THE VOLCKER INTERIM REPORT ON THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

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THE VOLCKER INTERIM REPORT ON THE UNITED NATIONS OIL–FOR–FOOD PROGRAM

WEDNESDAY, FEBRUARY 9, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 1:37 p.m. in room 2172, Rayburn House Office Building, Hon. Dana Rohrabacher (Chairman of the Subcommittee) presiding.

Mr. ROHRABACHER. The Subcommittee is called to order. I would like to thank the witnesses for joining us on the inaugural hearing of the Oversight and Investigations Subcommittee. It is the intent of the Chair that the Chair will have a 5-minute opening statement or thereabout, the Ranking Member will also have a 5-minute opening statement, that other Members of the Subcommittee will be limited in their opening statement to 1 minute, but they, of course, will be free to revise and extend their remarks for the record, and welcome all of you.

In a series of hearings, we will examine the United Nations' administration of the Oil-for-Food Program. In the 108th Congress, the Full Committee held two hearings on the operations of the Oil-for-Food Program, as well as the actions of the French bank, Banque Nationale de Paris. It was this bank which administered the financial operation of the Oil-for-Food Program.

In the future, we plan to expand on our previous findings, as well as plan to expand on that today. Our examination today will focus on Paul Volcker's Independent Inquiry Committee's examination of the United Nations Oil-for-Food Program. When reading Mr. Volcker's interim report, we are left with one indelible impression: The Oil-for-Food Program was tainted by corruption, rank political considerations, and incompetence from the very start.

Recently, internal reports by the U.N.'s auditors from the Office of Internal Oversight and Services (OIOS) identified corruption and mismanagement within the U.N.'s Oil-for-Food Program. These audits were specifically not provided to member states but released by Mr. Volcker only a few weeks ago. Had our diplomats and other people in our Government been afforded the option of reading those audits upon completion, as Mr. Volcker suggested in his interim report, the systematic U.N. mismanagement would have been obvious, and perhaps some action may have already been taken to stop the corruption that was evident in the program.

In his interim report released last week, Mr. Volcker found extensive political manipulation of the U.N.'s contracting practices by

senior U.N. officials, including that by the former Secretary-General, Boutros Boutros-Ghali, who arbitrarily and, it appears, unfairly chose BNP to serve as the administrator of the program's escrow account.

Mr. Volcker's findings about the administrator of the U.N. Office on Iraqi Programs, Benon Sevan, are even more disturbing. Mr. Sevan apparently not only accepted but solicited oil vouchers through Saddam Hussein. Obviously, the U.N. failed to adequately oversee this program. This was the case in this situation of the fox guarding the hen house. Moreover, Mr. Volcker pointed out the limitations that were placed on the OIOS audits, which meant that the program only looked at Iraq, not at the U.N. management or leadership side in New York. We need to know if this limitation was imposed on the auditors by Sevan in order to cover up his own corruption.

Mr. Volcker also explained the complicated relationship between Sevan and relatives of Boutros Boutros-Ghali. Sevan sold his oil vouchers to the nephew of Boutros-Ghali and worked with another of Ghali's relatives, Fred Nadler, to arrange the sale. These revelations point to an even deeper corruption of the program.

The United Nations' audits tell us a story of millions of dollars of overpayments by United Nations officials to contractors, some of the same contractors who won their contracts through political manipulation at the United Nations. The audits tell of rigged bidding, understaffing at critical border inspection posts, ghost employees, missing office equipment, and miscalculated financial transactions costing millions of dollars. Yet these patterns of mismanagement are not restricted to just the Oil-for-Food Program. Recent press reports tell us of corruption at other U.N. agencies, and these problems also include financial troubles, as well as missing and unrecovered funds.

At several U.N. agencies, auditors found poor management, a total lack of ethics codes, inadequate controls, as well as inadequate controls and oversight of project funds that were under their jurisdiction.

We have just learned today, in the *New York Times*, that at the World Meteorological Organization, which is part of the United Nations in Geneva, one official stole $3 million over a 3- to 4-year period. Then he withdrew all of his funds from a Swiss bank and fled the country and faked his own death, asking his wife to present a false death certificate to the United Nations in order to claim his pension.

These stories demonstrate a few of the problems facing the United Nations. Add to this mix scandals facing the U.N. involving sexual harassment and, worse, sexual predators in the U.N.'s Peacekeeping Program in Africa, and we get a sense of an organization that is badly in need of scrutiny and badly in need of reform from top to bottom. If we are to have a United Nations that works, it cannot continue operating in this same manner.

I think I can speak for our Committee Chairman, Mr. Hyde, when I say that we will make it a top priority of this Committee to achieve the passage of legislation that will reform the United Nations this year. We must, and we will not shy away from this challenge.

With us today to testify to the findings of the Volcker Commission and his independent inquiry, as well as the options of reform for the United Nations, are three gentlemen, and we appreciate them joining us: Nile Gardiner of the Heritage Foundation; Professor George Lopez of Notre Dame University; and Dr. Nimrod Raphaeli of the Middle East Media Research Institute. They join us today to discuss these issues. We appreciate having you with us.

I will turn to my Ranking Member, Mr. Delahunt, for any opening statement that he would like to have.

Mr. DELAHUNT. Thank you, Mr. Chairman, and before I begin my remarks, let me extend to Dr. Lopez a great selection for Notre Dame getting Charlie Weiss from the Superbowl New England Patriots. He will make a great coach for them.

Chairman Rohrabacher, let me begin by extending my congratulations to you on your appointment as Chairman of this Subcommittee and welcoming our Republican colleagues to this assignment, and be assured that myself and our Democratic Members look forward to working with you to make this a productive Subcommittee. Such a panel is sorely needed.

Many of us have expressed a concern that aggressive oversight has been lacking, not only in matters under the jurisdiction of the International Relations Committee but throughout Congress. Many of us believe that Congress, as the first branch of Government, has been seriously deficient in fulfilling a core constitutional responsibility: Oversight of other branches of our national Government, especially the Executive Branch. The creation of this new Subcommittee provides us with an opportunity to fulfill that obligation and to reinvigorate some of the basic checks and balances that are critical to the proper functioning of our democracy, especially when the majority party in this body also controls the upper branch as well as the Executive.

As to the subject of today's hearing, I commend you for its selection as our maiden voyage, if you will. It is a topic that is complex, important, and worthy of a thorough and exhaustive review. I would only recommend that our inquiry be expanded, and as I listened to you in your opening remarks, it seems that we are on the same page.

To limit ourselves to the Oil-for-Food Program does not begin to adequately reveal the magnitude of the circumvention by the Saddam Hussein regime of the sanctions imposed on Iraq after the first Gulf War and the role of the United Nations and member states.

I refer you to the chart to our right entitled "Illicit Iraqi Revenue during Sanctions." The data presented in this graphic are taken from Appendix E of the so-called "Duelfer Report," and I ask that it be titled Exhibit A. I ask for unanimous consent. It demonstrates that during the existence of the sanctions regime, 84 percent of the illegal revenue in excess of some $9 billion that was used to sustain the regime in power came from sources other than the Oil-for-Food Program. Note under that section entitled "Trade Protocols," the following figures: Jordan, $4,446,000,000; Syria, $2,814,000,000; Turkey, $710,000,000; Egypt, $33,000,000.

Now, it is my understanding that these arrangements, these so-called "trade protocols," were formal agreements between the Sad-

dam Hussein regime and the Governments of these countries. They were clearly a gross violation of the sanctions resolution, and it would appear that the Security Council was cognizant of those violations, and no action was taken. I find this not only appalling but having a certain "Alice in Wonderland" quality to it where up is down, and down is up. Pass a resolution, impose sanctions, but pretend when a gross violation occurs on a continuing basis, that it is really not happening.

Well, combined with the smuggling in the segment entitled "Border and Private Sector Cash Sales," that totals $9 billion to Saddam Hussein for whatever purpose he chose. It certainly was not to feed his people, certainly not to meet their basic needs, because the Oil-for-Food Program did that. As Chairman Hyde said back on a hearing in this very room on April 28th of last year, the Oil-for-Food Program is credited correctly with the saving of millions of lives. That is Mr. Hyde's quote. But $9 billion, Mr. Chairman. There can be no doubt that this income tightened the grip of Saddam Hussein on Iraq.

It does call for a full investigation. The American people deserve no less. You are correct. We should not excuse any abuse, mismanagement, or corruption that existed in the Oil-for-Food Program as administered by the United Nations and ensure that proper controls, transparency, and accountability are part of any future sanctions program. But we must also clarify for the American people that any illegal funds Saddam obtained through the Oil-for-Food Program were only a small part of the problem.

And, furthermore, what was the role and response of the Security Council in the administration of the Oil-for-Food Program? It is my understanding that not a single rejection of a contract occurred because of overpricing, even after warnings were issued by U.N. officials.

Likewise, there have been allegations of mismanagement and possible corruption in the Development Fund for Iraq, established after the fall of Saddam. This was an account set up under the Coalition Provisional Authority, the U.S. occupation government in that country. Most of that money was derived from the residual escrow account of the Oil-for-Food Program. In a recent report, the U.S. Inspector General for Iraq Reconstruction notes that the CPA cannot account for almost $9 billion of this money. Well, you are correct. We should expand our effort and our oversight. We need to look into this. We should request that the Inspector General come and testify before us, as well as Mr. Bremer, the former head of the CPA.

Well, with that, Mr. Chairman, I look forward to working with you in a collegial, cooperative fashion and to reach a result that reflects well on this particular Subcommittee and Congress as an institution, and with that, I look forward to hearing from our witnesses, unless one of our colleagues has a desire to make some brief comments.

Mr. ROHRABACHER. As we stated, the other Members of the Subcommittee will have 1 minute to present an opening statement, and then they can, of course, revise and extend. Is that what you folks would like to do? All right. So we will start off with, as our appearance at the hearing, Mr. Flake for 1 minute.

Mr. FLAKE. Thank you, Mr. Chairman. I appreciate this hearing being called and look forward to the testimony.

Any of us who have traveled to Iraq in the last couple of years have looked with dismay and disgust at the so-called "infrastructure" that was built with Oil-for-Food Program proceeds. The palaces: We were told, I think, some 70 have been built around the country during the period of time when Oil-for-Food revenue was flowing there. What is particularly galling about this scandal is not that it is just the largest financial scandal in the history of the world but that its impact on individual Iraqi citizens who were supposed to benefit from this really were just further oppressed.

So I look forward to this testimony and look forward to discussing this. As the Chairman knows, I have legislation that I will reintroduce. We had 76 co-sponsors last Congress and expect to have at least that many starting off that would ensure that the U.N. does comply with requests for information so that this scandal can be fully investigated. Thank you, Mr. Chairman.

Mr. ROHRABACHER. Mr. Blumenauer?

Mr. BLUMENAUER. Thank you, Mr. Chairman, and I would like to add my words of appreciation for our Committee empaneling a Subcommittee on Oversight. I think this is very important, and I know I, for one, am pleased that we are going to be in a situation to try and be proactive. There were too many times in the last session of Congress where we would be reading about scandals and abuses, and not only were they broken first in the media, but we never had a chance in this Committee to really be able to delve into them.

So I appreciate the Subcommittee being here, I appreciate what you and Mr. Delahunt are going to do to try and move us forward, and I appreciated your initial comments talking about the expansive approach that we need to take. I think Iraq is a great place to start. Lots of things going on. Your cautionary concern, Mr. Chairman, about patterns of mismanagement, accountability, contracts being given due to political influence; I think this is something that troubles a lot of Americans relative to Iraq in a lot of different areas, and I am hopeful that we will be able to set up a model for what some other Committees can do in terms of oversight and accountability, that we can find out in the course here, yes, about the abuses in Iraq and the United Nations. I am also concerned to find out what the United States knew and when it knew it in some of these areas where there was tremendous leakage, and I look forward to working with you to be able to understand how the big picture works.

Mr. ROHRABACHER. Thank you very much. I think we will probably understand that some of these issues that are being brought up now go back a decade or more and find out who was behind them, whether there were policy decisions, and whether these were signs of corruption or signs of policy decisions that were being kept from the American people. Those are questions that have to be asked and answered. Mr. Green?

Mr. GREEN. Thank you, Mr. Chairman, and thank you for holding this hearing.

My friend and colleague, Mr. Delahunt, quoted from the Full Committee Chairman in saying that the Oil-for-Food Program

saved many Iraqi lives, and it is no doubt true. I guess the question that we will have to ask and answer in this Subcommittee and, I think, history will have to ask and answer, is whether or not the corruption of this program cost many lives, perhaps even American lives.

The question, to me, is whether or not the corruption of this program meant that sanctions against Iraq were doomed from the beginning as a diplomatic tool. They were doomed as a tool for bringing Saddam Hussein into compliance with his obligations in the international community. And if those diplomatic tools were doomed, does that mean that war was inevitable? Does that mean, then, that the loss of life was inevitable and that American blood was spilled as a result of the corruption?

Mr. Chairman, that is why I care so much about this issue, and that is why I think the American people care. Those are tough questions, but we will hopefully have an opportunity to have them answered and hopefully they will not suggest that, in fact, war was inevitable as a result of the corruption, but I sincerely have my doubts.

Mr. ROHRABACHER. Thank you very much, Mr. Green.

Mr. Schiff?

Mr. SCHIFF. Thank you, Mr. Chairman. I want to thank you and the Ranking Member for your leadership of this new Subcommittee. I think it is extraordinarily important. I have been critical over the last several years of a lack of oversight of the Administration, an abdication of our role in Congress to oversee the Executive, and I think this Subcommittee gives us the opportunity to fill that void.

The subject of the hearing today, Iraq's illicit oil trade with its neighbors, its scheme of kickbacks and surcharges, the evasion of sanctions, I think, is extraordinarily important, and we should follow the trail of criminality to wherever it leads and ask the tough questions. I think also some of those questions will be very difficult for ourselves to answer ultimately, why it was that when we were aware of a very large and illicit oil trade, that we acquiesced in this practice when we believed that the proceeds of such illicit trade may be used by Saddam Hussein to build up weapons of mass destruction? For some of those questions, indeed, we will need to answer to the American people. But we should follow the trail wherever it leads, even if some of the responsibility comes back to our own shores.

Furthermore, Mr. Chairman, I think it is extraordinarily important that we not just focus on international institutions. There is a lot of oversight we need to do of the Administration. How does one party oversee the work of another, the same party, in the Executive? Too often, the answer is, it does not; it oversees the governance of international institutions or other countries.

But there are some extraordinarily important questions that we need to answer with respect to our own governance, and chief among them, I think, and most pertinent to this Committee's inquiry, is the one identified by the Ranking Member, and that is when the Inspector General identifies $9 billion that cannot be accounted for by the CPA in our expenditures in Iraq at a time when we have had trouble getting adequate armor for our troops, this

Committee has a duty to those soldiers to find out where those dollars went. And there is no shortage of issues, I think, that we need to ask and tough questions that we need to ask of our own Government, and I hope that today begins the process of examining some of those questions.

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

Mr. ROHRABACHER. Well, we probably will not get to them all today because people do not seem to be limiting their remarks to 1 minute. I think points are being well made by the minority.

You know, in a democratic society, when you have one party that controls both the Legislative and Executive Branch—as the Democratic Party did for so many decades in our country's history—it is the job of the loyal opposition to yell and scream and point when they think something is wrong, and there is nothing wrong with that. That is a part of their job.

Mr. SCHIFF. Mr. Chairman, we would be happy to give you that job back.

Mr. ROHRABACHER. [Laughter.] Having two parties and having a free press is what keeps us free. I have been in many countries where they do not seem to understand that there is a role for people, even when they are not in power, and I think some of the points made by you folks today are well taken, and we do plan to look into these areas of concern that reflect poorly on the judgments of our Government.

Today, however, we are looking at the United Nations and not perhaps just decisions on policy but actual corruption. But there may be some corruption that we find when looking at the policies that have been taking place in the Middle East by this Administration and the last as we move forward.

We now have Joe Wilson, please.

Mr. WILSON. Thank you, Mr. Chairman, and I would like to thank Chairman Hyde for putting together the Subcommittee. I think it is particularly appropriate that Dana Rohrabacher is going to be the Chairman of this Subcommittee. He is a person of extraordinary tenacity, a person of the highest integrity, and this is just so fitting for what may turn into an investigation of the largest financial scandal in the history of the world.

I also have the extraordinary privilege, as Congressman Flake, to visit Iraq, and I have seen numerous opulent palaces with beautiful lakes built around them on hills which had been built solely for the purpose of building the extraordinary facilities, the utter waste and extravagance. Additionally, I have had a son serving in Iraq, and he sent me pictures, and I have seen them, too, of the dilapidated schools and hospitals where the women and children of Iraq have been denied the needed services that could have been provided under the Oil-for-Food Program.

I am very hopeful that, as we proceed, that we can provide incentives so that monies can be recovered and provided back to the people of Iraq to provide better services and also to better protect, as Congressman Green has indicated, our service members and to protect the American taxpayers. Thank you very much.

Mr. ROHRABACHER. Thank you, Joe.

Finally, we are very pleased to have with us the Chairman of the Subcommittee on International Terrorism and Nonproliferation,

and I would hope that as time goes on that this Subcommittee and his Subcommittee will be working very closely together on issues like this and other issues. Mr. Ed Royce.

Mr. ROYCE. Thank you, Chairman. I would like to commend Chairman Henry Hyde for naming my good friend from Orange County, Congressman Dana Rohrabacher, as Chairman of this Subcommittee. I think Dana did yeoman's work on foreign affairs over the years for the Committee, and he will do likewise here, conducting very vigorous oversight, and I am glad that Chairman Hyde has set up this Subcommittee.

Last fall, when this Committee began to look into the Oil-for-Food scandal, I stated that support for similar U.N.-administrated programs will be zero unless the United Nations is forthcoming with information needed to investigate this scandal and that the withholding of this information was a scandal in itself. I think we all agree that the credibility of the U.N. is on the line. Wherever this investigation leads, the seriousness of this issue cannot be underweighed.

This program touched on issues of war and peace: How Saddam Hussein's regime manipulated a U.N. program to stay in power and to strengthen itself and build the 70 palaces, but it was able to utilize this to strengthen itself. It also brings into question the principles of the United Nations. How do nearly 200 sovereign states reach consensus to tackle such monumental issues? I am optimistic that this Subcommittee will play an important role in shedding light. Thank you very much, Chairman.

Mr. ROHRABACHER. Thank you very much, Mr. Royce.

We will now get to the witnesses. Let us note, as we were talking about this issue, if the United Nations is to serve an important function in this world, we have got to make sure that the people of the United States who fund the United Nations have faith in it. Well, right now, there is every reason not to have faith in the United Nations until we get to the heart of this scandal and see that there are corrections in the way they are handling themselves over at the U.N., and we will discuss that as the witnesses move forward.

The first witness today is Dr. Nile Gardiner. He is a Fellow from the Anglo-American Security Policy with the Kathryn and Shelby Cullom Davis Institute for International Studies at the Heritage Foundation. I hope I got that all out right. His areas of expertise include the United Nations, the war on terror, postwar Iraq, and British foreign policy.

Before joining the Heritage Foundation, Dr. Gardiner was a foreign policy researcher for former British Prime Minister Margaret Thatcher. He received his Ph.D. in History from Yale University in 1998 and received several academic awards as well as two Master's Degrees from Yale.

Mr. Gardiner, we would ask you, as well as the other witnesses, if you could summarize your central points and get it down to about 5 minutes, give or take a few, then we could study the details at leisure. But make sure that the points that you really want to emphasize are a part of the discussion today. Mr. Gardiner, you may proceed.

STATEMENT OF NILE GARDINER, PH.D., FELLOW IN ANGLO-AMERICAN SECURITY POLICY, THE HERITAGE FOUNDATION

Mr. GARDINER. Chairman Rohrabacher, Ranking Member Delahunt, and distinguished Members of the Subcommittee on International Oversight and Investigations, thank you for holding today's hearing on a very important topic: The Volcker Interim Report on the United Nations Oil-for-Food Program. The fact that the very hearing this newly-created Subcommittee is holding is on the Oil-for-Food Program clearly demonstrates the importance of this issue and the key role the Subcommittee will play in getting to the root of the scandal. Mr. Chairman, this is the right hearing on the right issue at the right time.

My testimony before the Subcommittee today is a brief summary of views regarding the Volcker Interim Report and the Independent Inquiry Committee. I have submitted for the congressional record an in-depth, detailed, 18-page statement.

Having read all 219 pages of the Independent Inquiry Committee Interim Report, my view is that it does a reasonably efficient job with regard to its very narrow areas of focus. The Volcker investigation into the activities of Benon Sevan have been detailed and should rightly pave the way for a criminal prosecution. It has shed important light on the workings of the secretive Iraq Steering Committee and has revealed political interference by a senior U.N. official in the procurement of U.N. contractors, Saybolt and Lloyd's Register.

Perhaps the most significant revelation in the report is its conclusion that former U.N. Secretary-General Boutros Boutros-Ghali personally selected the French Banque Nationale de Paris (BNP) to handle the hugely important Iraq escrow account, which administered tens of billions of dollars, this, despite the fact that BNP was not the best-qualified bank to handle the task. Boutros-Ghali is likely to be the subject of a major investigation by Congress in the months to come.

While acknowledging that this is an interim report published midway through the Volcker investigation, it has to be said, however, that it goes to considerable lengths to avoid making broad-based criticisms of the U.N. as an institution and the organization's senior management, including the U.N. Secretariat, despite some damning criticism of key aspects of the Oil-for-Food Program.

To say that the Volcker Interim Report has been soft on the top leadership of the United Nations is an understatement. It is little surprise that the U.N.'s well-oiled, spin machine has begun already to downplay the wider significance of the report's findings and to laugh off suggestions that senior U.N. managers, with the exception of Sevan, might actually be held accountable for the U.N.'s failings and be forced to step aside.

The complete lack of any criticism or even mention of U.N. Secretary-General Kofi Annan is a glaring omission that does not engender confidence in the Volcker Committee's goal of producing the definitive report into the U.N.'s handling of the Oil-for-Food Program. History has shown that few organizations are truly capable of investigating themselves in a thoroughly objective manner, and the United Nations is no exception. The willingness to give the U.N. the benefit of the doubt and permit its head to pick its own

independent committee of investigation with a complete monopoly over documents and witnesses may in future years be regarded as a huge error of judgment.

The U.N.'s response to the Volcker report has been predictable: Guarantees of disciplinary action against two U.N. officials, combined with grandiose promises of institutional reform, but overshadowed by a collective sigh of relief, a misguided sense of vindication, an open mocking of calls for Kofi Annan's resignation. Noticeably absent from the U.N.'s response was any sign of humility, contriteness, or accountability on the part of the U.N. Secretary-General and his senior aides.

The breathtaking arrogance displayed by U.N. officials, such as Chief of Staff Mark Malloch Brown, in the immediate aftermath of the Volcker report will only confirm the fears of many in Congress who seriously doubt the U.N.'s ability to learn any lessons from the Oil-for-Food scandal. The word "apology" clearly does not appear to exist in the U.N. staff handbook, and it is hard to avoid the conclusion that the leadership of the United Nations continues to exist in a state of self-denial with regard to the institution's decline in credibility.

The words of Mark Malloch Brown, head of the United Nations Development Program and Annan's newly appointed right-hand man, deserve careful congressional scrutiny if proof be needed of the U.N.'s lack of genuine commitment to holding itself accountable for the Oil-for-Food debacle. Malloch Brown, who counts Benon Sevan as "a lifelong colleague and a dear, dear friend," has been quick to downplay the broader significance of Volcker's findings. Malloch Brown has slammed U.S. critics of the U.N.'s management of the Oil-for-Food Program by arguing in an interview with the "BBC Today" program that:

> "Frankly, from our point of view, this report today is overall good news. This report says the program overall was apparently well managed. Money was not going missing. It was used for purposes it was assigned. The problems were limited to the margins."

One can only conclude that Mr. Malloch Brown must have been reading the "Alice in Wonderland" version of the Volcker report, as his observations bear little resemblance to the report I and most other people have read. His comments are disturbing, as they represent an attempt by the U.N. to distort reality and to spin the interim report to its own advantage. The smug self-confidence of the U.N.'s leadership concerns me and does suggest that they believe they have little to fear from the final findings of the Volcker investigation. Indeed, they may have good reason for their optimism.

The U.N. supporters have hailed the Independent Inquiry Committee as a huge step forward for the United Nations in terms of increasing accountability and transparency. They have held it up both as an example of a new spirit of openness supposedly sweeping through the world body and as a powerful symbol of Kofi Annan's stated objective to restore the reputation of the U.N.

In reality, however, the Volcker Committee suffers from a huge credibility problem of its own. It is hard to see how a team of investigators hand-picked by the U.N. Secretary-General, whose son is

himself a subject of investigation, can be considered truly independent. There is also a major question mark over its Chairman's neutrality. Considering Mr. Volcker's several years as a Director of the United Nations Association and the Business Council for the United Nations, it is difficult to see how he could cast a critical, objective eye on the U.N.'s leadership. It is inconceivable that Kofi Annan was unaware of Mr. Volcker's close ties to the United Nations Association when he appointed him to head the Oil-for-Food investigation, and it could well have been an important factor influencing his decision.

As the U.N. faces a major crisis of public confidence, it is imperative that any investigation of U.N. corruption and mismanagement be seen as independent, open, and transparent. It is regrettable that the Volcker Committee is failing on all counts.

The U.N.-appointed Independent Inquiry Committee should not be seen as the definitive investigation into the Oil-for-Food Program. It should be viewed as one of several major investigations and, on current evidence, less credible than its congressional counterparts.

To conclude, it is my firm view that the U.N. Secretary-General should not in the future be allowed to pick his own committee of investigation into a U.N. scandal and then pass it off as independent. Such inquiries will always be open to the possibility of political interference and manipulation by those being investigated. Congress should insist on future investigations into U.N. scandals being completely independent of the United Nations. Chairmen of such inquiries should also be asked to disclose on appointment all potential conflicts of interest, either business or political.

I believe also that Kofi Annan must be held accountable for failings in the Oil-for-Food Program. In order to begin the process of restoring the reputation of the U.N., Mr. Annan should step down. The fact that Annan remains in office despite growing evidence of widespread U.N. failings with regard to the Oil-for-Food Program sends a message of impunity, arrogance, and unaccountability on the part of the leadership of the United Nations. It also sets a poor precedent for future leaders of the U.N. who will be encouraged to believe that they will not be held to account for the organization's failures.

Annan has become a severe liability to the effectiveness of the U.N. as a world body. Serious reform of the organization to make it more transparent, effective, and accountable will be impossible as long as he remains in power. Thank you.

[The prepared statement of Mr. Gardiner follows:]

PREPARED STATEMENT OF NILE GARDINER,[1] PH.D., FELLOW IN ANGLO-AMERICAN SECURITY POLICY, THE HERITAGE FOUNDATION[2]

AN ASSESSMENT OF THE VOLCKER INTERIM REPORT AND THE INDEPENDENT INQUIRY COMMITTEE INTO THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

Chairman Rohrabacher, Ranking Member Delahunt, and distinguished Members of the Subcommittee on International Oversight and Investigations. Thank you for holding today's hearing on a very important topic: the Volcker Interim Report on the United Nations Oil-for-Food Program. The fact that the very first hearing this newly created subcommittee is holding is on the Oil-for-Food Program clearly demonstrates the importance of this issue and the key role Chairman Rohrabacher, Ranking Member Delahunt, and the Members of the subcommittee will play in getting to the root of this scandal. Mr. Chairman, this is the right hearing on the right issue at the right time.

I am sure that both sides of the political divide in Congress will agree with President Bush's recent call for "the U.N. to understand that there ought to be a full and fair and open accounting of the Oil-for-Food Program. In order for the taxpayers of the U.S. to feel comfortable about supporting the U.N., there has to be an open accounting." This testimony examines the Interim Report of the Independent Inquiry Committee into the United Nations Oil-for-Food Program, and raises major concerns regarding the overall effectiveness, independence and objectivity of this U.N.-appointed investigation.

PART 1. THE VOLCKER INTERIM REPORT

The Independent Inquiry Committee into the United Nations Oil-for-Food Program (IIC) released its interim report on February 3, 2005. The committee was appointed by U.N. Secretary-General Kofi Annan in April 2004 following calls for a Security Council-backed inquiry into the Oil-for-Food scandal. The three-member inquiry is chaired by former Federal Reserve Chairman Paul Volcker and includes South African Justice Richard Goldstone and Swiss Professor of Criminal Law Mark Pieth.

The committee's 75-member staff, which includes three support personnel on loan from the U.N., operate on a $30 million budget drawn from the U.N. Oil-for-Food escrow account, and comprises 28 nationalities. The committee has so far conducted 400 interviews in 25 countries, including interviews with 150 current and former U.N. employees, as well as with present and former Iraqi officials.

The IIC's main terms of reference are to "collect and examine information relating to the administration and management of the Oil-for-Food Program, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents, as well as contractors, including entities that have entered into contracts with the United Nations or with Iraq under the Program."

The interim report was published at a sensitive time for the United Nations. There is little doubt that the scandal has harmed the reputation of the world organization.[3] Secretary-General Annan has come under fire for what is arguably the biggest scandal in the history of the U.N. and the largest financial fraud of modern times.

Annan is facing growing calls for his resignation from Capitol Hill, where Senator Norm Coleman (R–MN), Chairman of the Senate Permanent Subcommittee on Investigations, and 60 Members of the House of Representatives have called for Annan to step down.[4] Among them are nine members of the House Appropriations

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[1] The author is grateful to James Dean, Deputy Director of Government Relations at the Heritage Foundation, for his advice and suggestions. Heritage Foundation intern Nicole Collins assisted with research for this testimony.

[2] The Heritage Foundation is a public policy, research, and educational organization operating under Section 501(C)(3). It is privately supported, and receives no funds from any government at any level, nor does it perform any government or other contract work. Members of The Heritage Foundation staff testify as individuals discussing their own independent research. The views expressed are their own, and do not reflect an institutional position for The Heritage Foundation or its board of trustees.

[3] For background on the Oil-for-Food issue, see Nile Gardiner, James Phillips, and James Dean, "The Oil-for-Food Scandal: Next Steps for Congress," Heritage Foundation *Backgrounder* No. 1772, June 30, 2004, at *www.heritage.org/Research/InternationalOrganizations/bg1772.cfm.*

[4] "Expressing the sense of the House of Representatives that due to the allegations of fraud, mismanagement, and abuse within the United Nations Oil-for-Food Program, Kofi Annan should resign from the position of Secretary-General of the United Nations to help restore confidence that the investigations into those allegations are being fully and independently accomplished,"

Committee, which provides 22 percent of the U.N. operating budget each year, and eight members of the House International Relations Committee. It is likely that more Senators will join Coleman's call for Annan's departure.

In addition, the Bush Administration has begun to harden its stance toward Annan. Outgoing Secretary of State Colin Powell warned the embattled Secretary-General that he will be held accountable for management failures in the Oil-for-Food Program.[5] President George W. Bush has so far refused to express his confidence in Annan, declining to meet with him in December when the Secretary-General visited Washington.

Outside the Oil-for-Food scandal, Annan's problems are also mounting. He has acknowledged and accepted organizational responsibility for a major scandal involving U.N. personnel and peacekeepers in the Congo. In addition, internal unrest within the U.N. continues to mount in the wake of a series of harassment scandals involving senior U.N. managers. The threat of a U.N. staff revolt looms large. If 2004 was Kofi Annan's "annus horribilis," 2005 threatens to be even worse. It was amidst this charged atmosphere that Mr. Volcker unveiled his eagerly awaited report.

Key Findings of the Volcker Interim Report [6]

The IIC Interim Report addresses the following subjects:

- The initial procurement in 1996 of the three U.N. contractors responsible for critical components of the Oil-for-Food Program: inspection of oil exports (Saybolt Eastern Hemisphere BV), the inspection of humanitarian goods imports (Lloyd's Register Inspection Ltd.), and the holding, in escrow, of the proceeds and payments within the Program (Banque National de Paris).
- Internal Programme Audits carried out by the U.N.'s Office of Internal Oversight Services (OIOS).
- Administrative Expenditures i.e. funds allocated to the U.N. for administrative purposes—the ESD Account funded with approximately 2.2 percent of the Program's oil proceeds.

The Interim Report also addresses allegations made against Benon Sevan, the Executive Director of the Office of the Iraq Program (OIP). The report does not address the relationship between Secretary-General Kofi Annan's son Kojo, and the Swiss company Cotecna Inspection SA, which replaced Lloyd's Register in December 1998. Nor does it examine Annan's overall role in overseeing the Oil-for-Food Program

The most significant findings of the Interim Report relate to the following:

- *Benon Sevan*

Benon Sevan, a Cypriot, served as Under Secretary-General and Executive Director of the United Nations Office of the Iraq Program from 1997 to 2004. A career U.N. employee since 1965, Benon Sevan has served in numerous U.N. positions, including Assistant Secretary-General and Deputy Head of the Department of Political Affairs. He has been the subject of intense scrutiny since being named in the report of U.S. weapons inspector Charles Duelfer, in which he allegedly received a voucher for 13 million barrels of oil from Saddam Hussein.

The IIC conducted an intensive investigation of Sevan's conduct as head of the OIP, "a position of immense power and transnational responsibility." His job placed him in a position of constant communication with the Saddam Hussein regime, and numerous U.N. member states, including each of the members of the Security Council. Sevan "supervised or coordinated the activities of hundreds of international staff in New York and overseas, including a considerably larger number of citizens of Iraq." [7]

The Volcker Report's findings into Benon Sevan's conduct while head of the OIP are damning. The Committee concluded that Sevan "solicited and received on behalf of AMEP (African Middle East Petroleum Co Ltd Inc) several million barrels of allocations of oil from 1998 to 2001. As a result of Mr. Sevan's conduct, AMEP's revenue—net bank fees and surcharge payment—totaled approximately $1.5 million." The IIC declared that Sevan's actions "presented a grave and continuing conflict of

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H. Res. 869, 108th Cong., 2nd Sess., December 6, 2004, at *thomas.loc.gov/cgi-bin/bdquery/z?d108:HE00869:@@@P* Representative Roger F. Wicker (R–MS) sponsored the resolution.

[5] See Sean Hannity, interview with Colin Powell, partial transcript, *Fox News*, January 12, 2005, at *www.foxnews.com/story/0,2933,144218,00.html*

[6] Independent Inquiry Committee into the United Nations Oil-for-Food Programme, *Interim Report*, February 3, 2005, at *http://www.iic-offp.org/documents/InterimReportFeb2005.pdf* (Hereafter referred to as *IIC Interim Report*).

[7] *IIC Interim Report*, p.123.

interest, were ethically improper, and seriously undermined the integrity of the United Nations."[8]

The seriousness of the charges leveled against Benon Sevan by the IIC Interim Report clearly merit criminal prosecution, and the U.N.'s pledge to lift diplomatic immunity for Mr. Sevan is an important first step in the right direction.

Mr. Sevan should also be interviewed by Congressional investigators to shed more light on his illicit activities, as well as any criminal activity by members of his staff. Besides facing justice, Sevan should additionally serve as a vitally important source of information regarding attempts by the Saddam Hussein regime to influence decision-making at the U.N. and the Security Council. Several key questions need to be answered:

— How did Sevan manage to blatantly flout U.N. rules without any suspicions being raised?
— Why was there no oversight of Sevan's management of the Office of the Iraq Program?
— To what extent was Kofi Annan aware of corrupt practices within the OIP?
— Were other U.N. staff assisting Sevan with his illicit activities?
— How extensive were the ties between Sevan and the Saddam Hussein regime?
— How was Sevan picked to become Director of the OIP?
— Were allegations of corruption leveled against Sevan when he served in previous U.N. positions?

• *Boutros Boutros-Ghali, Banque Nationale de Paris and the UN Escrow Account*

The UN's decision to appoint the French company Banque Nationale de Paris (BNP) to administer the Oil-for-Food escrow account is the subject of intense scrutiny in the IIC Interim Report. Vast sums of money were handled through the escrow account. The Saddam Hussein regime sold more than $64.2 billion of oil under the Oil for Food Program between 1996 and 2003.[9] BNP was selected by then U.N. Secretary General Boutros Boutros-Ghali, even though the decision did not conform to the requirement under U.N. financial rules to accept the "lowest acceptable bidder".[10]

The IIC Report demonstrates that several banks were better placed to manage the Iraq escrow account on the basis of their higher credit quality (based on IBCA ratings): Union Bank of Switzerland, Deutsche Bank, Credit Suisse, Citibank and Chase Manhattan.[11] The U.N. Treasury eventually opted for Credit Suisse as first choice to run the escrow account, but BNP was awarded the contract.

Boutros-Ghali's decision to select BNP over more qualified competitors should become the subject of Congressional scrutiny. The following questions need to be answered:

— How much influence did Saddam Hussein wield over Boutros-Ghali's final decision?
— To what extent did the U.N. give the Iraqi regime a veto over the choice of bank for the U.N. escrow account?
— How close was the relationship between Boutros-Ghali and the Saddam Hussein regime?
— What role did the French government play in the U.N. decision to opt for BNP?
— What was the nature of the relationship between BNP and the Iraqi government, both before it won the escrow account, and during the period in which it administered the account?

• *The Secretive U.N. Iraq Steering Committee*

The Interim Report sheds initial light on the powerful Iraq Steering Committee, created by Boutros-Ghali "to ensure the timely and effective implementation" of the Oil-for-Food Program and designed to report to the Secretary General "on a regular basis." It operated in a highly secretive manner, and "did not keep official records

[8] *IIC Interim Report*, p.163. According to the report, "Sevan solicited and received on behalf of AMEP oil allocations totaling 14.3 million barrels, of which AMEP lifted approximately 7.3 million barrels of oil." (p.151).
[9] *IIC Interim Report*, p.58.
[10] *IIC Interim Report*, p. 109.
[11] *IIC Interim Report*, p.76.

or minutes of proceedings and determinations." Significantly, the U.N. archives are "devoid of records of the Steering Committee."[12]

The Steering Committee was chaired by Chinmaya Gharekhan, Under Secretary-General and Senior Adviser to the Secretary-General, and included five other high-level U.N. officials: Yakushi Akashi, Under Secretary-General for Humanitarian Affairs; Joseph E. Connor (an American), Under-Secretary-General for Administration and Management; Hans Corell, Under Secretary-General for Legal Affairs; Marrack I. Goulding, Under Secretary-General for Political Affairs; and Yukio Takasu, Assistant Secretary-General and Controller.[13]

There is a strong case to be made for members of the Iraq Steering Committee to testify before Congress, and to assist with the inquiries of Congressional investigators. The impression gained from the Volcker Report is of a powerful policy group surrounding the Secretary-General which operated without accountability or transparency, and which completely avoided any form of scrutiny.

The Steering Committee is a symbol of the pervasive culture of secrecy and unaccountability within the U.N. system regarding its handling of the Oil-for-Food Program. It is in the public interest that the operations of the Steering Committee be subject to Congressional investigation.

The UN Oil for Food Audits

The Volcker Interim Report should be read alongside the Independent Inquiry Briefing Paper which accompanied the release in January 2005 of 55 internal U.N. audits on the Oil-for-Food Program.[14]

It is not hard to see why U.N Secretary-General Kofi Annan strongly resisted the release of internal U.N documents relating to the Oil-for-Food Program. The 55 audits produced by the Internal Audit Division (IAD) of the U.N. Office of Internal Oversight Services paint an ugly tableau of widespread mismanagement and incompetence on the ground in Iraq, which undoubtedly played an important role in clearing the way for Saddam Hussein to skim billions of dollars from a humanitarian program designed to help the Iraqi people. In particular, the United Nations failed to effectively oversee the U.N.-appointed contractors whose role it was to inspect humanitarian goods coming into Iraq and the export of oil from the country. In addition, the U.N. wasted millions of dollars as a result of overpayments to contractors, appalling lack of oversight, and unjustified spending.

The U.N. audits were only released after pressure from Congress and the Bush Administration, as well as calls from Capitol Hill for U.N. Secretary-General Kofi Annan's resignation. The failure to release the audits earlier has hurt Annan's reputation and lent the impression of cover-up, as well as reinforcing the general lack of openness and accountability on the part of the U.N. with regard to Oil-for-Food.

In reference to the 24 U.N. audits conducted between 1998 and 2002 covering procurement, project management, and contract management at the Office of the Iraq Program and the Iraq-based organizations, the U.N. Office for the Humanitarian Coordinator for Iraq (UNOHCI), the U.N. Center for Human Settlements (UNCHS), and the U.N. Department of Economic and Social Affairs (DESA), the Volcker Committee concluded,

> *[T]he audit reports describe inadequate procedures, policy, planning, controls and coordination across numerous areas of activity. Some reports, most notably those on DESA, present a wholesale failure of normal management and controls. The reports offer a picture of several organizations debilitated by stress and insufficient resources that too frequently operated in an ineffective, wasteful and unsatisfactory manner. Based on the reports, it appears the OFFP management was not quick to react to criticism and was either unable or unwilling to address issues raised by IAD. In cases where monetary losses from inadequate control and poor judgment were calculated by IAD, the results were often significant—approximately $5 million in total.*[15]

The Volcker briefing paper was similarly scathing in its assessment of the findings of the three audits of the performance of the U.N. contractors operating in Iraq-Lloyd's Register, Cotecna, and Saybolt:

> *The problems identified by IAD during these audits resulted in approximately $1.4 million in total losses. In all three cases, auditors determined that the ini-*

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[12] *IIC Interim Report*, p.69.

[13] For further biographical details see the *IIC Interim Report Glossary of Individuals.*

[14] "Internal Audit Reports of the United Nations Oil-for-Food Program," Briefing Paper prepared by the Independent Inquiry Committee into the United Nations Oil-for-Food Program, January 9, 2005, at *http://www.iic-offp.org/documents/IAD%20Briefing%20Paper.pdf.*

[15] Ibid.

tial contract items were not understood or adhered to by the contractors and that OIP (Office of the Iraq Program) subsequently failed to conduct adequate monitoring of contract execution.[16]

Significantly, the audits do not cover the critically important oil and humanitarian aid contracts signed by the Saddam Hussein regime under the auspices of the Oil-for-Food Program. Not one oil or humanitarian goods contract was directly monitored by the U.N., despite the fact that monitoring was the direct responsibility of U.N. officials. Nor was there any significant audit oversight of the New York headquarters of the Oil-for-Food Program.

That the audits were limited in scope was clearly the result of a major abdication of responsibility by the senior management of the United Nations. In the words of the Volcker Committee (emphasis added),

> *There were no examinations of the oil and humanitarian contracts by IAD during the OFFP. Oil contracts were not examined with an eye to the enforcement of contract requirements, despite the fact that U.N. officials had contract approval responsibilities. It is possible that more comprehensive monitoring and a greater emphasis on fidelity to contract requirements would have deterred the surcharge scheme that resulted in decreased oil prices and lost revenues to the Escrow account. In the same vein, humanitarian contracts were not scrutinized to ensure consistency of the goods with the distribution plan under which they were purchased. They were also not evaluated on the basis of fairness of the price and quantity of goods purchased. Testing the humanitarian contracts for price fairness could have revealed irregularities and undercut the Iraqi government's kickback scheme that resulted in lost revenues to the Escrow account and significant sanctions violations.*[17]

In addition, the Volcker Committee also makes clear that the Oil-for-Food audits virtually ignored the role played by the Office of the Iraq Program, headed by Benon Sevan. This is despite the fact the headquarter's running costs amounted to 40 percent of the nearly $1 billion in total administrative costs of the Oil-for-Food Program, a staggering figure. As the Committee's report concludes,

> *[T]he lack of focus on headquarters functions, oil purchase and humanitarian aid contracts, and bank letter of credit operations, in combination with the slow pace of audit performance, appear to have deprived the U.N. of a potentially powerful agent in helping to ensure accountability, particularly in the early years of the OFFP.*[18]

Key Omissions from the Volcker Interim Report

- *The Role of Kofi Annan*

For a 219-page report into U.N. management of the Oil-for-Food Program, it seems rather odd that the man with overall responsibility for its operations barely merits a footnote. Secretary General Kofi Annan is as elusive as the Scarlet Pimpernel at the height of the French Revolution amidst the weighty pages of Mr. Volcker's report. The IIC has promised further details relating to the role of Kofi Annan's son Kojo in the hiring of the Swiss Oil-for-Food contractor Cotecna, but the Secretary-General's glaring omission from the pages of the Interim Report defies explanation and smacks of political interference.

Considering the fact that Mr. Annan hand-picked Benon Sevan to head the Oil-for-Food Program, it is extremely surprising that the Volcker report does not seek to explore the background to Mr. Sevan's appointment and his working relationship with the Secretary-General. Nor does the Report at any time consider what the Secretary-General might have known about failings with regard to the OFFP at various stages of its existence.

- *The Lack of U.N. Oversight of the Office of the Iraq Program*

The IIC Interim Report makes no serious effort to explain why the Office of the Iraq Program did not receive significant scrutiny from the Office of Internal Oversight Services. It also makes no attempt to question why Secretary-General Annan did not keep an eye on the New York headquarters of the U.N.'s biggest humanitarian operation. The strong friendship between Mr. Sevan and Mr. Annan must surely warrant investigation as a possible factor behind the lack of oversight exercised over the Office of the Iraq Program. Clearly, Annan was either asleep at the

[16] Ibid.
[17] Ibid.
[18] Ibid.

wheel and grossly negligent, or deliberately turned a blind eye to widespread mismanagement as well as corruption.

The role of the U.N. Secretariat should also be brought into question. After all, the Volcker Report makes it clear that "although the Security Council and its 661 Committee exercised combined supervisory and operational oversight of the Programme, the Secretariat of the United Nations administered its day-to-day operation."[19] The IIC sheds no light whatsoever on the involvement of the Secretariat in overseeing the work of the OIP.

• *Attempts by Saddam Hussein to influence Security Council members*

The detailed allegations made by Chief U.N. Weapons Inspector Charles Duelfer regarding Iraqi attempts to influence members of the Security Council in an effort to lift U.N. sanctions receive scant attention in the Interim Report. The close ties between Russian and French politicians and the Iraqi regime and the huge French and Russian financial interests in pre-liberation Iraq were almost certainly an important factor in influencing their governments' decision to oppose Hussein's removal from power.

The Oil-for-Food Program and its elaborate system of kickbacks and bribery was a major source of revenue for many European politicians and business concerns, especially in Moscow. Congressional hearings on the financial, political, and military links between Moscow, Paris, and Baghdad should shed light on the tempestuous Security Council debates that preceded the war with Iraq and on the motives of key Security Council members in opposing regime change in Baghdad.

The UN's Response to the Volcker Interim Report

The U.N.'s response to the Volcker report was largely expected: guarantees of disciplinary action against two U.N. officials, combined with grandiose promises of institutional reforms, but overshadowed by a collective sigh of relief, a misguided sense of vindication, and open mocking of calls for Kofi Annan's resignation. Notably absent from the U.N.'s response was any sign of humility, contriteness or accountability on the part of the U.N. Secretary-General and his senior aides. Indeed, the breathtaking arrogance displayed by U.N. officials such as Chief of Staff Mark Malloch Brown in the immediate aftermath of the Volcker report, will only confirm the fears of many in Congress who seriously doubt the U.N.'s ability to learn any lessons from the Oil-for-Food scandal. The word "apology" clearly does not appear to exist in the U.N. staff handbook, and it is hard to avoid the conclusion that the leadership of the United Nations continues to exist in a state of self-denial with regard to the institution's declining credibility.

The words of Mark Malloch Brown, former head of the United Nations Development Program (UNDP), and Annan's newly appointed right hand man, deserve careful Congressional scrutiny, if proof be needed of the U.N.'s lack of genuine commitment to holding itself accountable for the Oil-for-Food debacle. Malloch Brown, who counts Benon Sevan as "a lifelong colleague and a dear dear friend"[20], has been quick to downplay the broader significance of Volcker's findings.

Malloch Brown has slammed U.S. critics of the U.N.'s management of the Oil-for-Food Program by arguing in an interview with the BBC that *"frankly from our point of view this report today is overall good news . . . This report says the program overall was apparently well managed—money was not going missing. It was used for the purposes it was assigned. The problems were limited to the margins."*[21]

Malloch Brown dismissed the suggestion that the Oil-for-Food scandal may be the biggest financial scandal in the history of the U.N., telling the BBC that *"it is dwarfed by corporate scandals. It is dwarfed by government scandals around the world. Because it is the U.N. it has a particular resonance because this is the snake in the garden of Eden."*[22]

In Malloch Brown's view, the real culprit in the Oil-for-Food scandal is not the U.N., but members of the Security Council such as the United States, who it is alleged turned a blind eye to illicit oil smuggling. Completely ignoring the findings of the U.S. Senate Permanent Subcommittee on Investigations, and the General Ac-

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[19] *IIC Interim Report*, p.58.

[20] Quoted by Philip Sherwell and Charles Laurence, "The Scandal Kofi Couldn't Cover Up", *The Sunday Telegraph*, February 2, 2005, at *http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2005/02/06/wun106.xml*

It should be noted that, despite his friendship with Benon Sevan, Malloch Brown has stated that "no one will be shielded from prosecution. If there are criminal charges, the U.N. will fully co-operate and waive diplomatic immunity of staff members, whoever they are."

[21] Mark Malloch Brown, interview with BBC Radio 4 *Today Programme*, February 4, 2005, at *http://www.bbc.co.uk/radio4/today/listenagain/friday.shtml*

[22] Ibid.

countability Office (GAO), that the Saddam Hussein regime illicitly gained billions of dollars through the Oil for Food Program[23], Annan's Chief of Staff challenges Congressional critics to *"look a little closer to home"* with regard to the estimated total of $21 billion siphoned off by Saddam:

> *"This report (the Volcker Interim Report) makes it clear that a very very very tiny fraction of that was within the U.N. program. Most of it was oil smuggling condoned by the United States and other Security Council members, including Britain (and) reported on to Congress as an acceptable breach of the Program, which for political reasons had to be allowed. So the billions which went missing was because of that kind of realpolitik calculation by governments. The U.N. bit of it is a very small part, yet it's the bit that has attracted all of the attention and allegations of corruption, and I think it's time the critics took this report for what it was—an admission that there were weaknesses and failings and perhaps even corruption on the part of one or two individuals, but that it has to be put within the context of much broader failures by governments than those that occurred within the U.N."*[24]

Conclusions Regarding the Volcker Interim Report

The Independent Inquiry Committee Interim Report does a reasonably efficient job with regard to its narrow areas of focus. The IIC investigation into the activities of Benon Sevan have been detailed, and should rightly pave the way for a criminal prosecution. It has shed important light on the workings of the secretive Iraq Steering Committee, and has revealed political interference by a senior U.N. official in the procurement of U.N. contractors Saybolt and Lloyd's Register.

Perhaps the most significant revelation in the Report is its conclusion that U.N. Secretary-General Boutros Boutros-Ghali personally selected the French Banque Nationale de Paris to handle the hugely important Iraq escrow account, which administered tens of billions of dollars. This despite the fact that BNP was not the best qualified bank to handle the task. Boutros Ghali is likely to be the subject of major investigation by Congress in the months to come.

While acknowledging that this is an interim report, published mid-way through the IIC's investigation, it has to be said, however, that it goes to considerable lengths to avoid making broad-based hard hitting criticisms of the U.N. as an institution and the organization's senior management. To say that the Volcker Interim Report has been soft on the United Nations as a world body as well as its leadership is an understatement. It is little surprise that the U.N.'s well oiled spin machine has begun already to downplay the wider significance of the report's findings, and to laugh off suggestions that senior U.N. managers (with the exception of Sevan and another official Joseph Stephanides[25]) might actually be held accountable for the U.N.'s failings and be forced to step aside.

The complete lack of any criticism, or even mention, of U.N. Secretary General Kofi Annan, is a glaring omission that does not engender confidence in the Volcker Committee's goal of producing "the definitive report" into the U.N.'s handling of the Oil-for-Food Program. Indeed, history has shown that few organizations are truly capable of investigating themselves in a thoroughly objective manner, and the United Nations is no exception. The willingness to give the U.N. the benefit of the doubt, and permit its head to pick his own 'independent' committee of investigation with a complete monopoly over documents and witnesses, may in future years be regarded as a huge error of judgment.

PART 2. THE INDEPENDENT INQUIRY COMMITTEE INTO THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

Problems of Credibility Relating to the Independent Inquiry Committee

The Volcker Committee may fail to deliver a final exhaustive account of U.N. failings and possible criminal activity by U.N. officials for several reasons, including a lack of investigative power and an absence of real independence from the U.N. Indeed, the five congressional investigations now underway could well prove more effective in uncovering the full story of the Oil-for-Food fraud that allowed the Saddam Hussein regime to enrich itself at the expense of the Iraqi people.

The Independent Inquiry Committee is severely handicapped by its dearth of investigative power. Even if it wanted to, the committee clearly does not possess the

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[23] See 'Comparison of Estimates of Illicit Iraqi Income During United Nations Sanctions', *IIC Interim Report*.

[24] Ibid.

[25] Stephanides was Chief of the Sanctions Branch and Deputy Director of the Security Council Affairs Division, United Nations Department of Political Affairs, in 1996.

means to fully investigate this gigantic scandal. As outgoing U.S. Ambassador to the U.N. John Danforth has pointed out, the IIC is not equipped with the necessary tools to conduct a thorough investigation:

> *The fact that [Volcker] doesn't have subpoena power, he doesn't have a grand jury, he can't compel testimony, he can't compel production of documents and witnesses and documents that are located in other countries might be beyond his reach . . .*
>
> *Those are tremendous handicaps. . . . [W]hat is possible, is that his focus would move from the bad acts, from the criminal offenses to something that he will view as more manageable—namely the procedures and was it a tight enough procedural system, which might be interesting but not the key question to investigate.*[26]

At the same time, there are also major questions regarding the independence of the Volcker Committee. So far, the names of just 10 senior staff have been released, including Reid Morden, former Director of the Canadian Security Intelligence Service, and Swiss magistrate Laurent Kasper-Ansermet.[27] However, no details have been released regarding the remaining staff of investigators that are actually doing the investigating and handling the huge volume of documents. It remains unclear how many former U.N. employees are involved with the committee. It is self-evident that a truly independent inquiry into U.N. corruption should not be staffed either by former U.N. employees or by any other people with significant ties to the U.N.

Without any kind of external oversight, the Volcker Committee is clearly open to U.N. manipulation. Paul Volcker, handpicked by Annan, is under immense pressure from the U.N. to clear the Secretary-General and restore the reputation of the United Nations. Refusing to hand over to Congress the 55 highly damaging internal U.N. Oil-for-Food audits until January of this year only added to the impression of a major cover-up by the U.N.

Paul Volcker and an Apparent Conflict of Interest

In addition to the problems outlined above, the fact that Mr. Volcker's own outlook may be influenced by past associations should be an issue of serious concern. It is vitally important that any independent inquiry into the extremely serious allegations against the United Nations over its management of the Oil-for-Food Program be totally independent of the U.N. It is just as important that the person heading the inquiry be completely unbiased and objective in his approach to the organization he is investigating. For example, in the corporate world, it would be inconceivable for an independent inquiry into fraud and corruption to be headed by someone with strong ties and loyalties to the corporation being investigated.

However, in the case of Volcker and the IIC, there is an apparent conflict of interest that brings into question whether or not the committee can be relied upon to investigate the United Nations objectively. When Volcker was appointed to head the Oil-for-Food investigation in April 2004, it was not widely known by the public, the world's media, and the U.S. Congress that he was a director of the United Nations Association of the United States of America (UNA–USA) and the Business Council for the United Nations (BCUN). Volcker is listed as a director in the 2003–2004 UNA–USA annual report,[28] as well as in the annual reports for 2001–2002 and 2000–2001.[29]

His biography on the Independent Inquiry Committee's Web site does not mention his involvement with the UNA–USA,[30] a rather striking omission considering that he is charged with conducting a highly sensitive investigation into the U.N. Volcker does disclose his other institutional affiliations—including the Trilateral Commission, the Institute of International Economics, the American Assembly, and the American Council on Germany—but is seemingly shy about his work with the United Nations Association.

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[26] John Danforth, quoted in Fox News, "Danforth: Volcker Doesn't Have Right Tools," January 8, 2005, at *www.foxnews.com/ story/0,2933,143714,00.html*

[27] Paul A. Volcker, "A Road Map for Our Inquiry," *The Wall Street Journal*, July 7, 2004.

[28] United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations: UNA–USA Annual Report 2003–2004*, at *www.unausa.org/pdf/publications/2003—annual—report.pdf*

[29] United Nations Association of the United States of America, *Annual Report 2001–2002*, at *www.unausa.org/../pdf/ar02.pdf*, and *Annual Report 2000–2001, at www.unausa.org/../pdf/ar01.pdf*

[30] Independent Inquiry Committee into the United Nations Oil-for-Food Programme, "Members," at *www.iic-offp.org/members.html*

The United Nations Association of the United States of America is a vocal pro-U.N. advocacy group that "supports the work of the United Nations." In the words of a grateful Kofi Annan:

> *There are United Nations Associations in many other countries, but this one is unique—both in the challenges it faces and in the energy and resources it devotes to tackling them. From our perspective, it is hard to think of any work more valuable than what you do to improve the understanding of United Nations issues in our host country.* [31]

A key goal of the United Nations Association is to "greatly expand and contribute to Americans' understanding of the U.N. and its importance to the U.S. by increasing the channels through which we inform Americans, particularly opinion-makers, elites, UNA–USA members and students." [32] It is also a forceful advocate of U.S. membership of the International Criminal Court.

The UNA–USA has played a significant role in defending the U.N.'s response to the Oil-for-Food scandal and the leadership of Secretary-General Annan. It has also prominently defended the reputation of the Oil-for-Food Independent Inquiry Committee. To a great degree, the UNA–USA has acted as lead cheerleader for the U.N. and the Volcker Committee with regard to the Oil-for-Food controversy. Its talking points on "The Oil-for-Food Programme," for example, argue that the Volcker report "will be objective, thorough and fair" and that "the U.N. Security Council—not the Secretary-General or his staff—had ultimate oversight authority for the Oil-for-Food Programme." The UNA–USA has criticized the "politically motivated attacks" on the U.N. over Oil for Food and the calls for Annan's resignation, which it says "constitute an effort to undermine the U.N., which is a real objective for many of those who are distorting the facts on this complex issue." [33]

The UNA–USA's partner organization, the Business Council for the United Nations, works to "advance the common interests of the U.N. and business in a more prosperous and peaceful world." One of its chief underwriters was BNP Paribas,[34] the French bank that held the escrow account for Oil-for-Food funds. BNP donated more than $100,000 to UNA–USA and the BCUN in 2002 to 2003.[35] BNP's role in the Oil-for-Food scandal is currently being investigated by the House International Relations Committee,[36] as well as by the Volcker Committee.

Key Recommendations Regarding the Independent Inquiry Committee

- A mechanism for external oversight of the operations of the Independent Inquiry Committee should be put in place. Its operations are shrouded in secrecy, with little transparency.
- In the interests of openness and accountability, the IIC should fully disclose the identities and previous affiliations of all 60 staff members.
- Transcripts of interviews conducted between the IIC and U.N. officials, including Secretary-General Kofi Annan, should be publicly disclosed along with the final findings of the IIC.
- Members of the U.N. Security Council should be furnished with regular monthly updates on the IIC investigation, including a full list of interviewees.
- A firm date should be set for final publication of the IIC report. The timing of the report's release must not be open to political manipulation by the U.N.
- The United Nations should make available for interview to congressional investigators all U.N. personnel involved in managing and staffing the Oil-for-Food Program.
- All U.N. documents relating to the Office of the Iraq Program, headed by Benon Sevan, should also be made available to Congress. The U.N. should not have a monopoly of vital evidence.

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[31] Kofi Annan, quoted in United Nations Association of the United States of America, *Annual Report 2001–2002*, p. 9.

[32] United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations*, p. 3.

[33] United Nations Association of the United States of America, "The Oil-for-Food Programme," talking points, December 2004, at *www.unausa.org/policy/newsactionalerts/advocacy/tpoff.asp*

[34] United Nations Association of the United States of America, *Annual Report 2000–2001*, p. 22.

[35] United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations*, p. 28.

[36] See Bill Gertz, "Bank Lapses Cited in Iraq Oil Program," *The Washington Times*, November 18, 2004, at *www.washtimes.com/ national/20041118–120331–8156r.htm*

Conclusions Regarding the Independent Inquiry Committee

Supporters have hailed the Independent Inquiry Committee into the Oil-for-Food Program as a huge step forward for the United Nations in terms of increasing accountability and transparency. They have held it up both as an example of a new spirit of openness supposedly sweeping through the world body and as a powerful symbol of Kofi Annan's stated objective to restore the reputation of the U.N.

In reality, the Volcker Committee suffers from a huge credibility problem of its own. It is hard to see how a team of investigators handpicked by the U.N. Secretary-General, whose son is himself a subject of investigation, can be considered truly independent. There is also a major question mark over its chairman's neutrality. Considering Mr. Volcker's several years as a director of the United Nations Association and the Business Council for the United Nations, it is difficult to see how he could cast a critical, objective eye on the U.N.'s leadership. It is inconceivable that Kofi Annan was unaware of Volcker's close ties to the UNA–USA when he appointed him to head the Oil-for-Food investigation. Indeed, it could well have been an important factor influencing his decision.

There are also major concerns over the IIC's lack of transparency. The U.N.-appointed investigation has operated in astonishing secrecy, with virtually no outside scrutiny. For an inquiry designed to unearth hidden corruption and malpractice on a huge scale, it is strikingly opaque. Such is its level of secrecy that its Web site does not even contain a mailing address.

In addition to its clear lack of independence and questionable covert operating style, there are serious doubts with regard to the IIC's ability to do its job. The Volcker Committee bears all the hallmarks of a toothless paper tiger: it carries no enforcement authority (such as the power to punish contempt) to compel compliance with its requests for information and has no authority to punish any wrongdoing that it discovers.

As the U.N. faces a major crisis of public confidence, it is imperative that any investigation of U.N. corruption and mismanagement be seen as independent, open and transparent. It is regrettable that the Volcker Committee is failing on all counts. Indeed, the U.N.-appointed Independent Inquiry Committee should not be seen as the definitive investigation of the Oil-for-Food Program. It should be viewed as one of several major investigations and, on current evidence, far less credible than its congressional counterparts.

OVERALL RECOMMENDATIONS

- *Kofi Annan Must be Held Accountable for Failings in the Oil-for-Food Program*
  In order to begin the process of restoring the reputation of the United Nations, Mr. Annan should step down. The fact that Annan remains in office despite growing evidence of widespread U.N. failings with regard to the Oil-for-Food Program sends a message of impunity, arrogance and unaccountability on the part of the leadership of the United Nations. It also sets a poor precedent for future leaders of the U.N., who will be encouraged to believe they will not be held to account for the organization's failures. Annan is increasingly a 'lame duck' Secretary-General who has become a severe liability to the effectiveness of the U.N. as a world body. Serious reform of the organization to make it more transparent, effective, and accountable will be impossible as long as he remains in power.
- *Future Inquiries into U.N. Scandals Must be Fully Independent*
  The U.N. Secretary-General should not in future be allowed to pick his own committee of investigation into a U.N. scandal, and then pass it off as 'independent'. Such inquiries will always be open to the possibility of political interference and manipulation by those being investigated. Congress should insist on future investigations into U.N. scandals being completely independent of the United Nations Secretary-General. Chairmen of such inquiries should also be asked to disclose on appointment all potential conflicts of interest, either business or political.
- *An External Oversight Authority Must be Established for the UN*
  The U.N.'s Office of Internal Oversight Services lacks the tools, expertise, public confidence, and above all independence, to conduct effective, transparent and impartial investigations of allegations of fraud and mismanagement within the United Nations. An external oversight body, completely independent of the UN, should be established to act as a watchdog over U.N. operations, including humanitarian programs and peacekeeping operations.
- *Congress Should Withhold U.S. Assessed Funding for the United Nations*
  The United States has been the United Nations' biggest contributor since it was founded in 1945. In 2004, the U.S. contributed $360 million toward the U.N.'s

routine operating expenses—22 percent of the U.N.'s regular annual operating budget and more than the combined contributions of France, Germany, China, Canada and Russia. Congressional leaders should make it clear that Congress will withhold all of the U.S. assessed contribution until the United Nations has provided unlimited access to relevant documentation on the Oil-for-Food Program and the sworn testimony of U.N. officials. The withheld funds should be placed in an escrow account, with future disbursement contingent on these matters being satisfactorily resolved.

Mr. ROHRABACHER. Thank you very much, Dr. Gardiner. I could almost hear Margaret Thatcher's accent there as you testified.

George Lopez, Dr. Lopez, is with us today. He is a Senior Fellow with the Joan B. Kroc Institute for International Peace Studies at the University of Notre Dame. He has written more than 20 articles and five books, most notably, *The Sanctions Decade: Assessing U.N. Strategies in the 1990s* and *Sanctions and the Search for Security*. His policy briefing, "Winning without War: Sensible Security Options for Dealing with Iraq," has been incredibly influential, and he has been investigating the U.N. sanctions on Iraq since 1992.

Dr. Lopez, we appreciate you being with us today, and you may proceed.

STATEMENT OF GEORGE A. LOPEZ, PH.D., SENIOR FELLOW, JOAN B. KROC INSTITUTE FOR INTERNATIONAL PEACE STUDIES, UNIVERSITY OF NOTRE DAME

Mr. LOPEZ. Thank you, Mr. Chairman, and thank you to all on the Committee for this marvelous opportunity. I would particularly like to accept the gracious extension of the New England Patriots coach from Congressman Delahunt and also accept what I know would have been his thanks for me traveling last night when I had to miss the Irish victory over Boston College in that marvelous basketball game.

Mr. ROHRABACHER. Boy, was that a way to treat the guy who invited you here. [Laughter.]

Mr. LOPEZ. But this should be our last laugh of the next 5 or 6 minutes.

I am delighted to be here this afternoon and to share with you my remarks, which are extended, of course, in written form for your review. I would highlight now, with regard to this important management-reform investigation, concerns in which I would like to examine three critical areas. What have we learned from this IIC Interim Report about the Oil-for-Food Program and about the substantial charges that have been operative in our political culture about how the U.N. and the U.N. Oil-for-Food Program worked?

In reviewing these findings, I would like to speak to what has been broken in the system and how to deal with these abuses and irregularities, with particular focus in the third aspect of my remarks on how to overcome this flawed behavior to build an effective institution for the security, not only of the globe, but particularly of the United States.

In terms of findings, the IIC Volcker report provides substantial data, it seems to me, in various areas that have dominated our debate thus far. First, and most important, Mr. Volcker has separated for us in this report matters of the Oil-for-Food Program which were under the purview of the Secretariat, and for which

that institution must be held accountable, and those individually who worked for it from the workings of the Security Council, which, at the end of the day, was in charge, through its 661 Committee, with virtually all matters and structured decisions with regard to the sanctions and the working of the Oil-for-Food Program itself.

Under these conditions, Mr. Volcker has recognized that often member states made decisions in the context of executing the Oil-for-Food Program which countervailed the sanctions regime itself. We have for us here the Duelfer chart, which illustrates the dynamic in which trade operated to underscore Security Council larger concerns as it formulated not only the sanctions in the early '90s, but particularly as it brought on line the Oil-for-Food Program. I would be happy to speak to this in more detail in question-and-answer, as it occupied a good deal of my own study through the mid-1990s.

To Mr. Volcker's credit, he has presented to us an analysis of Oil-for-Food impropriety and mismanagement within the Secretariat, to which I would like now to turn. First and foremost, it seems to me, Mr. Volcker has shed detailed light on the 2.2 percent account, the proceeds from the Iraqi oil sales which were used throughout this time to cover the U.N.'s administrative costs.

Volcker found that the U.N., contrary to continued assertions in the press, did not treat this money as a commission, as has been alleged. It was not a profit-making enterprise in either design or practice. Rather, he found that the 2.2 percent account was a legitimate, transparent charge for Oil-for-Food, and as many on this Committee well know, after the change of regime in Iraq through United States intervention, the accounting for 7 years of program operation funds yielded a surplus of $372 million, in fact, nearly 27 percent of the $1.4 billion funds that were this 2.2 percent account, and it was turned over to the CPA.

A second matter of concern in the report: The report illustrates for us the conflict of interest and the difficult behaviors associated with a number of U.N. officials. That is well known in the press. I will not deal with this. But I do believe that it is important to note that beyond individual charges, the report details for us a process of bidding and shows us that, in 1996, this contract process was highly politicized and deeply flawed because of the ambiguities that existed between the administrative dimensions of the Oil-for-Food Program and the role, purpose, and direction of the policies of the Security Council.

I will hold off my remarks to question-and-answer with regard to the auditing dimensions and the marvelous array of findings presented in chapter 5 of the report. I think the bottom line for our investigation really sits in thinking about meaningful reform.

Gentlemen, I would like to raise the following very plausible scenario with you. Sometime in the near future, a resource-rich nation ruled by a dictatorial regime is likely to engage in law-violating behavior vis-a-vis its own population or its neighbors. These actions being perceived as a threat to regional and international security, will attract international attention and discussion at the United Nations, with the United States being in the lead. Given the dynamics that exist in chapter 7 and our own current national secu-

rity needs, it is highly likely that the U.N. community will turn again to coercive sanctions as a means for redressing the grievances that the world community feels in this regime.

In an attempt to manage those sanctions and in an attempt to mitigate the worst aspects that those sanctions will have on a vulnerable population, it is highly likely that the United States and others will take the lead in the Council to establish a percentage of funds that emerge from those sanctions to be used to administer a program much like what we saw for nearly 8 years in Oil-for-Food. Because this is not a fictitious possibility but, in fact, a real crisis contingency, we must use these hearings and other matters at Congress to understand what can be done to reform programs like Oil-for-Food when they will, as they will, be needed again.

I would recommend the following actions that emerge from the findings and from the statements implicit in the Volcker interim report. First, that nearly all of chapter 5's recommendations on the auditing system for the United Nations be adopted. It seems to me that this is the most thorough investigation of auditing practices of an international agency that we have before us in any area of global governance.

Second, future sanctions resolutions in which the United States participates must clearly and unequivocally prohibit a role of the targeted state in negotiating any part of its own penalty mechanisms, and must hold it at arms' length from adjusting aspects of humanitarian operations.

Thirdly, memoranda of understanding generated by the Security Council or the Secretariat must be immediately reconciled with the internal U.N. management and procurement policies that exist, lest we have the kinds of dilemmas, ambiguities, and inequalities that we have under Oil-for-Food.

Fourth, the Council should standardize the creation of a high-level panel of outside experts who understand sanctions implementation and, given the particular regional or national context in which they unfold, can review not only the sanctions, but review the procedures that are in place to look at sanctions. The liaison and management of sanctions committee work must move out of the Department of Political Affairs at the Secretariat and be placed in a newly-created Coordinator of Sanctions Affairs, lest there be too much ambiguity in the relationships of authority between that DPA role and the Security Council and the Secretariat.

And, finally, Mr. Chairman and Committee, a new conflict-of-interest and anticorruption code of conduct should be adopted and developed for members of the Secretariat. Member states will need to recognize in this process their own obligations not to create such situations that continually compromise the work of these international civil servants as they try to execute the mandate of the organization and the sanctions in question.

In conclusion, I think we stand at a very important moment in time. The investigations that have been generated by yourselves, the international press, and the international community create an opportunity, a climate, and structure of reform unprecedented in the 60-year history of the United Nations. We will fail the United Nations, our country, and the people of Iraq if we do not take cre-

ative opportunities and move ahead with them in institutional form. Thank you.

[The prepared statement of Mr. Lopez follows:]

PREPARED STATEMENT OF GEORGE A. LOPEZ, PH.D., SENIOR FELLOW, JOAN B. KROC INSTITUTE FOR INTERNATIONAL PEACE STUDIES, UNIVERSITY OF NOTRE DAME

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished Committee on the findings of the Independent Inquiry Committee (IIC) of the United Nations Oil-for-Food program and to assess the implications of these findings for on-going concerns about UN management and reform. Although the IIC has much work yet to do, this interim report, combined with the release of audits in January, has moved us substantially down the road of determining detailed answers which US citizens and the Iraqis whom the program was meant to aid fully deserve.

Today I will confine my remarks to three critical areas:

1) What have we learned in the IIC report relative to charges made about the Oil-for-Food program?
2) In reviewing these findings, what is particularly "broken" in the system that led to the abuses, irregularities and inaccuracies found?
3) Can the UN system correct its inadequacies and overcome its flawed behavior to build an effective, honest organization?

The IIC Findings

The interim report issued by the Volcker Commission provides substantial data and analysis in various areas that have dominated the debate thus far. First, Mr. Volcker has separated throughout the report matters of the Oil-for-Food (OFF) program which were within the purview of the UN Secretariat from those which were a function of the Security Council. In so doing he reminds us that UN member states—through the Council and the 661 sanctions committee—structured and managed many aspects of the OFF program with various strategic and political considerations in mind. He recognizes how this often led the member states to take decisions outside of the OFF which countervailed the sanctions regime and permitted, it would seem, Saddam to garner illicit assets outside the eye of the OFF. But the full scope of that inquiry will be revealed in a future report. To Mr. Volcker's credit he does not permit this reality of Security Council control to excuse impropriety and mismanagement of OFF in the Secretariat, issues to which I now turn.

Volcker discusses in detail the 2.2 percent of the proceeds from Iraqi oil sales which covered the UN's administrative costs. Volcker found that the UN did not treat the account as a "commission," as has been alleged; it was not a profit-making enterprise in either design or practice. Rather, the commission found that the 2.2 percent account was a legitimate and transparent charge for Oil-for-Food administrative expenses.

The commission did find a few instances of inadvertent miscoding and one isolated instance where remuneration was not correctly allocated. But the UN's Board of Auditors routinely audited accounting and financial reporting processes. The commission acknowledged that the external audit reports were distributed to the Security Council and others.

In this regard there is also something significant in what the Volcker report did not find or state. Critics have contended that the 2.2 percent fund provided such inflated revenue to the UN that the Secretariat had every incentive to enhance Iraqi use, if not abuse, of the system and thus derive more income from high volume. No evidence that UN staff or Secretariat decisions attempted to inflate Iraqi use of OFF exists. In fact, the report notes numerous instances where UN officials brought to the 661 Committee evidence of Iraqi product or price manipulation which—if permitted—would have increased UN funds thru the 2.2 administrative formula. Moreover, in the seven years of the program's operation its funds totaled $1.4 billion; of these funds, the UN returned $372 million—nearly 27 per cent of the funds.

The report examines in detail the three contracts awarded in 1996 for goods inspection and banking services in the Oil-for-Food. The report provides documentation to support one case of conflict of interest, involving Benon Sevan, chief administrator of the Office of the Iraq (OIP) program. The report strongly suggests that he profited from illegal oil allocations, in direct violation of UN policy, but it does not claim that others in the UN knew of his actions or that his superiors knowingly tolerated them. In a quite different case, an official of the Department of Political Affairs, Mr. Joseph Stephanides, influenced the awarding of two contracts in violation of UN procedures. Both officials were suspended by the UN on Monday, and the

Secretary-General has indicated that anyone named in the inquiry will have their diplomatic immunity lifted so that full accountability for abuse can be had.

Beyond these individual charges, the report concludes that the bidding process for these three 1996 contracts was highly politicized and deeply flawed, most notably because it violated the UN's own internal procedures and in the tensions existing between these rules and the Memorandum of Understanding (MOU) for the mobilization of the OFF program

Regarding corruption or incompetence under the personal leadership of a Secretary-General, all of the violations cited in the interim report took place in summer of 1996, when Boutros Boutros-Ghali served as Secretary-General. Certainly there is more to learn about the UN and Mr. Annan in the later years of Oil-for-Food, most especially regarding allegations about his son's relationship with the program and his employer, the Swiss company, COTECNA. Mr. Volcker has promised a report on these issues soon.

What is broken in the system that led to these findings and flaws?

The IIC provides some direct answers, and some indirect ones, regarding what led to and sustained the manner in which the UN system went awry. The most significant and debilitating aspect of the system under investigation may reside in the Internal Audit Division (IAD) and the larger Office of Internal Oversight Services (OIOS). Various factors combined to lead to the series of inadequacies in IAD which the IIC thoroughly details in chapter 5. Insufficient numbers of staff relative to the growing and then insurmountable work load that was the OFF was compounded by lack of oversight. In addition, the jurisdictional ambiguities of the Memorandum of Understanding between the UN and Iraq and the Sanctions Committee regarding certain goods review procedures meant that numerous errors of omission occurred in IAD performance.

As I weigh the inadequacies of administration, the sub-standard auditing of the UN Oil-for-Food program, and the scope of wrongdoing detailed in the report, I see a weakened and battered Secretariat that needs restructuring in areas I will note below. But these realities and the report's evidence simply do not add up to either 'systemic' corruption or organizational incompetence. We did not have auditors doctoring the books. The scope and detail of the inquiry should inspire confidence—and this appears echoed by Mr. Volcker in his remarks in various venues since last Thursday—that this is not a bureaucracy run amok, nor a cadre of administrators lining their pockets.

The second and most unfortunate dimension of the UN system that failed lies in the chasms of authority and accountability that exists when the Security Council and the Secretariat each have responsibility (or lack thereof) regarding UN action in complex applications of its mandate. To assign blame to the UN Secretariat for "failure to follow its own internal procedures" regarding contracting and auditing, ignores the hard political reality that surrounded Oil-for-Food, where the dominating political and procedural actor at every juncture was the Security Council.

The Council's determination was first to hold together a regional coalition of states who would continue to participate in denying Saddam Hussein military goods, and then to maintain the flow of humanitarian relief to the people of Iraq. That the entire sanctions process and the Oil-for-Food program were politicized and that the Security Council, and its individual members, made critical decisions that overrode the normal mandates of UN agencies, should surprise no one. Perhaps the final report will make this clear.

Toward Meaningful UN Reform.

Mr. Volcker's frank assessments can provide both hope and direction for meaningful UN reform. The inquiry itself has generated a new and needed climate of transparency within the organization. Calls for reformation have been in the air since the IIC commenced its work, and I believe the challenges placed on the agenda by Congressional hearings has created a momentum for renewal and reorganization of staff and structure that is unprecedented in the 60 year history of the organization.

I advocate that the Congress seize this opportunity in constructive engagement with the UN guided by a hardcore realism. As unique as the Iraq sanctions saga and its related unprecedented mechanisms like the Oil-for-Food program may have been, the hard truth is that we are just a few short events away from again finding this scenario:

> a resource rich nation, run by a dictatorial regime, engages in law-violating actions against its own population and its neighbors. These actions occasion coercive UN economic sanctions, the success of which put various elements of the target nation's vulnerable population at risk. In an attempt to manage and administer the punishment, the Security Council establishes a percentage of the

target's international accounts be charged for border monitoring and humanitarian relief . . .

This is not a fictitious possibility, but a real crisis contingency for which we must be prepared. Substantial and successful preparation dictates that the US join with the UN to achieve a number of UN reforms. The ones I believe most essential include that:

- the adoption of the Volcker proposals for reforming the UN audit system as detailed in chapter 5 of the report;
- future sanctions resolutions must clearly and unequivocally prohibit a role for the targeted state in negotiating any part of penalty mechanisms, re-adjustments of sanctions, or aspects of humanitarian programs;
- the internal review rules of sanctions committees must be reformed so that if some portion of the committee, let us suggest five of the fifteen members, seek to initiate policy reviews of committee workings, such will occur;
- UN Memoranda of Understanding must be reconciled with internal UN management and procurement policies at the outset of any sanctions incident or international relief program;
- the Council should standardize the creation of a high level, independent, investigative panel of experts who evaluate sanctions implementation, assess abuse charges, and review the review processes within six months of each sanctions imposition;
- the liaison and management of the Sanctions Committees should be moved from the Department of Political Affairs to an independent Coordinator of Sanctions Affairs who would be less involved with member states sentiments, and charged exclusively with sanctions implementation and monitoring;
- A new conflict of interest and anti-corruption code of conduct should be developed for members of the UN Secretariat. And member states will need to recognize their own obligations not to create such situations as compromise the international civil servants which comprise the organization.

These recommendations will go a long way to making for a leaner, more transparent and fundamentally honest United Nations sanctions system. Only with such reforms will the UN be equipped to meet the needs of member states like the United States who will inevitable turn to Security Council action as a way to uphold the rule of law and preserve security in the decades ahead.

Thank you.

Respectfully submitted,
George A. Lopez

Mr. ROHRABACHER. Thank you very much, Dr. Lopez.

Dr. Nimrod Raphaeli was born in Iraq in 1932. He received his Bachelor's from the School of Law and Economics in Tel-Aviv, his M.A. from the University of Pittsburgh, and his Ph.D. from the University of Michigan. Mr. Raphaeli has also been a Fulbright Scholar and a Fellow with the Center for Near East Studies at the University of Michigan. He was on staff at the World Bank for almost 30 years and then worked as a consultant for the World Bank and the IMF. Now, Mr. Raphaeli works as a Senior Analyst at the Middle East Media Research Institute.

Mr. Raphaeli, you may proceed.

STATEMENT OF NIMROD RAPHAELI, PH.D., SENIOR ANALYST, MIDDLE EAST RESEARCH INSTITUTE

Mr. RAPHAELI. Thank you, Mr. Chairman, for inviting me to speak before your distinguished Committee. In my presentation, I will raise more questions than answers, but I would like to start by taking a minute to pay tribute to the freedom of the press introduced to Iraq in the wake of "Operation Iraqi Freedom" which made it possible for the Iraqi daily, *al-Mada*, to expose a scandal that had international reverberations. And I would like to add, Mr.

Chairman, that there is no evidence whatsoever of forgery regarding the list published by *al-Mada* which was later confirmed by Mr. Duelfer.

I would like to address the issue of audit, and I have a number of questions on that, too. The report makes two significant points regarding internal audit. First, there was a lack of focus on oil purchases and humanitarian supply contracts. Second, the report found that the resources committed to the program were inadequate.

On the matter of audit, however, I should bring to the attention of this Committee a letter authored by Mr. Shashi Tharoor, the United Nations Under Secretary-General for Communications and Public Information, and published in the *Wall Street Journal* on February 18, 2004. Mr. Tharoor stated in that letter: "The program itself was managed strictly within the mandate given to it by the Security Council and was subject to nearly 100 different audits, external and internal . . ." I repeat, 100 different audits ". . . between 1998 and 2003." Further, according to Mr. Tharoor, the Secretary-General had asserted that these reviews could produce no evidence of wrongdoing by the U.N. official.

This letter raises some highly disturbing questions. First, was Tharoor, who was a very senior official at the U.N., trying, knowingly and deliberately, to mislead the public? Second, who authorized the exoneration of Benon Sevan even before the issues were properly examined? Third, who counted the so-called "100 audits" referred to in Mr. Tharoor's letter? Fourth, was Mr. Sevan himself behind the letter? Fifth, did the Secretary-General approve of the letter, or was he at least made aware of it? Sixth, what was the reason for the Secretary-General to conclude that there was no wrongdoing by the U.N. official? Seventh, and last, was Tharoor himself investigated by the Volcker Committee to establish the sources of his misleading information? In fact, Mr. Tharoor's name does not appear in the glossary of individuals interviewed by the Volcker Committee, and it should.

Now, the issue about the estimates of Iraqi oil income. Almost as an afterthought, the Volcker report offers estimates of illicit funds received by the Saddam regime under the Oil-for-Food Program, ranging from $9.5 billion estimated by the Coalition for International Justice to an ostensibly high figure of $21 billion offered by the U.S. Senate. Whatever the ultimate figure, there is consensus that much oil was smuggled into Jordan, Turkey, and Syria for an estimated revenue to Iraq of about $6 billion or $7 billion.

The questions that arise are the following: First, what was the rate of discount offered by the Saddam regime to the recipients of the smuggled oil? Second, how did these governments pay Iraq, and into what accounts was the money deposited? Third, were the payments for oil recorded in the countries' current accounts? For example, I could not find in the statistics of the Central Bank of Syria any data about oil transactions with Iraq. Fourth, in what banks were the payments deposited, and who was authorized to sign withdrawal requests from these accounts? And, last, was the Office of the Iraq Programme aware of oil smuggling, and did it discuss it with the Government of Iraq?

Now, the implications for the United Nations. The problems with the Oil-for-Food Program underscore the lack of experience and limited capacity of a large, international bureaucracy such as the United Nations to handle a program of such magnitude. As a result, the program was poorly administered, and, indeed, it would have fared even worse were it not that the United States and the United Kingdom had to place hundreds of holds on contracts deemed to be inappropriate, such as contracts for luxury goods, grossly overpriced contracts, or contracts to supply goods suspected of having a dual application, civilian and military.

Mr. Sevan went out of his way to support the Iraqi complaints about the holds by criticizing the efforts of the U.S. and the U.K. to put the brakes on what they rightly perceived as a humanitarian program gone awry.

Now, just a couple of sentences on the reform of the U.N. The lack of budget discipline by the U.N. is endemic because of a voting system that offers an equal vote to every member, regardless of its level of contribution to the U.N. budget. An argument can be made, and, indeed, has often been made, that the United Nations must respect the sovereignty of each of its members as being equal. This argument would be valid with regard to voting on political, economic, and social matters. It cannot be defended with regard to determining how U.N. resources derived from special assessments should be disposed of.

The U.N. should consider adopting a weighted voting system such as that which has long governed the Bretton Woods institutions wherein each member country has a vote commensurate with its contribution to the capital of the World Bank and International Monetary Fund. A two-tiered voting system at the United Nations, one for budgetary matters based on weighted voting and one for equal sovereignty for everything else, would serve to introduce financial discipline into the U.N., a change that is long overdue. Thank you, Mr. Chairman.

[The prepared statement of Mr. Raphaeli follows:]

PREPARED STATEMENT OF NIMROD RAPHAELI, PH.D., SENIOR ANALYST, MIDDLE EAST RESEARCH INSTITUTE

COMMENTS ON THE INTERIM REPORT OF THE INDEPENDENT INQUIRY COMMITTEE

Introduction

It is, perhaps, a tribute to the freedom of the press introduced to Iraq in the wake of "Operation Iraqi Freedom" that an Iraqi newspaper should have been able to expose a scandal that had international reverberations. The "Oil for Food" scandal was made public by the liberal Iraqi daily *al-Mada*'s publication of a list of 270 individuals and entities who had received vouchers providing for the purchase of oil below market price.[1] The Middle East Media Research Institute (MEMRI) translated the article and brought it to public attention in the United States and elsewhere, culminating in investigations by various committees of the US Congress and other government agencies.[2]

The United Nations was made responsible for administration of the "Oil for Food Program" (OFF) under Security Council resolution No. 986 (1995). The procedures and mechanics for administering the OFF are rooted in a Memorandum of Understanding between the Government of Iraq and the United Nations dated May 20, 1996. The United Nations proceeded to administer the OFF by creating a special

[1] Al-Mada (Baghdad), January 25, 2004
[2] Al-Mada (Baghdad), January 25, 2004

office on October 15, 1997, known as the Office of the Iraqi Programme (OIP) and designated MR, Benon Sevan, a Cypriot, as its Executive Director.

After denying any wrongdoing, and after much foot dragging following the publication of the list of 270, which included the name of Mr. Sevan, the United Nations appointed a high-level committee to look into the mismanagement and corruption associated with the program and the possible involvement of its own senior staff in corrupt practices. The Committee is chaired by Mr. Paul A. Volcker and includes as members Richard J. Goldstone and Mark Pieth.

The Interim Report

The Committee issued an interim report on February 3, 2005. The report addressed, with various levels of comprehensiveness and finality, four key issues:

- The Initial Procurement of United Nations Contractors (1966)
- Benon Sevan and Oil Allocations
- Internal Programme Audits
- Management of the Programme's Administrative Accounts (2.2%)

There are other issues which remain under on-going investigation, one of the most critical of which is the employment of Kojo Annan, the son of Kofi Annan, the Secretary General of the United Nations by a Swiss consulting firm, Contecta, while the firm was under contract with OIP. A second critical issue that remains to be addressed is the role played by the United Nations-related agencies as suppliers of goods and commodities, particularly to the three Kurdish governorates in the north of Iraq. The Kurdish press has alleged that these UN-related agencies supplied substandard goods and commodities, particularly food grains, and that they allowed the Iraqi Intelligence Services (Mukhabarat) to penetrate their offices at will.

"The Initial Procurement of United Nations Contractors"

This chapter of the Committee report deals with the selection of three major UN contractors, namely *Banques Nationale de Paris, Saybolt Eastern Hemisphere BV*, and *Llyod's Register Inspection Ltd.*

The report has found that the selection of these three entities deviated "from the established financial and procurement rules . . . of the United Nations." p110. There is evidence of political intervention by member countries of the Security Council in favor of the companies of their respective countries; however, there is no evidence of corruption although the role of the previous Secretary General of the UN, Boutros Boutros-Ghali in the selection of the French bank, BNP, remains to be clarified.

"Benon Sevan's Oil Allocations"

In many respects, Benon Sevan, the Executive Director of OIP, has emerged as the central focus in the scandal and has received considerable negative criticism by the Committee. The allegations against Mr. Sevan are that he used his high position and influence vis-a-vis the Iraqi government to secure nine lucrative oil allocations for his friend Fakhri Abdelnour, the owner of AMEP and a relative of the former UN Secretary General Boutros-Ghali. Although only six allocations for a total of 7.3 million barrels were lifted, they generated a quick net income of $1.5 million to AMEP (p.152). Between 1999 and 2003. Mr. Sevan's bank account was credited with four money transfers totaling $160,000. Mr Sevan has claimed that these money transfers were made by his now-deceased aunt to "defray expenses of her annual stay" with him and his family in New York. (p.161)

The report cites strong forensic evidence of Mr. Sevan's influence peddling. But even if such evidence were missing, the notations by the Iraqi oil minister that oil had been allocated to Mr. Sevan or to his friend Abdelnour would be sufficient to sustain the charges against him, for the following reasons:

First, under Saddam Hussein, Iraq was a totalitarian regime. The experience of such regimes in the first half of the last century shows precise record keeping even for the most horrible of crimes. By keeping a meticulous record, government employees shield themselves against accusations of insubordination or malfeasance.

Second, Mr. Sevan was an important figure for the Iraqi regime, and there was no reason to believe that any Iraqi official would try to "frame" him. After all, no one at the time of the transactions suspected that the records would become public. Two statements by Mr. Sevan indicate his sympathy with Iraq's frequent protest that there were too many "holds" on contracts (primarily by the United States and the United Kingdom). In one letter, Mr. Sevan claimed "to fully share the frustrations of the distinguished Minister of Oil." He promised to "continue our efforts to further reduce the number of holds." (p.145). In the month following his return from Baghdad, he stated to the Security Council on August 16, 2000, "I feel duty bound

to draw the attention of the Council to the unacceptably high level of holds placed on applications." (p.146.)

Third, there is absolutely no evidence of forgery regarding the list published by *al-Mada*, which was later confirmed by Mr. Duelfer.

Mr. Sevan faces an uncertain future. If the transfer of funds to his account can be proven to have originated from an illicit source, he will have to deal with the implications and consequences in terms of his income tax statements.

Internal Program Audits

The report makes two significant points regarding internal audit: First, there was "a lack of focus on oil purchase and humanitarian supply contracts." (p.182). Second, the report found that "the resources committed to the Programme were inadequate."

On the matter of audit, however, I should bring to the attention of the Congressional Committee a letter authored by Mr. Shashi Tharoor, the United Nations Under-Secretary General for Communications and Public Information, and published in the Wall Street Journal on February 18, 2004. a month after the list was published by *al-Mada* (and, subsequently, by MEMRI) and almost a whole year before the Committee's interim report was issued. Mr. Tharoor states in that letter, "The program itself was managed strictly within the mandate given to it by the Security Council and was subject to nearly 100 different audits, external and internal." I repeat, Mr. Tharoor says, "one hundred different times" between 1998 and 2003. Further, according to Mr. Tharoor, the Secretary General had asserted that these reviews "produced no evidence of wrongdoing by the U.N. official [Mr. Sevan]."

This letter raises some highly disturbing questions:

First, was Mr. Tharoor, a very senior official at the U.N., trying knowingly and deliberately to mislead the public or, at least, to deflect the voices being raised in criticism of the performance of the U.N.?

Second, who authorized the exoneration of Mr. Sevan even before the issues were properly examined?

Third, who counted the so-called 100 audits referred to in Mr. Tharoor's letter?

Fourth, was Mr. Sevan behind the letter?

Fifth, did the Secretary General approve of the letter or was he, at least, made aware of it?

Sixth, what was the reason for the Secretary General to conclude that there was no wrongdoing by the U.N. official?

Seventh, was Mr. Tharoor himself investigated by the Committee to establish the sources of this misleading information? (In fact, Mr. Tharoor's name does not appear in the glossary of individuals interviewed by the Committee, and it should).

Management of the Programme's Administrative Account (2.2%)

Upon being assigned to administer the Oil for Food Program, the UN established a special account referred to as ESD (Escrow Account for operational and administrative costs) to manage the proceeds from the 2.2 percent of the total oil revenues earmarked for the program's administration. Eventually, $1.4 billion was deposited in the ESD Account, from the sale of $62.4 billion worth of Iraqi oil.

Expenditures charged against the ESD account were estimated at approximately $910 million, of which $482 million, or 53 percent, was transferred to the UN-related agencies involved with the program (p.37). The Committee found no commingling of funds and commended the UN for maintaining separate accounts. (p.40) The Committee has not, however, studied the use and application of funds by the UN-related agencies and, based on the personal experience of this speaker, special attention must be paid to the *culture of overheads* which pervades many UN agencies in their utilization of off-budget funds.

Estimates of Illicit Iraqi Income

Almost as an afterthought, the Committee offers estimates of illicit funds received by the Saddam regime under OFF ranging from $9,583 million estimated by the Coalition for International Justice to an ostensibly high figure of $21,149 million offered by the US Senate PIC. (p.41)

Whatever is the final figure, there is consensus that much oil was smuggled to Jordan, Turkey and Syria. The estimated value of the smuggled oil is $1.6 billion, $2.1 billion and $2.2 billion, respectively. Further investigation must address the following questions:

First, what was the rate of discount offered by the Saddam regime to the recipients of the smuggled oil?

Second, how did these governments pay Iraq, and into what accounts was the money deposited?

Third, were the payments for oil recorded in the countries' current accounts?

Fourth, in what banks were the payments deposited and who was authorized to sign withdrawal requests from these accounts?

Fifth, was the OIP aware of the oil smuggling and did it discuss it with the Government of Iraq?

Implications for the United Nations

The problems with the Oil for Food Program underscore the lack of experience and the limited capacity of a large international bureaucracy, such as the United Nations, to handle a program of such magnitude. As a result, the program was poorly administered and, indeed, it would have fared even worse were it not that the United States and the United Kingdom had placed hundred of "holds" on contracts deemed to be inappropriate, such as contracts for luxury goods, grossly overpriced contracts, or contracts to supply goods suspected of having a double usage-civilian and military.

Iraq complained bitterly over the years about these "holds," which, they alleged, were inflicting harm on the Iraqi people, particularly young children. Mr. Sevan went out his way to support the Iraqi claims by criticizing the efforts of the U.S. and the U.K. to put the brakes on what they rightly perceived as a humanitarian program gone awry.

However, the US and the UK could have done more. For example, they could have intercepted with their fleets in the Gulf the big oil tankers carrying illegal shipments of oil. Instead, they chose to intercept little boats. And during all this time, the United States remained one of the largest buyers of Iraqi oil.

Lack of Budget Discipline

The lack of budget discipline by the UN is endemic because of a voting system that offers equal vote to every member regardless of its level of contribution to the UN budget. An argument can be made and, indeed, has often been made, that the United Nations must respect the sovereignty of each of its members as being equal. This argument would be valid with regard to voting and political, economic and social matters. It cannot be defended with regard to determining how UN resources, derived from special assessments, should be disposed of. It is quite absurd that the United States should be left defending its position vis-a-vis a hundred other countries whose combined contributions may not match hers.

The UN should consider adopting *a weighted voting* system such as that which has long governed the Bretton Woods institutions, wherein each member country has a vote commensurate with its contribution to the capital of the World Bank and the International Monetary Fund. A two-tier voting system at the UN, one on budgetary matters, based on *weighted voting* and one of *equal sovereignty* for everything else would serve to introduce financial discipline into the UN—a change that is a long overdue.[3]

Ms. al-Suhail at the State of the Union Address

In addition to the corruption on which the report focuses, there have recently emerged some sinister dimensions to the OFF.

In the course of his State of the Union address on February 2, President George W. Bush introduced *Ms. Safia Taleb al-Suhail*, who is a leader of the Iraqi Women's Political Council and whose father was assassinated by agents of Saddam Hussein. On February 7, in al-Mada, the daily which first published the list of the oil coupon recipients, there was an article by Mr. Bakhtiar Amin, Iraq's Interim Minister of Human Rights and Ms. al-Suhail's husband, stating, *inter alia*, that the murderer of Ms. al-Suhail's father Sheikh Taleb al-Suhail was Lebanese national George Dijerian who received a voucher for 7 million barrels for his criminal action.[4] This episode raises a whole set of new questions regarding the misuse of the Oil for Food Program (OFF) by Saddam Hussein to finance terrorist organizations and terrorist activities—matters which still must be looked into.

Mr. ROHRABACHER. Thank you all very much. We will now proceed with the questions, and each Member will have approximately 5 minutes to ask you your opinion or express opinions of their own on what we have heard today.

I would like to start with Mr. Gardiner. Dr. Gardiner, you mentioned that the Banque Nationale de Paris was not the best bank

[3] The author was given less than 48 hours to prepare this report and there was not enough time to articulate any of these ideas in a comprehensive manner although the direction they offer is quite obvious

[4] Al-Mada, February 7, 2005

to handle the Oil-for-Food Program, and we know that Dr. Boutros Boutros-Ghali insisted that that bank be used as that vehicle, as that organization. What do you have to justify your analysis that says that it was not the best bank?

Mr. GARDINER. Well, the Volcker interim report does go into considerable detail with regard to the background relating to the procurement of Banque Nationale de Paris for running the escrow account, and the report does reveal that, in fact, there were two short lists originally drawn up by the U.N. for consideration. The first short list had a list of 18 banks based on credit rating, and BNP was not actually one of those original 18 banks.

Mr. ROHRABACHER. That was a list that was made up by the United Nations itself?

Mr. GARDINER. Yes.

Mr. ROHRABACHER. The bank that was ultimately chosen was left off of the first short list?

Mr. GARDINER. Yes, the first short list.

Mr. ROHRABACHER. So they apparently did not think that it had the credentials.

Mr. GARDINER. Yes. And I believe that list was originally drawn up by the U.N. Treasury.

There was then an intervention, I believe, by the Saddam Hussein regime requesting preference toward either French or Swiss banks.

A second short list was drawn up containing, I believe, six major banks, including BNP, and, again, it was found that BNP ranked, I believe, number four or number five out of the six in terms of overall eligibility.

Mr. ROHRABACHER. Ranked by whom?

Mr. GARDINER. I believe it was by the International Banking Association based in London. I think it is IBCA.

Mr. ROHRABACHER. So there is someone with certain expertise who is telling us that this was not the best decision to make?

Mr. GARDINER. Yes.

Mr. ROHRABACHER. Thus, when Mr. Ghali insisted, this meant that he was insisting on this for other reasons rather than professional expertise?

Mr. GARDINER. Certainly. There was a high degree of, I think, political interference here, and ultimately Boutros Boutros-Ghali selected BNP pretty much based on his own decision after consulting the Iraqis. It does appear that the United States representative to the U.N. at the time, Madeleine Albright, did not oppose the selection, and this, I think, is an area of further inquiry.

Mr. ROHRABACHER. Mr. Lopez, part of your testimony is that when we do have these situations in the future, that the country that is going to face certain sanctions not be included in the planning of the sanctions, how the sanctions will operate, so that is one of your recommendations. Obviously, they were listening to Saddam Hussein and his recommendations as to what bank to use, as well as Boutros Boutros-Ghali. Correct?

Mr. LOPEZ. I think that is the case, but I think it is also important, Mr. Chair, to put this in a particular kind of context. Let us remember that the humanitarian intervention that the United Nations Security Council sought in resolution 986 had been in formu-

lation since the end of 1993. We were in a difficult dynamic in which having a strong sanctions regime and a robust inspection process had put us in a situation with the regime that was using the humanitarian crisis in Iraq to beat Western powers and the U.N. itself over the head with inflicting damage on the people.

Mr. ROHRABACHER. Dr. Lopez, let us make sure people understand what you are saying here. A lot of people have amnesia about what went on 10 years ago——

Mr. LOPEZ. Yes.

Mr. ROHRABACHER [continuing]. In this program. We initiated the sanctions against Saddam Hussein after the invasion of Kuwait, and they were aimed at trying to convince him to reform his regime or at least to ensure that his regime would not gain the military powers necessary to repeat that type of military aggression.

At the same time, consideration for the humanitarian needs of his people was part of the planning process, and this whole program started with an idea that we were going to provide him enough revenue so that all of the medicine and food and other humanitarian supplies needed by the Iraqi people would be available to them because there would be enough money for them. Yet what happened—and you can jump in and correct me if I am wrong—was that Saddam Hussein, perhaps in collusion, now that we find out, with some certain people who were supposed to be overseeing the program, used this money for his own self-aggrandizement as well as weapons as well as bribes and political skullduggery. Thus, there were a number of people who were suffering in Iraq. That was being blamed on the United States and those of us who were behind these sanctions.

So let us remember that when we are discussing what happened here. I remember very well that there were many people in this country who should have known better who were blaming the United States for hungry children in Iraq when they should have been blaming Saddam Hussein. And people need to look back in the record and find out who was saying those things, that we were responsible for the deaths of these Iraqi children, which led to some alteration of this whole program, which, in the end, led to strengthening Saddam Hussein's regime.

Mr. Lopez, you suggest that all of the auditing requirements and suggestions of Mr. Volcker be put into place. Is there anything specific that you disagree with Mr. Volcker about?

Mr. LOPEZ. Well, I think there is yet a lot to be told in future reports. I go back to the Duelfer chart that you have entered into the record and realize that we have a very narrow window on the amount by which Saddam was able to corrupt the system. Under Oil-for-Food, this is about 14½ percent of revenues derived.

Congressman Flake raised the concern that the absconded funds, the way to subvert the system, led to palaces and other things. I do not know if we have an exact paper trail about where all of that money went, but the money that was outside the Oil-for-Food system is nearly 85 percent of that, and Mr. Volcker, I hope, will answer those questions.

Mr. ROHRABACHER. Right.

Mr. LOPEZ. But to bring back to your original remarks——

Mr. ROHRABACHER. Before you go on, let me just note on that issue that with the cracks in the sanctions program, not the Oil-for-Food Program but the sanctions, these were actually policy decisions made quite often during the Clinton Administration—and even before—that were not necessarily reflecting corruption or self-enrichment but, instead, were reflective of thought-out policy decisions, making priorities, et cetera. Is that not correct?

Mr. LOPEZ. I think that is very correct, and, in fact, we have to be cautious about a kind of national revisionist history as we look back from this moment in time. The United States and its allies on the Security Council were faced with the dilemma of how to keep tight, regional cooperation of Governments like Jordan and Turkey, whose local economies were paying a very heavy price by participating in the sanctions.

Mr. ROHRABACHER. But that decision was not reflective anyway of a corruption of our leaders, payoffs or a lack of character——

Mr. LOPEZ. No. It is not corruption. It is a national security decision.

Mr. ROHRABACHER. However, when we are talking about the Oil-for-Food Program and the decisions made there, we are actually talking about specific self-enrichment and possible corruption that led to those decisions, not some policy decision.

Mr. LOPEZ. It is a little difficult, I think, to separate the climate of 1993 to 1997 on the Oil-for-Food side from the wider scope of concern by Security Council members that we hold together this coalition to continue to put the squeeze on Saddam. There are ways in which now it looks to us, with the charts and other things, that Oil-for-Food was here, and the other things were there, and that is certainly a part that we need to investigate. But the truth of the matter is, on a daily basis, at the Security Council and in Senate and congressional investigations here, we were thinking about a package of sanctions, a package of programs, that would do two things: Deny Saddam weapons so he could not create havoc in the region and, at the same time, meet the humanitarian crisis. Those were virtually inseparable.

Mr. ROHRABACHER. So over a decade period, we were trying that approach——

Mr. LOPEZ. Right.

Mr. ROHRABACHER [continuing]. And it demanded some tweaking of the system and modification of the system as it went forward. It did not seem to work, unfortunately.

Mr. Blumenauer will now take those 5 minutes from Mr. Delahunt.

Mr. BLUMENAUER. Thank you. Thank you, Mr. Chairman. Thank you, Mr. Delahunt, for your courtesy.

I do not want to start by being nitpicky, but I have heard a couple of my colleagues talk about this as the greatest financial scandal in the history perhaps of the world, and I am just thinking, in my community where we lost almost a billion of the $60 billion that collapsed in the Enron debacle, and people throughout the West were cheated in terms of electrical rates, as my friend from California knows, to somehow suggest that this is the biggest financial scandal in the history of the world compared to just one little one that we experienced back home in Oregon and in Houston

troubles me a little bit. I have a little difficulty accepting this as being the biggest financial scandal in the history of the world.

Mr. DELAHUNT. Would the gentleman yield for a moment? Would you describe that as the Enron and the Tyco and——

Mr. BLUMENAUER. No, just Enron.

Mr. DELAHUNT. Just Enron as the mother of all financial scandals.

Mr. BLUMENAUER. I defer to my Ranking Member. But putting that aside, people can characterize it as they will, I wanted to ask each of the Committee witnesses, if they would, to just submit, in a short, written statement because we would not have time to be able to explain it in my 5 minutes, but I would like your thoughts as to whether or not the overall Oil-for-Food scheme that was put in place was successful in terms of a sanctions regime that ended up hollowing out the Saddam Hussein regime and contributing to its collapse in the face of American invasion. Just your judgment, on balance, if you think it was useful or successful.

I am trying to place this in context, and I would start with a question. Dr. Lopez, you mentioned the dynamics that take place with the Security Council, that you would be willing to go into greater detail. We are talking about less than $2 billion that was involved here as questionable sums, yet it appears as though the Security Council looked the other way when there was almost $9 billion of illegal trade, as shown on the chart that was referenced here before. And I am curious if you can indicate whether or not we should be just as concerned, or maybe five times as concerned, about the corruption of the process that led to the United States and other Security Council members looking the other way when this illegal trade occurred, enriching this regime, and describe briefly what that dynamic was.

Mr. LOPEZ. Thank you. I think, when we talk about the candy striper dimension of the chart here, and we want to get to the monies that flowed illegally to Saddam or he was able to exploit, we are talking about two or three different dimensions of the way the system worked. The first, and most important, the most corrupt, it seemed to me, is the one that the Iraqi regime dreamed up at the end of 1999. It was the surcharges on the oil packages that were coming forth, and having tried various ways to break the sanctions and also to undercut the increasing efficiency of Oil-for-Food as it changed caloric and protein intake on the ground with Iraqi children, one of the things that the Saddam folks dreamed up was this notion of, in granting the oil contracts, to add their own surcharge. As you well know, Mr. Volcker documents part of this.

There was also a second scheme under Oil-for-Food that we did not become aware of until later, and that is that in the importing of the humanitarian goods, Saddam was willing to pay a higher price, at least at-list, than he was actually willing to pay. So if you were going to sell me foodstuffs, I would buy $10 million list price but actually only send out $6 million, therefore, saving $4 million off the books.

The combination of the surcharges and the overpricing for humanitarian goods comprise the bulk of what we see in these difficulties. At the same time, these things were not 6, 9, 12 months

after the fact undiscoverable. In fact, the 661 Committee and the audit system caught these things.

We have an interesting dynamic that happens between the fall of 2000 and the early part of 2002. Having recognized that the surcharges were occurring on oil, in fact, the Oil-for-Food administration program and the Secretariat bring these difficulties to the 661 Committee. Mr. Volcker details for you ways in which the 661 Committee says, fine, Saddam is playing games with overcharging. We will cut the price of oil in the following 6-month interval to readjust the price so they do not garner more of these revenues.

Did we catch all of them? Probably not, but an interesting thing happens actually on the humanitarian side. Because you pulled the bottom out of the oil prices at that moment in time in early 2001, there are actually fewer monies available at that moment in time for the humanitarian operation. This back and forth, back and forth was standard procedure between the Oil-for-Food administrative program and the 661 Committee because you had what, a determined, obstinate, dictatorial regime trying to break the sanctions as we were imposing an unprecedented new form of governing how they were to receive humanitarian aid.

No one wants to make apologies for the inadequacies, certainly not the inefficiencies, nor discoverable corruption, but let us make sure when we talk using, let us say, I think the GAO figures of the amount of leakage that occurred in the system were monies we were trying to catch up on throughout the early part of this decade, and other events overtook this in time. I would suggest the humanitarian program could have caught up with itself over time in the surcharges and in the overpricing dynamic, and there is evidence that we did that through 2002.

To deal with your first question, if I might, in terms of climate—are you out of time? Okay.

Mr. BLUMENAUER. He wanted to finish the answer.

Mr. LOPEZ. Let us talk about the trade dynamic because it was so related to the way we understood our obligations under Oil-for-Food. Let us remember that, under United Nations trade sanctions, what happened in Iraq is historically unique. Rather than having states opt out of a coercive economic system and cheat their neighbors by trying to win short-term gains in trade, actually, in the early 1990s, we imposed a tight vise around the economy of Iraq. It helped that it was a single-export economy, but this was the most dramatically successful, economic-strangulation program of our time. The dilemma was it did not produce the political compliance that such economic strangulation is supposed to produce.

Mr. ROHRABACHER. If I could ask you at this point, what you are describing, Mr. Sevan was involved with the decision-making in this type of strategy?

Mr. LOPEZ. I think he was involved in a great deal of the execution. He was probably involved in some of the strategizing and the development of some policies because he was the point person in going back and forth with the Iraqis.

Mr. ROHRABACHER. Okay. So you are suggesting that Mr. Sevan is not culpable?

Mr. LOPEZ. No. I have said nothing of the kind, Mr. Chair.

Mr. ROHRABACHER. That is why I want to ask you, because what you seem to be describing is a maneuvering that would be a rational maneuvering that is not based on some sort of corrupt decisionmaking. Was there corrupt decisionmaking as well in the play of this?

Mr. LOPEZ. I suspect the evidence will show that there was some. What there was, was an air of expediency and necessity driven by two outstanding goals: Maintain tight sanctions so that weapons and weapons-related parts do not get in and maintain a robust delivery of humanitarian services.

Mr. ROHRABACHER. But, of course, Mr. Sevan solicited oil vouchers.

Mr. LOPEZ. It seems that way.

Mr. ROHRABACHER. Right.

Mr. LOPEZ. And he may very well have been singular in the operation of this program. I do not have privy to all of that information. It certainly was not the design of the program, and it was not meant to be the way that the program was to operate.

Mr. ROHRABACHER. Okay. Thank you very much.

Mr. Green?

Mr. GREEN. Thank you, Mr. Chairman. First, Mr. Chairman, my friend and colleague, Mr. Blumenauer, was questioning the usage of how we describe the scope of the scandal. The numbers range from 9 to $21 billion, what we know just on the oil side, but I think another dimension to the scandal we must not lose sight of is what the money was used for.

The money was used, arguably, to build weapons of mass destruction or at least pursue that program. Certainly, it was used to procure tools of repression. That is what the reports say, and beyond that, again, my great concern is that the money was certainly used to block diplomatic tools that would have given some hope to bringing Saddam into line with his obligations without resorting to, obviously, the conflict that we have seen. So I think it is hard to overstate the immensity of the scandal in terms of its implications.

Dr. Raphaeli, I am going to give you an opportunity to expound upon one portion of your written testimony that you did not read or refer to, but I found quite stunning. And that is your final paragraph and reference to Ms. al-Suhail at the State of the Union address, if you would like to perhaps talk about that a little bit. I think that is of great interest to many of us here.

Mr. RAPHAELI. In the course of his State of the Union address on February 2nd, President George W. Bush introduced Ms. Safia Taleb al-Suhail, who is the leader of the Iraqi Women's Political Council and whose father was assassinated by agents of Saddam Hussein.

On February 7, *al-Mada*, the same newspaper which broke the scandal about the oil vouchers, published an article by Mr. Bakhtiar Amin, who is Iraq's interim minister of human rights and husband of Ms. Suhail, in which he indicated that the father was assassinated by a Lebanese national who received a voucher for seven million barrels as a reward for his criminal act. "This episode," I wrote, "raises a whole set of new questions regarding the misuse of the Oil-for-Food Program by Saddam Hussein to finance

terrorist organizations and terrorist activities," matters which still have to be looked into.

Mr. GREEN. So the implication is that, above and beyond everything else that we have been talking about here, the woman who we rightly honored during the State of the Union speech, her father was apparently assassinated by one of the recipients of the vouchers under the Oil-for-Food Program.

Mr. RAPHAELI. That is correct.

Mr. GREEN. That is absolutely staggering, absolutely staggering.

Mr. Chairman, I think this is a matter that we should try to obtain more information on.

Mr. ROHRABACHER. The Chair will work with you in making whatever requests are needed and with the legal umph behind them to make sure that the requests for information are met.

Mr. GREEN. Thank you, Mr. Chairman. I thank the witness.

Mr. RAPHAELI. I would like to beg your indulgence and go back to the question of the Banque Nationale de Paris. This is really one side of the story. The other side is that Saddam Hussein had made the decision at the time, first, to select a French bank and, second, to price Iraqi oil in euros rather than dollars, as he stated at the time, as a form of punishment for the United States.

So I think we should keep that in mind that there are two dimensions to the story: The euro and the French bank. Thank you, Mr. Chairman.

Mr. ROHRABACHER. And was it in euros in the end? Was that the decision?

Mr. RAPHAELI. He sold a lot of oil in euros, or he tried. The international oil market prices oil——

Mr. ROHRABACHER. In dollars.

Mr. RAPHAELI [continuing]. In dollars.

Mr. ROHRABACHER. For sure. All right.

Mr. Wilson?

Mr. WILSON. Thank you, Mr. Chairman, and thank you all for being here today, and the information you have provided is very helpful.

Dr. Raphaeli, I was very appreciative of your comment to begin as a tribute to freedom of the press. It is extraordinary that this issue first came to the attention of so many of us, of all things, out of an Iraqi daily newspaper, and I remember very well reading the article, but we have not seen much of it since. In particular, it identified 270 individuals and entities that received the vouchers to receive the oil at below-market price. From your research, is that list accurate? Is it still accurate?

Mr. RAPHAELI. This list was confirmed by the Duelfer report. There has been absolutely no question about the authenticity and the accuracy of the list. So it is accurate as it was published by the newspaper.

In fact, if I may, I would add one more comment. We have seen very few denials by those who received oil vouchers. Most of them made the point that they were given vouchers in return for goods and services they provided under the Oil-for-Food Program. This is not a truthful statement because everybody who provided goods and services under the Oil-for-Food Program was paid from the escrow account in Banque Nationale de Paris. So if Saddam paid

these people outside the framework of the Oil-for-Food Program, it suggests to me that they had provided either luxury goods or goods that were used for weapons purposes——

Mr. ROHRABACHER. Or that there was another payment.

Mr. RAPHAELI [continuing]. For illicit purposes.

Mr. ROHRABACHER. Right. There was another payment that took place that we do not have a record of.

Mr. WILSON. And also, it appeared to me, too, of buying of influence, because weren't some of the recipients of the vouchers political parties?

Mr. RAPHAELI. Indeed, we find some very interesting figures who received the oil vouchers: The son of the minister of defense in Syria; the son of the former President of Egypt, Abdul Nasser; many Russian political parties; the former minister of interior of France. Many friends of Mr. Chirac received enormous amounts of oil. Actually, I wrote a paper on the European dimension of the scandal which suggests that more than 70 percent of all oil vouchers went to Russian and French individuals and entities.

Mr. ROHRABACHER. The list—273 people are on the list, did you say?

Mr. RAPHAELI. 270.

Mr. ROHRABACHER. 270. And you say the majority are French and Russians?

Mr. RAPHAELI. The majority were Russians, in terms of amount of barrels of oil I located under these vouchers.

Mr. ROHRABACHER. Let me ask the staff, do we have that list, the list of those names?

Mr. RAPHAELI. I would be glad to provide the list, MEMRI has it published, and I will be glad to send it——

Mr. ROHRABACHER. Dr. Raphaeli, if you could provide us that list, I would insert that list at this place in the record of this Committee hearing.

Mr. RAPHAELI. I would be pleased to forward it tomorrow morning.

Mr. ROHRABACHER. Thank you very much.

[The information referred to follows:]

Oil Coupons

Coupon No. 1

In the Name of Allah the Most Merciful

The Republic of Iraq
Presidency of the Republic
The Secretary

Top Secret and most urgent

Number 9525/K
Date 6 Rajab, 1422
24 September, 2002

Comrade 'Amer Muhammad Rashid Minister of Petroleum

External Support

The President leader (may Allah preserve him) has ordered in connection with a letter from the Iraqi embassy in Cairo of 18 August, 2002 as follows: six million barrels of petroleum will be allocated to Mr. Ustadh [honorific title for professors, lawyers and journalists] journalist Mahmud Al-Tamimi in appreciation of his nationalist positions which he has adopted since the thirty-nation aggression [the Iraqi designation for the coalition which expelled the Iraqi army from Kuwait] in the year 1991 in confronting the unjust blockade of our dear country.

Please be informed of the content
And for urgent execution
With appreciation

Attachment
A copy of the letter [from] the Iraqi embassy in Cairo

Al-Fariq [Lt.General]
D. Abd Hamid Al-Khattab

Secretary of the President of the Republic
24/9/2002

Copies to
The [person] I charge of the Republican Guard
Mr. Minister of Defense

بسم الله الرحمن الرحيم

جمهورية العراق
رئاسة الجمهورية
السكرتير

٦-٧

سري للغاية وعلى الفور

العدد: ٥٩٥

التاريخ ٦ / رجب / ١٤٢٤ هـ
٤ / أيلول / ٢٠٠٣ م

الرفيق عامر محمد رشيد وزير النفط المحترم

م/ دعم خارجي

أمر السيد الرئيس القائد (حفظه الله) بعد ما جاء بكتاب السفارة العراقية في القاهرة في ٢٨/ شباط/٢٠٠٣ بما يلي بتخصيص ستة ملايين برميل نفط للسيد الأستاذ مصطفى محمود البكري تقديرا لمواقفه القومية التي تبناها منذ بداية العدوان الثلاثيني عام ١٩٩١ في مواجهة الحصار الظالم على قطرنا العزيز

للتفضل بالاطلاع على ما جاء فيه

يرجى التنفيذ العاجل

مع التقدير

المرفقات
صورة كتاب السفارة العراقية في القاهرة

الرفيق
د. عبد حمود الخطاب
سكرتير رئيس الجمهورية
٤ / ٩ / ٢٠٠٣

نسخة منه إلى:
مكتب المشرف على المرصد الجمهوري المحترم ... نرسل إليكم صورة الكتاب أعلاه
... للتفضل ... مع التقدير.

Inquiry and Analysis Series - No. 164

February 20, 2004 **No.164**

The Saddam Oil Vouchers Affair

By Dr. Nimrod Raphaeli*.

Introduction

*On January 25, 2004, the **Iraqi independent daily Al-Mada** published a list of approximately 270 individuals and entities who were beneficiaries of **Saddam Hussein's** oil vouchers. [1] The report evoked reactions from many of those included in the list as well as from the Arab media, among them apologists for Saddam's regime. The fact that so many have opted for silence may give credence to the list's authenticity.*

*A former undersecretary in the Iraqi Ministry of Petroleum, **Abd Al-Saheb Salman Qutb**, said that the ministry possesses documents proving the authenticity of the list published by Al-Mada. The list was originally the property of the **State Oil Marketing Organization (SOMO)**, which was responsible for marketing Iraqi petroleum. [2] Mr. Qutb also said that the ministry was collecting the information for submission to **Interpol**, which could then pursue the voucher beneficiaries. [3]*

***The Iraqi Governing Council** has focused on 46 foreign individuals and organizations included on the lists, primarily from neighboring countries, to determine appropriate action. [4] Council member **Muwwafaq Al-Rabi'i** said during a visit to Beirut that the council has "tons of documents" but emphasized that the publication of these documents will be handled in a constructive way and not "for the sake of vengeance and revenge." [5]*

*In describing what it called "the curse of the Iraqi vouchers," **the London Arabic-language daily Al-Hayat** said that it expects more names and details to be made public in the near future and anticipates the revelation of a scandal of vast dimensions transcending countries and continents, implicating many prominent individuals and organizations. [6]*

How It Worked: The Voucher Transactions Method

In a subsequent article, *Al-Mada* provides details on the allocation and sale of oil vouchers. In general, the vouchers were given either as gifts or as payment for goods imported into Iraq in violation of the U.N. sanctions. The voucher holder would normally tender the voucher to any one of the specialized companies operating in the United Arab Emirates for a commission which initially ranged from $0.25 to $0.30 per barrel, though it may have declined in later years to as little as $0.10 or even $0.05 per barrel because of oil surplus on the market. [7] In other words, a voucher for 1 million barrels would have translated into a quick profit of $250,000-300,000 on the high side and $50,000-100,000 on the low side – all paid in cash. According to *Al-Mada*, Jordan will seek to tax the illicit profits of citizens who benefited from the sale of the vouchers.

One of the common arguments by recipients of vouchers was that the vouchers paid for goods provided in the framework of the U.N.-administered Oil for Food program. However, under the Memorandum of Understanding governing the program, oil allocations were intended for "end users," meaning those with refineries. Most of the voucher recipients would be considered "non-end users." Moreover, if vouchers were used to pay for goods, it would suggest that these were not authorized by the program and should be considered illicit since all contracts approved by the U.N. were reimbursed from the trust account where the oil revenues were kept, at a French bank, at Iraq's insistence. According to the United Nations: "The oil buyer had to pay the price approved by the Security Council Sanctions Committee into a U.N. escrow account, and the U.N. had to verify that the goods purchased by Iraq were indeed those allowed under the program. But the U.N. had no way of knowing what other transactions might be going on directly between the Iraqi government and the buyers and sellers." [8]

This report reviews the Saddam oil vouchers affair, in two parts:

Part I: (A) the list of oil vouchers recipients; and (B) reactions by implicated individuals and organizations.

Part II: Arab media reactions.

The Saddam Oil Vouchers Affair, Part I:

A. Complete List of Recipients of Oil Vouchers (in alphabetical order by country)

(All numbers for barrels of oil unless indicated otherwise)

All names on the list were transliterated from the Arabic. Although every effort was made to be precise, some inaccuracy is inevitable.

Algeria

1. Abd Al-Majid Al-Attar	6 million
2. Abd Al-Qadr bin Mussa	6 million

Austria

1. Hans Kogler	2 million
2. Arab-Austrian Committee	1 million

Bangladesh

1. Mawlana Abd Al-Manan	43.2 million

Bahrain

1. Kadhem Al-Darazi Company	2 million
2. Ali Al-Muslim Company	3 million
3. Concrete Contracting Company	2 million

Belarus

1. Liberal Party	6 million
2. Belarus Communist Party	7 tons
3. Belminal Company	14.2 million
4. Belfarm Company	4 million
5. Chief of the President's Bureau	6 million
6. Lada Company	2 million

Brazil

1. Fuad Sirhan	10 million
2. October 8 Movement (Chavez)	4.5 million

Canada

1. Arthur Millholland	9.6 million

Bulgaria

1. The Socialist Party of Bulgaria	12 million

2. Arak Paul	2 million

Chad

1.Chad Foreign Minister	3 million

China

1. Mr. Juan	39.1 million
2. Noresco	17.5 million
3. Zank Ronk	13 million
4. Biorg	13.5 million
5. South Holken	1 million

Cyprus

1. Muhammad Al-Hawny	17 million
2. Nefta Petroleum	13.2 million
3. Continental	1 million

Egypt

1. Ancom Co. (Muhammad Shatta)14 million	
2. Abd Al-Adham Manaf	6 million
3. Khaled Gamal Abd Al-Nasser	16.5 million
4. Imad Al-Jilda	14 million
5. Muhammad Salah	7 million
6. Muhammad Hilmi	4.5 million
7. Arab Company limited	6 million
8. Nile & Euphrates Co.	3 million
9. Mahmoud Mahdi Al-Ma'sarawi	7 million
10. Al-Hami Bashanti Foundation	2 million
11.International MultaqaFoundation	2 million

France

1. ADDAX	8.3 million
2. Trafigura Patrick Maugein	25 million
3. Michel Grimard	17 million
4. Franco-Iraqi Friendship	15.1 million

5. Ayix	47.2 million
6. Charles Pasqua	12 million
7. Alias Al-Gharzali	14.6 million
8. IOTC (Claude Caspert)	4 million
9. Jean-Bernard Merimee	3 million
10. Jean-Bernard Merimee	8 million
11. de Souza	11 million

Hungary

1. Hungarian Interest Party	4.7 million

India

1. Biham Singh	5.5 million
2. Indian Congress Party	4 million

Indonesia

1. Daughter of President Sukarno	2 million
2. Hawa Atlantic	2 million
3. Makram Hakim	3 million
4. Megawati	8 million
5. Muhammad Amin Rayyis	4 million
6. Natuna Oil	2 million

Ireland

1. Riyadh Al-Taher	11 million
2. Afro-Eastern	2 million

Italy

1. Roberto Formigoni	24.5 million
2. Salvatore Nicotra	20 million
3. Mr. Feloni	6.5 million
4. Father Benjamin	4.5 million
5. West Petrol	2 tons
6. Hetralk	2 tons
7. IPS (Italian Petroleum Assoc.)	1 million

Jordan

1. Leith Shbeilat	15.5 million
2. Fakhri Qa'war	6 million
3. Grand Resource	2 million
4. Al-Rashid International (Ahmad Al-Bashir)	9 million
5. Fawwaz Zuraiqat	6 million
6. Salem Al-Na'ass	3 million
7. Zayyad Al-Ragheb	7 million
8. Mashhur Haditha	4 million
9. Shaker bin Zayd	6.5 million
10. Muhammad Saleh Al-Hourani	4 million
11. Tojan Faisal	3 million
12. Ministry of Energy (Jordan)	5 million
13. Zayyad Yaghmour	2 million
14. Wamidh Hussein	1 million

Kenya

1. Muhammad Othman Sa'id	10.5 million

Lebanon

1. B.B. Energy	2 million
2. Fadi Al-Alamiyya (International)2 million	
3. Haitham Seidani	2 million
4. Plant [Blunt?] Petroleum	1 million
5. George Tarkhaynan	7 million
6. President Lehoud's son	4.5 million
7. Ali To'ma	1 million
8. Al-Hilal Co. (Adnan Al-Hanani)	1 million
9. International Company for Trade and Investment	3 million
10. Faisal Darniqa	3 million
11. Fim Oil Company	1 million
12. Najah Wakim	3 million
13. Osama Ma'rouf	3 million
14. Zuhair Al-Khatib	3.5 million

Libya

1. Shukri Ghanem	6 million

Malaysia

1. Fa'iq Ahmad Sharif	12.5 million
2. Pitmall Company	4 million
3. Trader Babar	4 million
4. Mastek (Fa'iq Ahmad Sharif0	57 million
5. Hawala	7 million

Myanmar Federation [Burma]

1. Minister of Forestry	5 million

Morocco

1. Abdallah Al-Sallawi	7.2 million
2. Nadhel Al-Hashemi	5.7 million
3. Muhammad Al-Basri	4.5 million

Netherlands

1. Sy Bolt	3 million

Nigeria

1. Hayson	7.2 million
2. Raz Company	7.5 million
3. A.A.G. Company (Nigerian Ambassador)	1 million
4. Comeback	4 million

Oman

1. Shanfari Group	5 million

Palestine

1. Abu Al-Abbas	11.5 million
2. Abdullah Al-Hourani	8 million
3. Wafa Tawfiq Sa'igh	3.5 million
4. Liberation Organization	4 million
5. Popular Front for the	5 million

Liberation of Palestine	
6. Liberation Organization (Political Bureau)	5 million
Pakistan	
1. Oil & Gas Group	10 tons
2. Abu Abd Al-Rahman	11.5 tons
3. Sayyed Azzaz	1 ton
Panama	
1. Sevan	11.5 million
Philippines	
1. Philippines Production Group	3 million
Qatar	
1. Hamad bin Ali Al-Thani	14 million
2. The Duleimy Group	4 million
3. Gulf Petroleum	2 million
4. Petrolina Oil	2 million
5. Petroleum Wells Maintenance	2 million
Romania	
1. Delf Aderlink	1 million
2. Romanian Labor Party	5.5 million
Russia	
1. The Russian State	1.366 billion
2. Zarubesneft	174.5 million
3. Russneft Ampex	86.9 million (for the office of the president, including 1 million to Mr. Tetzenko, Russian Ambassador to Baghdad)
4. Communist Party Companies	137 million
5. Amircom (Unity Party/ Ministry for Emergencies)	57 million
6. Mishinoimport	1 million
7. Al-Fayco (Russian Foreign	128.8 million

Ministry)	
8. Yatumin (Russian Foreign Ministry)	30.1 million
9. Slavneft	25.5 million
10. Zan Gaz	49.1 million
11. Rosneft Company	35.5 million
12. Caspian Investment	8.5 million
13. Kamaneft Company	7.5 million
14. Gasprom	26 million
15. Tatneft	1 million
16. LUKoil	63 million
17. Surgut Neftegas	4 million
18. Siberia Oil & Gas company	1 million
19. Nafta Moscow Company	25.1 million
20. Onaco Company	22.2 million
21. Sidanco Company	21.2 million
22. Sibneft	8.1 million
23. Transneft	9 million
24. Yukos	2 million
25. Liberal Democratic Party (Zhirinovsky)	79.8 million
26. Peace and Unity Party	34 million (the list mentions party chairwoman Sazhi Umalatova)
27. Russian Committee of Solidarity with the People of Iraq	6.5 million (its chair, Sergei Rudasev is mentioned)
28. Russian Association for Solidarity with Iraq	12.5 million (its chair, [Zhorafilon] is listed)
29. Russneft-Gazexport	12.5 million
30. Uralinvest (Stroyev)	8.5 million
31. Moscow Science Academy	3.5 million
32. Romain (son of former ambassador to Baghdad)	19.7 million
33. Zarabsneft (Gobkin University)	3.5 million
34. Nordvest Group)	2 million
35. Zarbshneft & Gas (Mr. Hassan)	3 million (only one million delivered)

36. Soyuzneftgaz (Yuri Shafrannik)	25.5 million
37. Nikolayi Ryzhkov	13 million
38. Stroyneftgas	6 million
39. Akht Neft Company	4.5 million
40. Chechna Administration	2 million
41. 'Adel Al-Jablawi (I.N.M. Airways)	6 million
42. Khrozolit	5 million
43. Trader Nafta	3 million
44. Chief of the President's Bureau	5 million
45. Russian Orthodox Church	5 million
46. Russian National Democratic Party	3 million

Saudi Arabia

1. Najah Company	3 million
2. Asiss Company	2 million

Slovakia

1. Slovak Communist Party	1 million

South Africa

1. Imvume Management (Sandy Majali)	9 million
2. Tokyo Saxwele Holdings (MVL)	4 million
3. Montega	4 million
4. Omni Oil	4 million

Spain

1. Bassim Qaqish	17.5 million
2. Javier Robert	9.8 million
3. Ali Balutt	8.8 million

Sudan

1. Samasu	8 million
2. Petroleum Products Co.	2 tons

3. Oil Plus	2 tons

Switzerland

1. Media	2 million
2. Delta Service	2 million
3. Iblom	1 million
4. Sipol	1 million
5. Glencore	12 million
6. Lakia	2 million
7. Elkon [or Elcon]	23 million
8. Taurus	8 million
9. Petrogas	5 million
10. Finar [Holdings]	21 million
11. Napex Company	3 million

Syria

1. Awadh Ammura	18 million+
2. Beshara Nuri	12 million+
3. Ghassan Shallah	11 million
4. Muhammad Amar Nofel	3.5 million
5. Tamam Shehab	1 million
6. Hamida Na'na'	9 million+
7. Farras Mustapha Tlass	6 million
8. Salim Al-Toon	3.5 million
9. Lutfi Fawzi	2.5 million
10. Lid Guarantees	3.5 million
11. Ghassan Zacharia	6 million
12. Muhammad Ma'moun Al-Sab'i	4 million
13. Hassan Al-Kayal	2 million
14. Anwar Al-Aqqad	2 million

Thailand

1. Thai Rice Trader Jaiporn	1 million

Tunisia

1. Madex Petroleum	6.7 million
2. Farnaco	3.7 million
3. Maydor	4 million

Turkey

1. Zayn Al-Abideen Ardam	27 million+
2. Lutfi Dughan	1 million+
3. Muhammad Aslan	13 million
4. Techfen	15.5 million
5. KCK Company	1.5 million
6. Delta Petroleum	1 million
7. Sita	1 million
8. Ozia	2.5 million
9. Samir	2 million
10. Muhtashem	2 million
11. Maqdar Sarjeen	2 million

Ukraine

1. Social Democratic Party	8.5 million
2. Ukraine Communist Party	6 million
3. Energy Resources	2 million
4. Fazmash Ampex	2 million
5. Neftogas	8 million
6. Hugh Company (Sokolov)	5 million
7. Orshansky	4.5 million
8. Fideralty Torkovy	1 million
9. Trans Isko	1 million
10. The Ukranian House	1 million
11. F.T.D.	2 million
12. Socialist Party of Ukraine	2 million

United Arab Emirates

1. Fal Petrol	1.8 million
2. Ahmad Mani' Sa'id Al-Utaiba	11 million
3. Jewan Oil	7.5 million
4. Sultan bin Zayed Al-Nahyan	4 million
5. Al-Huda	22.9 million
6. Issa bin Zayed Al-Nahyan	5 million
7. Millenium	2 tons
8. Bony Fiol	1 ton

United Kingdom	
1. George Galloway/Nawwaf Zuraiqat	19 million
2. Mujahideen Khalq	36.5 million
U.S.A.	
1. Shaker Al-Khaffaji	7 million
2. Samir Vincent	10.5 million
Vietnam	
1. Vinapco	1.2 million
2. Darlink Med	2 million
3. Vinafod	6 million
4. O.S.C.	2 tons
Yemen	
1. Abd Al-Karim Al-Aryani	7.8 million
2. Tawfiq Abd Al-Raheem	1.5 million
3. Shaher Abd Al-Haq	7 million+
Yugoslavia	
1. Socialist Party	22 million
2. Left Party	9.5 million
3. Italian Party	16 million
4. Kokostancha Party	9 million

B. Reactions of Implicated Individuals and Organizations

It is hardly surprising that most of those interviewed or those who reacted otherwise denied receiving such vouchers or claimed that the vouchers were received in the framework of the Oil for Food program. This latter argument is somewhat disingenuous because legitimate suppliers of goods and services under the program were paid from a trust account administered by the United Nations, and with vouchers from Saddam. Some may have made statements to newspapers not readily available to MEMRI, and others may have opted to remain silent.

Algeria

Abd Al-Majid Al-Attar, a formerdirector-general of the Algerian national

oil company **SONATRAC** (6 million barrels) wrote a long rebuttal in the London daily *Al-Hayat*stating that the 6 million barrels were marketed by Algerian companies. According to him, the profits were used for humanitarian assistance to the Iraqi people. Al-Attar likes to remind the reader "that every airplane [carrying assistance] which landed in Baghdad cost hundreds of thousands of dollars *without getting involved in details*" [emphasis added].[9] Radio Algiers announced that the state would investigate allegations of corruption.[10]

Bahrain

Ali Al-Muslim (3 million barrels) said he had visited Iraq 22 times before the war but his trips were primarily "humanitarian," and that he had sent food and cleaning materials within the framework of the Oil for Food program. As a sign of appreciation, the regime offered Al-Muslim the opportunity to sell, as a broker, 3 million barrels. Al-Muslim ran into difficulties selling the vouchers and hence he withdrew from the deal.

Hassan Al-Darazi, the son of businessman **Kadhem Al-Darazi** (2 million barrels), said his father had made a pilgrimage to Mecca but that all his activities were "purely commercial."[11]

Bulgaria

The Socialist Party of Bulgaria (12 million). **President Georgi Parvanov**, head of the Socialist Party, characterized the allegation as "ill-advised black humor," but ordered an inquiry into the accusation.[12] President Parvanov also met with the U.S. Ambassador in Sofia and sought his help to clarify the facts regarding the list.[13]

Canada

Arthur Millholland, CEO of the Calgary-based Oilexco(9.6 million barrels), denied he had received vouchers and criticized MEMRI, which he claimed "was critical of the recent U.S.-led war with Iraq and participated in the UN's Oil for Food program to help Iraqi children [sic]." "Obviously," he hinted, MEMRI "has some motives."[14]

Egypt

Abd Al-Adhim Manaf (6 million barrels), the owner and editor of ***The Voice of the Arabs*** (***Sawt Al-Arab***), and a member of parliament, offered to show evidence that he had been offered oil vouchers, but had refused them.[15]

Muhammad Shatta (14 million barrels) maintained that he served as an

agent for two international petroleum companies and that all his transactions were under the Oil for Food Program. He said there was small-scale smuggling of oil of 3000 barrels at a time by small merchants, but did not explain how the smuggling was related to the vouchers he received.

Khaled Abd Al-Nasser, the son of the late Egyptian president Gamal Abd Al-Nasser, (16.5 million barrels), could not be reached by **the Egyptian weekly *Roz Al-Youssef*** because all his phones "were out of order." However, the weekly cites a number of instances of Abd Al-Nasser's involvement in activities for solidarity with Iraq.

Egyptian MP Imad Al-Gilda (14 million barrels) denied receiving any vouchers. *Roz Al-Youssef*reported that there were rumors before the war that Al-Gilda was "part of the Iraqi propaganda machine."

Mahmoud Mahdi Al-Ma'sarawi (7 million barrels) attributes the inclusion of his and other names on the list to their stand against U.S. actions in Iraq.

Muhammad Hilmi (4.5 million barrels), who named his son Saddam, said he would be proud if his son would be another Saddam Hussein.[16] Otherwise, he denied the allegation.

It is noteworthy that Egyptian activist **Mamdouh El-Sheikh** filed suit in May 2003 against several Egyptian politicians and journalists, accusing them of accepting bribes from Saddam which violated Egyptian law.[17]

France

Former interior minister Charles Pasqua, (12 million barrels) denied any involvement and suggested another, unnamed former French interior minister may have been the beneficiary.[18] According to *The New York Post* Mr. Pasqua, "a close friend and former colleague of Chirac ... fought to allow visits by top Iraqi officials to France in 1993."[19]

Trafigura Patrick Maugein, CEO of the oil firm **SOCO International** (25 million barrels), was quoted as saying that he did a lot of business in Iraq under the Oil for Food program, "but none of it was illegal."[20] It was mentioned that the 55-year old businessman "appears to wield [influence] with **President Jacques Chirac**."[21]

Jean-Bernard Merimee, (3 million and another 8 million barrels) was the French Ambassador to the United Nations and France's representative in the Security Council.

Michel Grimard, (17 million barrels) is the founder of the French-Iraqi Export Club.

Gilles Munier, secretary general of the Franco-Iraqi Friendship Association, said his organization introduced numerous businesses, oil and otherwise, to contracts in Iraq, but that it was all perfectly legal. For each successful introduction, he said he "received a commission." [22]

Hungary

Hungarian Interest Party (MEP). Quoting from the **Hungarian daily** ***Nepszabadsag***, the MEP was established by **Izabella Kiraly B**. in the fall of 1993 after her expulsion from the **Hungarian Democratic Party**. Ms. Kiraly refused to talk to the Hungarian newspaper but her website includes slogans such as: "Hands off Iraq!" "Peace Instead of War," and "America! Leave the World Alone in Peace!" On her site, President Bush in a Nazi uniform with the U.S. flag in hand repeats a famous statement by Hitler: "One People, One Empire, One Ruler" (*ein Volk, ein Reich, ein Fuehrer*). [23]

Indonesia

President Megawati Sukarnoputri (2 million as "daughter of President Sukarno" plus 8 million barrels under her own name). A spokesman told the **Australian Broadcasting Corporation** that President Megawati was "aware of the allegations." [24]

People's Consultative Assembly speaker Muhammad Amin Rayyis (4 million barrels) did not respond to the Australian Broadcasting Corporation.

Italy

Roberto Formigoni (24.5 million) is the president of Lombardia.

Father Benjamin (4.5 million barrels) is a French Catholic priest who arranged a meeting between the **Pope** and **Tariq Aziz**, Iraq's former deputy prime minister. [25]

Salvatore Nicotra (20 million) is a former NATO pilot who became an oil merchant.

Jordan

Leith Shbeilat (15.5 million barrels) is an Islamist with a pro-Saddam record. He stressed that the United Nations system was so stringent that it would not have allowed anyone to play with oil contracts and that the publication of the list was intended "to slander those who were defending the Iraqi people." [26] Ironically, he served as the chairman of the anti-corruption committee of the Jordanian parliament. [27]

Fawwaz Zureiqat (6 million barrels) whose name was linked with the British MP **George Galloway** (see United Kingdom) said that the accusations are silly. He said that he had earned a commission of five cents per barrel, which had not been paid by the Iraqi government.

Tojan Faisal, a member of parliament (3 million barrels), said she acted to help a friend in need. She identified him as **Abd Al-Rahman Al-Qatarna**. [28]

Fakhri Qi'war (6 million barrels) is a former Jordanian MP and a journalist. He said the list "has no basis in truth and we do not know its reasons." He added that the accusation "is an attempt to slander those who stand against the American occupation of Iraq and stand with the Iraqi resistance and the Iraqi brethren and cooperate and support them." [29]

Wamidh Hussein (Majali) (1 million barrels) denied receiving oil. He said: "I was a member of the Popular Jordanian Committee for Solidarity with Iraq, and provided medicines. We paid for it from our own pockets." [30]

In response to a parliamentary question, Deputy Prime Minister **Muhammad Al-Halaiqa** said: "The issue is under follow-up, and we are seeking to verify whether some people have acquired [Iraqi] graft." [31]

Lebanon

Emil Emil Lahoud (4.5 million barrels) is a Lebanese MP and the son of **Lebanese President Emil Lahoud**. In an interview with **the London daily *Al-Sharq Al-Awsat***, Lahoud maintained that his inclusion on the list was aimed at undermining the position taken by his father which "supports the [Palestinian] resistance, stands by Syria, rejects the occupation of Iraq, and demands the liberation of all the Palestinian lands." [32]

Osama Ma'rouf (3 million barrels), another MP and head of the Nasserite Popular Organization, admitted receiving a voucher to sell oil for commission. However, he added that the voucher had cost Iraq nothing and that he had in any event never exercised the option. [33]

Najah Wakim (3 million barrels), a former MP, denied the allegation, maintaining that ***Al-Mada* editor Fakhri Kareem** said on television, without specifying time or venue, that he received the list from the CIA without supporting evidence. [34] Kareem told **the Lebanese daily *Al-Nahar*** that he had never spoken with Wakim. [35]

Libya

Shukri Ghanem (6 million barrels) is the Libyan prime minister.

Morocco

Muhammad Al-Basri (4.5 million barrels) who has since died, was a former Moroccan Socialist leader. [36]

Panama

One surprise on the list was **Mr. [Benon] Sevan** (11.5 million barrels) who is the Executive Director of the Oil for Food program. A U.N. spokeswoman denied the charges and said that the U.N. secretary-general was completely satisfied with Sevan's integrity. [37] Mr. Sevan denied the allegations and stated that "it was incumbent on those who published these allegations to provide the necessary documents." [38]

Qatar

Abd Al-Aziz Mubarak Al-Duleimi (4 million barrels) said he had contracts to sell 10 million barrels as a broker under the U.N. supervision and had nothing to do with Saddam's coupons or bribes. [39]

Romania

Two entities are listed under Romania: **Delf Aderlink** (1 million barrels) and the **Romanian Labor Party** (5.5 million barrels). The following is a slightly edited version of an email to MEMRI from a Romanian journalist:

"The owner of Bulf Drilling, **Cornel Bulf**, is a pretty well known Romanian businessman, deeply involved in oil business. He has a lot of privileged businesses with the state-owned oil company **Petrom**. He claimed that all the Iraqi oil that he sold was with U.N. permission – and he showed me some approvals in this regard. Nevertheless, I take into consideration that he could have traded Iraqi oil both with and without approval, and that U.N. approvals were meant to cover his illicit trade.

"The son of the president of Labor Party, **Ioan Cristian Nicolae**, in connection with some politicians, has just bought a huge building in Bucharest for $1.5 million." [40]

Russia

Russia, which received the greatest number of oil vouchers, has said nothing.

Nikolay Ryzhkov (13 million barrels) was a U.S.S.R. prime minister.

South Africa

Tokyo Saxwele Mvelaphanda Holdings (MVL) reacted angrily to its inclusion in the list, but has not denied buying oil under the Oil for Food program. [41]

Spain

Ali Balutt or Balout (8.8 million barrels) is a Lebanese journalist. [42]

Switzerland

Glencore (12 million barrels) is the largest commodity trader in Switzerland.

Petrogas (5 million barrels) is listed in Switzerland under three sub-companies – **Petrogas Services, Petrogas Distribution, and Petrogas Resources** – and is associated with the Russian company **Rosneftegazetroy** (35.5 million barrels).

Syria

Hamida Na'na (over 9 million barrels) is the owner of *Al-Wifaq Al-Arabi* and the author of a biography of former Iraqi deputy prime minister **Tariq Aziz**. She is currently writing a biography of **Iraqi general Ali Hassan al-Majid, known as Chemical Ali**. [43]

Farras Mustafa Tlass (6 million barrels) is the son of **Mustafa Tlass**, **Syrian Defense Minister** and one of the pillars of the Syrian Ba'ath party. He said his company had bought oil from Iraq under the Oil for Food program and denied receiving any oil outside the framework of that agreement. [44]

United Kingdom

1. There is a reference on the margin of the list to "a **Mr. Burhan Al-Chelebi**" and "Fortrum and Gas-Oy," a Finnish purchasing company, in an agreement on December 29, 1999. There is also another reference to former MP George Galloway, as beneficiary of 3 million barrels.
2. There is another reference to George Galloway's receiving 4 million barrels, through Jordanian Fawwaz Zureiqat, of Aredio Petroleum, in an agreement on July 10, 2001.
3. Similarly, Middle East Advance Semi-Conductor, a Jordanian company, referred to Galloway as receiving 3 million barrels in an agreement on June 8, 2001, also via Mr. Fawwaz Zureiqat.
4. Similarly, March 5, 2001 - 2 million barrels
5. Similarly, December 12, 2002 - 3 million barrels

6. Similarly, June 3, 2002 - 3 million barrels

Thus, "George Galloway as beneficiary is cited six times, twice in the name of Finnish and French companies and the rest Jordanian under the name of Fawwaz Zureiqat. All these requests were approved by the minister of oil, with his signature." [45]

When asked by *ABC News* about being on the list, Galloway replied: "Not one brass farthing. I've never seen a barrel of oil, owned one, bought one." [46]

The **Mujahideen Khalq** (36.5) is an organization which opposes the Iranian regime which had operated from within Iraq under the Saddam regime. The United States has classified it as a terrorist organization and it has recently been ordered to leave Iraq.

United States

Shaker Al-Khaffaji (7 million barrels) advanced $400,000 to Scott Ritter, former U.N. weapons inspector in Iraq. Ritter produced a documentary purporting to tell the true story of the weapons inspections, which in his telling were corrupted by sinister U.S. manipulation. [47]

Samir Vincent (10.5 million barrels): In 2000, Vincent, an Iraqi-born American who lived in the U.S. since 1958, organized a delegation of Iraqi religious leaders to the U.S., which met with former president Jimmy Carter.

The Saddam Oil Vouchers Affair, Part II: Arab Media Reactions

Arab Media Ignore the List

In an op-ed titled "Beautiful Masks over Ugly Faces" in the London daily *Al-Hayat*, **Salama Na'mat** criticizes Arab television and other media for showing little interest in the oil voucher scandal. Because releasing the list shows Saddam Hussein's bribery of hundreds of politicians and journalists from 50 Arab and foreign countries, the Arab media have neither pursued the issue nor investigated the matter. In fact, Na'mat says, the publication of the list has triggered even less interest in official circles than in the media. Na'mat continues:

"The reality is that some Arab governments perhaps do not object that politicians and media people benefit from Saddam's bribes either because they are also involved or see no harm in bribes since it is a normal practice by the Arab regimes in varying degrees. Perhaps the political agenda of the deposed Iraqi regime was [no different] than the agendas of these governments. It mattered not to those who were bribed and those who shut

their eyes that the money they received from the deposed regime to sing its praise were taken away from the Iraqi people which was destroyed by Saddam's wars and his stupid policies. [48]

Ahmad Al-Rab'i, a columnist in the London daily *Al-Sharq Al-Awsat,* points out that much of the Arab press, with the exception of the Iraqi, Jordanian, and Lebanese press, has not dared to publish the lists because they included powerful political figures. The Iraqi and Kuwaiti press, in particular, have reason to do so because they have been making the point that Saddam's defenders were not driven by nationalist or Islamic principles, but were paid off. [49]

An op-ed by **Mazen Hammad** in the **Qatari daily *Al-Watan*** under the title "Publish the Names, May Allah Have Mercy on You!" wrote:

"The scandal is growing, and its threads, hour after hour, are encircling the necks of many who allege pan-Arabism and nationalism as well as those traders of opportunities. While it is too early to point an accusing finger at anyone in particular, those who have 'received' from the Saddam regime, in both Arab and non-Arab countries, for aggrandizing and defending him, count in the hundreds, if not more.

"The scandal is growing because among the names are heads of political parties, parliamentarians and the children of heads of states and governments.

"The scandal is growing because it is no secret that hundreds of apartments, Mercedes automobiles, cash and various grants were distributed by Saddam's aides to ministers, under secretaries, journalists, writers and artists.

"... It is also important that no one be excluded [from punishment] if his name appeared on the list regardless of the amount of his influence and the level of his position...

"[The scandal] is a flagrant example of the duality of the life of the Arab politician: he lectures nationalism during the day and nurses oil at night." [50]

'Once Again, the Citizens Pay'

Writing in the **Kuwaiti daily *Al-Siyassa***, columnist **Shaker Al-Nabulsi** says: "At the outset, it appears that the list ... is valid and the evidence is that some of those whose names where mentioned have not denied it." Al-Nabulsi's column focuses on Jordanian Islamist Leith Shbeilat, one of the biggest beneficiaries of Saddam's oil vouchers and one of the most vocal supporters of the Saddam regime in its heyday. Al-Nabulsi expresses his

astonishment at the relationship between an Islamist who advocates an Islamic state run according to Shari'a law and the secular regime of Saddam which despised the clerics and killed and tortured many of them. [51]

Jubran Tweiny, the editor of the Lebanese daily *Al-Nahar*, wrote: "Once again, the country [Lebanon] and the citizens pay for the involvement of some officials in financial scandals and money laundering and oil 'vouchers,' the payment of bribes ... without the authorities trying to put an end to them.

"It is incumbent on the state to respond clearly and forcefully to the sources of the news and prove the innocence of all those who were accused of receiving money from Saddam or smuggled money from the former Iraqi regime against commission." [52]

In the Kuwaiti daily *Al-Siyassa*, in an article titled "The Barrels of the Ba'ath," **Daoud Al-Basri** writes that the voucher scandal was not so much about the millions of barrels of oil given to "the militants and their international partners" as "a scandal for the international and Arab conscience and the environment of silence and deceit which accompanied all the stages of bribing..." He continued: "We will not forget the bribing of those who forged contemporary Iraqi history and those who made Saddam the anticipated Messiah of the Ba'ath." [53]

Al-Sharq Al-Awsat columnist **Samir Attallah** wrote in 'The Mother of [All] Vouchers:' "[What is really repulsive] is the language of the total purchase [of supporters] or total hatred ... [the regime] needed people who hate what it hated and offended what it offended... What interests me about the vouchers and the Oil for Food [program] ... are the wailings of the former president displaying pictures of children dying from hunger and disease ... and the million and one stories about the poverty and neediness that transformed Iraq from a rich country to a country celebrating the birthday of a president who basks in his presidential palaces amidst poverty, silence, oppression, and the processions of the dead." [54]

Pro-Saddam Al-Quds Al-Arabi: The List is Only Alleged; Kill the Messenger

In the **pro-Saddam London daily *Al-Quds Al-Arabi***, the paper's Baghdad correspondent writes about "the alleged oil list:"

"The publication of the list by the newspaper *Al-Mada* ... did not draw much attention in Iraq because Iraqis were already familiar with this fact. Many Iraqis and particularly those involved in the oil trade business...were aware that the regime was selling quantities of its oil to oil companies and individuals with which it was associated or had good relations to circumvent the UN sanctions which controlled Iraq for 13 years. The policy of the old

regime was to support anyone who stood by it or was trying to export goods to Iraq outside the sanctions." [55]

In another report from its correspondent in Amman, Jordan, *Al-Quds Al-Arabi* tried to divert attention towards the purported source of the list (according to him, this source was **Iraqi Governing Council member and Iraqi National Congress head Ahmad Chalabi**) and to smear him:

"The lighting of fire recently under the vouchers by the central figures of the Iraqi National Congress against Jordanian intellectuals and journalists is nothing new for the Jordanian government, or for the intellectuals themselves whom the new rulers of Iraq are trying to 'hit.'" [56]

Al-Jazeera: Faisal Al-Qassim's Hidden Pro-Saddam Agenda

Faisal al Qassim, host of the popular *Opposite Direction* program on Qatari ***Al-Jazeera satellite television***, chose to attack, on his program devoted to the vouchers affair, not the beneficiaries but their critics. He said:

"Do these bribed, swindlers and the traders of homelands have the right to discuss honesty? Aren't the records of many of them blotted with bribes, swindling and fraud? How many millions did the previous Iraqi opposition receive from the Central Intelligence Agency?

"Can those who sold Iraq wholesale to the occupier open the files of corruption and the purchase of consciences…? It is true that the deposed regime wasted millions to buy friends and supporters, but haven't the newcomers handed Iraqi oil in its entirety to the American occupier? [57]

On February 17, 2004, the London Arabic-language daily *Al-Hayat*published Iraqi intelligence documents released by the **Iraqi daily *Al-Mu'tamar,*** the organ of the Iraqi National Congress, linking Faisal Al-Qassim to Iraqi intelligence. [58]

'They Must Be Published Morally'

Dr. Abd Al-Ghani Mahmoud, head of theinternational law department at Egypt's **Al-Azhar University,** provided a fitting epilogue to this affair. Dr. Mahmoud told the Egyptian weekly *Roz Al-Youssef*:

"Those who have the instruments to influence their peoples – intellectuals, politicians, political parties or institutions – have become in some of these countries propaganda mouthpieces for a corrupt dictatorial regime which has dragged the whole region into oblivion. This problem calls for a firm stand. Those who collected money from this regime, which destroyed its people with chemical weapons while enjoying a life of luxury in palaces during the

sanctions, are partners in wronging the [Iraqi] people through their silence about the corruption... They must be punished morally by publishing their names and what they have received, so they will serve as an example for others." [59]

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[1] See MEMRI Inquiry and Analysis No. 160, January 29, 2004, 'The Beneficiaries of Saddam's Oil Vouchers: The List of 270,' http://memri.org/bin/articles.cgi?Page=archives&Area=ia&ID=IA16004.

[2] *Al-Zaman* (Baghdad), January 26, 2004.

[3] *Al-Sharq Al-Awsat* (London), January 26, 2004.

[4] *Al-Mashreq* (Baghdad), January 30, 2004.

[5] *Al-Siyassah* (Kuwait), February 4, 2004.

[6] *Al-Hayat* (London), January 31, 2004.

[7] *Al-Mada* (Baghdad), February 7, 2004.

[8] A letter to the *Wall Street Journal*, February 18, 2004.

[9] *Al-Hayat* (London) February 5, 2004.

[10] *Al-Zaman* (Baghdad), February 12, 2004.

[11] *Al-Hayat* (London), January 30, 2004.

[12] *The Associated Press*, January 28, 2004.

[13] *Al-Sharq Al-Awsat* (London), February 1, 2004.

[14] *Calgary Sun* (Canada), February 1, 2004.

[15] *Al-Qahira* (Egypt), February 3, 2004.

[16] *Al-Ahram Al-Arabi* (Egypt), May 24, 2003.

[17] Jamal Halaby, United Press International, January 28, 2004.

[18] *Al-Zaman* (Baghdad), January 28, 2004.

[19] *The New York Post,* January 28, 2004.

[20] *The Daily Telegraph* (London), January 28, 2004.

[21] Intelligence Online, #435 of August 29, 2002.

[22] *The Daily Telegraph* (London), January 28, 2004.

[23] *BBC*, January 29, 2004.

[24] Laksamana.Net (The Politics and Economics Portal), February 2, 2004.

[25] *ABC News*, January 29, 2004.

[26] *Al-Quds Al-Arabi* (London), January 28, 2004.

[27] *Al-Siyassah* (Kuwait), February 4, 2004.

[28] *Al-Anwar* (Lebanon), February 6, 2004.

[29] *Al-Sharq Al-Awsat* (London), January 26, 2004.

[30] *Al-Sharq Al-Awsat* (London), January 26, 2004.

[31] *United Press International*, January 28, 2004.

[32] *Al-Sharq Al-Awsat* (London), February 7, 2004.

[33] *Al-Qassim Al-Mushtarak* (Baghdad), February 11, 2004.

[34] *Al-Sharq Al-Awsat* (London), February 10, 2004.

[35] *Al-Nahar* (Lebanon), February 10, 2004.

[36] *Al-Siyassah* (Kuwait), February 4, 2004.

[37] *Al-Hayat* (London), January 30, 2004.

[38] *Al-Zaman* (Baghdad), February 11, 2004.

[39] *Al-Sharq* (Qatar), January 29, 2004.

[40] The email is dated February 2, 2004 and is in MEMRI's records.

[41] *Sunday Times* (Zambia), January 30, 2004.

[42] *ABC News*, January 29, 2004.

[43] *Al-Siyassah* (Kuwait), February 4, 2004.

[44] *Al-Sharq Al-Awsat* (London), January 26, 2004.

[45] *Al-Mada* (Iraq), January 25, 2004.

[46] *ABC World News Tonight*, January 29, 2004.

[47] http://slate.msn.com/id/2071502

[48] *Al-Hayat* (London), January 29, 2004.

[49] *Al-Sharq Al-Awsat* (London), January 31. 2004.

[50] *Al-Watan* (Qatar), February 2, 2004.

[51] *Al-Siyassah* (Kuwait), February 4, 2004.

[52] *Al-Nahar* (Lebanon), January 29, 2004.

[53] *Al-Siyassah* (Kuwait), February 4, 2004.

[54] *Al-Sharq Al-Awsat* (London), February 6, 2004.

[55] *Al-Quds Al-Arabi* (London), January 28, 2004.

[56] *Al-Quds Al-Arabi* (London), January 28, 2004.

[57] *Al Jazeera* (Qatar), February 3, 2004.

[58] *Al-Hayat* (London), February 17, 2004. The liberal Web site www.elaph.com published photocopies of the originals, February 15, 2004.

[59] *Roz Al-Youssef* (Egypt), January 31-February 6, 2004.

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

Additionally, Dr. Raphaeli, are the vouchers themselves available to be examined, and can they be examined in the context of the price of oil as to that particular day or period?

Mr. RAPHAELI. The vouchers went through two steps. First of all, a letter was issued by the Office of the President of Iraq, Saddam Hussein, to the minister of oil indicating that the President, and they always added, "May Allah preserve him and protect him," has authorized a certain number of barrels of oil to be given to an individual. In 90 percent of the cases, these individuals were not oil traders. They took these vouchers. They went to a hotel in Baghdad. They sold it to intermediaries, mainly from the Gulf countries, and these intermediaries paid in cash for the vouchers and then sold them to oil companies.

It is intriguing that during all of these sanctions, the United States—according to figures published by the U.S. Energy Department—was the largest buyer of Iraqi oil.

Mr. ROHRABACHER. Thank you very much, Dr. Raphaeli, and let us again emphasize the point that was made earlier. We have this list of 270 names of people specifically who we know absolutely received these oil vouchers. Your suggestion is many of them are French and Russian, but it was suggested as well that one of the people receiving these vouchers was the man who murdered the father of the Iraqi woman who was there with us at the State of the Union. I think that this is a very dramatic revelation, so let us make sure we do not forget it.

Mr. Schiff?

Mr. GREEN. Mr. Chairman, as we conclude, I would like to inquire if a copy of a voucher could be provided to us and maybe a paper trail as an example of what a voucher actually looks like and how it could be interpreted, and I yield.

Mr. RAPHAELI. Again, MEMRI has published sample vouchers. I will send them to you in Arabic and English translation. It is in the form of a letter from the office of the President to the minister of oil, and then the minister of oil issued instructions to SOMO—the state oil-marketing organizations to deliver the oil to——

Mr. ROHRABACHER. And let us note, as we are looking at this voucher issue, that Mr. Sevan, who directed the program at the United Nations, and, Dr. Lopez or Dr. Gardiner, correct me if I am wrong, knew that these vouchers were being used.

Mr. RAPHAELI. Absolutely because he asked for some, and he is listed among the 270.

Mr. ROHRABACHER. All right. I think that that is rather spectacular.

Mr. Schiff?

Mr. SCHIFF. Thank you, Mr. Chairman.

Dr. Gardiner, I want to ask you a couple of questions just to help clarify some things in my own mind and put this in context for me. The sanctions regime; tell me the cardinal purpose originally of the sanctions regime. What was it designed to do?

Mr. GARDINER. The sanctions regime was principally designed to prevent the Iraqi regime from acquiring weapons of mass destruction, and that was the principal purpose, and also to prevent the potential for developing future weapons programs.

Mr. SCHIFF. So as degrading a practice and lamentable practice of building the fortresses and lining his own pockets, preventing that was not the primary purpose of the sanctions? It was to keep him from developing nuclear, chemical, or biological weapons?

Mr. GARDINER. Well, the primary purpose certainly was to prevent the Iraqi regime from being a threat to the rest of the Middle Eastern region.

Mr. SCHIFF. That threat, though, is constituted by the WMD program, not by the palaces—right?—unless the palaces are used to hide the WMD program.

Mr. GARDINER. Well, I think that the report of Charles Duelfer did make it clear that Saddam Hussein retained the potential to develop weapons programs, and we should bear that in mind.

Mr. SCHIFF. We can go down the path if you like, but I am not seeking right now to try to establish today whether we found them or did not find them and why we did not find them. But the primary purpose of the sanctions was to prevent him from getting WMD, and, I assume, the primary purpose of the Oil-for-Food was to address humanitarian issues that had been raised while still preventing Saddam from getting WMD. Is that a fair statement?

Mr. GARDINER. Yes. The primary purpose of the Oil-for-Food Program was to ensure that the Iraqi people themselves would not suffer as a result of the sanctions regime and so that they could receive humanitarian goods while ensuring that the Iraqi regime did not acquire WMD ability.

Mr. SCHIFF. What would you say was the greatest threat to the efficacy of the sanctions against Iraq? Was it the illicit oil trade, or was it the surcharge and kickbacks from the Oil-for-Food scandal?

Mr. GARDINER. I think a combination, actually, and I think it is important for us to bear in mind that the figures seen out there on that chart produced by the Duelfer survey should be viewed, as Volcker points out in his interim report here, alongside the findings of the General Accountability Office, as well as the findings of the U.S. Senate Subcommittee on Investigations.

Mr. SCHIFF. Do you quarrel with the summary of that chart, that the largest evasion of the sanctions took place through these illicit oil transactions rather than the Oil-for-Food Program?

Mr. GARDINER. We simply, at this stage, cannot establish final figures. I think that the investigation still——

Mr. SCHIFF. But this chart indicates that well over three-quarters of the money that was diverted was from the illicit trade in oil. Do you have any evidence, for example, that the illicit revenues derived from the Oil-for-Food were used for a different purpose than the illicit revenues derived from the illicit sales of oil? Or were they both equally a threat, the revenue from whatever source, if it allowed Saddam to develop WMD?

Mr. GARDINER. I think that both sources of revenue were a major threat, but let us not downplay the potential scale here of the amount of money illicitly acquired by the Saddam Hussein regime through the Oil-for-Food Program.

Mr. SCHIFF. No. I do not at all, but if you are looking at Saddam Hussein getting $100 to buy WMD, and $75, you know, is coming from one source, and $25 from another, my primary concern, at

least in the first instance, would be where he is getting the bulk of the money to potentially develop WMD. Which leads me to another question, which is: If the primary concern of the sanctions regime was the potential for Saddam to develop WMD, why did we acquiesce in the $75 of the $100 of the illicit trade? Why would it have been, in the Administration's view or in the view of Congress, better for our security to allow these protocols with Turkey, with Jordan, or elsewhere if we believed those monies were going to be used for WMD? Why would that have been in our national security interest to allow that illicit trade to go on?

Mr. GARDINER. Well, two things. Firstly, I would say that your figure of 75 cents out of every dollar is not a final figure, and we have to consider the other——

Mr. SCHIFF. Well, I am being generous. According to Duelfer report, it is closer to 85 cents or 86 cents per dollar, so I am being generous by saying 75, but if you prefer the 85 number, I can use that.

Mr. GARDINER. You know, my point is we have to look at all of the investigations, not just the findings of the Duelfer report of the Volcker Committee. We have several different investigations that have come up with different figures, and the figures produced by Coleman's investigation, for example, up to $7 billion acquired through kickbacks on humanitarian purchases, for example.

Mr. SCHIFF. But, again, let us not lose sight of the ultimate threat here, which is that revenues from whatever source are going to be used for WMD. Now, there may be a question about how much we knew of the kickbacks and surcharges. There is no question about our knowledge of the illicit oil sales, and why is it that we would acquiesce in these multibillion-dollar illicit oil sales if we thought they were going to use the revenues from those sales to develop WMD? What security interest was higher and more paramount than preventing them from getting those revenues for WMD?

Mr. GARDINER. I believe that it is still not yet clear whether or not the United States, Great Britain, and other members of the Security Council acquiesced in deliberately overlooking the oil smuggling. This is an issue certainly of a separate ongoing investigation.

Mr. SCHIFF. Was not the Administration required, as a matter of U.S. law, to make a finding that it would waive, essentially, prohibitions on providing aid to countries that were knowingly participating in the evasion of sanctions?

Mr. GARDINER. What we have seen so far are simply just leaked documents reported by one or two new outlets. Compare that to the huge amount of evidence that we have with regard to widespread fraud and corruption within the United Nations relating to the Oil-for-Food Program.

Mr. SCHIFF. Is it your view, Doctor, then, that the Administration did not know of these illicit sales of billions of dollars worth of oil to Jordan, to Turkey, later to Syria, maybe to Egypt?

Mr. GARDINER. My answer to that is I do not represent the Administration, and——

Mr. SCHIFF. I hope you do not represent the Administration. You are an independent expert today.

The question, as an independent party, and I can obviously ask the Administration, but as an independent third party: Do you believe the Administration was unaware of these protocols?

Mr. GARDINER. I am simply not certain as to the degree of knowledge with regard to the oil smuggling.

Mr. SCHIFF. Mr. Chairman, am I out of time?

Mr. ROHRABACHER. Well, you have actually been about 2½ minutes over, but feel free to finish your line of questioning.

Mr. SCHIFF. Well, I will wrap up, Mr. Chairman.

Dr. Gardiner, you are very qualified to scrutinize every detail of the Volcker report and the United Nations. I am surprised that a question that is as well documented as what the U.S. Administration was aware of in terms of the trade protocols is open to question.

But let me ask you, Dr. Lopez, the recommendations you have laid out, and one of the primary interests I have, is: How can we learn from this to make a more effective sanctions regime in the event sanctions are sought and received vis-a-vis Iran or other countries?

Mr. ROHRABACHER. This is a whole new line of questioning, however.

Mr. SCHIFF. One question. One question.

Mr. ROHRABACHER. All right. It is one thing to let someone go over and then finish his line of questioning, which I will always do, but it is another to bring up another issue.

Mr. SCHIFF. Well, let me ask a question, Mr. Chairman. If it is too far removed, then we will strike it.

I was interested to know whether the recommendations you have made, which are very sound, deal with the problem of these trade protocols and illicit sales, or is that a problem different in kind than the one you have proposed to address?

Mr. LOPEZ. It will deal with the administration of the conflict between a U.N. bureaucracy and a Security Council that continues to insist, for other security reasons, to go ahead with these kinds of trade contracts.

Mr. SCHIFF. Mr. Chairman, thank you for your indulgence.

Mr. ROHRABACHER. All right. Thank you. Mr. Schiff, again, earlier, I am not sure if you were here when it was discussed, but when you have specific decisions that were made to permit Jordan and Turkey and other countries to smuggle, for lack of a better word, but gain possession of this oil, it was a policy decision by the governments involved, by our Government as well. And I am sure Dr. Gardiner—I am sure he understands this was, I believe, during the Clinton Administration, when the decisions were first made. But they were also made during the Bush Administration that there were other foreign policy considerations that were made that it is very important, for example, to have Jordan in a particular relationship, and they needed to cement that relationship. I am sure that this was part of that bargain. That is a lot different, however, when you are making a policy decision than when the United Nations official solicits a voucher that will permit him to have some form of self-enrichment in order to sell more oil or to participate in the oil program.

Mr. SCHIFF. Mr. Chairman, I agree with that. It does, though, have a certain reminiscent quality of "Casablanca," and I am shocked, shocked, to find evasion of sanctions going on——

Mr. ROHRABACHER. One is a self-enrichment where you have people who are involved in corrupt practices. Another is where you have someone or some government leaders who are, with the authority given to them, making a policy decision that it is important for Turkey or Jordan or whoever to have that type of revenue at that moment, and, again, this was not made just during the Bush Administration. I think this was made probably first Bush, Clinton, and now Junior Bush.

I made a comment. Mr. Delahunt, go ahead and make a comment.

Mr. DELAHUNT. I would just suggest that what we are saying is, and I apologize to my friend, Mr. Royce. I can see that he is anxious. I will defer my comment.

Mr. ROHRABACHER. All right. Thank you very much.

Mr. Flake?

Mr. FLAKE. I will go very quickly. I would like the opinion of each of you as to whether or not you believe, given what we know so far, given the Volcker report, if the U.N. is willing and capable to police itself on this, or if we are going to need to apply additional pressure through withholding of funds or whatever else, starting with Mr. Gardiner.

Mr. GARDINER. With regard to the Volcker Committee itself, my view is that we do need some system of external oversight for the investigation itself. This is a $30 million investigation taken from the Iraqi escrow account. This is Iraqi money here. My view is that the Volcker investigation operates in a very covert style. We do not know a great deal about its operations; we only know the identities of 10 of its 75 staff, and it also has not cooperated at all with congressional investigations.

With regard to the bigger picture and the United Nations, I do not believe the U.N. is capable of policing itself, and the U.N. audits, which were very devastating, as we said, did demonstrate the complete failure of the Office of Internal Oversight Services within the U.N. to do an adequate job of monitoring the Oil-for-Food Program. At the same time, there was absolutely no monitoring whatsoever of Benon Sevan's Office of the Iraq Program, a huge omission, and it is my view that there does need to be external auditing of the United Nations on a very regular basis, perhaps a permanent external audit authority that has the ability to monitor U.N. operations, particularly relating to huge humanitarian and relief programs.

Mr. FLAKE. Thank you. Mr. Lopez?

Mr. LOPEZ. Thank you. I think that the great news about your question is that this is a fully transparent and testable proposition. If we allow the U.N. to move forward with a number of reforms that are on the books—for example, the Office of Internal Oversight Services has already been subject to a thorough reformulation, and in September, remember, the General Assembly passed a new set of protocols to strengthen this division, which we have seen in the Volcker report all of its inadequacies.

So at least at that one level, on the auditing services, there is some momentum already for which we can say the seeds for its own self-reformation may exist. The U.N. has always been, from the beginning, a product of the individual states that bring it to fruition. So powerful states in the Council ought to find ways to continue to hold the feet to the fire on reform.

But is the organization capable of doing this? I think it is manifested in a number of ways. The individuals cited in the report are already disciplined and suspended. There has been a degree of transparency in the releasing of reports from the U.N. that has not been paralleled by a number of nation states, in fact. Some have been mentioned here today. Thirdly, it seems to me that the scope of recommendations that has been made in this particular report, touching on other areas, as well as recommendations some of us have made, can certainly be brought by this Committee and others and laid at the feet of the administration of the United Nations and say, what is the plan?

I do not think you need to be in a contentious relationship of withholding funds—I think we would all hope that day of the 1980s is gone, but, rather, constructive engagement in which it is very clear that the U.N. carries the burden for its own reform, and you can continue to test and push. This is a very favorable environment.

Mr. FLAKE. Mr. Raphaeli, you are the tie breaker here.

Mr. RAPHAELI. Yes. The United Nations is probably capable of reforming itself, but the problem is with its components. The Chairman mentioned the International Meteorological Organization.

I mention another case. The IMO, International Migration Organization, was paid $95 million to organize the elections of Iraqis overseas. Now, there were 3 million eligible voters. In the United States alone, there would probably be half a million voters. They established five voting stations, one in Maryland for the entire East Coast of the United States. As a result, only 200,000 voters participated in 14 countries at the cost of about $400 per voter.

So there are issues really about how to reform the U.N. The lack of financial discipline, which I referred to in my report, and the need for some kind of a voting system that prevents everybody one vote on money they do not contribute, a lack of accountability is endemic and inherent into the system of the United Nations.

Mr. FLAKE. Thank you. My time is up. Thank you, Mr. Chairman.

Mr. ROHRABACHER. Mr. Royce?

Mr. ROYCE. Thank you, Mr. Chairman. To me, the interesting bottom line here is that you have 270 politicians from 52 countries listed as having received vouchers for Iraqi oil. I think it rattles one's faith in the belief of the capacity of international institutions to police themselves. What rattles one's confidence the most, I think, are the quotes that Dr. Gardiner gave in his testimony as to the response by the U.N. itself when given the bottom line on this. The chief of staff says, "Frankly, from our point of view, this report today is overall good news. This report says the program overall was apparently well managed."

I have spent the last couple of years trying to put pressure on the Security Council to try to figure out and formulate a way in

which we could get a little leverage on the regime in Darfur, Sudan. I have just returned from Darfur, Sudan. I can tell you that with the interest that Russia and China have in Darfur—and China is the major oil exporter—and both are supplying arms, it is very difficult through the Security Council, to get an agreement in which they do not threaten to veto. That is the major reason why it is very difficult to bring together international institutions.

But I am more perplexed by why it is so difficult for the bureaucracies themselves to then allow an investigation. I wanted to ask about where you would be looking, what threads would you like to carry forward, if Congress is to look into this, and, specifically, to what extent have Iraqis been utilized by the Volcker Committee? They are fairly forthcoming in talking about some of the circumstances that happened in country.

To what extent could you suggest to us interviewing some of the Iraqis who might want to come forward and give us the details? Because any time you have 52 countries involved and 270 politicians benefiting directly from the scheme, I think you have got to forthrightly admit that, in this case, this international institution has not only shown its incapacity in terms of conducting the program, but now a desire to withhold further information, to quash an investigation, to not give us transparency—we have not gotten the records that we would really like to look at in this regard. So those are some of my questions.

Also, why was Iraq given the veto? When the Banque Nationale de Paris was picked—and we had investigations on this—the thing I could not understand was, Why was Saddam Hussein still at the table saying, okay, I want this French bank to be in charge of handling, monitoring the transactions, the cash? I am just interested in that.

Mr. RAPHAELI. Is that for me?

Mr. ROYCE. Yes, sure.

Mr. RAPHAELI. Thank you, Congressman. Let me just make one clarification. The list of 270 are not all politicians.

Mr. ROYCE. Well, I am quoting from the *Financial Times*. They are people that are politically connected. They may not be elected. They might be appointed, but they are politically connected people.

Mr. RAPHAELI. Maybe the Commission for Fine Arts in Moscow is not a political organization. But, anyway, you will see the list. You will find many——

Mr. ROYCE. Let me ask you this, Doctor. They are not oil traders. They are people that are involved in the political process who become intermediaries and become the recipients of the largesse of the premium.

Mr. RAPHAELI. Or they are able to provide a good image of Saddam Hussein.

Mr. ROYCE. Well, in addition to these people, there are also journalists and opinion molders that are also on the list. I did not get into that.

Mr. RAPHAELI. Absolutely. Now, I would like to answer your question by referring to a point I made in my report about the culture of overheads. What does it really mean? The United Nations and the specialized agencies seek this escrow account, this addition of budget funds, to finance activities that cannot be financed

through the regular budget. So they are constantly on the lookout for programs that provide overheads for additional programs, and this is how they expanded over the years because they can collect money from donors, bilateral donors, multilateral donors, the World Bank, and others.

I will just mention one anecdote. At one time, I went to the ILO. I was sitting with a senior official, and he mentioned to me that the budget of the ILO was frozen for a long time, and they were unable to recruit more staff. He said, "Mr. Raphaeli, our problem is we are running out of windows." Now, if you are not an international bureaucrat, you would not understand what he meant. These people keep getting promotions, and with every promotion they need another window, so although the staff was not increasing, they were simply running out of windows rather than running out of money.

This culture of overheads dominates the thinking, and I would think also that when the proposal was made to assign the United Nations the responsibility to manage the Oil-for-Food Program, I am sure the first things that came to their mind were overheads and how much extra money they can earn to bolster their regular budget.

Mr. ROYCE. I see.

Mr. RAPHAELI. This may be a cynical view, but I have been within the system for so many years, I know what I am talking about.

Mr. ROYCE. Dr. Raphaeli, your testimony was very valuable today, and I want to thank you for coming.

Mr. RAPHAELI. Thank you, sir.

Mr. ROYCE. Dr. Gardiner, any observations on those questions?

Mr. GARDINER. Yes. A number of observations. Further errors of investigation follow on from the Volcker inquiry. I think that Benon Sevan should be made available to be interviewed by congressional investigators.

Mr. ROYCE. Okay.

Mr. GARDINER. This is a man who has a huge amount of information. He could well implicate many other individuals as well. We simply do not know the extent of the corruption and fraud surrounding this particular individual.

Also, why on earth was Benon Sevan placed in charge of the critically important Office of the Iraq Program? What was his relationship with Kofi Annan, for example? How much did Kofi Annan know about Sevan's corrupt practices? These are all extremely important questions.

You raised a vitally important issue: Why was Iraq given a veto by the United Nations over the choice of bank to run the escrow account? This is simply unacceptable. To what extent is Boutros Boutros-Ghali implicated in the Oil-for-Food scandal?

Mr. ROYCE. Getting back to my question, I would really like to know what faction on the Security Council wanted that to happen.

Mr. GARDINER. I would expect that the French, in particular, had an important role to play with regard to influencing that particular decision. We have to remember, of course, that the French and also the Russian Governments had significant political and financial ties to the Saddam Hussein regime and, in fact, made significant efforts to undermine the sanctions regime program.

A significant omission, I think, in this interim report is any discussion of attempts made by Saddam Hussein to have U.N. Security Council sanctions lifted. And Volcker really does ignore altogether the huge amount of evidence indicating clearly that the Saddam Hussein regime tried to bribe leading French and Russian politicians and businessmen in an effort to influence political and economic decisionmaking. These are very serious matters which have to be fully investigated, and I do not have a huge amount of confidence in the Volcker Committee's commitment or ability to investigate these matters, but they should be fully pursued by Congress.

Mr. ROYCE. Yes. I think there needs to be an independent investigation, surely. Dr. Lopez?

Mr. LOPEZ. I think you raised some excellent questions. I would follow the 270 vouchers and the people listed there. How many of the vouchers were cashed in? How many of the vouchers, in fact, facilitated oil transactions? I may echo a sentiment stated here earlier: Let us not be stunned and surprised that a dictatorial, corrupt regime tried every imaginative mechanism at its disposal to undercut the system. It is quite possible that any number of us, under other conditions, could receive vouchers like I often do on my answering machine that says, "Congratulations, you have won a Miami vacation. All you have got to do is make a call and pick it out." Did I receive the vacation? No. I received the notice of possibly winning it.

If you want an examination of the Security Council and its relationship with the Secretariat and appropriate balancing of the way not only these vouchers but allocations in the system worked, look at the period September 2000 through the midpoint of 2001. The Oil-for-Food Program administrators and the Secretariat brought to the 661 Committee more than 70 exceptions that were being made to the trade protocols, and the 661 Committee, all five permanent members, signed off on that. Why did they sign off on that? Because we were in a very difficult time of trying to renegotiate where Oil-for-Food was going.

It is very important for us to ask questions about off-budget funds and the meaning of these, but the implication, at least in the general body politic over the last 6 months, has been that the United Nations Oil-for-Food system and the Secretariat worked hand in hand to encourage new developments and overtures with the Iraqis because if you boosted that volume of sales, then you enhance the 2.2 percent system. I do not know how Volcker could be any more clear or what documents are yet to be seen that there was no attempt to do off-budget funding with the 2.2 percent, and I would hope that this Committee would take the lead in the United States in suggesting that data and evidence matter if we are to look at these issues. There is a lot of reform to be done, but let it be based on data that makes sense.

With regard to the last, and most important, question of bribes: Bribes, I suspect, are relatively easy to find out, and I suspect that the 75 people on the staff that the Volcker Committee has at its disposal may be able to get to most of those most of the time, but it is difficult to fault a system that was designed to monitor goods

and deal with the accounting of that to then not know what is not known.

Mr. ROYCE. Thank you, Dr. Lopez. Thank you, Mr. Chairman.

Mr. ROHRABACHER. Could I be presumptuous enough to ask you to explain the very last sentence that you just said?

Mr. SCHIFF. I have heard Rumsfeld say the same thing about the unknown unknowns.

Mr. LOPEZ. There is a difference between a bribery system that was tied to vouchers, a bribery system that might have been tied to Oil-for-Food, versus an outside bribery system whereby essentially the Iraqis were trying to influence the peddling. That is, it was not about receiving external monies or receiving new cuts on oil revenue. It was about changing the minds of people at the Security Council who were continually maintaining the sanctions; and so this was a propaganda venture of a different kind.

I would go back to the Duelfer chart. If we are to investigate how Saddam was able to undercut the system, I would look at the 84 percent of the revenue rather than the 16.

Mr. ROHRABACHER. Well, let me note that this hearing is concerned not just about the Oil-for-Food Program, and as we stated earlier, this goes much deeper into the character of the United Nations and the need in the United Nations to do things differently if they are going to maintain the faith of the American people and other free people in the world.

The bribes may or may not, or as you say, these vouchers which may or may not be bribes, may or may not have something to do with a policy or a manipulation of the program itself, but they certainly reflect on the integrity of the institution, especially when Mr. Sevan, who is the executive in charge of the program, solicits the vouchers for himself. So what does that mean? Does that mean that we can have faith in an organization that permits that to happen?

Let me just note, we met with Mr. Brown today. Mr. Delahunt and I met with Mark Malloch Brown, and I was not satisfied that the United Nations is willing to just now open up and make the changes that are necessary. At the end of the meeting, it seemed to me, the message that was left with us is if you need information from the United Nations, you are going to have to go through the Volcker Committee.

Well, that does not sound like someone who is leaving me with a message that we are going to be totally cooperative with you. That is not a message of total cooperation, and even though I found Mr. Brown to be a fine man, I found him to be charming, as many diplomats are charming—sometimes diplomats can charm you right out of your wallet or whatever it is, but the fact is, charm has nothing to do with it, and being amicable has nothing to do with it. It is whether or not we are going to do our duty and whether the people in the United Nations have been doing their duty. And it appears that there is a serious question as to whether the United Nations has had the standards and the culture internally that would justify the faith that so many people around the world have in the United Nations. And in the future, we are going to try to put more, let us say, we are going to put more eggs in that United Nations' basket when trying to solve the problems of the world. Or we try

to rely more heavily on the United Nations, but yet we find within the United Nations that they do not have the standards that would prevent the head of a program from making these types of solicitations or that when we find that audits have been kept from us, kept from member states, and then we find that relatives of Boutros Boutros-Ghali have ended up with a certain amount of profiteering that went on with these vouchers, and Boutros Boutros-Ghali was the one who insisted on the bank, which, in the end, permitted the vouchers to come into existence. This leads to very serious questions that need to be answered and cannot be answered by saying, "You are going to have to go to Volcker's Committee to get your answers rather than directly to the United Nations."

So, Mr. Delahunt, would you like to summarize?

Mr. DELAHUNT. I would like to ask some questions, if I may.

Mr. ROHRABACHER. Feel free.

Mr. DELAHUNT. On your last point about Mr. Sevan and the organization not having the appropriate standards, let me suggest that if, and let me underscore "if" because I do believe in due process—I do believe in giving individuals an opportunity to have counsel, to consult with them—if there appears to be probable cause or some grounds for a criminal indictment, so be it, but if an individual's lack of personal standards and ethics amounts to a crime, which could very well be the case if one accepts what we have heard here today, I do not know what the U.N. or the U.S. Congress or any institution can do.

If an individual is willing to commit a crime, there are consequences, and let us be very candid. We were informed today that the Manhattan District Attorney, Robert Morgenthau, has been working closely with the United Nations to determine whether, in fact, there are grounds to bring criminal charges. So those are the standards. They are not very high.

We talked a lot about Mr. Volcker. You know, I have never met Mr. Volcker, but from what I understand and what I read, he is an individual of integrity. He has elicited from sources in this Government who carry considerable gravitas significant praise. Let me quote Vice President Cheney, who, on August 11, 2004, said the following:

> "I can remember Volcker when he was, I believe, Deputy Treasury Secretary. A very able and talented man is now in charge of the investigation to dig into the bottom of that, and I know him well enough to have great confidence that I think he will, in fact, do exactly that."

Now, that is not me, a Democrat from Boston, speaking; it is the Vice President of the United States, a Member of the Republican Party.

Just this past week, two prominent Republican Members of the House had this to say: "I am pleased with the preliminary report presented by Mr. Volcker." That was Senator Coleman, who said that on February 3rd. A colleague of ours in the House, Chris Shays, on February 4th, had this to say: "I think he is about as honest and respected as an individual you can find."

There are two other people that are part of the Volcker Commission. My understanding is that these are people whose integrity is beyond reproach. You are right, Dr. Gardiner. It is very, very difficult for an institution to police itself, and there is no better example than the United States House of Representatives. And I have to tell you, I served on a Subcommittee of the Ethics Committee that investigated allegations surrounding a vote of some consequence in this branch involving Medicare and prescription drug benefits. Two Democrats and two Republicans; we did the job, and we did it well because we were individuals, I would suggest, of integrity. So it can be done.

You get to some point where you are running out of organizations to conduct an investigation. You speak about transparency in an investigation. I mean, what you are suggesting is that we have an individual come in here, interrogate him for the media to report on. That is not the way investigations are conducted.

In my previous career, I was the elected district attorney in the greater Boston area for more than two decades. You do not do it that way. You respect the concept of due process. You do not impugn people's integrity because oftentimes you make a mistake. I made mistakes when I was the district attorney. I stood up in public, and I apologized to those that were charged for the errors that I made.

So what I suggest is that we go forward here in a very thoughtful, careful, circumspect way because we are dealing with an issue that I think we all agree has great implications.

You know, isn't it a surprise that there are politics in the United Nations? Wow. You know, that is surprising. You know, Dr. Gardiner, you are English, and I was reading, just as we were sitting here, statements during the course of an interview by an individual by the name of Carne Ross. Does that name ring a bell?

Mr. GARDINER. Yes. I know who he is, and I have debated him on television, yes.

Mr. DELAHUNT. You debated him, but you know nothing about his character or his integrity, do you?

Mr. GARDINER. I would question his integrity, actually.

Mr. DELAHUNT. Well, you are adding to a long list of individuals whose integrity you have already questioned here today in their absence, so——

Mr. GARDINER. Well, I should point out something.

Mr. DELAHUNT. No, no, Dr. Gardiner. This is my turn. Okay? These are the rules here, and I am fortunate that these are the rules.

But here is what he says. By the way, for my colleagues, it is my understanding that he was the representative of the United Kingdom that sat on these sanctions committees and was in charge of Iraq policy for our dear friend and ally, the United Kingdom. This is in the course of an interview. Every single question was controversial. He was talking about these various contracts and everything that came up. There was a kind of division of the spoils. The French got the bank account where the money was kept. We got Lloyd's Register.

I remember, in a 661 Committee meeting, and let us call it for what it is so that the American people are not confused, at a meet-

ing of the Security Council, I remember questioning BNP's role in having the Oil-for-Food funds and the French saying, you take BNP, which is the bank, and we will attack Lloyd's. You know, it sounds to me like this was a case of "I want to get mine, and I am going to have mine, or you are not going to have yours." I am not suggesting that it is a healthy and good process, and I think we ought to make every effort we can to deal with it, but let me get to another point that was raised by my friend, the Chairman.

He was talking about a policy, and I think his words were, well, this was the bargain. In other words, the policy that said to Jordan and to Egypt, okay, you can do it. It is okay. Going back to the chart of exhibit A where you have 84 percent of the illegal revenue going into the U.N. have nothing to do with the administration of the Oil-for-Food Program, not anything at all to do with it, billions of dollars, because we struck, and I am saying "we"—obviously, we were all complicit—whether it was Bush I, Clinton I, Clinton II, and Bush II, we were there. I guess the theory was that if you are our pal, it is okay but, if we do not like you, you are in violation of the sanctions regime.

Mr. SCHIFF. Mr. Delahunt, would you yield for one moment?

Mr. DELAHUNT. I yield to my friend.

Mr. SCHIFF. Thank you. I just wanted to thank you and thank the Chairman for having the hearing today and just express my concluding thought, which is that those that are responsible for fraud, corruption at the United Nations that have been involved with Oil-for-Food, I think, should be brought up on the maximum charges possible. They have to be brought to justice, and if we could play a role in that, we should. That is the former prosecutor in me.

The legislator in me feels, the policymaker in me feels, that we need to investigate and analyze this situation for what it tells us about a sanctions regime and how a sanctions regime can be evaded, how it can be evaded with our knowledge, how it can be evaded without our knowledge, and what that tells us, the next time, as Dr. Lopez points out, that there is a call to the United Nations Security Council for sanctions. We may be making that call. We are making that kind of a call now with respect to Iran. I would like to know what lessons we have learned from this that we can apply and make sanctions much more efficacious in the future. And I yield back to the gentleman. Thank you.

Mr. DELAHUNT. I thank my friend from California.

Dr. Gardiner, in response to the questions that were posed to you by Mr. Schiff, you did not know whether any document existed relative to establishing the fact that there was illicit revenue generated by government-to-government sales with the knowledge of the United States and every single member of the United Nations.

Mr. Chairman, I would like to submit for the record a letter to the former Chairman of the Committee on Foreign Relations on October 17, 2002, from Richard Armitage, the Deputy Secretary of State, noticing that a waiver for this illicit sale of oil to Jordan and to Turkey has been entered, and this was the notice to Congress pursuant to the appropriate statute in the U.S. Code.

[The information referred to follows:]

2237

United States Department of State

Washington, D.C. 20520

RECEIVED
02 OCT 18 PM 4:31
FOREIGN RELATIONS

Dear Mr. Chairman:

On October 17, 2002, the Deputy Secretary of State exercised the national interest waiver authority contained in section 531 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 ("FOAA"), as carried forward in the Continuing Resolution (CR), to authorize assistance to Jordan and Turkey.

As set forth more fully in the enclosed Memorandum of Justification, this waiver will allow provision of FY 03 assistance to Jordan, including Foreign Military Financing (FMF), Economic Support Funds (ESF), International Military Education and Training (IMET), Export Control and Related Border Security Assistance (EXBS), and humanitarian demining. Such assistance will bolster the current Jordanian government, which is committed to participation in Operation Enduring Freedom, economic liberalization, democratization, continued participation in peace efforts and regional cooperation with Israel, and security and stability in the region.

The waiver is also needed to allow provision of FY 03 assistance to Turkey, which will come in the form of FMF, IMET, and EXBS. Such assistance will bolster the Government of Turkey, an important NATO ally and a secular and democratic nation, as discussed in the enclosed Memorandum of Justification.

In addition to the assistance outlined above, OMB previously notified Congress of our intent to provide to Turkey $28 million in grant FMF and $200 million in ESF made available under the FY 02 Emergency Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States. This funding assists Turkey with expenses related to its role in commanding the International Security Assistance Force (ISAF) in Afghanistan. The $200 million in ESF was used to pay off debt to U.S. and World Bank creditors.

The Honorable
Joseph R. Biden, Jr., Chairman,
Committee on Foreign Relations,
United States Senate.

Permanent Subcommittee on Investigations
EXHIBIT #34

Against this background, the Deputy Secretary has exercised the authority under section 531 of the FOAA, as carried forward in the Continuing Resolution (CR), by signing the enclosed determination and certifying that furnishing assistance to Jordan and Turkey is in the national interest.

We hope this information is helpful. Please let us know if we can be of further assistance.

Sincerely,

Paul V. Kelly
Assistant Secretary
Legislative Affairs

Enclosures: As stated

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Memorandum of Justification Regarding the Determination that Providing Assistance to Jordan is in the National Interest

By promoting stability and prosperity in Jordan, U.S. assistance provides the Jordanian government needed flexibility to pursue policies that are of crucial importance to U.S. national security and foreign policy objectives in the Middle East. Providing the planned assistance will bolster the current Jordanian government in its commitment to participate in Operation Enduring Freedom, Middle East peace, cooperation with the U.S. in supporting regional security and stability, cooperation with Israel, economic liberalization, and promoting democratic reforms. The disbursement of these funds would signal that U.S. support for Jordan and its far-sighted policies remains strong.

Since FY 91, the annual Foreign Operations Appropriations Acts have contained restrictions on U.S. assistance to any country "not in compliance with the United Nations Security Council sanctions against Iraq." The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 ("FOAA"), as carried forward in the Continuing Resolution (CR) contains such language in section 531. The restrictions contained in section 531 may be waived if the President determines and certifies to the Congress that providing assistance is in the national interest. This authority has been delegated to the Secretary of State. The restriction has been waived with respect to Jordan every year since its enactment in FY 91.

Despite UNSC resolutions banning Iraqi oil imports (except under the terms of "oil for food" resolutions such as UNSCR 986) Jordan has continued since 1991 to import oil from Iraq. The UN Sanctions Committee, with USG support, has "taken note of" Jordan's imports of Iraqi oil and its lack of economically viable alternatives. That said, we have consistently urged Jordan to seek alternative energy sources.

The waiver of the restrictions contained in section 531 is in the national interest and will allow provision of the following amounts of planned FY 03 assistance: $2.4 million in International Military and Education and Training (IMET), $250 million in Economic Support Funds (ESF), $198 million in Foreign Military Financing (FMF), $250 thousand in Export Control and Related Border Security Assistance (EXBS), and $750 thousand in humanitarian demining funds. Provision of FY 03 assistance supports Jordan's ongoing critically important contributions to the Middle East Peace Process; its efforts to undertake needed

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economic reforms, and its important role in buttressing the peace and security of the region.

Jordan has made clear its choice for peace and normalization with Israel. Jordan remains an important partner for U.S. efforts to promote stability and security in the region. Jordan has also taken major steps to repair its economic and political relations with Gulf States, resulting in improved trade opportunities with Saudi Arabia and enhanced opportunities for diplomatic and economic engagement with Kuwait. Jordan is an important U.S. friend in the region; being designated a Major Non-NATO ally by the President on September 25, 1996. The U.S. signaled its strong commitment to Jordan with the ratification of a Free Trade Agreement in September 2001. The provision of FY 03 assistance to Jordan will underscore U.S. support for an important ally which remains key to U.S. interests in the region. We will continue to work through the UN Sanctions Committee and with the Jordanian government to strengthen enforcement of the sanctions regime.

Timely, reliable assistance from the United States fosters the political stability and economic well-being critical to Jordan's continuing role as a regional leader for peace, its continuing participation in international humanitarian efforts, and its efforts to undertake necessary economic and political reforms, all of which fulfill central U.S. policy goals and support the national interest of the United States.

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Memorandum of Justification Regarding the Determination that Providing Assistance to Turkey is in the National Interest

U.S. assistance to Turkey promotes security, prosperity and other vital U.S. interests. Providing the planned assistance will bolster the Government of Turkey, an important NATO ally and a secular, market-oriented and democratic nation, and will counter the proliferation threat of weapons of mass destruction, and their missile delivery systems.

Since FY 91, the annual Foreign Operations Appropriations Acts have contained restrictions on U.S. assistance to any country "not in compliance with the United Nations Security Council sanctions against Iraq." The Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 ("FOAA"), as carried forward in the Continuing Resolution (CR), contains such language in section 531. The restrictions contained in section 531 may be waived if the President determines and certifies to the Congress that providing assistance is in the national interest. This authority has been delegated to the Secretary of State. The restriction has been waived with respect to Jordan every year since its enactment in FY 91.

The Government of Turkey permits the importation of oil from Iraq, and private Turkish entities provide non-lethal goods and cash to Iraq. With the exception of this local trade, Turkey has been an effective and important ally in enforcing the embargo. Turkey estimates that its cooperation under the sanctions regime has cost it $22-35 billion since 1990 in foregone exports and oil pipeline transit fees, as well as lost business for Turkish construction firms in Iraq.

The determination that waiving the restrictions contained in section 531 is in the national interest will allow provision of FY 03 assistance to Turkey. The $17.5 million of FMF will go towards offsetting some of Turkey's costs for on-going support of the Global War on Terrorism and Operation Enduring Freedom. The approximately $2.8 million IMET program will provide Turkish military personnel with the training needed to improve interoperability with U.S. and other NATO forces. The approximately $600 thousand EXBS program will provide export control enforcement training and provision of detection and identification equipment.

The continued provision of assistance to Turkey is in the national interest. In a region of generally weak economies, political instability, shaky democratic traditions and ethnic strife, Turkey is a democratic, secular, market-oriented state.

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As a key NATO ally with the second largest army in NATO, Turkey has cooperated intensively with the U.S. on a wide range of issues, including Operation Enduring Freedom. Turkey provides troops, planes, and bases for Allied Forces, provides a brigade and police contingent to SFOR in Bosnia, took the lead in establishing a Multinational Peacekeeping Force for Southeastern Europe, supports the Middle East Peace Process, and supports the current Cyprus negotiations. Turkey also provides irreplaceable assistance in countering the threat the Baghdad regime poses to U.S. interests. Since 1992, Turkey has hosted the U.S. and British air contingents that enforce the no-fly zone in northern Iraq. The U.S. and Turkey also work closely to bring the energy resources of Central Asia and the Caspian through secure, environmentally safe routes that offer commercially attractive alternatives to Iran, and to stem the flow of heroin and other narcotics through Turkey.

Turkey has been a critical ally in the Global War on Terrorism. In the aftermath of September 11, Turkey was one of the first countries to demonstrate strong support for Operation Enduring Freedom (OEF), granting overflights and use of its airbases, and offering 90 Special Operations Forces troops. Turkey permitted the U.S. military to use Incirlik Air Base for several of the most sensitive and important OEF-related missions. Turkey was one of the first countries to provide troops (267) for Phase I of the International Security Assistance Force in Afghanistan, and assumed the leadership of ISAF on June 20 for a six-month period. Turkey now has a complement of approximately 1,400 personnel in Afghanistan. The primacy of Turkey's role as a front-line ally in the war on terrorism is expected to assume even greater prominence and urgency as the Global War on Terrorism continues.

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Determination under Section 531 of Foreign Operations, Export Financing and Related Programs Appropriations Act, 2002

By virtue of the authority vested in the President by section 531 of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 2002 (P.L. 107-115)(the "Act")((as carried forward into fiscal year 2003 by Continuing Resolutions), Presidential Determination 94-59, Executive Order 12163, and Delegation of Authority number 245, I hereby determine and certify that furnishing assistance to Jordan and Turkey from funds appropriated or otherwise made available pursuant to the Act is in the national interest of the United States.

This determination shall be reported to the Congress and published in the Federal Register.

10 Oct 02
Date

Richard L. Armitage
Deputy Secretary of State

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-73304-

United States Department of State

Washington, D.C. 20520

DEC 28 1998

Dear Mr. Chairman:

On December 21, 1998, the Acting Secretary of State exercised the national interest waiver provision of section 535 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act (FOAA) 1999 to provide assistance to Jordan and Turkey. The President's authority to exercise this waiver was delegated to the Secretary by Presidential Determination 94-59.

This waiver will allow provision of the planned $196.6 million in FY99 assistance to Jordan, including Foreign Military Financing (FMF), Economic Support Funds (ESF) and International Military Education and Training (IMET). Such assistance will bolster the current Jordanian government, which is committed to economic liberalization, democratization, continued participation in the peace process and regional cooperation with Israel, as discussed more fully in the enclosed memorandum of justification.

The waiver is also needed to allow provision of the planned $6 million in FY99 assistance to Turkey, which will come in the form of IMET, development and counternarcotics assistance. Such assistance will bolster the Government of Turkey, an important NATO ally and a secular and democratic nation, as discussed in the enclosed memorandum of justification.

Against this background, the Secretary has exercised the authority under section 535 of the FOAA by signing the enclosed determination and certifying that furnishing assistance to Jordan and Turkey is in the national interest.

Sincerely,

Barbara Larkin
Assistant Secretary
Legislative Affairs

Enclosures: Section 535 Determination
Memoranda of Justification
Presidential Determination 94-59

The Honorable
Benjamin A. Gilman, Chairman,
Committee on International Relations,
House of Representatives.

Permanent Subcommittee on Investigations
EXHIBIT #33

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Memorandum of Justification Regarding the Determination under Section 535 of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1999 that Providing Assistance to Jordan is in the National Interest

By promoting stability and prosperity in Jordan, U.S. assistance provides the Jordanian government some flexibility to pursue policies which are of crucial importance to U.S. objectives in the Middle East. Releasing the planned $196.6 million in assistance funds will bolster the current Jordanian government in its commitment to the peace process, regional cooperation with Israel, economic liberalization, and promoting democratic reforms. King Hussein's recent ill health has raised concerns in Jordan and the region surrounding the future of the Kingdom. The disbursement of these funds would signal that U.S. support for Jordan and its far-sighted policies remains strong.

Since FY91, the annual Foreign Operations Appropriations Acts have contained restrictions on U.S. assistance to any country "not in compliance with the United Nations Security Council sanctions against Iraq." The Foreign Operations, Export Financing, and Related Programs Appropriations Act (FOAA), 1999 contains such language in section 535. The restrictions contained in section 535 may be waived if the President determines and certifies to the Congress that providing assistance is in the national interest. This authority has been delegated to the Secretary of State. The restriction has been waived with respect to Jordan every year since its enactment in FY91.

Despite UNSC resolutions banning Iraqi oil imports (except under the terms of "oil for food" resolutions such as UNSCR 986) Jordan has continued to import oil from Iraq. The UN Sanctions Committee, with USG support, has "taken note of" Jordan's imports of Iraqi oil and its lack of economically viable alternatives. That said, we have consistently urged Jordan to seek alternative energy sources. The Government of Jordan has been extremely supportive of U.S. policy initiatives toward Iraq and otherwise continues its efforts to enforce sanctions.

The waiver of the restrictions contained in section 535 is in the national interest and will allow provision of the planned $1.6 million in International Military and Education and Training (IMET), $150 million in Economic Support Funds (ESF) and $48 million in Foreign Military Financing (FMF). Provision of FY99 assistance supports Jordan's ongoing critically important contributions to the Middle East peace process, its efforts to undertake needed economic reforms, and its important role in buttressing the peace and security of the region.

Jordan has made clear its choice for peace and normalization with Israel. King Hussein has on several occasions re-invigorated the Israeli/Palestinian peace process. Despite his health, he traveled to Wye Plantation to make a dramatic and important contribution to the Israeli/Palestinian peace talks. Jordan has also taken major steps to distance itself from the regime of Saddam Hussein and to repair its economic and political relations with Gulf States, resulting in improved trade opportunities with Saudi Arabia and enhanced potential for diplomatic and economic openings with Kuwait. Jordan is an important U.S. friend in the region, being designated a Major Non-NATO ally by the President on September 25, 1996.

We will continue to work through the UN Sanctions Committee and with the Jordanian government to strengthen enforcement of the sanctions regime. The provision of FY99 assistance to Jordan will underscore U.S. support for Jordanian sanctions enforcement efforts, which remain key to U.S. interests in the region.

Timely, reliable assistance from the United States fosters the political stability and economic well-being critical to Jordan's continuing role as a regional leader for peace, its continuing participation in international humanitarian efforts, and its efforts to undertake necessary economic and political reforms, all of which fulfill central U.S. policy goals and support the national interest of the United States.

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Memorandum of Justification Regarding the Determination under Section 535 of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1999 that Providing Assistance to Turkey is in the National Interest

U.S. assistance to Turkey promotes security, prosperity and other vital U.S. interests. Releasing up to $6 million from FY99 appropriated funds will bolster the Government of Turkey, an important NATO ally and a secular, market-oriented and democratic nation.

The Government of Turkey permits the importation of a limited amount of diesel oil from Iraq, and Turkish trucks carry goods into northern Iraq. Most of these goods are humanitarian in nature and therefore not a sanctions violation, but others are not. With the exception of this local trade, Turkey has been an effective and important ally in enforcing the embargo. Turkey's cooperation under the sanctions regime has cost it an estimated $22 billion since 1990 in foregone exports and oil pipeline transit fees, as well as lost business for Turkish construction firms in Iraq.

The determination that waiving the restrictions contained in section 535 is in the national interest will allow provision of the planned $6 million in FY99 assistance to Turkey. The $1.5 million IMET program will provide Turkish military personnel with the training needed to improve interoperability with U.S. and other NATO forces. The $4 million Development Assistance program supports family planning in Turkey. The $500,000 counter-narcotics program will enhance Turkey's investigation and interdiction efforts.

Provision of FY99 assistance to Turkey supports a democratic, secular nation in a region with weak democratic traditions, and where political instability is commonplace. Turkey has cooperated intensively with the U.S. on a wide range of issues. Turkey provides a brigade and police contingent to SFOR in Bosnia, and has offered troops for UNPREDEP in Macedonia, took the lead in establishing a Multinational Peacekeeping Force for Southeastern Europe, and cooperates in the enforcement of the northern no-fly zone in Iraq through Operation Northern Watch. The U.S. and Turkey also work closely to stem the tide of heroin and other narcotics through Turkey, and to bring the energy resources of Central Asia and the Caspian through secure, environmentally safe routes that offer commercially attractive alternatives to Iran. Turkey is also developing increasingly important and useful relationships with Israel and the moderate Arab states of the Middle East. Finally, Turkey is important for U.S. trade and investment, and is designated as one of ten "Big Emerging Markets" for U.S. goods by the Department of Commerce.

Determination under Section 535 of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1999

By virtue of the authority vested in me by section 535 of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1999 as enacted in P.L. 105-277 (the "Act"), Presidential Determination 94-59 and Executive Order 12163, I hereby determine and certify that furnishing assistance to Jordan and Turkey from funds appropriated or otherwise made available pursuant to the Act is in the national interest of the United States.

This determination shall be reported to the Congress and published in the Federal Register.

December 21, 1998
Date

Acting Secretary of State

Mr. DELAHUNT. Mr. Chairman, I would think, at some point in time, when these notices come to Ranking Members and to Chair, that we ought to maybe look at the language so that all of us receive these notices so that we can be fully informed as to what is happening. Because the truth is those billions of dollars were the dollars that kept Saddam Hussein in power and continue probably today to support the insurgents and clearly have caused a serious, serious problem for all of us.

If I can just conclude with a question to Dr. Lopez. I understand that there are policies and that there are policies, but why would the Security Council look the other way, given the magnitude of illegal revenue going to Iraq in violation of the sanctions regime? Why?

Mr. LOPEZ. Congressman, that is a question not easily answered, but I will give some of the reasons that I think the data of history suggest.

The first, and most important, is in the absence of an adequate compensation fund for nations like Turkey and Jordan—who would not be reimbursed by the negative impacts of the sanctions on their economy—we created this bargain whereby their goods could be serviced and processed, and they could buy Iraqi oil, thus generating the revenue back to Saddam.

If you had a way of getting oil to Turkey and Jordan that did not come from Iraq, you could have tightened the squeeze some more, but the regional parties were not willing to break that bond with the Iraqi regime because, in 1991 and even yet in 1996 when Oil-for-Food was formed, the belief was that the sanctions' end was just around the corner. He could not hold on anymore, was the prevailing belief.

Mr. DELAHUNT. Let me go back to the original thing. Why would not nations—such as Saudi Arabia and Kuwait, with vast reserves of oil—alleviate the economic distress experienced by Jordan and Turkey so that full compliance with the sanctions could very well have brought the Saddam regime down at an earlier date and obviated a war?

Mr. LOPEZ. The second part of this is that it was very much in the Security Council's interest, particularly Britain and the United States, to have Jordan and Turkey be vibrant participants in the strong military net cast around Iraq's borders. In order to do that, you let Jordan and Turkey dictate some of the terms whereby their trade would not be interrupted by this coercive net, and at the end of the day, what the Council, and particularly the Anglo-American Alliance, was interested in was not the amount of oil bought and sold but the military goods. Remember, we reduced the Iraqi economy from a $60 billion-a-year GNP to $13 billion by 1993. Two or four billion dollars of oil sales; let them use that for palaces because we knew the other things that we did not want them to have, and the general deterioration of the economy was meeting the goals of the sanctions.

What is 2005's insurmountable problem on that blue area of the chart was, in fact, throw-away money that was an easy bargain cost for maintaining the military vise that we wanted that was the sanctions regime.

Mr. DELAHUNT. Let me suggest, in conclusion, that that was a deal with the devil.

Mr. ROHRABACHER. Well, I think we have had a terrific hearing today. I would like to reiterate that the purpose of the hearing was to examine the Oil-for-Food scandal and how it relates specifically to the United Nations and our faith in the United Nations. I, again, recognize that tangentially there is a connection between other decisions that were made concerning the sanctions against Iraq during that time period.

The major differentiation which makes the investigation today relevant as to the nature of the United Nations is that the decisions we are talking about in the Oil-for-Food scandal are decisions that were made specifically based on self-enrichment and corrupt bases. The decisions by policymakers of elected governments, whether it was our Government or others, to let certain countries receive Iraqi oil were based on policy considerations and does not reflect the integrity of either the governments or the people involved.

The decisions made in the Oil-for-Food Program reflect directly on the integrity of those involved, and until we can say that laws were broken and point to them, we have to, again, not treat people as people who have broken the law. We have to assume that they have not broken the law. Right? That is what we are all about. But we certainly call into question decisions and reflect how they, at least, demonstrate a lack of standards and a lack of moral decision-making.

The Chairman of the Full Committee has joined me in sending this letter, which I will quote a portion of today, to His Excellency Kofi Annan, the Secretary-General of the United Nations, and I would like to read it, in closing, to put this in the record of the hearing.

The letter states:

> "The failures reported in recent released internal audits of the Oil-for-Food Program undertaken by the Office of Internal Oversight and Services, as well as developments reported in *The New York Times*, portray systematic weaknesses plaguing the U.N. that require further investigation. Accordingly, we are considering a proposal to expand the scope of the International Relations Committee's inquiry from that of the Oil-for-Food Program into a wider examination of the management practices of the United Nations."

There is nothing in this hearing that we have had today that would indicate that we do not need a further investigation expanding on how the United Nations does its business and whether or not the people at the U.N. who now are running the United Nations deserve the trust that has been placed upon them by our Government and by peoples around the world.

This has been an enlightening hearing. I think the fact that there is just so much information here, and there are so many implications to the various things that we have uncovered today, that Mr. Hyde and I will, indeed, be expanding the scope of our hearings into the broader area of the United Nations, as well as trying to find out specifically what has been going on with some of these

cases where people's relatives ended up getting those vouchers, and banks were chosen when they were obviously not the institutions that should have been selected if merit was the deciding factor.

So with this said, I appreciate Mr. Delahunt. I appreciate the fact that we have had people who want to focus on various elements of this situation. Everyone has a right to try to emphasize the things that they want to emphasize, but I think when it comes down to it, the integrity of the process has been compromised, and I will leave it with this, what I told Mark Malloch Brown:

> "Something stinks about this situation. Something stinks, and the smell is emanating from the executive offices of the United Nations. We have got to correct that. We have got to make sure that that situation is cleaned up and that if we are going to place our faith in the United Nations, it has got to have higher standards than what appears to be going on."

So with that said, this hearing is adjourned.

[Whereupon, at 4 o'clock p.m., the Subcommittee was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE DAN BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. Chairman, It is fitting that the United Nations Oil-for-Food scandal is the subject of the first hearing this newly created subcommittee. The interim report of the Volcker Commission details staggering systemic abuses of the Oil-for-Food program, and an equally disturbing breakdown in oversight and fiscal controls. This was a massive management failure and it raises troubling questions about the credibility of the UN—an organization that derives 22% of its operating budget from the United States.

The Volcker interim report corroborates much of the evidence uncovered by Charles Duelfer, Director of Central Intelligence Special Advisor for Strategy, regarding the Iraqi Weapons of Mass Destruction (WMD) Programs. As such, this is the biggest scandal in the history of the United Nations and the biggest financial fraud of modern times. The gentleman hand-picked by UN Secretary General Kofi Annan to run the program, Benon Sevan, made out like a bandit by soliciting and accepting allocations of millions of barrels of oil. While Saddam Hussein, according to the Senate Permanent Subcommittee on Investigations, Saddam enriched his regime and fueled his evil ambitions to the tune of $21.3 billion.

The $67 billion in UN Oil for Food was supposed to provide humanitarian relief for the people of Iraq. But as we all discovered when Saddam's evil regime came crashing down, Iraq was a country devastated by decades of neglect. Rather then helping the people of Iraq, the money only served to enrich the pockets of Saddam and his henchmen.

The Oil-for-Food framework was suppose to require strict UN oversight But the approximately $15 billion a year program, by far the largest program the UN had ever administered—in fact, a program worth more than five times the UN's annual core budget was apparently too much for the UN's to handle. Oil and humanitarian contracts were not scrutinized. Internal audits of the program were not made available to member states; and the fifty-five audits prepared by the UN office of internal oversight services were not shared with members of the so-called "661 Committee of Oversight."

Even more disturbing, a growing body of evidence suggests that proceeds from smuggled oil and manipulation of the Oil for Food program may be financing the bloody insurgency in Iraq, where radicals are killing Coalition and Iraqi troops and civilians alike. Car bombings, abductions, and beheadings are a familiar part of this campaign to derail efforts to stabilize and secure the transition from tyranny to freedom.

We absolutely need to know where all the ill-begotten proceeds of the Oil for Food program went, and if in fact these proceeds are fueling the insurgency. Repeated requests for access to the UN's internal audits, in hopes they can shed some light on the true scale of this financial disaster, and help investigators follow the money trail, have unfortunately been denied by the UN. We must continue to conduct a systematic look at whether Saddam robbed his people of the humanitarian aid they so desperately needed in order to fund his extravagant lifestyle and his campaign of hate and terror. We must ascertain whether the Oil for Food proceeds were diverted to jihadists like Al Qaeda, other extremists, and the insurgency fighting to destabilize Iraq and prevent democratization there today.

The work of the Volcker Commission has only begun. We as a Committee have every reason to expect the inquiry to continue in an open, transparent manner with unfettered access to all UN documents relating to Oil-for-Food, role of UN officials and parties to UN-contracting provisions. Mr. Annan has promised to lift the diplo-

matic immunity of any UN employee charged with a crime in connection with the scandal. If that doesn't happen, I believe that we have a responsibility as a Committee to exert whatever pressure we can on officials at the United Nations until they come clean.

That is why I was a principal co-sponsor of H.R. 4284 introduced by Congressman Jeff Flake last spring. H.R. 4284 requires the withholding of US contributions to the UN until the President certifies that the UN is cooperating in the investigation of the Oil-for-Food program. I co-sponsored this bill because I believe so much more could have been achieved had the Oil-for-Food Program been implemented honestly. And I believe that it is necessary to withhold payments to the UN until there is a full and transparent accounting with full cooperation from the UN because exerting the power of the purse is the only way UN officials will know that we are serious about cleaning up this mess.

Overall responsibility for the Oil for Food program's failure—and again this was one of the biggest financial scandals of modern times—in my opinion should lie squarely with UN Secretary General Kofi Annan. The UN's inability to successfully manage the Oil-for-Food program represents a spectacular failure of leadership on the part of Mr. Annan.

The United Nations was created to solve international disputes before they flare into war. For many years, critics, and I have been one of those critics, have argued that in discharging this mission, the U.N. has often been feckless and even irrelevant. If the UN is to have any future legitimacy it must address quickly, honestly and effectively the administrative and oversight deficiencies that helped to make this scandal possible.

In addition, to whatever reforms the UN needs to implement, and whatever disciplinary steps the United Nations must take against those UN officials and others implicated in Volcker's report, it is the responsibility of this Committee, among others, to uncover the true extent of the problems at the United Nations, and to uncover whether any U.S. or international laws have been broken.

It is my hope, Mr. Chairman, that under your leadership this new subcommittee will lend its good services and shine the light of truth and clarity on this unprecedented scandal. Thank you.