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Friday, March 02, 2001 9:13 PM

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Subject:

Iraqi Cheating on Contracts and the []

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Just got off the phone with an industry analyst, who passed on two interesting items.

First, the analyst says Iraq has started charging an even heftier illicit "in-land transportation fee" as part of commodities contracts. The fee far exceeds the actual costs of in-land transportation. For example, on recent rice contracts, Iraq charged \$50 per ton. (Iraq purchased about 1.1 million tons of rice last year. At \$50 dollars per ton, they would make \$55 million on rice alone.) The fee is, of course, payable to an Iraqi bank account, not the UN escrow account. During phases VII and most of VIII, Iraq actually wrote the fee into commodities contracts. It is now writing the fee into a side letter. The analysts also points out that Iraq's contracts are generally very generous, so there's plenty of room for influence buying and kickbacks, etc. If we want to keep money out of the regime's hands, we should probably look for ways to stop this type of cheating.

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Second, Iraq has apparently begun giving the gift-giving, [] OFF contracts, which he then sells to traders at a nice profit. He apparently just put up for sale a contract for 25,000 tons of rice. At current rice prices, he'll pocket about \$625,000 from this contract alone. As far as I can tell, there is no readily available way to know, at least at the time of the initial transaction, that the Iraqis are giving him a contract. Traders in the market find out when he offers it up for sale. Depending on how the deal is structured, the UN could possibly find out when the contract is submitted to OIP. Assuming we can determine a contract is his, any way to stop payment under OFF?

Dept. of State, RPS/IPS, Margaret P. Grafeld, Dir.
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