out on rotation leave the terminal 4/5 days earlier than would normally be necessary, in order to assure they can meet their travel/flight schedules.

Reliability of scheduled service is further hampered by unstable weather conditions.

Safety aspects are also heightened, particularly when personnel transfer 'boat to boat' or 'boat to terminal'.

Safety considerations: NIL . Increasing need to transfer from tug to tug off MAB terminal.

The two tugs draw alongside and there is a scramble across.

No safety provisions. Very dangerous in unstable weather conditions.

No safe gangway or means of access available at either shore or terminal location for staff to embark or disembark.

Services

=====

The Water supply this week was without problem. Now we have only cold water, and quality found to be acceptable, except for the purpose of drinking. Some discoloration detected.

The new R.O. Unit is working without problems.

NOTE : Some parts of the old one still remained at MAB.

Potable bottled water is still in supply.

Food

=====

Terminal food this week improved a little bit , they supplied fresh fruit and some fresh vegetable. (The variety is not to much, but the fruit and vegetable are fresh).

All UN staff meals are made by us or self catering on board vessels.

Housekeeping

=====

Standard of cleanliness remains moderate.

Excessive outside oil.

During the last week a slight decrease of the outside oil; also constant lack of sufficient water doesn't make it easy to keep the interior clean.

Infestation

=====

Insect population is still evident, through decreasing or Increasing due to ambient temperatures. NO de-infestation carried out this week.

Although Saybolt accommodations is kept clean and sprayed regularly by Saybolt staff, insects as cockroaches are still present (but decreasing) in living room and Saybolt rooms.

Safety

=====

At this moment the installation of platforms (launch davits) for two life-boats near the accommodations, is completed stopped.

The two Life-Boats are at this moment positioned at Platform B.

NOTE : SINCE DEC of 2000 THE WORK IS COMPLETED STOPPED.

The Lights are being checked and changed/replaced. No accidents.

Refer to numerous previous reports over the last years concerning Fire and Safety.

No fire drill or safety exercises observed this week.

It needs to be stated here & on every report, that there seems to be no local contingency plan for emergencies such as outbreak of fire, serious illness or accidents to staff. Indeed any type of local plan

to deal with various emergencies remains unknown to us.

NOTE: The gangway of Platform B(pier 3) continuous without working properly.
Sometimes it very dangerous to use (high tide & vs1 not commenced
ldng / low tide & vls completed ldng).

Environmental conditions

=====

TERMINAL GARBAGE AND WASTE CONTINUES TO BE DISPOSED OF INTO THE SEA.
LUB. OIL WASTE FROM GENERATORS DUMPED TO SEA REGULARLY.

Other remarks

=====

The relationship between Saybolt/UN. staff and local terminal
personnel remains very good.

Hydraulic leaks

=====

Hydraulic leaks from gangways and pump units for operating the loading
arms continues.
During this week some efforts were made to fix this problem, but the Lac of spare
parts difficult the operation.
Situation same as previous week, Oil spill is collected for refilling but
surroundings affected by spill.
Sawdust received from vessels alongside used to prevent spreading of
spills,implication to safety of personnel.

Some of the leaking of Hydraulic oil can be repaired if they have spare parts to
change, also if the leaking of oil into the ground were collected with sand and
after removed to drums.

SATELLITE COMMUNICATION

=====

Our satcom unit didn't served SOMO representative during the week.

FAX/COPIER : No problems found.

AUTO SAMPLING APPARATUS.

=====

No new apparatus.


LOADING RATE.

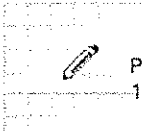
=====

During this week - From 37,000 to 65,000 Ebbs/Hr

Nothing further officially to report at this time.

Kind regards,
Saybolt/UN Team, Mina Al Bakr.

 - att1.htm



Peter Boks
10/17/2001 01:38 PM

To: N31cga@cusnc.navy.mil
cc:

Subject: Tankers possibly associated with Essex

Dear CDR Hansen,

Further to our telcon regarding your list, I can confirm that following vessel's have been loading at MABOT:

Date	Vessel	Gross Standard Volume	Perc. of Capacity
03/15/01	Swan Sea	1,900,430 barrels	approx. 98 %
05/13/01	Swan Sea	1,889,615 barrels	approx. 98 %
07/19/01	Dorset	1,621,362 barrels	approx. 86 %

The above would lead us to believe that the Tv. "Dorset" is suspect, also because the Draft prior to saling was Fore 18.5 m and Aft 19.0 m. However given the limited time for loading the vessel with additional barrels, this seems very unlikely.

Time log:

Operation	Time	Date
Completed loading	09:05	07/19/01
Loading arms disconnected	09:25	07/19/01
Ullages taken etc. and calculation o/b completed	11:00	07/19/01
Documents delivered to SOMO	12:30	07/19/01
Documents delivered on board	13:30	07/19/01
Vessel sailed	16:00	07/19/01

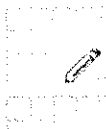
Kindest regards,

Berth 3. + Independent surveyor.

Peter Boks

Tv. "Shauran" alongside Berth 1.
14.24 hrs 19/7.


All our activities are carried out under our general terms and conditions and in accordance with our code of practice. The general conditions can be consulted



Peter Boks

10/09/2001 11:19 PM

To: sevan@un.org
cc: "Michel Tellings" <"Michel_Tellings/OIP._OIP.UN-MAILHUB"@intlhun.org>, "Alexandre Kramar" <kramara@un.org>, "Stephani Scheer" <scheer@un.org>, "Morten Buur-Jensen" <jensenm@un.org>

Subject: Re: Alleged Loadings of Crude outside UN Control 

Dear Benon,

I confirm receipt of Morton's email and will investigate this matter thoroughly. Will revert asap.

Kindest regards,

Peter Boks

"Morten Buur-Jensen" <jensenm@un.org> on 10/09/2001 08:44:29 PM



"Morten Buur-Jensen" <jensenm@un.org> on 10/09/2001 08:44:29 PM

To: "Benon Sevan" <sevan@un.org>, PB@Saybolt
cc: "Michel Tellings" <"Michel_Tellings/OIP._OIP.UN-MAILHUB"@intlhun.org>, "Alexandre Kramar" <kramara@un.org>, "Stephani Scheer" <scheer@un.org>

Subject: Alleged Loadings of Crude outside UN Control

Benon,

Today we recieved documents which indicate that on two occasions oil has been loaded at Mina al Bakr outside of Saybolts control on vessels which also carried UN official shipments. The total amount involved is aproximately 500,000 barrels (which represents \$8 million aproximately).

We have brought this to the attention of Saybolt who are investigating the case.

We will keep you informed of the outcome.

Oil Overseers.

All our activities are carried out under our general terms and conditions and in accordance with our code of practice. The general conditions can be consulted at <http://www.Saybolt.com/>, and will be sent upon request free of charge.

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"Morten Buur-Jensen" <jensenm@un.org> on 10/09/2001 08:44:29 PM

To: "Benon Sevan" <sevan@un.org>, PB@Saybolt
cc: "Michel Tellings" <"Michel_Tellings/OIP,_OIP.UN-MAILHUB"@intlhub.un.org>, "Alexandre
Kramar" <kramara@un.org>, "Stephani Scheer" <scheer@un.org>

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Oil Overseers.

**Sutherland
Asbill &
Brennan LLP**

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October 25, 2001

VIA FACSIMILE

United Nations Oil for Food Overseers
c/o Office of the Iraq Programme
First Avenue
DCI Room 1516
New York, NY 10017

Re: m/v Essex

Dear Sirs:

I am writing on behalf of my client, Trafigura Beheer BV ("Trafigura") to seek your assistance in resolving the urgent matter of the Iraqi crude oil aboard the m/v Essex.

Trafigura is an oil trading company incorporated in the Netherlands with offices in Amsterdam, Lucerne and London. Trafigura regularly has purchased Iraqi crude oil from third parties who hold contracts with SOMO under the Oil for Food Program, and has sold many cargoes to U.S. refiners. Until this latest cargo loaded on the m/v Essex, it has not encountered any problems.

In August, Trafigura purchased the Essex cargo from Ibex Energy, which is based in Paris but which apparently is incorporated in Tortola, BVI. Trafigura purchased the cargo in two pieces under two separate contracts. The first contract is for approximately 1.8 million barrels. Ibex then asked Trafigura whether it would take another approximately 200,000 to 300,000 barrels to top off the ship on a delivered outturn basis. This is reflected in a second contract. Ibex provided Trafigura with a copy of its allocation of 7 million barrels of Basrah from SOMO and the contract provides that the oil is to be under the UN allocation. Trafigura had no reason to believe that anything was amiss with the purchase or unauthorized by the UN.

As you know, the vessel loaded on August 27, 2001. There are two bills of lading endorsed by SOMO, one for 1,787,407 barrels and one for 271,669 barrels. Trafigura paid for the large parcel by setting up a letter of credit on Ibex's behalf in favor of the UN account at BNP-Paribas. (Ibex did not have its own credit to do this.) Trafigura paid Ibex for the second parcel directly at Ibex's direction.

WO 57780.1

Atlanta ■ Austin ■ New York ■ Tallahassee ■ Washington, DC

United Nations Oil for Food Overseers
October 25, 2001
Page 2 of 3

Trafigura sold one million barrels of the oil loaded onto the Essex to a U.S. refiner, Koch Petroleum, for delivery to its facility in Corpus Christi, Texas and one million barrels to a PdVSA affiliate, Petromar, S.A., for delivery to its refinery in Curacao (Refineria ISLA (Curacao) S.A.). The vessel arrived at Corpus Christi last week and discharged the one million barrels into two 500,000 barrel lightering vessels. The first lightering vessel was discharged into Koch's tankage.

Before the second one could discharge, Koch received information from PdVSA that there could be a problem with some of the oil not being covered by the UN Oil for Food Program. PdVSA had been informed through the U.S. Embassy in Caracas, as well as received communications from Mr. E. M. Rosenda, the inspector of import duties and excises in Curacao. Koch has not been contacted by the U.S. government. Koch then contacted my client. This was the first time that Trafigura learned that authorities were questioning whether some of the oil may not have been sold through the Oil for Food program.

Koch refuses to let the second lightering vessel discharge and will not pay Trafigura for any of the oil (even the oil that was discharged) because it is afraid that the Treasury Department's Office of Foreign Assets Control will come back and accuse it of sanctions violations. The second lightering vessel is sitting in the port at Corpus Christi and is costing my client over \$35,000 a day and the shipowner wants its vessel back.

I am told that the vessel Essex arrived at Curacao yesterday and was inspected by the Curacao authorities. I have not been able to find out what happened and the UN will not talk to me about it. I heard third-hand that the vessel is not being allowed to berth and discharge. PdVSA (Petromar) will not allow discharge of the oil until approved by the Curacao government and the UN, and also will not pay Trafigura for the oil. The vessel owner has notified Trafigura that it will charge my client for all demurrage and other expenses attendant the delay. I do not know how long the vessel will be permitted to sit at anchorage at Curacao or what the Curacao authorities are doing.

My client has paid over \$45 million for the oil and needs to get paid from its customers soon or its banks may force it to cease business. We have offered to the State Department and to the UN to put any money that was not properly paid to the UN account (assuming that is the case) in escrow pending resolution of this matter so that we can get the oil discharged and vessels returned to their owners. The UN Office of Iraq Programme will not discuss this matter with us directly, and the State Department now says that it cannot advise us, as the U.S. government has not asserted jurisdiction over the Essex. We are now trying to seek assistance of the Netherlands authorities.

UNITED NATIONS



NATIONS UNIES

POSTAL ADDRESS—ADRESSE POSTALE: UNITED NATIONS, N.Y. 10017
CABLE ADDRESS—ADRESSE TELEGRAPHIQUE: UNATIONS NEWYORK

OFFICE OF THE IRAQ PROGRAMME – BUREAU CHARGE DU PROGRAMME IRAQ

THE EXECUTIVE DIRECTOR
LE DIRECTEUR EXECUTIF

REF: ED/2001/GEN/5

31 October 2001

Dear Ms. Rudy,

I should like to refer to your letter dated 29 October 2001, which was received at this Office late in the evening on that day, and your subsequent letter of 30 October, received yesterday afternoon, informing us that Trafigura had “cancelled the charterparty with the vessel owners”. I should like to make it absolutely clear that the contract for oil approved by the Security Council Committee established by resolution 661 (1990) was between Ibex Energy S.A. and SOMO. This approval had nothing to do with Trafigura’s arrangements with Ibex, and the United Nations is not a party to the contract between them.

The questions raised in your letter of 29 October 2001 concerning the legality of the Essex oil would have to be investigated by a State or States having jurisdiction over this matter. In my letter of 27 October 2001, I advised that Trafigura seek the assistance of the Dutch authorities in this regard, which I understand you have done.

You will also recall that, in my letter of 27 October 2001, I informed you that this matter had been brought to the attention of the Security Council Committee established by resolution 661 (1990), which is responsible to monitor the sanctions régime imposed on Iraq by the Security Council. The findings of a relevant investigation will also have to be brought to the attention of that Committee.

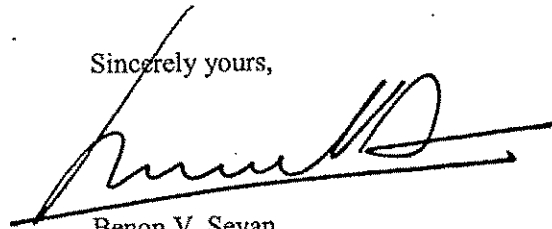
It follows from the foregoing that, as the Security Council Committee has not thus far taken any action regarding the contract of Ibex, that contract continues to be valid. In the absence of any action by the Committee, the matter of the Berge Odel oil is a matter between Trafigura and Ibex, in which the United Nations Secretariat cannot involve itself.

Ms. Beverly J. Rudy
Counsel to Trafigura B.V.
Sutherland, Asbill & Brennan LLP
1275 Pennsylvania Ave., NW
Washington, DC 20004-2415

-2-

With regard to the cancellation of the letter of credit, I should like to draw your attention that the letter of credit is irrevocable, and it has been confirmed by BNP Paribas. As noted above, since no action has been taken with respect to the approved Ibex contract, that contract remains valid, and, accordingly, the United Nations cannot agree to the cancellation of the letter of credit.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Benon V. Sevan', written over a horizontal line.

Benon V. Sevan
Under-Secretary-General

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Facsimile

CONFIDENTIAL

Date: October 30, 2001

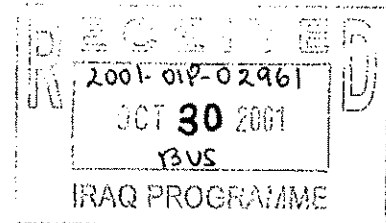
Pages (including cover): 2

TO:

<u>Recipient Name</u>	<u>Firm/Company</u>	<u>Fax</u>	<u>Telephone</u>
Benon V. Sevan Under-Secretary-General	Office of the Iraq Programme United Nations	212.963.8966	212.963.4341
Steven Katz	Office of Legal Counsel United Nations	212.963.3155	212.963.5353

FROM: BEVERLY J. RUDY Email address: brudy@sablaw.com
Telephone: 202.383.0885 User number: 2239 Client number: 18526.0002

Message:



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WO 59195.1

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Brennan LLP

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October 30, 2001

VIA FACSIMILE

Mr. Benon V. Sevan
Under-Secretary-General
Executive Director
Office of the Iraq Programme
United Nations
New York, NY 10017

Re: Trafigura Beheer B.V. — *t/t Berge Odel*

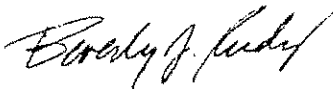
Dear Mr. Sevan:

In reference to my letter dated October 29, 2001, I am writing to update you on events concerning the vessel *t/t Berge Odel*, which was nominated to lift a cargo of approximately 1.8 million barrels of Basrah light crude under contract to purchase from Ibex. Due to the issues arising from the *Essex*, we had requested that the UN provide us with written assurances that lifting of the cargo would not violate any applicable UN procedures.

Trafigura today canceled the charterparty with the vessel owners. In view of the lack of definitive guidance and assurances from United Nations, including documentation that the oil is properly authorized to be sold to Ibex under the Oil for Food programme, Trafigura could not assume the legal risks of loading a cargo that did not comply with the relevant procedures and UN resolutions.

Thus, Trafigura had no choice but to declare to the vessel owners that the charterparty contract was frustrated. The Company also could not take the risk of incurring continuing demurrage in excess of USD \$40,000 per day until the matter is resolved. In accordance with this decision, Trafigura also has requested that its bank, BNP Paribas (Paris), arrange with the UN to cancel the letter of credit in favor of the UN account which had been posted on Ibex's behalf.

Sincerely,



Beverly J. Rudy
Counsel to Trafigura Beheer B.V.

cc: Steven Katz, Esq.

UNITED NATIONS



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POSTAL ADDRESS—ADRESSE POSTALE: UNITED NATIONS, N.Y. 10017
CABLE ADDRESS—ADRESSE TELEGRAPHIQUE: UNATIONS NEWYORK

OFFICE OF THE IRAQ PROGRAMME – BUREAU CHARGE DU PROGRAMME IRAQ

THE EXECUTIVE DIRECTOR
LE DIRECTEUR EXECUTIF

REF: ED/2001/GEN/4

27 October 2001

Dear Ms. Rudy,

I should like to thank you for your letter dated 25 October 2001 written on behalf of Trafigura BV, concerning Iraqi crude oil aboard the m/v Essex.

As you already have been informed, on 24 October 2001, this Office brought the matter to the attention of the Security Council Committee established by resolution (1990), without prejudice to the allegations made and the comments thereon by the Government of Iraq. It is my understanding that the Committee intends to review the matter in early November.

In connection with the difficulties you have referred to in your above letter, Trafigura may wish to seek the assistance of the Dutch authorities. I have noted that you have already contacted the Dutch authorities to seek their assistance.

A handwritten signature in black ink, appearing to read 'Benon V. Sevan', written over a horizontal line.

Benon V. Sevan
Under-Secretary-General

Ms. Beverly J. Rudy
Counsel to Trafigura B.V.
Sutherland, Asbill & Brennan LLP
1275 Pennsylvania Ave., NW
Washington, DC 20004-2415