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BEFORE THE
HOUSE INTERNATIONAL RELATIONS COMMITTEE,
SUBCOMMITTEE ON MIDDLE EAST AND CENTRAL ASIA
AND SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
ON THE ROLE OF SYRIA IN THE
UNITED NATIONS OIL-FOR-FOOD PROGRAM
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Madam and Mr. Chairmen, distinguished members of the Committee,

I welcome this opportunity to appear before you today to discuss the role of the Syrian government in the Oil-for-Food Program, U.S. efforts to ensure that frozen Iraqi assets in Syria are transferred to the Development Fund for Iraq, and broader U.S. efforts to recover Iraqi assets.

Madam and Mr. Chairmen,

In previous testimony before this and other Congressional committees investigating Oil-for-Food matters, my colleagues have described the various ways in which Saddam Hussein attempted to undermine the sanctions imposed by the UN Security Council on Iraq under Resolution 661 (1990) following Saddam's invasion of Kuwait in August 1990. Given the focus of today's hearing, it is important to note that Saddam's efforts to evade the sanctions were facilitated through the cooperation and complicit involvement of various governments and parties outside Iraq. Among them was the Syrian government.

Background on Oil for Food Program

First, let me provide a little background on the Oil for Food Program. In 1996, the United Nations and Iraq established the Oil for Food (OFF) program to address growing concerns about the humanitarian situation in Iraq after international sanctions were imposed in 1990. The program's intent was to allow the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance, and, at the same time, prevent the regime from obtaining goods for military purposes. From 1997 through 2002, Iraq sold more than $67 billion in oil through the program and issued $38 billion in letters of credit to purchase commodities. The United Nations and the Security Council monitored and screened contracts that the Iraqi government signed with commodity suppliers and oil purchasers, and Iraq's oil revenue was placed in a U.N.-controlled escrow account.

However, the Saddam Hussein regime also circumvented the Oil-For-Food Program through illicit oil sales, including through trade protocols established with the governments of Syria, Jordan, and Turkey. The Duelfer Report, issued in September 2004, estimated that Iraq earned almost $5 billion from all its protocols between 2000 and the outbreak of hostilities in March 2003.

The United States, with strong support from the United Kingdom, attempted to counter Saddam Hussein's efforts to evade the requirements of the OFF. We often met with resistance by Member States, including some members of the UN Security Council and participants on the UNSC Committee that was established to monitor the OFF program, known as the "661 Committee. Saybolt, selected as the independent oil inspection agent of the United Nations through a competitive bid process, assisted the 661 Committee with the task of monitoring the quantity and quality of exports of Iraqi oil under the OFF Program. Through its work, Saybolt became aware of instances of the smuggling of oil outside the OFF Program. We reported those instances to the United Nations orally and, on occasion, in writing. In November 2000, Saybolt informed the United Nations of rumors that the oil pipeline to Syria had been put into operation.

In February 2001, then Secretary Powell traveled to Damascus and met with President Asad. Secretary Powell stressed the need to cut off Saddam Husein's ability to evade UN sanctions and specifically focused on the Iraqi-Syrian pipeline. President Asad assured him at three times during their discussions that it was their plan to bring the pipeline, what was going through that pipeline, and the revenues generated by that pipeline under the same kind of control as other elements of the UN sanctions regime.

We brought this information about the Iraq-Syria pipeline to the 661 Committee, but we met with stiff resistance from other Committee members. During an October 2002 meeting of the 661 Committee, we requested an explanation as to the apparent discrepancies between the amount of oil Syria produced domestically, the amount it consumed domestically, and the total annual volume of oil that Syria exported. The Syrian representative, a member at the time of the 661 Committee, with support from other delegations, questioned the reliability of the figures we quoted, which we had drawn from publicly available oil industry publications. The Syrian representative also stated that the pipeline was being used for "testing purposes," rather than actual delivery of oil to Syria. Another delegation, seeking to deflect the focus on Syria, suggested the Committee's work would be more effective if alleged sanctions violations were not considered singularly and in isolation, but rather were viewed in the relative context of other reports of non-compliance.

Iraq was engaging in these unauthorized oil exports under the terms of a bilateral trade protocol with Syria, signed in June 2000, in violation of UNSCR 661. This trade protocol was designed to enable the Iraqi regime to acquire goods, services, and cash outside of the oil sales and purchases approved by the 661 Committee.

Syrian-Iraqi Oil Transfers

According to estimates from Iraq's State Oil Marketing Organization (SOMO), from June 2000 until July 2003 the Iraq-Syria Trade Protocol generated approximately $3.4 billion from the sale of illicit Iraqi crude oil and Iraqi petroleum products. The trade protocol required the Syrian government to deposit 60% of the crude oil payments into a trade account in the Commercial Bank of Syria in Damascus to support the purchases of Syrian (and foreign) products, and 40% into a cash account at the Syria-Lebanon Commercial Bank in Beirut, a subsidiary of the Commercial Bank of Syria. Refined product payments also went to the cash account.

In October 2003, the Syrian government permitted investigators from the Treasury Department to review these accounts at the Commercial Bank of Syria in Damascus. My colleague from the Treasury Department can provide more detailed information, but, in short, the investigators found that, at the end of major combat operations, approximately $850 million had been left in the trade account. However, the Syrian government, without authentication or authorization from SOMO, paid out an estimated $580 million to Syrian companies in outstanding claims; $266 million remained at the Commercial Bank of Syria, $262 million in the trade account and $3.8 million in accounts belonging to other Iraqi government entities, such as the Iraqi Airlines.

The investigators also found that, as of September 2004, $72 million remained in the cash account at the Syria-Lebanese Commercial Bank (SLCB) in Beirut; the SLCB provided records showing that $816 million in authorized payments had been made from this account until 2003.

U.S. Steps to Press Syria to Return Frozen Iraqi Assets

In May 2004, the Treasury Department designated the Commercial Bank of Syria, and its subsidiary the Syria-Lebanese Commercial Bank in Beirut, as "primary money laundering concerns" pursuant to Section 311 of the USA PATRIOT Act. The Federal Register Notice announcing this designation proposed a "special measure" requiring U.S. financial institutions to sever correspondent banking relationships with the Commercial Bank of Syria and the Syria-Lebanese Commercial Bank. This designation was based, in part, on the Commercial Bank of Syria's use "as a conduit for the laundering of proceeds generated from the illicit sale of Iraqi oil" and Syria's failure to transfer the remaining proceeds, which were in frozen accounts at the Commercial Bank of Syria, to the Development Fund for Iraq, as required under UN Security Council resolution 1483 (2003).

In May 2004, following Treasury's designation of the Commercial Bank of Syria, the Syrian Finance Minister invited Treasury to send a team of experts to Syria to review Syrian banking practices. The State Department participated on the inter-agency delegation, led by Treasury, which traveled to Damascus in September 2004. Based on the team's findings, Treasury's then Assistant Secretary Zarate and Embassy Damascus later presented the Syrian government with a list of specific steps it needed to take to address our concerns about deficiencies in Syria's anti-money laundering and terrorist finance controls, as well as a timetable for implementing them. One of the requirements specifically addressed the need for Syria to transfer the frozen Iraqi assets to the Development Fund for Iraq.

In close coordination with Treasury, Embassy Damascus has consistently pressed the Syrian government to implement the required steps and has monitored its progress. In their respective visits to Damascus in September 2004 and January 2005, then-Assistant Secretary Burns and then-Deputy Secretary Armitage specifically pressed President Asad to address our money laundering and terrorist financing concerns and to return the $266 million in frozen Iraqi assets to the Development Fund for Iraq.

Treasury decided to postpone the implementation of the proposed sanction against the Commercial Bank of Syria – the severing of correspondent accounts between U.S. financial institutions and the Commercial Bank of Syria -- pending Syrian actions on this list of requirements.

Together with Treasury, the State Department and Embassy Baghdad have also worked closely with the Iraqi government to support its efforts to recover these frozen assets in Syria.

In July 2004, then-Iraqi Prime Minister Allawi and Syrian President Asad met in Damascus and reportedly agreed to establish a joint technical committee to review the issue of frozen Iraqi assets and pending and previously-paid claims. However, no committee was established and the frozen assets remained at the Commercial Bank of Syria in Damascus. The Syrian government publicly and privately committed itself on several subsequent occasions to transferring the remaining assets and to reviewing both pending and previously-paid claims against those assets, but again no action was taken.

The U.S. government has continued to press the Syrian government at every opportunity to transfer these assets to the DFI and to work with the Iraqi government to review pending and previously-paid claims. In January of this year, the Syrian government transferred $3.8 million to the DFI. In late June, apparently in connection with the timetable for implementing the Section 311 requirements, the Syria-Lebanese Commercial Bank transferred the $72 million from the cash account to the DFI. At the same time, the Commercial Bank of Syria transferred $45 million from an overpaid claim. In total, the Syrian government has transferred $121 million to the DFI.

However, $262 million still remains in the Commercial Bank of Syria. Following discussions between the Iraqi and Syrian Finance Ministers in early July, the Syrian government again committed to transferring this amount, but only upon receipt of formal instructions to do so from the Iraqi Finance Minister. We understand these instructions were just issued. Despite Syrian steps to improve its anti-money laundering and terrorist finance controls, the Section 311 sanctions could be triggered if Syria does not follow through with the transfer of this remaining amount to the DFI.

Overall U.S. Assets Recovery Efforts

UN Security Council resolution 1483, adopted on May 22, 2003, required that Member States immediately freeze and transfer to the Development Fund for Iraq all funds or economic resources belonging to the previous Iraqi government, to Saddam Hussein, or to other senior officials of the former Iraqi regime and their immediate family members, unless there were prior judicial, administrative, or arbitral liens or judgments against those assets. The U.S. has been at the forefront of this effort to identify individuals and entities for designation by the UN for assets freeze, with the State Department, through our Mission to the UN in New York and through our Embassies abroad, energetically reaching out and seeking cooperation from governments in cosponsoring submissions to the UN Sanctions Committee. We have gotten support on specific designations from countries ranging from the UK to Syria. So far, the UN Security Council Committee responsible for implementation of resolution 1483 has designated 83 Iraqi individuals and 206 Iraqi government entities for assets freeze pursuant to this resolution.

With the Treasury Department at the lead, the U.S. has worked hard to seek compliance with this resolution. As a member of the Treasury-chaired inter-agency assets recovery working group, the State Department has mounted a full-scale diplomatic campaign to recover Iraqi assets abroad. Since the transfer of sovereignty to Iraq in June 2004, we have also worked closely with the Iraqi government on an assets recovery strategy and sent a State Department expert to Baghdad to share information on the amounts and whereabouts of the frozen assets. We have urged the Iraqi leaders to include this as a priority issue in their bilateral discussions with the relevant governments.

Since the adoption of resolution 1483, almost $1.2 billion has been transferred to the DFI. (The U.S. transferred an additional $1.9 billion in Iraqi assets directly to Iraq for reconstruction.) More remains to be done. Of the additional frozen assets, some are subject to prior legal claims. However, we estimate that there may be another $1 billion in known frozen Iraqi assets that can potentially be recovered. The largest amounts of frozen Iraqi assets are in Lebanon, Switzerland, the UK, and Syria.

We have repeatedly urged governments to transfer the Iraqi assets to the DFI as expeditiously as possible.

Madam and Mr. Chairmen, I appreciate this opportunity to provide some background to the Subcommittee on Syria's involvement in illicit oil trade with Iraq and our efforts to recapture the Iraqi assets still held in Syria, as well as frozen Iraqi assets elsewhere around the world. I would be happy to answer questions you may have.