UNITED NATIONS OIL FOR FOOD PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY AND AIR QUALITY

OF THE

COMMITTEE ON ENERGY AND COMMERCE

HOUSE OF REPRESENTATIVES

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UNITED NATIONS OIL FOR FOOD PROGRAM

THURSDAY, JULY 8, 2004

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON ENERGY AND AIR QUALITY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:50 a.m., in room 2123, Rayburn House Office Building, Hon. Ralph M. Hall (chairman) presiding.

Members present: Representatives Hall, Whitfield, Shimkus, Shadegg, Walden, Rogers, Issa, Otter, Sullivan, Barton (ex officio), Allen, McCarthy, and Strickland.

Also present: Representative Ose.

Staff present: Bill Cooper, majority counsel; Mark Menezes, majority counsel for energy and the environment; Peter Kielty, legislative clerk; and Sue Sheridan, minority counsel.

Mr. HALL. I want to thank everyone for coming to the hearing on the United Nations Oil for Food Program, and I especially want to thank the panelists for attending and for their written testimony and for the time that they are giving to this subcommittee, to the committee, and to the Congress, and to the Nation. I look forward to hearing from each of you.

We invited the State Department to testify today, but they didn't show enough interest to decide to attend. I suppose we will hear from them at a later time one way or the other.

This subcommittee will come to order and, without objection, the subcommittee will proceed pursuant to committee Rule 4(e), and that is so ordered. The Chair recognizes himself for an opening statement.

The United Nations' Oil for Food Program was spawned out of good intentions. As someone once said, the road to perdition is paved with good intentions. Such is the case for the Oil for Food Program.

As we see the trail of corruption unfolding on the world stage, it seems that the only folks with, "good intentions," were those not running the program. Several congressional committees are investigating the Oil for Food Program, as is the United States Justice Department.

Finally, the U.N. got into the act with the appointment of the Volcker Commission. I am encouraged to read that Chairman Volcker sees the importance of such an independent inquiry with a lot of good public disclosures surely to follow. He is a good man and a good chairman, and we are anxious to see the results of his investigation.

The General Accounting Office reports that over $10 billion have been illegally diverted to the old Iraqi regime. I suspect that any other nonsovereign organization even hinting of a scandal of that magnitude would be shut down and out of business overnight.

By allowing such fraud and deception to continue and for U.N. employees to participate in it has probably resulted in the deaths of thousands of Iraqis through malnutrition and lack of appropriate medical supplies. We have a name for that in the United States, it is called murder.

This hearing today is the second hearing this subcommittee has held in the 108th Congress on the Oil for Food Program, and it probably won't be the last. Such widespread corruption has to be stopped, and those responsible must face justice. It is only by shining the light of full public disclosure on an otherwise dark and secretive process that we can purge corruption. We need to hurry while there is still something to save.

With that, I recognize Mr. Allen for an opening statement.

Mr. ALLEN. Thank you, Mr. Chairman.

Today's hearing is on the allegations of mismanagement in the U.N. Oil for Food Program, an appropriate topic. My concern is really what is the overall purpose of this hearing? Is it to conduct proper oversight and ensure accountability so that Iraqi oil revenues get to the Iraqi people? Or is it, to be blunt about it, simply to bash the United Nations? Past statements and records of our witnesses provide an indication.

My gym buddy, my friend from Arizona, Mr. Flake, has introduced legislation to withhold U.S. Contributions from the United Nations until the Oil for Food Program issues are investigated. Last night, he voted for an amendment to eliminate all U.S. contributions to the U.N.

Claudia Rosett wrote in January 2002 in the Wall Street Journal Europe that, quote, New York is a great city, a crossroads accustomed to hosting all sorts of nonsense. It is, after all, home to the United Nations.

Jed Babbin recently authored a book titled, "Inside the Asylum: Why the U.N. and Old Europe are Worse Than you Think." The book's inside flap declares, "The U.N. is more of an international criminal than a dispenser of legitimate international law."

By contrast, we have no testimony from the State Department, from the United Nations, from the independent inquiry committee chaired by Paul Volcker, and I agree with the chairman, he is a good man and will do an excellent job. We have no testimony from KPMG or any other auditor.

I have no objection to hearing from the witnesses who are here today, but the hearing panel does not reflect the breadth of views, the balance of views we should have.

Currently, nine separate investigations are looking into allegations that the U.N. mismanaged $65 billion in Iraqi oil sales under the Oil for Food Program, including those by several other congressional committees. I welcome more congressional oversight, but I question the majority's investigative priorities.

By contrast, there have been no public hearings as far as I am aware on the administration's prewar Iraqi WMD claims. There have been few, if any, hearings on the overextension of Guard and

Reserve forces, the sole source contracting to companies like Halliburton, and allegations now under U.N. investigation that the Coalition Provisional Authority has mismanaged Iraqi oil revenue.

The Oil for Food Program was transferred to U.S. control 14 months ago and renamed the Development Fund for Iraq. The U.N. Security Council established an International Advisory and Monitoring Board to oversee the disbursements placed under the Coalition Provisional Authority. Yet the CPA resisted this oversight, reportedly denying the board access to CPA documents and delaying the board's start by 5 months. After the board formed, CPA officials failed to respond to inquiries from international auditors. In particular, the CPA stood in the way of the board's attempts to track sole source contracting for Halliburton. The obstruction was significant enough that the board eventually had to commission a special audit of Halliburton sole-source contracts. It is unclear how the special audit will progress, however, given the lack of information IAMB has received to date from the United States.

Both the United States and the U.N. have an interest in getting to the bottom of where Iraqi oil revenues have gone. We already have nine investigations to help us get there, but the investigations will be incomplete if we fail to direct attention to the 14 months that the U.S. controlled these funds. Otherwise, the U.S. Government will seem hypocritical in the eyes of the world and the Iraqi people.

Unfortunately, I fail to see in today's testimony a focus on the CPA's lack of transparency. Instead, I see this committee rehashing the work of other committees in the House, and this suggests to me that what we are doing today lacks the breadth and balance that is required to do our work properly.

And, with that, Mr. Chairman, I thank you and yield back.

Mr. HALL. I thank the gentleman and would advise you that this is the first of several hearings that we are going to have, and I appreciate your opening statement. I think it was well done. And I think you maybe quoted Jed Babbin? Did you?

Mr. ALLEN. I did.

Mr. HALL. And I think we will hear from him. I think we are very fortunate to hear from him. We will not be hearing from Claudia Rosett—is Ms. Rosett here? Great. Well, thank you very much. We were informed to the contrary.

At this time we will recognize Mr. Whitfield. Do you have an opening statement, sir?

Mr. WHITFIELD. Mr. Chairman, before I make a few remarks, I would like to ask you a question, if I could. Were U.N. representatives invited to testify today?

Mr. HALL. I understand they declared diplomatic immunity and refused to testify.

Mr. WHITFIELD. Well, I am not particularly surprised at that, but at least we invited them and gave them the opportunity, and they politely refused to come.

Mr. HALL. There will be a time down the road when they may not have the opportunity to make such a decision. I assure this committee that we will use every effort we have to get the testimony here that this committee and this Congress and this Nation is entitled to.

Mr. WHITFIELD. Well, I am also delighted that Mr. Flake is testifying before us today. I know this is an issue that he has followed very closely. And, of course, the U.S. taxpayers pay the largest percentage of the dues for the United Nations, and I think we have an obligation and responsibility to explore issues of corruption that relates to the U.N. There certainly is never any reluctance to criticize the U.S. on any issue, whether it be financial corruption, moral corruption, whatever. So I think we have the responsibility to do that.

I am particularly delighted that Mr. Jed Babbin is here today, who wrote the book Inside the Asylum, which I would recommend that people read just to obtain the information from it. I have not had the opportunity to look at all of it yet, but I do notice in his book that he points out that the Iraqi Governing Council, which is building the new democratic Iraq, has hired the Roland Berger strategy consultant firm to advise it about, among other things, the Oil for Food Program and that, after an initial investigation, they wrote a letter to the U.N. urging that there be an independent review of the program, and I am delighted that Mr. Volcker and others are in the process of doing that right now.

I would also point out that in asking one of the representatives of the Roland Berger program, they asked the question, which countries had clearly traded illegally with Iraq when the U.N. sanctions prohibiting trade were in place, and they answered they were sure without question of only one country, and that was France. And then I would also point out that there hasn't been any country more critical of the U.S. role in Iraq at this time than France, and I think this book and additional information points out very clearly that France had a direct financial interest in Iraq and that they were receiving favors from Saddam Hussein.

And this report also, this book also points out a newspaper article that gave a long list of bribed individuals, entities, and countries in the Oil for Food Program, and it specifically listed 11 French individual and companies.

So, Mr. Chairman, I want to thank you for having this hearing. I think there is some important information that we can gather from it, and I look forward to the testimony of our witnesses.

Mr. HALL. The chairman recognizes Mr. Otter.

Mr. OTTER. Thank you, Mr. Chairman. I do not have an opening statement. I am going to forego that for the benefit of additional time for questioning. But I would make a parliamentary inquiry, if the Chair would submit——

Mr. HALL. State your inquiry.

Mr. OTTER. Would a unanimous consent request that the Chair direct committee staff to prepare whatever necessary subpoenaes from the committee to those agencies, including the State Department, that refuses to come before this committee? Would the Chair entertain a unanimous consent request at this time that said subpoenaes be looked into and be prepared in case we need them?

Mr. HALL. We typically discuss it beforehand. We will have a vote on it, and I think that is certainly the intent of the chairman, and I think we will have the support of Chairman Barton on that. We don't want to defer, take any action on it at this time. You are not suggesting that, are you?

Mr. OTTER. That is why I made the inquiry, Mr. Chairman.

Mr. HALL. Well, let us take that up with you after we have our opening statements.

Mr. OTTER. Fair enough.

Mr. HALL. Thank you.

The Chair recognizes the arrival of Chairman Barton, chairman of the Energy and Commerce Committee, the gentleman from Texas. Yield to you such time as you may require.

Chairman BARTON. Looks like I got here just as things were getting interesting, it sounds like.

Mr. Chairman, I have a formal statement that I will submit for the record. But just to briefly summarize, the more we learn about the ill-fated United Nations Oil for Food Program, the more outraged we get. It looks that in the neighborhood of $10 billion was skimmed off the top for various purposes by the Saddam Hussein regime, and while some of that money may have been spent for its intended purposes, there is quite a bit of anecdotal evidence that it was spent for unintended purposes, of which one was rearming the Saddam Hussein military.

The U.N. initially wanted to sweep this under the rug; and thanks to some investigative reporting, most notably by the Wall Street Journal, the U.N. did reverse its position and appoint a special commission chaired by former Chairman Paul Volcker of the Federal Reserve System, and he has assured me in a telephone conversation that his is going to be an independent and thorough investigation.

Having said that, as a commission appointed by the United Nations, his commission doesn't have the authority that a standing committee of the U.S. Congress has, and I am proud to say that the Energy and Commerce Committee many years, several years ago, back during the Clinton Administration, actually was the first committee in the House and I think the Senate to hold any kind of a hearing or an investigation on this program.

So as I walk in, I am told that some of our witnesses decided not to come. We will handle that. I need to get to the bottom of it and find out what the issues are. But I can assure our audience and our witnesses that are here that this is not a show hearing, this is a work hearing, and we are going to use the full authority of the House of Representatives as delegated to the Energy and Commerce Committee to get the facts and take whatever appropriate actions that are determined by those facts.

So with that, Mr. Chairman, I thank you for holding this hearing and yield back.

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

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

Thank you, Mr. Chairman. The more we learn about the United Nations Oil for Food Program, the more repulsed we become. The General Accounting Office estimates that Saddam Hussein skimmed at least $10 billion in illegal revenues from 1997 through 2002, through the UN-managed Oil for Food program.

Bowing to public outrage, the UN itself has appointed the Volcker Commission to investigate, but Congress needs to act, too. The Energy & Commerce Committee was the first Congressional committee to question this poorly managed program, and I am pleased we are still doing so.

Without the pressure on the United Nations, I sincerely believe the UN would have simply closed the books on the Oil for Food Program without so much as adding up the checkbook stubs. For an organization that touts itself as an international organization for the purpose of establishing and maintaining peace throughout the world, it should know that nothing promotes strife like stealing money from those to whom it rightfully belongs.

The Oil for Food Program appears to have provided a slush fund for Saddam Hussein to reward friends and influence bureaucrats around the world. This is not just a stain on Saddam Hussein's regime, but also on the United Nations. This Committee's investigation will hopefully help uncover the facts so that, at a minimum, no similar scheme will be attempted in the future.

I thank the Chairman for having this hearing and look forward to the testimony. I yield back the balance of my time.

Mr. HALL. I thank you, Mr. Chairman. I thank you for the work that you have put on this, the attention you have given to it, and it is not new-found attention. You have been one of the leaders in the Congress in questioning the practice of oil for food and groceries, questioning where the money went, questioning the UN's participation or lack of oversight, and we expect and appreciate your leadership in getting to a final analysis on just exactly what has happened.

Mr. Sullivan, the gentleman from Oklahoma, we recognize you for opening statement.

Mr. SULLIVAN. Thank you, Mr. Chairman, and I agree with the full committee chairman, too, that this is a travesty that the U.N. representatives didn't come here when we American taxpayers are responsible for 25 percent of the dues that they get and there is $10.1 billion spent scandalously.

Again, Mr. Chairman, I appreciate your calling this hearing today to address the ongoing investigation into alleged improprieties involving the United Nations Oil for Food Program.

As a member of this subcommittee, I consider it an honor to be here. I look forward to the testimony from our panel of witnesses and the statements by my distinguished colleague from Arizona, Congressman Flake.

The Oil for Food Program is fast becoming the biggest scandal in the history of the United Nations and one of the greatest financial scandals in modern time. The consequences of this financial thievery is staggering. $10.1 billion in illegal oil revenues were stolen by the former Iraqi regime by oil smuggling and through illicit surcharges on oil sales. Unfortunately, we are all well aware that the U.N. Oil for Food Program was a glaring failure that served only to benefit a tyrant and keep the Iraqi people in a state of despondency and despair.

As a cosponsor of Representative Flake's bill, H.R. 4284, the United Nations Oil For Food Accountability Act of 2004, I feel very strongly that Congress must place pressure on the U.N. to fully address this issue in a more transparent light. Until a stronger and truly independent Security Council investigation of this scandal is formed, I believe that withholding our share of the U.N. assessment dues is necessary.

This investigation is an issue of trust. I do not believe that the U.N. at present is capable of providing an accurate and thorough investigation of this travesty. We owe it to our Nation that the U.N. is held with greater accountability, especially since American taxpayers currently pay 25 percent of the UN's yearly dues.

Secretary General Kofi Annan must demonstrate a firm resolve to make all aspects of this investigation available to the public. If fraud was committed at the United Nations, then we need to find ways to prosecute it and bring all parties that were involved in this scandal to justice.

Mr. Chairman, I yield back.

Mr. HALL. I thank the gentleman.

Mr. Shadegg, the gentleman from Arizona.

Mr. SHADEGG. I thank the chairman. I have a formal statement which I will put in the record, but let me simply comment that I appreciate you holding this hearing. I am deeply concerned about this topic. I think that this Congress owes it to the American people to get to the bottom of this outrageous scandal. It is clear that at least $10.1 billion has been misdirected, and since we pay a substantial portion of the U.N. dues we have an obligation to the American taxpayers to get to the bottom of this issue.

I would like to welcome and commend my colleague, Jeff Flake of Arizona, whose legislation I think is right on point. As a cosponsor of that bill I think it is headed in the right direction and is something we are going to be forced to do. I have no confidence at this point, no confidence whatsoever, that the current investigations, at least based on what we can know of them right now, is going to get to the bottom of this issue.

It seems to me that if one looks at the scandal surrounding this, one recognizes that the United Nations, which is supposed to hold out a hope for all people around the world, has lost all form of trust in that it appears to have been completely corrupted from the top to the bottom by this program.

Roughly a year ago, in August of last year, I was in Iraq. I spent 3 days in the country, and I saw many of the outrageously flamboyant palaces that Saddam Hussein built throughout that country and also flew over many of the huge stockpiles of weaponry, warehouses out across the desert that go for miles and miles and miles stock full of conventional weapons and, quite frankly, we don't know what other kinds of weapons, all purchased with funds stolen from the Oil for Food Program.

At the same time, I was able to see the infrastructure in that country and see how tragically it had deteriorated. For those who have not been to Iraq, it is a nation where the infrastructure, the highways, the roads, the sidewalks, even the landscaping was clearly quite advanced at one point in time but had been allowed to just decay to where it hardly exists anymore. Sidewalks have weeds growing up through them, roads have deep cracks in them. All of this was done despite the good efforts of the United States to see that the Oil for Food Program would help that nation.

And I commend you, Mr. Chairman, for holding this hearing to look into the ongoing investigations. But I believe at the end of the day this Congress must see that a thorough investigation conducted with a body with subpoena power is held, that we have a final accounting of the total amount of money, and I have no confidence that the figures that are currently being used are accurate. I think we owe it to the American taxpayer. More importantly, I think we owe it to the people of the world to restore confidence in the United Nations to get to the bottom of this scandal and find

out who was corrupted, how, why, and why there was no accountability, to assure that it never happens again.

And with that, Mr. Chairman, I yield back the balance of my time.

Mr. HALL. Thank you, Mr. Shadegg. Without objection, you can file your entire testimony, as can any other member of the subcommittee.

[Additional statement submitted for the record follows:]

PREPARED STATEMENT OF HON. CHARLIE NORWOOD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF GEORGIA

Thank you Mr. Chairman.

I'd like to start by commending you and Chairman Barton for deciding to hold a series of hearings on the United Nations Oil for Food Program. There certainly is plenty to discuss and scrutinize, and I appreciate the opportunity to give the investigation of the Program its due justice.

It's no secret that during my tenure in Congress I have not been a fan of the United Nations.

Must we be reminded that for the past decade the UN allowed Saddam Hussein to blatantly defy 18 UN resolutions? The United States spends billions of dollars a year on UN programs and policies that are contrary to many principles of freedom that most Americans hold dear. The role of the UN should be a diplomatic and peace-promoting one, instead it often attempts to control all of our national policies.

It is truly unfortunate that we do not have the opportunity to question a representative of the United Nations here today. Perhaps we can hope that at a future hearing in this series, they will entertain our invitation.

However, the UN is not the topic of the hearing today, the UN Oil for Food Program is.

As we all know, the Oil for Food Program was established in April of 1995 to strike a balance between enforcing compliance of all relevant UN Security Council resolutions and alleviating human suffering in Iraq. Due to delays in the Program's implementation, the first shipment of food did not occur until March of 1997.

Unfortunately, what should have been a good humanitarian program ended up funding Saddam Hussein's regime, and quite possibly could even have funded terrorist groups.

The GAO estimates that from 1997 through 2002 the former Iraqi regime acquired $10.1 billion in illegal revenues. This includes $5.7 billion from oil smuggling and $4.4 billion in "illicit surcharges on oil sales and after-sales charges on suppliers."

Now we find ourselves at a juncture of numerous UN, independent, and Iraqi investigations into illicitly diverted funds. I have major doubts about the United Nations' ability to investigate this level of fraud. After all, it was under THEIR watch that THEIR OWN PROGRAM was abused.

Not only is it imperative that we get to the root of the questions of "who stole what?" and "where is that money now?" but the United Nations needs to take a look at its own structure to expose the very cracks in their system that allowed such corruption to occur.

I look forward to hearing the testimony of all of our witnesses today and throughout this series of hearings. Thank you Mr. Chairman, I yield back.

Mr. HALL. All right. I think at this time we are ready for the first panel, and ask Honorable Jeff Flake if he will take his place there.

Mr. Flake has introduced legislation that places conditions on the U.N. in order to receive full U.S. funding, and these conditions, as he will point out, include providing access for the GAO and law enforcement officials of U.N. member nations to all documents relating to the Oil for Food Program without waiving diplomatic immunity in the U.S., and making necessary reimbursements. He has a good piece of legislation, and we are very proud to recognize you and proud to have you before this subcommittee, and recognize you at this time.

Mr. FLAKE. Can you hear me?

Mr. HALL. Not yet. Move over to the right.

Mr. FLAKE. I don't think I can move any further right.

Mr. HALL. That is the microphone we have for any U.N. folks in case they show up. Go ahead with your testimony, sir.

STATEMENT OF HON. JEFF FLAKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. FLAKE. I thank the chairman. I thank the chairman in particular for holding this hearing. I think it is very important that we do this, as many members of the committee have already mentioned. We have a stake in this, a huge stake. In the year 2004, total U.S. contributions to the U.N. total $2 billion. Our assessed contributions alone are $550 million. When you add voluntary and peacekeeping and other monies in, it tops $2 billion. So we do need to answer to the taxpayers as to how these funds are being spent.

I appreciate the opening statement of Mr. Allen, and he mentioned my vote last night to defund the United Nations, perhaps suggesting that all I am trying to do is bash that body. I haven't always taken that vote. In fact, my first year here I did not. I spent the year of 1989 through 1990 in the country of Namibia in Southern Africa. Namibia gained its independence by virtue of U.N. Resolution 435, Security Council U.N. Resolution 435. The U.N. under great oversight did well in that case.

There are times when we can have faith in the U.N. and what they do. That, I would suggest, is why hearings like this are so important and action by this body and others are important, so that we can have justifiable faith in the U.N. I would suggest that, after the Oil for Food scandal, that that faith is waning among many, and rightly so. That is why it is important that we do this.

As mentioned, Mr. Shadegg mentioned that he has been to Iraq and went to the palaces. I did the same, and it just sickens I think anyone to see what happened under the Oil for Food Program, what Saddam and his sons were able to do with that money. I was told while there that some 70 palaces around the country were built during the Oil for Food Program. All this time, Saddam was saying that he needed more. And we were able to travel to Basra in the south and to see complete neglect of the people there for a period of time. They didn't share Saddam's views; he neglected them completely, and the infrastructure is completely, as Mr. Shadegg said, depleted and in horrible shape during this program when he was supposed to be benefiting those people. They bought fleets of Mercedes Benz vehicles when the food—I am sorry, the funds were supposed to go to food and medicine. The list just goes on and on and on.

Now, here in the U.S. we had a series of corporate scandals, and Congress acted quickly to deal with that. I would suggest that this scandal, without diminishing the impact or the seriousness of those scandals, this may be much worse because, unfortunately, the victims of this fraud lost a lot more than their retirement savings, portfolio values; a lot of them lost their lives. And so this is important that we are doing this, and I commend this committee and the chairman for taking it up.

Regardless of how many Iraqis may have been helped during this program, there is no justification for the fraudulent gain of some at the price of basic necessity and the lives of others. Americans and their elected representatives espouse the principles of accountability at all levels of government, but some have not insisted on accountability from administrators and participants in the U.N. Oil for Food Program. Americans and their elected representatives espouse transparency, but somehow we don't expect it of the U.N. I think that that is simply wrong, and we need to.

Fortunately, this committee has taken it up, and as evidence of growing concern in Congress, let me just say a few words about the bill that I have introduced here in the House. Senator Ensign in the Senate has introduced S. 2389, the companion bill that is mine in the House. 4284 has the support of 61 cosponsors, many from this committee, and people are being added regularly, and for that I appreciate those who are helping out in that regard.

These bills establish basic criteria with regard to investigations, accountability, and reparation, they are not specific to any one of several investigations that are or may be conducted. We have heard of many of them. Just here, we have the International Relations Committee is working on this topic, in the Senate it is being worked on, then the Volcker Commission in New York as well. So there are investigations going on. This legislation simply sets up criteria by which the U.N. can be judged in terms of cooperation.

Specifically, the legislation would require the withholding of a portion of U.S. assessed contributions to the United Nations until the President certifies that the U.N. is cooperating in the investigation of the Oil for Food Program. Until the President certifies to Congress that the U.N. is meeting the criteria spelled out in the bill, the U.S. would withhold 10 percent of assessed contributions in 2005 and 20 percent of assessed contributions in 2006. That amounts in 2005 to about $55 million withheld; in 2006, $110 million. We withhold assessed funding because it goes to the general budget of the U.N. as opposed to voluntary funding that goes to programs like UNICEF or peacekeeping operations.

The U.S. contributes 22 percent of the UN's budget. To withhold a portion of one category of contributions is a moderate approach, but one that we believe will be effective in ensuring that investigations result in accountability and transparency in the future.

The Presidential certification requirement contained in the bill are the following: The U.N. must have procedures in place to provide GAO access to all documents related to the Oil for Food Program so that the Comptroller General may make nationally mandated review of U.N. operations.

Two, the U.N. Secretary General must have formally confirmed that the U.N. will not assert inviability of U.N. papers and internal records related to the program.

No. 3, the Secretary General must have authorized the release of U.N. documents, including those in the possession of contractors—and that is important—to law enforcement officials of any member state.

No. 4, the U.N. must have waived diplomatic immunity of U.N. officials from the judicial process in the U.S. for civil or criminal acts under Federal or State law.

And last, No. 5, any U.N. official who benefited from the program must have reimbursed the full amount that was received improperly.

This legislation is based on the Helms-Biden approach to reforms of the U.N. in the Senate. This is an effort that receives strong bipartisan support and was a step in the right direction at that point to prompt reforms at the U.N.

Much can be said of the history and the background of the nature and the design of the fraud and the results of the abuse, the investigative efforts thus far and the risks of not acting quickly. I am sure that the other witnesses today will address these points. I have heard and read the research of Claudia Rosett, and I am pleased that she is here. She has looked into this quite thoroughly, as have the others.

So, again, I appreciate what this committee is doing. I appreciate the opportunity to be here, and would be glad to answer any questions about the legislation I have introduced.

[The prepared statement of Hon. Jeff Flake follows:]

PREPARED STATEMENT OF HON. JEFF FLAKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. Chairman, Ranking Member, and Members of the Subcommittee, thank you for your invitation to participate in this hearing. The abuses under the United Nations Oil-for-Food Program demand serious consideration and investigation by Congress and the Executive branch of our government. We must have assurance of a meaningful investigation, hold wrong-doers accountable, fix institutional problems leading to the abuses, and compensate victims of the abuse to the degree possible.

The fact that you are holding this hearing today demonstrates appropriate and necessary concern. This is the third hearing in as many committees in the House, and I am aware of three separate Congressional investigations into abuses under the Oil-for-Food Program. Congress is uniquely positioned to influence the UN and work toward accountability and resolution of the issue. I hope we see many more hearings on this important subject

After the first Gulf War, Saddam Hussein agreed to multilateral economic sanction on Iraq. Under the sanctions, Saddam lived comfortably, as dictators do, while his people starved and died for lack of basic medicines and other necessities. Using the suffering of the Iraqi people as a pretext, Saddam appealed for relief and managed to dictate many of the terms of the Oil-for-Food program. According to the General Accounting Office, over a period of about eight years, Saddam realized over $10 billion in illicit gains under the program. Meanwhile, too many Iraqis continued to suffer from severe depravation.

Like perhaps some of you, I have been to Iraq and seen the palaces and the stashes of Saddam and his sons. Saddam built dozens of palaces and built up a fleet of Mercedes-Benz vehicles with revenues that were intended to be used for the purchase of food, medicine, and other basic provisions for the Iraqi people.

As a result of the GAO report and the initiation of an Iraqi investigation this year, we have seen growing interest, concern, and contempt for the wrongs committed in the name of Oil-for-Food. Part of me is mildly surprised that we have not seen more immediate and general outrage. Then again, my skeptical side understands that subscription to the stated intentions and objectives of the UN leads some to overlook what they rightly do not forgive in the conduct of their own governments.

For example, when corporate scandals in the United States came to light a few years ago, the outrage in Congress moved this body to action more quickly than we nearly ever have. We churned out expansive new laws and regulations intended to impose accountability on the wrong-doers and establish a more transparent system.

Without diminishing the seriousness of those scandals, I submit that the UN Oil-for-Food scandal is much worse, and unfortunately, the victims of this fraud lost more than their retirement savings and portfolio values.

It sickens me that the UN and its ardent supporters excuse the Oil-for-Food fraud because some degree of good resulted from the program. Such reasoning would suggest forgiveness for corporate criminals guilty of plundering the assets of thousands, just because some people were employed and paid under their watch.

But again, we are talking about much more than financial "winners" and losers. We are talking about roughly 270 people who scammed their way to financial gain—including Saddam and his regime, UN employees, other foreign officials, business people and political entities—while ordinary Iraqis were left destitute and felt the mortal consequences. Iraqis went without adequate food and medicine, resulting in many deaths, while 270 people scammed the Oil-for-Food system.

Regardless of how may Iraqis may have been helped, there is absolutely no justification for the fraudulent gain of some at the price of the basic necessities and the lives of others.

Americans and their elected representatives espouse the principles of accountability at all levels of their government, but some are not insisting on accountability from the administrators and participants in the UN Oil-for-Food Program. Americans and their elected representatives espouse transparency in government, but some do not expect the same of the UN and its programs. Americans and their elected representatives are sensitive about how their tax dollars are spent, but some are numb to the misuse of their tax dollars by the UN.

Fortunately, Mr. Chairman, your subcommittee and a growing number of people in this country, as well as outside the U.S. and Iraq, are beginning to demand a thorough and meaningful investigation into the Oil-for-Food fraud.

As evidence of the growing concern in Congress, I would point to companion bills in the House and Senate. Senator Ensign introduced S. 2389 and I introduced H.R. 4284, which has the support of 61 cosponsors with more being added to the list regularly.

These bills establish basic criteria with regard to investigations, accountability, and reparation. They are not specific to any one of the several investigations that are or may be conducted, but they do establish reasonable requirements of cooperation and accountability from the UN.

Specifically, the legislation would require the withholding of a portion of United States assessed contributions to the United Nations until the President certifies that the United Nations is cooperating in the investigation of the United Nations Oil-for-Food Program. Until the President certifies to Congress that the UN is meeting criteria spelled out in the bill, the U.S. would withhold ten percent of assessed contributions in 2005 and twenty percent of assessed contributions in 2006. We would withhold the assessed funding because it goes to the general budget of the UN—as opposed to voluntary funding that goes to programs like UNICEF or peacekeeping operations.

The U.S. contributes twenty-two percent of the UN's budget. To withhold a portion of one category of contributions is a moderate approach, but one that we believe will be effective in ensuring that investigations result in accountability and transparency in the future.

The Presidential certification criteria contained in the bill are the following:

1. The UN must have procedures in place to provide GAO access to all documents related to the Oil-for-Food program so that the Comptroller General may make nationally mandated reviews of UN operations;
2. The UN Secretary General must have formally confirmed that the UN will not assert inviolability of UN papers and internal records related to the program;
3. The Secretary General must have authorized the release of UN documents, including those in the possession of contractors, to law enforcement officials of any member state;
4. The UN must have waived diplomatic immunity of UN officials from the judicial process in the U.S. for civil or criminal acts under federal or state law;
5. Any UN official who benefited from program must have reimbursed the full amount that was received improperly.

This legislation is based on the Helms-Biden approach to reforms at the UN—an effort that received strong support in Congress as a step in the right direction.

Much more can be said of the history and background, the nature and design of the fraud, the results of the abuse, the investigative efforts thus far, and the risks of not acting quickly. I'm sure that other witnesses here today will address these points. But after all these points are made and debated, I believe the fact remains that the Oil-for-Food scandal begs for immediate, meaningful, and decisive action. Too many people suffered under Saddam's reign and were short-changed, sometimes fatally so, by the abuses of the Oil-for-Food program. Delaying or confusing the issue and how to proceed will mean continued stone-walling and the loss of key information.

Our efforts should not be read as an attempt to weaken the UN, but rather as an effort to establish the kind of accountability, transparency, and effectiveness that we expect from institutions and governments within the U.S. Having established

such underpinnings at the UN, Americans, Iraqis, and others will be able to take more confidence in the organization.

I hope that we in Congress can provide the means to a complete and real resolution to the Oil-for-Food scandal. I thank you again for holding this hearing and working on this important issue.

Mr. HALL. And we thank you very much for your introduction and for your explanation.

We also recognize Congressman Ose of California as one who has pursued this problem for some time and is one of the leaders in the Congress on, recognize you to sit in, without objection. And we will recognize you for an opening statement if you would like to make one.

Mr. OSE. Mr. Chairman, I appreciate your courtesy. I don't have any opening statement. I am interested in listening in particular to your witnesses.

Mr. HALL. Thank you. Thank you very much.

Congressman Flake, other than today, has H.R. 4284 been given consideration in any other hearing or any other committee?

Mr. FLAKE. It has not. But we are gathering cosponsors so quickly that I am confident that it will, and I appreciate this hearing today.

Mr. HALL. Are you aware of any assurances given in other committees to have hearings on H.R. 4284?

Mr. FLAKE. Not at this point, although I can tell you that we have received good cooperation from the International Relations Committee with the legislation.

Mr. HALL. You made them aware of it and you requested——

Mr. FLAKE. Very much so.

Mr. HALL. Are you aware of any assurances that H.R. 4284 will be marked up?

Mr. FLAKE. No. I think that the position of the International Relations Committee is that let us see where the Volcker Commission goes and some of the other investigations; and as soon as roadblocks are hit, then legislation will be pushed.

Mr. HALL. And I guess I missed how many cosponsors you have now.

Mr. FLAKE. 61 at this point.

Mr. HALL. Thank you.

The Chair recognizes Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman, and, Jeff, it is good to see you here. We meet in the gym on a regular basis.

Mr. FLAKE. It is good to see you with your hair combed.

Mr. ALLEN. I wanted to raise a couple of questions. First, you mentioned, you and I agree I think that it is very important that the Oil for Food Program be investigated. What I want to raise with you is whether at the same time in doing so we also ought to be investigating whether the Coalition Provisional Authority's 14 months of running the program after they took over should be investigated as well. Let me make just a couple of points in that regard.

You talked about some of the money being used for Mercedes Benzes. It is interesting when you look at based on the statement that our colleague Tom Lantos made before a committee at the end of April of this year. He pointed out that when the Coalition Provisional Authority took over administrative authority for the Oil for

Food Program in the fall of 2003, they called in a defense contract audit agency to look back to see if they could find any overpriced contracts, any skimming that had gone on before they took it over, and they didn't have any trouble finding that kind of skimming. In reviewing the contracts, they found $650 million in potential overcharges. And the part of the problem, when we look at the U.N. we also have to look at the member states. Part of the problem, according to the Defense Contract Audit Agency, was the State Department's, our State Department's representatives in New York in February of 2002 approved the sale of a fleet of 300 Mercedes Benz luxury automobiles for use by the Iraqi government. I assume those are the same vehicles we are talking about.

You have been a real advocate for accountability, and I want to just ask you about our own accountability. I have been troubled by recent reports that the United States is not complying with Security Council resolutions governing our own stewardship of Iraqi oil funds during our time as occupying power. Let me describe some of these reports to you.

Last May, the Security Council passed Resolution 1483, which created the Development Fund for Iraq, the successor to the Oil for Food Program. The Security Council authorized the CPA to sell Iraq's oil and spend Iraq's money for the benefit of the Iraqi people, but they imposed conditions: The U.S. had to be transparent about its spending, and the U.S. had to cooperate with international auditors who report to the United Nations, and Kofi Annan described these international auditors as the eyes and ears of the international community.

I don't know if you are familiar with the resolution or not. I assume you are generally familiar with it?

Mr. FLAKE. Generally.

Mr. ALLEN. The auditors hired KPMG, and they are involved in looking at the Oil for Food Program investigation as well. Last week, KPMG issued its first report on the CPA stewardship of Iraqi oil proceeds. Though it is still preliminary, its findings are troubling. KPMG reported that, "it encountered resistance from CPA staff," when it attempted to obtain audit information. CPA officials said, quote, their workload is already excessive, and that, quote, cooperation with KPMG's undertaking is given a low priority.

If we want the U.N. to cooperate when we examine its conduct of Iraqi oil funds, don't you agree that the United States at a minimum should meet our international obligations to account for Iraqi oil proceeds during that period when the CPA was in charge?

Mr. FLAKE. I think that that is certainly an area that oversight will be required on, and it will be at other hearings.

Mr. HALL. If you could excuse me. I would ask Mr. Allen to remember, it is a custom not to question a Member of Congress when they come before us. I think we have given you plenty of——

Mr. ALLEN. I wasn't going to give him any tough questions. It was just that——

Mr. HALL. Well, Mr. Flake invited questions, and you were accorded the right to ask some questions. I just ask you to stay as close to the custom as you can.

Mr. ALLEN. I will do that.

Mr. HALL. And give back as much of your time as you can.

Mr. FLAKE. I mentioned that I would answer questions with regard to the legislation. This legislation is specific to the Oil for Food Program, and so that is what I am prepared for questions.

Mr. ALLEN. I appreciate your answering that general question of principle anyway, and thank you for your time.

Mr. FLAKE. Thank you. And the last time I checked, the U.N. wasn't providing 25 percent of our operating budget. We are providing 25 percent of theirs.

Mr. ALLEN. That is fair. I understand. Thanks.

Mr. HALL. Does anyone else want to be recognized?

Mr. Otter, recognize you for 5 minutes.

Mr. OTTER. Mr. Chairman, I am not going to take 5 minutes. I would only make a couple of observations. No. 1, the United Nations is a creation of a sovereign United States or part of a sovereign United States and not vice versa. Sometimes we get that confused between the States and the Federal Government. I hope we will never get that confused between the United Nations and the United States of America. And I think Mr. Flake is right on.

The second thing, I have already made the inquiry, Mr. Flake, and I find that my name is not on the list of cosponsors, and I would make a request at this time that my name be put on there. Thank you.

Mr. FLAKE. Thank you.

Mr. HALL. The Chair recognizes Mr. Shadegg.

Mr. SHADEGG. Mr. Chairman, in recognition of the tradition of not asking Members of Congress questions, I don't have a question for Mr. Flake. I just want to make a point. I thought the vote last night was a very interesting vote. And, quite frankly, Congressman Flake and I traded places last night. I have previously voted to not contribute to the U.N. out of concern for its direction. Last night, with great consternation, I voted to go ahead and fund the U.N. But I would note that many of my colleagues last night I think voted to defund or to quit making contributions to the United Nations precisely to send the signal that they will not and this Nation should not tolerate the corruption that is going on or the corruption that went on in the Oil for Food Program but, even more importantly than that, what appears to be the corruption going on in thwarting the ongoing investigations. And I think it very, very important that we not defend those that are trying to block those investigations.

We are going to hear testimony yet this morning from those who have looked into what is going on that will I think establish quite clearly that there is an active, ongoing effort to preclude the people of the world, including the people of the United States, who substantially fund the United Nations, from learning what happened. Again, for anyone who believes strongly in the United Nations, including all my colleagues on the other side and my colleague Mr. Allen, it is not in our interest to defend or to preclude—to defend the conduct that went on if in fact it was inappropriate—and I think there is no question but that it was—nor is it in our interest to not seek transparency for the sake of the credibility of the United Nations. And so while I understand that many of my colleagues last night voted to defund the United Nations or to quit the

American contributions as a way of sending a signal, I would like to point out that Mr. Flake's legislation is a more positive step, and I would bet we would find that the vote last night to not fund the United Nations was higher than it ever has been in recent history precisely because so many Members of the Congress are upset about what has gone on in the allegations in the oil for food scandal and, quite frankly, what is going on in the efforts to frustrate the investigation now. And I would point out that Mr. Flake's positive contribution by seeking legislation that would open this up is in fact a step in the right direction in that it isn't just a smack at the United Nations, saying we don't like this conduct, it is an affirmative step to try to learn what happened so that the world can know and so that we can preclude that kind of conduct in the future.

So I commend him for a positive step, and while I voted last night contrary to how I voted in the past as a way to kind of send them a signal that we are not all willing to give up yet, I have great consternation about the conduct, and I think, I hope, that this Congress will press for a thorough investigation so that the people of the United States and the people of the world will know what happened.

Mr. HALL. I thank you. Mr. Allen was merely accepting the invitation of Congressman Flake to answer questions. He asked his questions, they have been answered, and I think at this time—who else seeks recognition? Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman, and I would like to thank my colleague from Arizona, and perhaps just quickly share something either for your comment or at least for your use, if it fits.

At a time when we are talking about whether our engagement in the war in Iraq was appropriate or not, the Oil for Food Program in many ways is at the center or it all and the failure of that. In 2001, I was part of a delegation that was in Kuwait for the 10th anniversary of the liberation of Kuwait. And I expected to have what we saw, the Kuwaiti people thanking former President Bush and former General Norman Schwarzkopf and others for their liberating their country. What I wasn't prepared for was at all levels of government, the royal family, and in fact just cab drivers, everyone on the street saying, when are you going to stop the suffering of the Iraqi people? When are you going to do something about them starving? When are you going to do something about the conditions of Iraq?

We hear how terrible it is. We hate Saddam, but we cannot tolerate these brethren of ours suffering like this.

And I was taken. And I came back and talked about it, and very quickly discovered that the Oil for Food Program was doing exactly what we now have discovered: It was funding Saddam's continued lifestyle, and not in fact leading to the end of the suffering of the Iraqi people.

And so I commend you for what you are doing, and I believe that all of us should look at this not as a loss of dollars, not as something that we should be concerned about the money part of it, but we should be concerned about the suffering of people, because if there is one role for the United Nations that all of us on this panel and I know, Congressman Flake, you share, is that we participate

in the U.N. because we want to make sure that the world does not starve, that in fact people are treated with humanity, and that their assets are used to benefit them.

And so I commend you very much for your work here, and I think that this is the reason that there is such a swelling support to hold an accountability of the U.N. so that people not suffer again. And perhaps had this program been more successful we could have found an Iraq that we would not have had to spend so many of our American lives liberating.

With that, I yield back, Mr. Chairman.

Mr. HALL. All right. Does anyone else seek recognition?

Mr. Flake, thank you very much. We appreciate it.

We will ask the second panel to please come forward.

We will have Joseph Christoff, Director of International Affairs and Trade, General Accounting Office. We have Claudia Rosett, Journalist-in-Residence, The Foundation for the Defense of Democracies, and Adjunct Fellow, Hudson Institute, and by the way, in previous testimony before Congress has stated that the Oil for Food Program not only allowed Saddam Hussein, quote, to perpetuate his totalitarian rule of lies, violence, and mass graves; it also allowed him to set up a global network of dirty deals and filthy finance.

We also have Jed Babbin, noted author, former Deputy Under Secretary of Defense, and recognize his authoring the book Inside the Asylum, and especially invite you to read the first and fourth chapters of very interesting reading.

And we thank you three for your attendance. And at this time, Mr. Christoff, we recognize you for 5 minutes. We won't hold you to 5 minutes, but we will give you the opportunity to answer a lot of questions. Thank you. We will recognize you for 5 minutes.

STATEMENTS OF JOSEPH A. CHRISTOFF, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GENERAL ACCOUNTING OFFICE; CLAUDIA ROSETT, JOURNALIST-IN-RESIDENCE, THE FOUNDATION FOR THE DEFENSE OF DEMOCRACIES, AND ADJUNCT FELLOW, HUDSON INSTITUTE; AND JED BABBIN, FORMER DEPUTY UNDER SECRETARY OF DEFENSE

Mr. CHRISTOFF. Thank you, Mr. Chairman, and members of the committee.

Mr. HALL. Turn on your mike, if you would, please. Or do you have the U.N. mike?

Mr. CHRISTOFF. No, I have the correct mike, and I want to thank you for inviting GAO to this important hearing.

For several months, GAO has been reviewing the operations of the UN's Oil for Food Program, and today I will discuss our findings and our observations on the program and suggest areas for further investigation.

First, let me discuss the Oil for Food Program. Under U.N. sanctions, Iraq was allowed to sell oil to purchase food and other humanitarian goods from 1997 to 2002. The U.N. controlled over $67 billion in Iraqi oil revenues and issued $38 billion in letters of credit to purchase commodities. The program helped the Iraqi people by almost doubling their food intake over the first 5 years of the program; however, GAO estimates that the former Iraqi regime ac-

quired over $10 billion in illicit revenues during this period. This included $5.7 billion in oil smuggled out of Iraq and $4.4 billion in surcharges on oil sales and illicit conditions on imported commodities. Oil was smuggled through Syria by pipeline, across the borders of Jordan and Turkey by truck, and through the Persian Gulf by ship. The Iraqi government also levied surcharges against oil purchasers and commissions against suppliers of commodities. The surcharges were up to 50 cents per barrel of oil, and the commissions were 5 to 15 percent of the commodity contracts.

Now, how and why did these problems occur? The United Nations and Iraq's supreme audit board have begun investigations into the Oil for Food Program. These investigations should determine the extent of the corruption, the adequacy of internal controls, and ways to improve the delivery assistance under economic sanctions.

Let me suggest some key questions for these inquiries to address.

First, how did this structure of the Oil for Food Program enable the Iraqi government to obtain illicit surcharges and commissions? The Oil for Food Program authorized the Iraqi government to negotiate contracts directly with companies that purchased oil or supplied commodities. The MOU between the U.N. and the government recognized the sovereignty of Iraq in negotiating contracts. However, when the program was first proposed in 1991, the Secretary General included alternative procedures for contracting negotiation to allow the U.N. or an independent agent to negotiate the contracts. These alternatives were rejected. Iraq's control over contract negotiations was an important factor in enabling the government to levy illicit surcharges and commissions.

The second question, what role did U.N. member nations play in enforcing compliance with sanctions against Iraq? Security Council resolutions requires all members to enforce the sanctions. However, Jordan maintained trade protocols with Iraq that allowed it to purchase heavily discounted Iraqi oil in exchange for up to $300 million in Jordanian goods. Syria received up to 200,000 barrels of Iraqi oil per day, in violation of the sanctions.

In addition, member nations were responsible for vetting the companies that sought approval to purchase oil or sell commodities. It is unclear what criteria member nations used to assess the qualifications of these companies.

The third question, who assessed the reasonableness of the prices negotiated between the Iraqi government and commodities suppliers? In September 2003, the Defense Contract Audit Agency found that 48 percent of the oil for food contracts it reviewed were potentially overpriced by 21 percent. U.N. Sanctions Committee procedures stated that the Office of Iraq Program was to examine each commodity contract for price and value. However, OIP officials stated that no U.N. resolution tasked them with assessing the price reasonableness of the contracts.

The Sanctions Committee was responsible for approving commodity contracts. However, it primarily screened contracts for dual use items rather than for price.

Much of the information to answer these questions is in the contracts Iraq negotiated with the companies that bought oil or sold commodities. Current investigations should review these contracts

to document the full extent of the illicit commissions and surcharges. The analyses should identify companies that consistently overpriced their contracts and the nations that condoned the overpricing.

In addition, a comparison of the Oil for Food Program in the north and the south could provide insights on the relative effectiveness and transparency. The Iraqi government operated the program in central and southern Iraq while U.N. agencies implemented the program in the north.

Mr. Chairman, that concludes my statement, and I would be happy to answer any questions.

[The prepared statement of Joseph A. Christoff follows:]

PREPARED STATEMENT OF JOSEPH A. CHRISTOFF, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Committee: I am pleased to be here today to discuss GAO's review of the United Nations (U.N.) Oil for Food program.

In 1996, the United Nations and Iraq established the Oil for Food program to address growing concerns about the humanitarian situation after international sanctions were imposed in 1990. The program's intent was to allow the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance and, at the same time, prevent the regime from obtaining goods for military purposes. From 1997 through 2002, Iraq sold more than $67 billion in oil through the program and issued $38 billion in letters of credit to purchase commodities.[1]

Today, we will (1) report on our estimates of the illegal revenue acquired by the former Iraqi regime in violation of U.N. sanctions and provide some observations on the administration of the program and (2) suggest areas for additional analysis and summarize the status of several ongoing investigations.

To address these objectives, we reviewed documents and statements from the United Nations on its management and oversight responsibilities for the Oil for Food program and from the Coalition Provisional Authority (CPA), the Department of State, and the United Nations on ongoing investigations of the program. We also reviewed external audits to determine the use of Oil for Food funds prior to the transfer of the program to the CPA in November 2003. We did not have full access to the U.N. internal audits of the Oil for Food program, but we reviewed the summaries of 7 annual internal audits from 1996 to 2003 and had access to one report made publicly available in May 2004.

We conducted our review from November 2003 through June 2004 in accordance with generally accepted government auditing standards.

SUMMARY

From 1997 through 2002, we estimate that the former Iraqi regime acquired $10.1 billion in illegal revenues—$5.7 billion in oil smuggled out of Iraq and $4.4 billion in surcharges on oil sales and illicit charges from suppliers exporting goods to Iraq through the Oil for Food program. The United Nations, through the Office of the Iraq Program (OIP) and the Security Council's Iraq sanctions committee, was responsible for overseeing the Oil for Food program. However, the Security Council allowed the Iraqi government, as a sovereign entity, to negotiate contracts directly with purchasers of Iraqi oil and suppliers of commodities. This structure was an important factor in enabling Iraq to levy illegal surcharges and illicit commissions. OIP was responsible for examining Iraqi contracts for price and value, but it is unclear how it performed this function. The sanctions committee was responsible for monitoring oil smuggling, screening contracts for items that could have military uses, and approving oil and commodity contracts. The sanctions committee took action to stop illegal surcharges on oil, but it is unclear what actions it took on the commissions on commodity contracts. U.N. external audit reports contained no findings of program fraud. Summaries of internal audit reports provided to GAO pointed to some operational concerns in procurement, coordination, monitoring, and oversight.

[1] All references to Oil for Food estimates are in 2003 constant U.S. dollars.

Ongoing investigations of the Oil for Food program may wish to further examine how the structure of the program enabled the Iraqi government to obtain illegal revenues, the role of member states in monitoring and enforcing the sanctions, actions taken to reduce oil smuggling, and the responsibilities and procedures for assessing price reasonableness in commodity contracts. Current or planned efforts include an inquiry initiated by the United Nations, an investigation and audit overseen by the Iraqi Board of Supreme Audit, and efforts undertaken by several U.S. congressional committees.

BACKGROUND

In August 1990, Iraq invaded Kuwait, and the United Nations imposed sanctions against Iraq. Security Council resolution 661 of 1990 prohibited all nations from buying and selling Iraqi commodities, except for food and medicine. Security Council resolution 661 also prohibited all nations from exporting weapons or military equipment to Iraq and established a sanctions committee to monitor compliance and progress in implementing the sanctions. The members of the sanctions committee were members of the Security Council. Subsequent Security Council resolutions specifically prohibited nations from exporting to Iraq items that could be used to build chemical, biological, or nuclear weapons. In 1991, the Security Council offered to let Iraq sell oil under a U.N. program to meet its peoples' basic needs. The Iraqi government rejected the offer, and over the next 5 years, the United Nations reported food shortages and a general deterioration in social services.

In December 1996, the United Nations and Iraq agreed on the Oil for Food program, which permitted Iraq to sell up to $1 billion worth of oil every 90 days to pay for food, medicine, and humanitarian goods. Subsequent U.N. resolutions increased the amount of oil that could be sold and expanded the humanitarian goods that could be imported. In 1999, the Security Council removed all restrictions on the amount of oil Iraq could sell to purchase civilian goods. The United Nations and the Security Council monitored and screened contracts that the Iraqi government signed with commodity suppliers and oil purchasers, and Iraq's oil revenue was placed in a U.N.-controlled escrow account. In May 2003, U.N. resolution 1483 requested the U.N. Secretary General to transfer the Oil for Food program to the CPA by November 2003. (Appendix II contains a detailed chronology of Oil for Food program and sanctions events.) The United Nations allocated 59 percent of the oil revenue for the 15 central and southern governorates, which were controlled by the central government; 13 percent for the 3 northern Kurdish governorates; 25 percent for a war reparations fund for victims of the Iraq invasion of Kuwait in 1990; and 3 percent for U.N. administrative costs, including the costs of weapons inspectors.

ILLICIT REVENUES BY FORMER REGIME DUE TO IRAQI CONTROL OVER CONTRACTS AND UNCERTAIN U.N. OVERSIGHT ROLE

From 1997 to 2002, the Oil for Food program was responsible for more than $67 billion of Iraq's oil revenue. Through a large portion of this revenue, the United Nations provided food, medicine, and services to 24 million people and helped the Iraqi government supply goods to 24 economic sectors. Despite concerns that sanctions may have worsened the humanitarian situation, the Oil for Food program appears to have helped the Iraqi people. According to the United Nations, the average daily food intake increased from around 1,275 calories per person per day in 1996 to about 2,229 calories at the end of 2001. Malnutrition rates for children under 5 fell by more than half. In February 2002, the United Nations reported that the Oil for Food program had considerable success in several sectors such as agriculture, food, health, and nutrition by arresting the decline in living conditions and improving the nutritional status of the average Iraqi citizen.

From 1997 through 2002, we estimate that the former Iraqi regime acquired $10.1 billion in illegal revenues—$5.7 billion in oil smuggled out of Iraq and $4.4 billion in surcharges on oil sales and illicit charges from suppliers exporting goods to Iraq through the Oil for Food program. The United Nations, through OIP and the Security Council's Iraq sanctions committee, was responsible for overseeing the Oil for Food program. However, the Security Council allowed the Iraqi government, as a sovereign entity, to negotiate contracts directly with purchasers of Iraqi oil and suppliers of commodities. This structure, in addition to the uncertain oversight roles of OIP and the sanctions committee, was an important factor in enabling Iraq to levy illegal surcharges and illicit commissions. U.N. external audit reports contained no findings of program fraud. Summaries of internal audit reports provided to GAO pointed to some operational concerns in procurement, coordination, monitoring, and oversight.

Former Iraqi Regime Acquired an Estimated $10.1 Billion in Illicit Revenue

We estimate that, from 1997 through 2002, the former Iraqi regime acquired $10.1 billion in illegal revenues—$5.7 billion through oil smuggled out of Iraq and $4.4 billion through surcharges against oil sales and illicit commissions from commodity suppliers. This estimate is higher than the $6.6 billion in illegal revenues we reported in May 2002.[2] We updated our estimate to include (1) oil revenue and contract amounts for 2002, (2) updated letters of credit from prior years, and (3) newer estimates of illicit commissions from commodity suppliers. Appendix I describes our methodology for determining illegal revenues gained by the former Iraqi regime.

Oil was smuggled out through several routes, according to U.S. government officials and oil industry experts. Oil entered Syria by pipeline, crossed the borders of Jordan and Turkey by truck, and was smuggled through the Persian Gulf by ship. Jordan maintained trade protocols with Iraq that allowed it to purchase heavily discounted oil in exchange for up to $300 million in Jordanian goods. Syria received up to 200,000 barrels of Iraqi oil a day in violation of the sanctions. Oil smuggling also occurred through Turkey and Iran.

In addition to revenues from oil smuggling, the Iraqi government levied surcharges against oil purchasers and commissions against commodity suppliers participating in the Oil for Food program. According to some Security Council members, the surcharge was up to 50 cents per barrel of oil and the commission was 5 to 15 percent of the commodity contract.

In our 2002 report, we estimated that the Iraqi regime received a 5-percent illicit commission on commodity contracts. However, a September 2003 Department of Defense review found that at least 48 percent of 759 Oil for Food contracts that it reviewed were potentially overpriced by an average of 21 percent.[3] Food commodity contracts were the most consistently overpriced, with potential overpricing identified in 87 percent of the contracts by an average of 22 percent. The review also found that the use of middlemen companies potentially increased contract prices by 20 percent or more. Defense officials found 5 contracts that included "after-sales service charges" of between 10 and 20 percent.

In addition, interviews by U.S. investigators with high-ranking Iraqi regime officials, including the former oil and finance ministers, confirmed that the former regime received a 10-percent commission from commodity suppliers. According to the former oil minister, the regime instituted a fixed 10-percent commission in early 2001 to address a prior "compliance" problem with junior officials. These junior officials had been reporting lower commissions than what they had negotiated with suppliers and pocketing the difference.

UNITED NATIONS AND SECURITY COUNCIL HAD RESPONSIBILITY FOR OVERSIGHT OF PROGRAM, IRAQ CONTRACTED DIRECTLY WITH PURCHASERS AND SUPPLIERS

Both OIP, as an office within the U.N. Secretariat, and the Security Council's sanctions committee were responsible for overseeing the Oil for Food program. However, the Iraqi government negotiated contracts directly with purchasers of Iraqi oil and suppliers of commodities. While OIP was to examine each contract for price and value, it is unclear how it performed this function. The sanctions committee was responsible for monitoring oil smuggling, screening contracts for items that could have military uses, and approving oil and commodity contracts. The sanctions committee responded to illegal surcharges on oil purchases, but it is unclear what actions it took to respond to commissions on commodity contracts.

Iraq negotiated directly with oil purchasers and suppliers

U.N. Security Council resolutions and procedures recognized the sovereignty of Iraq and gave the Iraqi government authority to negotiate contracts and decide on contractors. Security Council resolution 986 of 1995 authorized states to import petroleum products from Iraq, subject to the Iraqi government's endorsement of transactions. Resolution 986 also stated that each export of goods would be at the request of the government of Iraq. Security Council procedures for implementing resolution 986 further stated that the Iraqi government or the United Nations Inter-Agency Humanitarian Program would contract directly with suppliers and conclude the ap-

[2] U.S. General Accounting Office, *Weapons of Mass Destruction: U.N. Confronts Significant Challenges in implementing Sanctions Against Iraq,* GAO-02-625 (Washington, D.C.: May 23, 2002).

[3] The Defense Contract Audit Agency and the Defense Contract Management Agency, *Report on the Pricing Evaluation of Contracts Awarded under the Iraq Oil for Food Program* (Washington, D.C.: Sept. 12, 2003).

propriate contractual arrangements. Iraqi control over contract negotiations was an important factor in allowing Iraq to levy illegal surcharges and illicit commissions.

When the United Nations first proposed the Oil for Food program in 1991, it recognized this vulnerability. At that time, the Secretary General proposed that the United Nations, an independent agent, or the government of Iraq be given the responsibility to negotiate contracts with oil purchasers and commodity suppliers. The Secretary General concluded that it would be highly unusual or impractical for the United Nations or an independent agent to trade Iraq's oil or purchase commodities. He recommended that Iraq negotiate the contracts and select the contractors. However, he stated that the United Nations and Security Council would have to ensure that Iraq's contracting did not circumvent the sanctions and was not fraudulent. The Security Council further proposed that U.N. agents review contracts and compliance at Iraq's oil ministry, but Iraq refused these conditions.

Iraqi government control over contracts applied to oil purchases, all commodities purchased for the 15 central and southern governorates, and food and medical supplies purchased in bulk by the central government for the three autonomous Kurdish governorates in the north. The rest of the program in the north was run by nine specialized U.N. agencies[4] and included activities such as distributing food rations and constructing or rehabilitating schools, health clinics, power generation facilities, and houses.

OIP was responsible for key oversight aspects of the program

OIP administered the Oil for Food program from December 1996 to November 2003. Under Security Council resolution 986 of 1995 and a memorandum of understanding between the United Nations and the Iraqi government, OIP monitored the sale of Iraq's oil and its purchase of commodities and the delivery of goods, and accounted for the program's finances. The United Nations received 3 percent of Iraq's oil export proceeds for its administrative and operational costs, which included the cost of U.N. weapons inspections.

The sanctions committee's procedures for implementing resolution 986 stated that independent U.N. inspection agents were responsible for monitoring the quality and quantity of the oil shipped. The agents were authorized to stop shipments if they found irregularities. OIP hired a private firm to monitor Iraqi oil sales at exit points. However, the monitoring measures contained weaknesses. According to U.N. reports and a statement from the monitoring firm, the major offshore terminal at Mina al-Basra[5] did not have a meter to measure the oil pumped nor could onshore storage capacity be measured. Therefore, the U.N. monitors could not confirm the volume of oil loaded onto vessels. Also, in 2001, the oil tanker *Essex* took a large quantity of unauthorized oil from the platform when the monitors were off duty. In December 2001, the Security Council required OIP to improve the monitoring at the offshore terminal. It is unclear what actions OIP took. As part of its strategy to repair Iraq's oil infrastructure, the CPA had planned to install reliable metering at Mina al-Basra and other terminals, but no contracts have been let.

OIP also was responsible for monitoring Iraq's purchase of commodities and the delivery of goods. Security Council resolution 986, paragraph 8a(ii) required Iraq to submit a plan, approved by the Secretary General, to ensure equitable distribution of Iraq's commodity purchases. The initial distribution plans focused on food and medicines while subsequent plans were expansive and covered 24 economic sectors, including electricity, oil, and telecommunications.

The sanctions committee's procedures for implementing Security Council resolution 986 stated that experts in the Secretariat were to examine each proposed Iraqi commodity contract, in particular the details of price and value, and to determine whether the contract items were on the distribution plan. OIP officials told the Defense Contract Audit Agency they performed very limited, if any, pricing review. They stated that no U.N. resolution tasked them with assessing the price reasonableness of the contracts and no contracts were rejected solely on the basis of price. However, OIP officials stated that, in a number of instances, they reported to the sanctions committee that commodity prices appeared high, but the committee did not cite pricing as a reason to place holds on the contracts. For example, in October 2001, OIP experts reported to the sanctions committee that the prices in a proposed contract between Iraq and the Al-Wasel and Babel Trading Company appeared high. However, the sanctions committee reviewed the data and approved the contract. In

[4] The Food and Agricultural Organization; International Telecommunications Union; U.N. Development Program; U.N. Children's Fund; U.N. Educational, Scientific, and Cultural Organization; U.N.-Habitat; U.N. Office for Project Services; World Health Organization; and the World Food Program.

[5] Previously called Mina al-Bakar.

April 2004, the Treasury Department identified this company as a front company for the former regime. The United Nations also required all countries to freeze the assets of this company and transfer them to the Development Fund for Iraq in accordance with Security Council resolution 1483.[6]

The sanctions committee's procedures for implementing resolution 986 stated that independent inspection agents will confirm the arrival of supplies in Iraq. OIP deployed about 78 U.N. contract monitors to verify shipments and authenticate the supplies for payment. OIP employees were able to visually inspect 7 to 10 percent of the approved deliveries.

Audits Identified Some Operational Concerns but No Fraud

Security Council resolution 986 also requested the Secretary General to establish an escrow account for the Oil for Food program and to appoint independent and certified public accountants to audit the account. The Secretary General established an escrow account at BNP Paribas for the deposit of Iraqi oil revenues. The U.N. Board of Audit, a body of external public auditors, audited the account.[7] The external audits focused on management issues related to the Oil for Food program and the financial condition of the Iraq account. U.N. auditors generally concluded that the Iraq account was fairly presented in accordance with U.N. financial standards. The reports stated that OIP was generally responsive to external audit recommendations. The external audits determined that oil prices were mostly in accordance with the fair market value of oil products to be shipped and checked to confirm that pricing was properly and consistently applied. They also determined that humanitarian and essential services supplies procured with oil funds generally met contract terms with some exceptions. U.N. external audit reports contained no findings of fraud during the program.

The U.N. Office of Internal Oversight Services (OIOS) conducted internal audits of the Oil for Food program and reported the results to OIP's executive director. OIOS officials stated that they have completed 55 audits and have 4 ongoing audits of the Oil for Food program. Overall, OIOS reported that OIP had made satisfactory progress in implementing most of its recommendations. We did not have access to individual OIOS audit reports except for an April 2003 report made publicly available in May 2004 that assessed the activities of the company contracted by the United Nations to authenticate goods coming into Iraq. It found that the contractor did not perform all required duties and did not adequately monitor goods coming into the northern areas of Iraq. We also reviewed 7 brief summaries of OIOS reports covering the Oil for Food program from July 1, 1996, through June 30, 2003. These summaries identified a variety of operational concerns involving procurement, inflated pricing and inventory controls, coordination, monitoring, and oversight. In one case, OIOS cited purchase prices for winter items for displaced persons in northern Iraq that were on average 61 percent higher than local vendor quotes obtained by OIOS. In another case, an OIOS review found that there was only limited coordination of program planning and insufficient review and independent assessment of project implementation activities.

The sanction Committee had a key role in enforcing sanctions and approving contracts

The sanctions committee was responsible for three key elements of the Oil for Food program: (1) monitoring implementation of the sanctions, (2) screening contracts to prevent the purchase of items that could have military uses, and (3) approving Iraq's oil and commodity contracts.

U.N. Security Council resolution 661 of 1990 directed all states to prevent Iraq from exporting products, including petroleum, into their territories. Paragraph 6 of resolution 661 established a sanctions committee to report to the Security Council on states' compliance with the sanctions and to recommend actions regarding effective implementation. As early as June 1996, the Maritime Interception Force, a naval force of coalition partners including the United States and Great Britain, informed the sanctions committee that oil was being smuggled out of Iraq through Iranian territorial waters. In December 1996, Iran acknowledged the smuggling and reported that it had taken action. In October 1997, the sanctions committee was again

[6] U.N. Security Council Res. 1483 (May 22, 2003). Paragraph 19 states that a Security Council committee will identify individuals and entities whose financial assets should be transferred to the Development Fund for Iraq.

[7] The U.N. Board of Auditors is comprised of the Auditors General of three member countries and their staff. Board members are appointed by the General Assembly for 6-year terms and one member rotates every 2 years. During the period of the Oil for Food program (1996-2003), France, Ghana, India, the Philippines, South Africa, and the United Kingdom served on the Board of Auditors.

informed about smuggling through Iranian waters. According to multiple sources, oil smuggling also occurred through Jordan, Turkey, Syria, and the Gulf. Smuggling was a major source of illicit revenue for the former Iraqi regime through 2002.

A primary function of the sanctions committee was to review and approve contracts for items that could be used for military purposes. The United States conducted the most thorough review; about 60 U.S. government technical experts assessed each item in a contract to determine its potential military application. According to U.N. Secretariat data in 2002, the United States was responsible for about 90 percent of the holds placed on goods to be exported to Iraq. As of April 2002, about $5.1 billion worth of goods were being held for shipment to Iraq. According to OIP, no contracts were held solely on the basis of price.

Under Security Council resolution 986 of 1995, and its implementing procedures, the sanctions committee was responsible for approving Iraq's oil contracts, particularly to ensure that the contract price was fair, and for approving Iraq's commodity contracts. The U.N.'s oil overseers reported in November 2000 that the oil prices proposed by Iraq appeared low and did not reflect the fair market value. [8] According to a senior OIP official, the independent oil overseers also reported in December 2000 that purchasers of Iraqi oil had been asked to pay surcharges. In March 2001, the United States informed the sanctions committee about allegations that Iraqi government officials were receiving illegal surcharges on oil contracts and illicit commissions on commodity contracts. The sanctions committee attempted to address these allegations by implementing retroactive pricing for oil contracts in 2001.[9]

It is unclear what actions the sanctions committee took to respond to illicit commissions on commodity contracts. Due to increasing concern about the humanitarian situation in Iraq and pressure to expedite the review process, the Security Council passed resolution 1284 in December 1999 to direct the sanctions committee to accelerate the review process. Under fast-track procedures, the sanctions committee allowed OIP to approve contracts for food, medical supplies, and agricultural equipment (beginning in March 2000), water treatment and sanitation (August 2000), housing (February 2001), and electricity supplies (May 2001).

ISSUES FOR FURTHER INVESTIGATION AND THE STATUS OF CURRENT EFFORTS

A number of investigations and audits of the Oil for Food program are under way. These efforts may wish to further examine how the structure of the program enabled the Iraqi government to obtain illegal revenues, the role of member states in monitoring and enforcing the sanctions, actions taken to reduce oil smuggling, and the responsibilities and procedures for assessing price reasonableness in commodity contracts. Current or planned efforts include an inquiry initiated by the United Nations, an investigation and audit overseen by the Iraqi Board of Supreme Audit, and efforts undertaken by several U.S. congressional committees.

Issues for Further Investigation and Analysis

Ongoing and planned investigations of the Oil for Food program provide an opportunity to better quantify the extent of corruption, determine the adequacy of internal controls, and identify ways to improve future humanitarian assistance programs conducted within an economic sanctions framework. Based on our work, we identified several areas that warrant further analysis.

Size and Structure of the Oil for Food Program

The scope of the Oil for Food program was extensive. The United Nations attempted to oversee a $67 billion program providing humanitarian and other assistance in 24 sectors to a country with 24 million people and borders 3,500 kilometers long.

When the program was first proposed in 1991, the Secretary General considered having either the United Nations, an independent agent, or the Iraqi government negotiate oil and commodity contracts. The Secretary General concluded that the first two options were impractical and proposed that Iraq would negotiate the contracts and U.N. staff would work at Iraq's oil ministry to ensure compliance. The final MOU between the Iraqi government and the United Nations granted control of contract negotiations to Iraq in recognition of its sovereignty.

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[8] The sanctions committee received reports from the independent oil experts appointed by the Secretary General to determine whether there was fraud or deception in the oil contracting process.

[9] Under retroactive pricing, the Security Council did not approve a price per barrel until the oil was delivered to the refinery. The Iraq government signed contracts with suppliers without knowing the price it would have to pay until delivery.

Investigations of the Oil for Food program should consider examining how the size and structure of the Oil for Food program enabled the Iraqi government to obtain illegal revenues through illicit surcharges and commissions.

Role of Member States in Oversight

Under Security Council resolutions, all member states were responsible for enforcing the sanctions and the United Nations depended on states bordering Iraq to deter smuggling. National companies were required to register with their respective permanent missions to the United Nations prior to direct negotiations with the Iraqi government, but it is unclear what criteria the missions used to assess the qualifications of their companies. Issues that warrant further analysis include the role of member states in monitoring and enforcing the sanctions and the criteria countries used in registering national oil purchasers and commodity suppliers.

Prior to the imposition of sanctions, Turkey was one of Iraq's major trading partners. Total trade between the two countries was valued at $3 billion per year, and Turkey received about $1 billion each year by trucking goods to Iraq from Turkish ports. Jordan had also been a top trading partner; in 2001, it was the fifth largest exporter to Iraq and was the ninth largest importer of Iraqi commodities.

Jordan and Iraq had annual trade protocols during the U.N. sanctions that allowed Iraq to sell heavily discounted oil to Jordan in exchange for up to $300 million in Jordanian goods. The sanctions committee noted the existence of the protocol but took no action. From November 2000 to March 2003, Iraq exported up to 200,000 barrels per day of oil through a Syrian pipeline in violation of UN sanctions. It is unclear what actions the sanctions committee or the United States took to stop the illegal exporting of Iraqi oil to Syria.

Investigations should considering examining any actions that were taken to reduce Iraqi oil smuggling as well as the factors that may have precluded the sanctions committee from taking action.

Assessing the Reasonableness of Contract Pricing

While sanctions committee procedures stated that the Secretariat was to examine each contract for price and value, OIP officials stated that no U.N. resolution tasked them with assessing the price reasonableness of the contracts. Although the sanctions committee was responsible for approving commodity contracts, it primarily screened contracts to prevent the purchases of items with potential military uses.

In December 1999, U.N. Security Council resolution 1284 directed the sanctions committee to accelerate approval procedures for goods no longer subject to sanctions committee review, including food and equipment and supplies to support the health, agricultural, water treatment and sanitation, housing, and electricity sectors.

It is unclear where the roles and responsibilities for assessing price reasonableness rested. Audits and other inquiries should determine which entities assessed the reasonableness of prices for commodity contracts that were negotiated between the Iraqi government and suppliers and what actions were taken on contracts with questionable pricing. These efforts should also examine how prices for commodities were assessed for reasonableness under fast-track procedures.

Other Issues of Consideration

Much of the information on surcharges on oil sales and illicit commissions on commodity contracts is with the ministries in Baghdad and national purchasers and suppliers. We did not have access to this data to verify the various allegations of corruption associated with these transactions. Subsequent investigations of the Oil for Food program should include a statistical sampling of these transactions to more accurately document the extent of corruption and the identities of companies and countries that engaged in illicit transactions. This information would provide a basis for restoring those assets to the Iraqi government.

Subsequent evaluations and audits should also consider an analysis of the lessons learned from the Oil for Food program and how future humanitarian programs of this nature should be structured to ensure that funds are spent on intended beneficiaries and projects. For example, analysts may wish to review the codes of conduct developed for the CPA's Oil for Food former coordination center and suppliers. In addition, U.N. specialized agencies implemented the program in the northern governorates while the program in central and southern Iraq was run by the central government in Baghdad. A comparison of these two approaches could provide insight on the extent to which the operations were transparent and the program delivered goods and services to the Iraqi people.

The history of inadequate oversight and corruption in the Oil for Food program also raises questions about the Iraqi government's ability to manage the import and distribution of Oil for Food commodities and the billions in international assistance expected to flow into the country. Iraqi ministries must address corruption in the

Oil for Food program to help ensure that the remaining contracts are managed with transparent and accountable controls. Building these internal control and accountability measures into the operations of Iraqi ministries will also help safeguard the $18.4 billion in fiscal year 2004 U.S. reconstruction funds and the nearly $14 billion pledged by other countries.

Status of Investigations

Several investigations into the Oil for Food program are under way. In April 2004, a U.N. inquiry was announced to examine allegations of corruption and misconduct within the United Nations Oil for Food program and its overall management of the humanitarian program. In addition, Iraq's Board of Supreme Audit contracted with the accounting firm Ernst & Young to conduct an investigation of the program. Several U.S. congressional committees have also begun inquiries into U.N. management of the Oil for Food program and U.S. oversight through its role on the sanctions committee.

Independent Inquiry Committee

The Independent Inquiry Committee, under the direction of former Federal Reserve Chairman Paul Volcker, began on April 21, 2004, with a U.N. Security Council resolution supporting the inquiry and the appointment of two additional high-level officials to oversee the investigation. On June 15, 2004, the Committee announced the appointment of its senior staff and the recruitment of additional staff, including attorneys, investigators, and accountants. The Committee plans to issue an interim report in the summer of 2004, followed by a final report in early 2005.

According to the terms of reference, this investigation will 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 U.N. staff and those entities that had contracts with the United Nations or the Iraqi government. The Committee intends to determine whether (1) procedures for processing and approving contracts, monitoring oil sales and deliveries, and purchasing and delivering humanitarian goods were violated; (2) U.N. officials, staff, or contractors engaged in illicit or corrupt activities; and (3) program accounts were maintained in accordance with U.N. financial regulations.

The Independent Inquiry Committee, the Iraqi Board of Supreme Audit, and the CPA signed a memorandum of understanding to facilitate the Committee's access to Oil for Food documents in Iraq.[10] As part of its contract with the Iraqi Board of Supreme Audit to audit the Oil for Food program, the international accounting firm Ernst & Young is to identify and organize Iraqi records related to the Oil for Food program.

Iraqi Board of Supreme Audit

In March 2004, the CPA authorized the Iraqi Board of Supreme Audit to conduct a full and independent audit, investigation, and accounting of the Oil for Food program and the disposition of Iraqi assets associated with the program. As of May 19, 2004, the CPA had authorized the expenditure of $20 million for this purpose, and the Board contracted with Ernst & Young to carry out the investigation. The Board is to release a final report to the interim Iraqi government and to the public with specific findings and recommendations. The CPA expected the report to address (1) the manner in which the program may or may not have been mismanaged, (2) the disposition of Iraqi contracts and assets on the program, (3) identification of individuals who may have benefited through improper disposition of program contracts and assets, (4) the current location and status of Iraqi assets that may have been diverted and recommendations on recovering these assets, and (5) possible criminal offenses.

Congressional Investigations

Several U.S. congressional committees and subcommittees are also in various stages of examining the Oil for Food program. In May 2004, the Senate Committee on Governmental Affairs, Permanent Subcommittee on Investigations, announced an investigation to examine allegations of improper conduct and whether such conduct may have negatively affected U.S. interests. The Subcommittee is particularly interested in the extent to which any misconduct took place within the United States and the involvement of U.S. citizens, residents, or businesses. In addition, the House International Relations Committee and the Subcommittee on National Security, Emerging Threats, and International Relations, House Committee on Government Reform, are investigating allegations of misconduct. Along with the Senate

[10] The Independent Inquiry Committee signed the agreement on May 26, 2004; the Iraqi Board of Supreme Audit and the CPA signed it on June 6 and June 15, 2004, respectively.

Permanent Subcommittee on Investigations and the Senate Committee on Foreign Relations, they have requested program documents from the State Department and United Nations.

Mr. Chairman and Members of the Committee, this concludes my prepared statement. I will be happy to answer any questions you may have.

For questions regarding this testimony, please call Joseph Christoff at (202) 512-8979. Other key contributors to this statement were Monica Brym, Tetsuo Miyabara, Audrey Solis, and Phillip Thomas.

APPENDIX I: SCOPE AND METHODOLOGY

We used the following methodology to estimate the former Iraqi regime's illicit revenues from oil smuggling, surcharges on oil, and commissions from commodity contracts from 1997 through 2002:

- To estimate the amount of oil the Iraqi regime smuggled, we used Energy Information Administration (EIA) estimates of Iraqi oil production and subtracted oil sold under the Oil for Food program and domestic consumption. The remaining oil was smuggled through Turkey, the Persian Gulf, Jordan, and Syria (oil smuggling to Syria began late 2000). We estimated the amount of oil to each destination based on information from and discussions with officials of EIA, Cambridge Energy Research Associates, the Middle East Economic Survey, and the private consulting firm Petroleum Finance.
- We used the price of oil sold to estimate the proceeds from smuggled oil. We discounted the price by 9 percent for the difference in quality. We discounted this price by 67 percent for smuggling to Jordan and by 33 percent for smuggling through Turkey, the Persian Gulf, and Syria. According to oil industry experts, this is representative of the prices paid for smuggled oil.
- To estimate the amount Iraq earned from surcharges on oil, we multiplied the barrels of oil sold under the Oil for Food program from 1997 through 2002 by 25 cents per barrel. According to Security Council members, the surcharge varied, but Iraq tried to get as much as 50 cents per barrel. Industry experts also stated the surcharge varied.
- To estimate the commission from commodities, we multiplied Iraq's letters of credit for commodity purchases by 5 percent for 1997 through 1998 and 10 percent for 1999 through 2002. According to Security Council members, the commission varied from 5 percent to 10 percent. This percentage was also confirmed in interviews conducted by U.S. officials with former Iraqi regime ministers of oil, finance, and trade and with Sadaam Hussein's presidential advisors.GAO did not obtain source documents and records from the former regime about

its smuggling, surcharges, and commissions. Our estimate of illicit revenues is therefore not a precise accounting number. Areas of uncertainty in our estimate include:

- GAO's estimate of the revenue from smuggled oil is less than the estimates of U.S. intelligence agencies. We used estimates of Iraqi oil production and domestic consumption for our calculations. U.S. intelligence agencies used other methods to estimate smuggling.
- GAO's estimate of revenue from oil surcharges is based on a surcharge of 25 cents per barrel from 1997 through 2002. However, the average surcharge could be lower. U.N. Security Council members and oil industry sources do not know when the surcharge began or ended or the precise amount of the surcharge. One oil industry expert stated that the surcharge was imposed at the beginning of the program but that the amount varied. Security Council members and the U.S. Treasury Department reported that surcharges ranged from 10 cents to 50 cents per barrel. As a test of reasonableness, GAO compared the price paid for oil under the Oil for Food program with a proxy oil price for the period 1997 through 2002. We found that for the entire period, the price of Iraqi oil was considerably below the proxy price. Oil purchasers would have to pay below market price to have a margin to pay the surcharge.
- GAO's estimate of the commission on commodities could be understated. We calculated commissions based on the commodity contracts for the 15 governorates in central and southern Iraq (known as the "59-percent account" because these governorates received this percentage of Oil for Food revenues). We excluded contracts for the three northern governorates (known as the "13-percent account"). However, the former Iraqi regime negotiated the food and medical contracts for the northern governorates, and the Defense Contract Audit Agency found that some of these contracts were potentially overpriced. The Defense Contract Audit Agency also found extra fees of between 10 and 20 percent on some contracts.

Appendix II: Timeline of Major Events Related to Sanctions Against Iraq and the Administration of the Oil for Food Program

Date	Event/Action	Summary
Aug. 2, 1990 ...	U.N. Security Council Resolution 660.	Iraqi forces invaded Kuwait. Resolution 660 condemned the invasion and demands immediate withdrawal from Kuwait.
Aug. 6, 1990 ...	U.N. Security Council Resolution 661.	Imposed economic sanctions against the Republic of Iraq. The resolution called for member states to prevent all commodity imports from Iraq and exports to Iraq, with the exception of supplies intended strictly for medical purposes and, in humanitarian circumstances, foodstuffs.
Aug. 6, 1990 ...	Operation Desert Shield	President Bush ordered the deployment of thousands of U.S. forces to Saudi Arabia.
Nov. 5, 1990 ...	U.S. legislation	Public Law 101-513, § 586C, prohibited the import of products from Iraq into the United States and the export of U.S. products to Iraq.
Jan. 12, 1991 ..	U.S. legislation	Iraq War Powers Resolution authorized the president to use ''all necessary means'' to compel Iraq to withdraw military forces from Kuwait.
Jan. 16, 1991 ..	Operation Desert Storm	Operation Desert Storm was launched: coalition operation was targeted to force Iraq to withdraw from Kuwait.
Feb. 28, 1991	Gulf War cease-fire	Iraq announced acceptance of all relevant U.N. Security Council resolutions.
Apr. 3, 1991	U.N. Security Council Resolution 687 (Cease-Fire Resolution).	Mandated that Iraq must respect the sovereignty of Kuwait and declare and destroy all ballistic missiles with a range of more than 150 kilometers as well as all weapons of mass destruction and production facilities.
Jun. 17, 1991 ..	Creation of U.N. Special Commission.	The U.N. Special Commission (UNSCOM) was charged with monitoring Iraqi disarmament as mandated by U.N. resolutions and to assist the International Atomic Energy Agency in nuclear monitoring efforts.
Aug. 15, 1991	U.N. Security Council Resolution 706.	Proposed the creation of an Oil for Food program and authorized an escrow account to be established by the Secretary General. Iraq rejected the terms of this resolution.
Sep. 19, 1991	U.N. Security Council Resolution 712.	Second attempt to create an Oil for Food program. Iraq rejected the terms of this resolution.
Oct. 2, 1992	U.N. Security Council Resolution 778.	Authorized transferring money produced by any Iraqi oil transaction on or after August 6, 1990, which had been deposited into the escrow account, to the states or accounts concerned as long as the oil exports took place or until sanctions were lifted.
Apr. 14, 1995 ..	U.N. Security Council Resolution 986.	Allowed Iraq to sell $1 billion worth of oil every 90 days. Proceeds were to be used to procure foodstuffs, medicine, and material and supplies for essential civilian needs. Resolution 986 was supplemented by several U.N. resolutions over the next 7 years that extended the Oil for Food program for different periods of time and increased the amount of exported oil and imported humanitarian goods.
Mar. 27, 1996	U.N. Security Council Resolution 1051.	Established the export and import monitoring system for Iraq.
May 20, 1996 ..	Government of Iraq and the United Nations.	Signed a memorandum of understanding allowing Iraq's export of oil to pay for food, medicine, and essential civilian supplies.
Jun. 17, 1996 ..	United States	Based on information provided by the Multinational Interception Force (MIF), communicated concerns about alleged smuggling of Iraqi petroleum products through Iranian territorial waters in violation of resolution 661 to the Security Council sanctions committee.
Jul. 9, 1996	U.N. Security Council Sanctions Committee.	Committee members asked the United States for more factual information about smuggling allegations, including the final destination and the nationality of the vessels involved.
Aug. 28, 1996	U.S. delegation to the U.N. Security Council Sanctions Committee.	Provided briefing on the Iraqi oil smuggling allegations to the sanctions committee.
Dec. 3, 1996 ...	Islamic Republic of Iran Permanent Representative to the United Nations.	Acknowledged that some vessels carrying illegal goods and oil to and from Iraq had been using the Iranian flag and territorial waters without authorization and that Iranian authorities had confiscated forged documents and manifests. Representative agreed to provide the results of the investigations to the sanctions committee once they were available.

Appendix II: Timeline of Major Events Related to Sanctions Against Iraq and the Administration of the Oil for Food Program—Continued

Date	Event/Action	Summary
Dec. 10, 1996	Iraq and the United Nations	Phase I of the Oil for Food program began.
Jun. 4, 1997	U.N. Security Council Resolution 1111.	Extended the term of resolution 986 another 180 days (phase II).
Sep. 12, 1997	U.N. Security Council Resolution 1129.	Authorized special provision to allow Iraq to sell petroleum in a more favorable time frame.
Oct. 8, 1997	Representatives of the United Kingdom of Great Britain and Northern Ireland to the United Nations.	Brought the issue of Iraqi smuggling petroleum products through Iranian territorial waters to the attention of the U.N. Security Council sanctions committee.
Nov. 18, 1997	Coordinator of the Multinational Interception Force (MIF).	Reported to the U.N. Security Council sanctions committee that since February 1997 there had been a dramatic increase in the number of ships smuggling petroleum from Iraq inside Iranian territorial waters.
Dec. 4, 1997 ...	U.N. Security Council Resolution 1143.	Extended the Oil for Food program another 180 days (phase III).
Feb. 20, 1998	U.N. Security Council Resolution 1153.	Raised Iraq's export ceiling of oil to about $5.3 billion per 6-month phase (phase IV).
Mar. 25, 1998	U.N. Security Council Resolution 1158.	Permitted Iraq to export additional oil in the 90 days from March 5, 1998, to compensate for delayed resumption of oil production and reduced oil price.
Jun. 19, 1998 ..	U.N. Security Council Resolution 1175.	Authorized Iraq to buy $300 million worth of oil spare parts to reach the export ceiling of about $5.3 billion.
Aug. 14, 1998	U.S. legislation	Public Law 105-235, a joint resolution finding Iraq in unacceptable and material breach of its international obligations.
Oct. 31, 1998 ..	U.S. legislation: Iraq Liberation Act.	Public Law 105-338, § 4, authorized the president to provide assistance to Iraqi democratic opposition organizations.
Oct. 31, 1998 ..	Iraqi termination of U.N. Special Commission (UNSCOM) Activity.	Iraq announced it would terminate all forms of interaction with UNSCOM and that it would halt all UNSCOM activity inside Iraq.
Nov. 24, 1998	U.N. Security Council Resolution 1210.	Renewed the Oil for Food program for 6 months beyond November 26 at the higher levels established by resolution 1153. The resolution included additional oil spare parts (phase V).
Dec. 16, 1998	Operation Desert Fox	Following Iraq's recurrent blocking of U.N. weapons inspectors, President Clinton ordered 4 days of air strikes against military and security targets in Iraq that contribute to Iraq's ability to produce, store, and maintain weapons of mass destruction and potential delivery systems.
Mar. 3, 1999 ...	President Clinton Report to Congress.	President Clinton provided the status of efforts to obtain Iraq's compliance with U.N. Security Council resolutions. He discussed the MIF report of oil smuggling out of Iraq and smuggling of other prohibited items into Iraq.
May 21, 1999 ..	U.N. Security Council Resolution 1242.	Renewed the Oil for Food program another 6 months (phase VI).
Oct. 4, 1999	U.N. Security Council Resolution 1266.	Permitted Iraq to export an additional amount of $3.04 billion of oil to make up for revenue deficits in phases IV and V.
Nov. 19, 1999	U.N. Security Council Resolution 1275.	Extended phase VI of the Oil for Food program for 2 weeks until December 4, 1999.
Dec. 3, 1999 ...	U.N. Security Council Resolution 1280.	Extended phase VI of the Oil for Food program for 1 week until December 11, 1999.
Dec. 10, 1999	U.N. Security Council Resolution 1281.	Renewed the Oil for Food program another 6 months (phase VII).
Dec. 17, 1999	U.N. Security Council Resolution 1284.	Abolished Iraq's export ceiling to purchase civilian goods. Eased restrictions on the flow of civilian goods to Iraq and streamlined the approval process for some oil industry spare parts. Also established the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC).
Mar. 31, 2000	U.N. Security Council Resolution 1293.	Increased oil spare parts allocation from $300 million to $600 million under phases VI and VII.
Jun. 8, 2000	U.N. Security Council Resolution 1302.	Renewed the Oil for Food program another 180 days until December 5, 2000 (phase VIII).
Dec. 5, 2000 ...	U.N. Security Council Resolution 1330.	Extended the Oil for Food program another 180 days (phase IX).

Appendix II: Timeline of Major Events Related to Sanctions Against Iraq and the Administration of the Oil for Food Program—Continued

Date	Event/Action	Summary
Mar. 8, 2001 ...	Deputy U.S. Representative to the United Nations Remarks to the Security Council.	Ambassador Cunningham acknowledged Iraq's illegal re-export of humanitarian supplies, oil smuggling, establishment of front companies, and payment of kickbacks to manipulate and gain from Oil for Food contracts. Also acknowledged that the United States had put holds on hundreds of Oil for Food contracts that posed dual-use concerns.
Mar. 8, 2001 ...	Acting U.S. Representative to the United Nations Remarks to the Security Council.	Ambassador Cunningham addressed questions regarding allegations of surcharges on oil and smuggling. Acknowledged that oil industry representatives and other Security Council members provided the United States anecdotal information about Iraqi surcharges on oil sales. Also acknowledged companies claiming they were asked to pay commissions on contracts.
Jun. 1, 2001	U.N. Security Council Resolution 1352.	Extended the terms of resolution 1330 (phase IX) another 30 days.
Jul. 3, 2001	U.N. Security Council Resolution 1360.	Renewed the Oil for Food program an additional 150 days until November 30, 2001 (phase X).
Nov. 29, 2001	U.N. Security Council Resolution 1382.	The resolution stipulated that a new Goods Review List would be adopted and that relevant procedures would be subject to refinement. Renewed the Oil for Food program another 180 days (phase XI).
May 14, 2002 ..	U.N. Security Council Resolution 1409.	UNMOVIC reviewed export contracts to ensure that they contain no items on a designated list of dual-use items known as the Goods Review List. The resolution also extended the program another 180 days (phase XII).
Nov. 6, 2002 ...	U.N. Security Council Sanctions Committee.	MIF reported that there had been a significant reduction in illegal oil exports from Iraq by sea over the past year but noted oil smuggling was continuing.
Nov. 25, 2002	U.N. Security Council Resolution 1443.	Extended phase XII of the Oil for Food program another 9 days.
Dec. 4, 2002 ...	U.N. Security Council Resolution 1447.	Renewed the Oil for Food program another 180 days until June 3, 2003 (phase XIII).
Dec. 30, 2002	U.N. Security Council Resolution 1454.	Approved changes to the list of goods subject to review by the sanctions committee.
Mar. 12, 2003	U.N. Security Council Sanctions Committee.	Chairman reported on a number of alleged sanctions violations noted by letters from several countries and the media from February to November 2002. Alleged incidents involved Syria, India, Liberia, Jordan, Belarus, Switzerland, Lebanon, Ukraine, and the United Arab Emirates.
Mar. 19, 2003	Operation Iraqi Freedom	Operation Iraqi Freedom is launched. Coalition operation led by the United States initiated hostilities in Iraq.
Mar. 28, 2003	U.N. Security Council Resolution 1472.	Adjusted the Oil for Food program and gave the Secretary General authority for 45 days to facilitate the delivery and receipt of goods contracted by the Government of Iraq for the humanitarian needs of its people.
Apr. 16, 2003 ..	U.S. legislation	Public Law 108-11, § 1503, authorized the President to suspend the application of any provision of the Iraq Sanctions Act of 1990.
Apr. 24, 2003 ..	U.N. Security Council Resolution 1476.	Extended provisions of resolution 1472 until June 3, 2003.
May 1, 2003	Operation Iraqi Freedom	End of major combat operations and beginning of post-war rebuilding efforts.
May 22, 2003 ..	U.N. Security Council Resolution 1483.	Lifted civilian sanctions on Iraq and provided for the end of the Oil for Food program within 6 months, transferring responsibility for the administration of any remaining program activities to the Coalition Provisional Authority (CPA).
Nov. 21, 2003	U.N. Secretary General	Transferred administration of the Oil for Food program to the CPA.
Mar.19, 2004 ..	U.N. Secretary General	Responded to allegations of fraud by U.N. officials that were involved in the administration of the Oil for Food program.
Mar. 25, 2004	U.N. Secretary General	Proposed that a special investigation be conducted by an independent panel.
April 21, 2004	U.N. Security Council Resolution 1538.	Supported the appointment of the independent high-level inquiry and called upon the CPA, Iraq, and member states to cooperated fully with the inquiry.

Appendix II: Timeline of Major Events Related to Sanctions Against Iraq and the Administration of the Oil for Food Program—Continued

Date	Event/Action	Summary
June 28, 2004	CPA and Government of Iraq	The CPA transferred power to the interim Iraqi government.

Mr. HALL. I thank you, and we will have some questions for you. The Chair recognizes Ms. Rosett for 5 minutes.

STATEMENT OF CLAUDIA ROSETT

Ms. ROSETT. I think this is the U.N. mike. Is that working?

Mr. HALL. You have repaired it.

Ms. ROSETT. Good. And good morning, Mr. Chairman, ranking member, good morning, everybody. Thank you very much for the chance to testify here today.

I was trying to total up the number of investigations yesterday evening, and it was—because it has reached the point where it would be funny were it not so serious. I think we have at least nine here. There are various others in some other countries, and private investigations. The thing that keeps jumping out at me, though, is where are we? Where are the answers? Where are the insights? Where are the remedies at this point? And as I tried to explain in my written statement, a great deal of what we keep going over in somewhat more details deals with things that we were aware of in general outline a year ago, 2 years ago, in your earlier hearings.

The problem over and over is actually getting at the specifics, looking at and understanding this particular scandal, and it sort of leads me to basically one message I want to bring here today. This entire problem every time you approach it turns into a giant document hunt. We have watched people chasing papers in Baghdad, in New York, and much of this involves documents that should have been readily accessible from the beginning. The United Nations—I am not even speaking here of the secret side deals, of the "Dear Uday" where the people signed, and I have seen such a document, on the actual kickbacks. But the mainstream documents relating to the program, those elusive internal audits that everybody has been after that the U.N. would not release to Congress, any detailed accounting of interest on the bank accounts, precise amounts in the accounts, what happened to some $4 billion owed to the Kurds, how precisely the U.N. spent the $1.9 billion it collected in its 3 percent commissions.

And, actually there is something that I have been debating whether to mention, but I think I should. In discussing the palaces, the weapons, the salon, there is an arithmetic identity here that everybody keeps overlooking. Iraq's government under Saddam had no source of income other than Oil For Food. There was no tax system. There was no other source of income except oil. Under the U.N. arrangement all oil was supposed to go through the U.N. program. Therefore, anything basically that got funded, the military, the ministries, it was either illicit or went through the U.N.

Who hasn't noticed this? I am not sure why this doesn't figure in the discussions, but it would seem to be a very strangely concocted program that we had, and the assumptions that went with

it, that this was simply the way it should operate, become stranger and stranger as you see more about how this whole thing worked.

What I would like to suggest here is had the information involved in the program been made routinely available to the public—I am talking about things here like the contracts—there would be a lot less need for investigation right now. You would have seen things at the time that would have alerted all of us that there were real problems.

And what I would just like to suggest is we have all been playing by the U.N. rule book, which imposes absurd and self-serving levels of secrecy. Does it strike no one here as strange, for instance, that the United Nations report clearing Kojo Annan, the son of the Secretary General, of any wrongdoing via the inspections from Cotecna hired by the United Nations, that this report was done by an employee of Kofi Annan, Joseph Conner? And apart from a convenient leak to produce a sympathetic article in the New York Times, it has remained the confidential property of the United Nations.

I called and asked for it. I couldn't get it. There is no reason they shouldn't disclose that kind of information. There is no reason they shouldn't disclose it now. We have had a situation where they didn't disclose it as a matter of habit, policy, custom, nobody made them, during the program. Then they sent hush letters out in April, reminding crucial contractors hired by the Secretariat not to talk, and now we are not supposed to have access to this information because there are investigations underway. I would just suggest with these investigations, trust but verify; and if there is one thing you can usefully do—there is no reason in trying to get the U.N. to cooperate—to look at the larger picture of what would actually fix these problems before they arise and look at ways to get the U.N. to release normal documentation to the world to account for what it does, to actually let anyone who wants to see what is going on inside these programs, how to look at the paperwork. This does not compromise savory activities. That is my basic recommendation.

I would just like to add one other thing on the matter of the CPA versus the U.N. and what should be investigated. I would suggest that where the U.S. has been mainly at fault in this program was in allowing the U.N. to do what it did, was in going along with the way the U.N. functioned; and where the CPA has been mainly at fault was in simply taking on a lot of what it inherited and not simply scrapping this entirely badly conceived program when we came in.

Out of this come various problems, but I would suggest that the two inquiries are probably somewhat separate matters and that in inquiring into whatever the United Nations did, it would be a shame to divert focus from this enormous problem, affecting the entire world community, and turn it into yet another thing where we look mainly at the United States. This was not mainly about the United States. This was about a failing international institution which needs to see daylight if it is going to function well.

I thank you and would welcome your questions.

[The prepared statement of Claudia Rosett follows:]

PREPARED STATEMENT OF CLAUDIA ROSETT, JOURNALIST-IN-RESIDENCE, THE FOUNDATION FOR THE DEFENSE OF DEMOCRACIES, ADJUNCT FELLOW, THE HUDSON INSTITUTE

Mr. Chairman, distinguished members of the Committee, thank you for the opportunity to testify here today.

In the long, secretive and unfortunately sordid saga of the United Nations Oil-for-Food program, we have arrived at an important juncture. Not only is Oil-for-Food finally under investigation; by some counts it is now the subject of at least eight or nine investigations—and that's before we even get to the private inquiries and media coverage. Given that UN Secretary-General Kofi Annan in wrapping up the UN's role in Oil-for-Food last November was content simply to praise the program and close the books—with no investigation whatsoever—this is progress.

Certainly Oil-for-Food needs investigating, for three basic reasons:

1) To bring to account any individuals who profited illicitly—and cynically—to the collective tune of billions filched from what was supposed to be a relief program for the tyrannized and impoverished people of Iraq.
2) To trace, and return, as far as possible, funds illicitly diverted from the program. There are reasons to be concerned that these funds not only went to pay for Saddam's lavish lifestyle (Oil-for-Palaces), but that significant amounts may been directed toward corrupting the UN's own debates over Iraq (Oil-for-Influence), as well as—quite possibly—to terrorists-linked enterprises, or even to terrorist groups. This last item (Oil-for-Terror), may still be a menace. The bulk of Saddam's ill-gotten gains remain unaccounted for, at least in our books.
3) To explore and remedy the basic flaws in the UN setup and system that not only allowed the corruption of Oil-for-Food, but in some ways positively invited and even encouraged it—and if not remedied are highly likely to do so again. The transgressions here against honesty and common sense have been particularly egregious, with perverse incentives and UN secrecy combining in this instance to enable fraud and theft totaling at least $10 billion, carried out in a manner that helped shore up the totalitarian government of Saddam Hussein while quite probably corrupting a significant array of political figures and businessmen worldwide. But the basic problems that allowed a UN program to be thus warped did not in fact reside solely in Saddam's regime, and they will not be fixed solely by addressing specific instances of misconduct that may come to light regarding Oil-for-Food.

To understand the deeper problem, and to grasp why we are only now seeing investigations begun—well over a year after the fall of Saddam, and almost eight months after the official end of the UN's role in Oil-for-Food—it helps to note that getting straightforward answers from the UN about specifics of the program, or fixing its most glaring faults, has been at almost every turn quite oddly difficult. Not that the basic contours of the huge flaws that bedeviled Oil-for-Food are much of a mystery. In reports, press accounts and hearings going back years at this point, the fraudulent outlines of Oil-for-Food have been much explained already. On May 14, 2003, for example, the House Committee on Energy and Commerce held a hearing on Oil-for-Food at which there was reference to Treasury's findings—even then—of Saddam's success in "skimming and kickbacks on oil legitimately sold through the Oil-for-Food program." There was also reference—and I would again note that this was more than a year ago—to Iraq awarding Oil-for-Food contracts to "potentially sympathetic members of the UN Security Council, primarily Russia, France and China." Nor was it news even then that the political tilt to UN-approved relief contracts often led to the Iraqi people, the intended beneficiaries of all those billions, receiving substandard rations, including rotten medicines.

I cite that hearing as merely one example of how much we have already known for some time about the corruption of the Oil-for-Food program. There were reports from Reuters as far back as 2000 on the oil-sale kickback schemes; there were congressional rumblings, and complaints from contractors to the executive director of Oil-for-Food, Benon Sevan. There was abundant anecdotal evidence, which should have been obvious to the more than 800 UN international monitors on the ground in Iraq. Massive corruption within the program should also have been obvious to Oil-for-Food's Executive Director, Benon Sevan, who dealt directly with the Iraqis, and to Mr. Annan, who devoted considerable attention to Oil-for-Food — initially, as Under-Secretary General, negotiating the terms under which the oil would be sold, and then, as Secretary-General, signing off on Saddam's distribution plans urging the expansion of the program, and overseeing the Secretariat's use of its 2.2% commission on Saddam's oil revenues to cover UN costs.

There was an excellent, lengthy and detailed study published back in September, 2002, by the Coalition for International Justice, chronicling "Sources of Revenue for

Saddam & Sons," which focused heavily on Oil-for-Food and the accompanying sanctions-busting smuggling of oil from Iraq. (The UN has tried to disown the smuggling as outside the control of the Oil-for-Food program. But it was the oil-industry equipment approved, supplied and monitored via Oil-for-Food that allowed for the production of the extra oil that Saddam then smuggled out under the UN's nose).

And there were the astounding lists of contractors selected by Saddam, approved and kept confidential by the UN. Among the supposed end-users authorized to buy oil, for example, were some 75 companies in the oil-rich United Arab Emirates, 65 in Switzerland, 45 in Cyprus, seven in Panama and four in Liechtenstein. Did anyone privy to these secret lists, either on the Security Council Sanctions Committee, or within the UN—from Mr. Annan on down—imagine that the world's financial havens were sopping up Iraqi oil contracts mainly for the purpose of local home heating?

I'll suggest an answer. The corruption was obvious. But to prove it in any particular instance, to seriously do something about it, someone had to be both willing and able to name names, to produce evidence, to question strongly enough—and publicly enough— the setup in which UN confidentiality and lack of accountability gave Saddam cover to steal at least $10 billion.

Those willing to speak up have not as a rule had access to much of the vital, specific evidence. Those with access have been by and large part of the UN system, and have been unwilling to step forward and spill the beans, at least in ways one can attribute. In some cases, the venal interests involved are on the scale of entire nations—France, Russia, China, Jordan, Syria and Egypt, for instance—milling Saddam's deals through their country missions with no apparent concern over the corruption involved. In others, such as the U.S. and U.K., backroom diplomacy seems to have outweighed the need to hold the UN to any reasonable standard of integrity—which is at best a perilous habit, bad for both the UN and the U.S. And, on a far more individual scale, there is great reluctance among UN employees to come forward, lest they lose their jobs and pensions in a system where one of the UN's own surveys found recently that 46% of the staff members fear reprisals for speaking up. The UN off-the-record is far too different a world from the UN as officially attributed; and while some gap must be expected with any institution, in the UN's case, it is extraordinarily large.

On this matter of whistle-blowing, while noting that the entire Security Council was complicit in covering up Oil-for-Food, I would add that it is the Secretary-General whose job rightfully requires that he rise above the particular interests of individual member states in order to protect the integrity of the UN as an institution. Not only did Mr. Annan fail, but he has simply declined to accept responsibility. Instead, he has kept senior members of his staff busy deflecting blame toward to the Security Council, where it then dissipates among the assorted member states. And having earlier this year denied that the Oil-for-Food needed investigating, Mr. Annan would now have us believe that the Secretariat was aware of serious problems all along, but did not dare confront the same Security Council to which he would now affix the blame.

Further complicating any inquiry is the sheer danger of peering too deeply into Oil-for-Food. The murder by car bomb in Baghdad last week of Ihsan Karim, who was in charge of the Iraqi end of the Oil-for-Food investigation, may have been coincidence. But the apparent extent of the bribes and kickbacks, the billions involved, the potential prosecutions should details truly begin to emerge in quantity, and the nature of some of Saddam's select UN-approved business partners, is daunting—on the basic level of physical safety.

Accompanying all this is the great and absurd document chase that has been going on for months now, if not years. I refer to charade in which the UN has continued to clutch to itself the kind of basic information about Oil-for-Food contracts that should have been available to the public all along. The best protection would always have been to maximize the program's transparency. The UN churned out plenty of information, and if you want to read about estimates of calories consumed and barrels of oil produced, you will not lack for tonnage. But on crucial financial details, there is still astoundingly little official information available to the public. The particulars of Saddam's deals were not released, for the reason that this was not how the UN chose to handle the program—which was no good reason at all. Then, as allegations mounted, nothing could be released—as the UN over Benon Sevan's signature reminded at least three contractors back in April—because a UN investigation was pending. Now, even less can be released because the UN investigation is underway. The U.S. administration has unfortunately compounded this secrecy by imposing similar rules on the extensive documentation found in Baghdad. That might all make more sense were we not being asked to trust in the investiga-

tive powers and determination of the same UN club that brought us Oil-for-Food in the first place.

Former Federal Reserve Chairman Paul Volcker, now heading the UN-authorized inquiry into Oil-for-Food, wrote in The Wall Street Journal yesterday that his committee "has the mandate, the international framework and, I believe, access to resources, both human and financial , to provide the kind of comprehensive fact-finding and analysis the investigation requires."

It does not seem extreme to suggest that we trust, but as far as possible, verify. Mr. Volcker has the UN mandate. But that is hardly where the public trust, or interest, ends. And while his UN-authorized inquiry may have access—thanks to UN rules not only current, but past— to documents that this Congress, or the public, cannot get, there are some highly valuable aims that to be served by other investigations. Not least, important policy involving the UN is being made even now; to suspend all inquiry, analysis or judgment for months, while awaiting the report of a late-in-the-day UN investigation, would be unwise.

Beyond that, it would help to put some markers out there, as to what kind of information we should expect from the UN's own investigations, and hope that others might elaborate upon. At a bare minimum, the public should receive from the UN investigation, with background documents that allow verification, full information about the dollar amounts, quantities of goods and specific contractors who were involved with Oil-for-Food. That would allow, for example, clear totals of the amount of business that went to such countries as Security Council members Russia, France and China—disclosing who did the deals, and on what precise terms. There is an enormous amount of local information within particular countries, or industries, that a centralized investigative team may not possess, and which cannot be brought to bear as a resource unless such details are disclosed.

The bills now surfacing in this Congress to withhold UN funding until the President certifies UN cooperation in the investigation are a good start. But that kind of pressure alone cannot begin to address the basic flaws. Even beyond the large shortcoming that the UN in "democratic" fashion offers votes to even the world's most undemocratic governments—thus lending itself more to the model of a club of rulers serving their own interests, not those of the populations they claim to represent—there are a number of immediate flaws that allowed the corruption of Oil-for-Food, and are now particularly well-placed to be explored and fixed.

If there is one message I can send today, it is that the basic flaw which might most easily be remedied is the UN's extreme lack of transparency. This includes basic financial and book-keeping information. And in the case of Oil-for-Food, it should have included full details of Saddam's deals—and I see no good reason why such information could not, even now, be released, not only to various investigative bodies now pounding on the UN's closed doors, but to the general public—the world public that the UN in theory exists to serve. Whatever custom may dictate, there is no good reason to keep such information confidential. The UN practice of secrecy in these matters invites graft, waste and abuse. Nor has the UN so far succeeded in offsetting that problem with assorted auditing arrangements. Oil-for-Food provides a vivid illustration of the problem. Despite Oil-for-Food having been, in the words of one UN spokesman, "audited to death"—and by the UN's own account, one of its most extensively audited programs, evidently neither the "external" not the internal audits served to expose enough of the major damage, at least not enough to stop it.

And while I would be glad to discuss details of specific investigations now underway, the most useful move at the moment might be to stop taking as a given the ground rules of continuing confidentiality on all fronts laid down by the UN, and require that the UN enlist not only its select panel of investigators to get to the bottom of the problem (asking us to trust that this time they really will) but also open its books so as to employ the resources of both specific information and general ingenuity so broadly available in the marketplace of ideas, and so necessary at this late date not only to piecing together the full picture on Oil-for-Food, but to reforming the UN itself. To be quite practical about it, if Oil-for-Food allowed Saddam to funnel money to murderers who may yet pose a danger to us all, it seems foolish to wait upon the ceremony of yet more UN confidentiality and self-investigation. They need all the help they can get. We do too.

Mr. HALL. Thank you.

Mr. Babbin, I recognize you for 5 minutes. I won't hold you to the exact seconds but let us hear from you.

STATEMENT OF JED BABBIN

Mr. BABBIN. Thank you, Mr. Chairman and members of the subcommittee. My name is Jed Babbin. I appreciate the opportunity to appear today.

I think we all have to recognize that none of us would probably be here but for the rather energetic reporting of Ms. Rosett, and I think much of what we know we know because of her reporting.

Today I wish to accomplish only two things, Mr. Chairman. The first is to raise some of the same concerns that have been raised by the other witnesses and by Mr. Flake about the various investigations into the Oil for Food program. Second, I wish to point out to the subcommittee some of the other and perhaps even more important aspects of U.N. corruption.

As I have documented in my book "Inside the Asylum," the U.N. Today is the handmaiden of terrorism, the errand boy of despots and dictators, and a diplomatic quagmire that is the antithesis of our policy to preempt terrorist attacks. The Oil for Food investigations right now seem to be competing, and I suggest to the committee that it is in our best interests and in the best interests of the Iraqi people to sort out that competition so that the investigations can be made best, most quickly, and pointed toward the recovery of the funds from whichever people have wrongly benefited from the bribes and embezzlement.

The U.N. asks that Congress and the American people subordinate their investigations to that of the United Nations. In fact, it should be the other way around. The U.N. should subordinate its investigation to yours and to other committees of this Congress and make its people and records available to the independent investigations being conducted here and in Iraq. To state it in another way, the U.N.'s position apparently is that the victim, a sovereign nation, should defer its investigation to the body in whose name the crime was committed and an investigation that is not even aimed at redressing the crime. Obviously it should be the other way around.

The U.N.'s so-called independent investigation has little or no chance of solving and determining what in fact happened in the Oil for Food program. As I explained briefly in the book, what was then the Iraqi Governing Council commissioned an investigation of the Oil for Food program in late 2003. The IGC engaged the Roland Berger strategy firm in London to conduct it. Later they joined the Freshfields firm, a law firm there, to continue to pursue a full and complete investigation that is, most importantly, aimed to take whatever legal action may be necessary to recover the funds.

One of the crucial differences between the Iraqi investigation and the U.N. investigation is that the Iraqis aim to get the money back from the malefactors and the U.N. does not even pretend to have that purpose.

It seems to me that there are great obstacles to both investigations. Both suffer the inability to subpoena documents and testimony from government officials, banks, and individuals who were involved in the Oil for Food program. Most of the money which resulted from oil sales in the program passed through French and Jordanian banks, specifically BNP—the Bank of France—and Jordanian banks, including the Jordan National Bank, the Arab Bank

and the Housing Bank. None of these banks nor their respective national governments are under any obligation to cooperate with the investigations. I suggest the Congress is in a better position to try to compel this cooperation than the U.N.

The other thing that we have going on right now is, as Ms. Rosett said, this document chase. As I understand from my sources within the past few days, the U.N. investigation, Mr. Volcker is now trying to compel that all of the documents in Iraq be gathered up from the disparate ministries at which they are held and put in one place. I think that is a perfectly bloody awful idea that invites an attack on them that could very well destroy whatever records may exist. The idea of such an attack I don't believe is fanciful in light of the recent assassination of the head of the Iraqi Supreme Audit Authority.

In the remaining few seconds, I want to say that as serious as the Oil for Food scandal may be it is, after all, only about money. There is a corruption in the U.N. And its agencies that is far more important to every American, and it is not financial corruption. It is a moral corruption, a decadence of thinking and reasoning that tolerates terrorism. No, it is more than just a tolerance, it is an acceptance of terrorists and the nations that support them, evidencing a moral bankruptcy that is unimaginable to most Americans.

I won't go through the examples that are in my statement, but I would just simply refer the committee to the picture that is attached to the statement. This picture was taken at a U.N. UNOFIL peacekeeping outpost on the Israel-Lebanon border. You see two flags flying next to each other. One is the UNOFIL flag. The other is the flag of Hezbollah. This is the terrorist organization that has more American blood on its hands than probably any other except al Qaeda. They were responsible for the Marine barracks bombing in 1983 that killed 241 brave young Americans. They have committed atrocities against Americans again and again and again. How we can allow the United Nations to tolerate this conduct by its peacekeepers keeping company with, sharing telephones and water supplies with terrorists with American blood on their hands is quite beyond me, Mr. Chairman.

I would submit the rest of my statement, if I may, and I would be pleased to answer the committee's questions.

Mr. HALL. Without objection, your statement will be accepted into the record.

[The prepared statement of Jed Babbin follows:]

PREPARED STATEMENT OF JED BABBIN [1]

Good morning Mr. Chairman and members of the subcommittee. I am Jed Babbin, author of "Inside the Asylum: Why the UN and Old Europe are Worse than You Think." I greatly appreciate this opportunity to appear before you today.

The subcommittee's continuing inquiry into the UN Oil for Food Program will, I'm sure, uncover further evidence of UN malfeasance and the comprehensive corruption of that program. Today, I wish to accomplish two things. First is to raise serious concerns about the various investigations being made into the Oil for Food program. These concerns arise because the UN is engaged in actively thwarting the investigations of this body and others, and because the investigations that should continue have been sidelined by the Coalition Provisional Authority. Second, I wish to point

[1] Jed Babbin is a contributing editor of The American Spectator Magazine, and a contributor to National Review Online. The opinions expressed in this testimony are his and do not necessarily reflect the opinions of those publications.

out to the Subcommittee some of the other—even more important—aspects of UN corruption. As I have documented in "Inside the Asylum," the UN is today the handmaiden of terrorism, the errand boy of despots and dictators, and a diplomatic quagmire that is the antithesis of our policy to preempt terrorist attacks.

THE OIL FOR FOOD INVESTIGATIONS

I understand that the Subcommittee has heard, in its earlier hearing and from other witnesses today, of many of the problems that burdened the Oil for Food program and deflected it from its intended purpose. There are many within the UN, and among the nations and people that apparently profited from the abuse of the program, who are working hard to prevent the truth from being uncovered. The UN asks that Congress and the Iraqi people subordinate their investigations to that of the UN. In fact, it should be the UN that subordinates its investigation, and makes its people and records available to the independent investigations being conducted here and in Iraq.

The UN's so-called "independent" investigation has little or no chance of determining what happened, and is not even tasked with the proper goals. As I explain briefly in "Inside the Asylum," what was then the Iraqi Governing Council commissioned an investigation of the Oil for Food Program in late 2003. The IGC engaged the Roland Berger Strategy Consultants firm of London, UK to conduct it. In my researches, I have spoken to a number of people including Claude Hankes-Drielsma, the chairman of Roland Berger.

By March 2004, when my manuscript was finished, that investigation was reasonably well-positioned. The Roland Berger firm had been succeeded by the KPMG firm which was to work with the British law firm of Freshfields Bruckhaus Deringer, (later succeeded by the Patton, Boggs firm of Washington, DC) to pursue a full and complete investigation, and—most importantly—to take whatever legal actions may be possible to recover the stolen and embezzled funds. On April 21, 2004, appearing to bow to the pressure from the Security Council members, Secretary General Annan commissioned former Federal Reserve Chairman Paul Volcker to investigate the corruption in the Oil for Food program.

At about that point, Coalition Provisional Authority head Ambassador L. Paul Bremer decided to sidetrack and forestall the Iraqi investigation in favor of the UN investigation. It is puzzling to see the CPA and Mr. Bremer effectively block an investigation which—according to Mr. Hankes-Drielsma—they were fully aware of and had approved. Worse still, Mr. Bremer's decision to cooperate with the UN and to block the Iraqi's own investigation may effectively prevent the truth from ever being uncovered. In Mr. Hankes-Drielsma's words, Bremer "pulled the rug out from under" the KPMG/Patton-Boggs investigation.

There are obstacles to both the Iraqi investigation and the UN investigation. First and foremost is their common inability to subpoena documents and testimony from government officials, banks and individuals who were involved in the Oil for Food program. Most of the money which resulted from oil sales in the program passed through French and Jordanian banks. Specifically, BNP (the Bank of France) and Jordanian banks including the Jordan National Bank, Arab Bank, and Housing Bank. None of those banks, nor their respective national governments, are under any obligation to cooperate with the investigations. (I note, however, that one source told me there was—in the New York branch of BNP—a considerable number of documents related to the Oil for Food Program. These are, I believe, within the reach of American judicial or congressional subpoenas).

Despite the obstacles they suffer in common, there is a fundamental difference between the Iraqi investigation and the UN investigation which, I believe, makes it imperative that we support the Iraqi investigation. Unlike the UN investigation, the Iraqi investigation is tasked not only to determine whether and how the corruption took place, but also to recover the many billions of dollars apparently stolen from the people of Iraq. The UN's limited goal of determining how the theft occurred will necessarily be accomplished as a preliminary step toward recovering the stolen billions. The UN should be required to support the Iraqi investigation, and subordinate its own to that of the Iraqi people. Mr. Bremer's action in sidetracking the Iraqi investigation should be reversed immediately, and the Iraqi government encouraged to proceed at its best speed.

The UN investigation is creating a grave and unnecessary danger to the success of the Iraqi investigation. The Saddam regime, for whatever reason, was comprised of obsessive bureaucrats and record-keepers. They operated under instructions which one source told me were "very significant and detailed." They are among the records that are—or were in March of this year—still in the Baghdad ministries.

The records of the Oil for Food program transactions kept in Baghdad were very detailed. They existed in—at least—the Oil Ministry, the Finance Ministry, and the Trade Ministry. Given access to them, investigators could make enormous progress, and would probably find sufficient proof of wrongdoing that many of the guilty parties could be identified, and public pressure on governments, banks, companies and individuals could be marshaled to demand cooperation in the investigation.

According to Mr. Hankes-Drielsma, to whom I spoke two days ago, Mr. Volcker is insisting that all of the documents in the Iraqis' possession be gathered together in one location. This is an amazingly bad idea. Records can be lost or destroyed in any move, and consolidating them in one place makes them a valuable target for a terrorist strike aimed at destroying them. As is demonstrated by the recent assassination of the head of the Iraqis' Board of Supreme Audit, this is not a fanciful concern.

The UN's rules—and the UN always plays by the UN's rules, not anyone else's "require that all the documents in the possession of the Iraqi government be made available to the UN. But the UN is refusing to allow any KPMG/Patton, Boggs access to UN documents. And thanks to Mr. Bremer's intervention, the KPMG/Patton, Boggs investigation has been put on hold indefinitely.

I respectfully suggest to the Subcommittee that it should consider seriously using its influence to ensure that the United States chooses between these competing investigations, and does so in favor of the Iraqi investigation. America should do all in our power to ensure that the Iraqi investigation goes forward and is given access to the UN, its records, employees and officials, without interference from or undue deference to the Volcker investigation.

THE UN AS HANDMAIDEN OF TERRORISM

As serious as the Oil for Food scandal may be, it is—after all—only about money. There is a corruption in the UN and its agencies that is far more important to every American. It is not financial corruption. It is a moral corruption, a decadence of thinking and reasoning that tolerates terrorism. No, it is more than tolerance: it is acceptance of terrorists and the nations that support them evidencing a moral bankruptcy that is unimaginable to most Americans. Let me give you a few examples:

- Hezbollah is an Iranian-backed terrorist organization that has more American blood on its hands than any other terrorist organization except al-Queda. They murdered 241 Marines in the infamous 1983 Beirut barracks bombing. They kidnapped, tortured and murdered Marine Col. William "Rich" Higgins, as well as CIA Station Chief William Buckley. On page 155 of "Inside the Asylum" there is a picture of a "UN peacekeepers" position on the Israel-Lebanon border. A copy of that picture is attached to this statement. In it, you see two flags flying side by side. One is the UN flag, the other the flag of Hezbollah. While in Israel last November, I spoke to an Israeli soldier who had been stationed at an IDF post on the Israeli side. He told me how the UN "peacekeepers" lived in comfortable coexistence with the murderers of Hezbollah, using the same telephones, sharing water supplies. Were it up to me, not another American dime would be paid to the UN while that Hezbollah flag flies. I wonder: how many other terrorists take advantage of similar UN hospitality elsewhere in the Middle East and around the world?
- The United Nations Relief and Works Agency for Palestinian Refugees in the Near East—UNRWA—is supposed to be dispensing humanitarian aid and educational services in the Palestinian areas of the West Bank and Gaza Strip. In "Inside the Asylum," I quote from the testimony of Professor Rashid Khalidi of the University of Chicago. In a US District Court case, his affidavit said that UNRWA hires members of Fatah, the Popular Front for the Liberation of Palestine (PFLP), Hamas and Islamic Jihad in disregard of their terrorist ties. I don't know how many US tax dollars or private donations by Americans go to UNRWA. Whatever the total, if it's above zero, it's too much;
- Since 9-11, the UN has preached loudly about its dedication to fighting terrorism. But its special committee on terrorism—comprised of the entire Security Council—can't even agree on a definition of terrorism. How can you fight something when you can't agree on what it is? and
- Most importantly, the UN is serving as midwife to the birth of nuclear terrorism. The International Atomic Energy Agency cannot agree on the obvious, that for more than two decades the kakistocracy that runs Iran has been working desperately to produce a nuclear weapon. If the IAEA acted, the Security Council could sanction Iran and maybe, just maybe, we could abort nuclear terrorism without having to resort to war to do so. But the IAEA is willfully ignorant to Iran's intent and progress. America cannot allow Iran to achieve its nuclear am-

bitions. By failing to act, by refusing to allow the UN to act diplomatically while it may yet have some effect, the UN is making war more likely, not less.

Mr. Chairman, this concludes my written statement. I will be pleased to answer any questions you or the members of the subcommittee may have.

Mr. HALL. I guess, Mr. Babbin, I have asked you, I think you are aware of the fact that Paul Volcker who heads the U.N. Investigation said in the Wall Street Journal yesterday, I think it was, maybe the day before yesterday, and I quote: It is only the independent inquiry committee that I chair that has a mandate, the international framework and, I believe, the access to resources both human and financial to provide the kind of comprehensive fact-finding and analysis the investigation requires.

You apparently disagree with that?

Mr. BABBIN. Yes, sir, I do. And I do because Mr. Volcker is stating diplomatically and implying certain things which I don't believe he can deliver on. I believe Mr. Volcker is a man of great integrity and determination but I don't believe that the U.N. inquiry can possibly have an international framework which will compel or even obtain the cooperation of the nations such as France and Jordan and others, including Russia, which will allow them to reveal what actually happened. This is simply not going to happen through the United Nations, Mr. Chairman.

The United Nations and the culprits in the Oil for Food scandal are not going to cooperate in this investigation. And to allow this framework to go on, without disclosing to the American people and to this Congress what the U.N. already knows, it seems to me is going to lead to something other than a full and open investigation. We are never going to find out what happened this way.

Mr. HALL. Then I take it that you don't really take his statement when he says that it has the international framework and the access to resources to provide the kind of fact-finding that is in need—you disagree with that?

Mr. BABBIN. Well, I don't know what it means, Mr. Chairman. The problem is Mr. Volcker again is stating in very great and broad diplomatic language what may or may not be deliverable. And I do not believe, despite his best efforts and whatever solemn promises he may have obtained from the Secretary General, I do not in my heart of hearts believe that Mr. Volcker will be able to have an international framework that gets the cooperation of the French banks, the Jordanian banks, the French government officials that are probably involved in this mess, the Russians. There are 17 or so Russian companies and individuals that are listed in that famous list of possible participants in the Oil for Food scandal that was published in an Arab newspaper some time—a few months ago. We have no way—Mr. Volcker absolutely has no way of delivering on that. I think quite frankly he is being overly optimistic.

Mr. HALL. I thank you for that.

Mr. Christoff, I first would point out your testimony notes that a major offshore terminal in Iraq did not have a meter to measure oil pumped into vessels. That is on page 7 of your report. And in your testimony on page 8 you discuss the U.N. board of audit. You stated, "U.N. auditors generally concluded that the Iraq account was fairly presented in accordance with U.N. financial standards."

Mr. CHRISTOFF. That is correct.

Mr. HALL. How did the U.N. financial standards compare, say, with the United States financial standards?

Mr. CHRISTOFF. I don't know the exact answer to that, Mr. Chairman. I think that is one of the areas that we are going to try to look into to try to do some kind of comparison.

Mr. HALL. If it doesn't even have a meter to measure oil pumped into it, how could you even possibly compare them with the United States standards?

Mr. CHRISTOFF. Well, you can't. The metering system is still a problem today. There still are no meters on the offshore platform in the Gulf.

Mr. HALL. The U.N. external audits found no fraud?

Mr. CHRISTOFF. No. They did point out several problems, however. They pointed out the lack of metering as far back as 1998. They encouraged the U.N. to diversify the number of banks rather than relying solely on BNP Paribus, but they did not find any instances of fraud.

Mr. HALL. But they did find that the simple measuring devices were not even in place to measure crude oil being sold?

Mr. CHRISTOFF. Right.

Mr. HALL. That is just the mother and father of fraud, is it not? Enticing fraud and allowing fraud.

Mr. CHRISTOFF. It is very difficult to know how much oil you are offloading if you don't have a meter.

Mr. HALL. I agree. When you say the Gulf, you mean the Persian Gulf?

Mr. CHRISTOFF. Right.

Mr. HALL. All right. I think my time has probably lapsed. I recognize Mr. Allen.

Mr. SHADEGG. Mr. Chairman, point of order.

Mr. HALL. State your point of order.

Mr. SHADEGG. I do not have a copy of the photograph attached to the testimony of Mr. Babbin. I asked my staff to check with the clerk, and he tells me that we don't have a copy of that photograph.

Mr. SHIMKUS. It is in mine.

Mr. SHADEGG. I don't have a copy and the clerk didn't have a copy. I just wanted to make sure we had one in the record.

Mr. HALL. You have just been handed one.

Mr. SHADEGG. Thank you.

Mr. HALL. Go ahead, Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman.

Mr. Christoff, to what extent do you believe the areas for additional analysis your testimony identified are likely to be pursued by the Volcker Commission or other investigations? Do you have any view on that?

Mr. CHRISTOFF. I think clearly they will have the information to try to assess price reasonableness, looking at the contracts, making some assessment of the extent to which there was intentional overpricing. I think also, whether they do or not have a real access to, they need to look into the oil smuggling and the extent to which the Sanctions Committee through the 661 minutes in fact address these kind of issues, both the smuggling, the surcharges. I have spoken to Mr. Volcker. I think he understands that it is quite a

challenge, but I also believe that we should give him an opportunity to report out and see what they find.

Mr. ALLEN. Am I right in thinking that his target is 6 to 8 months for a report, something on that order of magnitude? Do you remember?

Mr. CHRISTOFF. Yesterday he said 6 to 8 months for the final report and some interim reports prior to that.

Mr. ALLEN. Can you talk a little bit more about the responsibility of member states to monitor and prevent Iraqi oil smuggling? The number $10.1 billion has been thrown out several times in the course of this hearing, but as you testified, $5.7 billion of that appears to be related to oil smuggling. I take it that the oil smuggling had nothing to do with the Iraqi Oil for Food program. Is that fair?

Mr. CHRISTOFF. All member nations as well as the United Nations was supposed to enforce sanctions. Enforcing sanctions precludes the delivery of any oil outside of the Oil for Food program. So in effect, the smuggling was still a violation of U.N. sanctions. It may not have been directly part of the Oil for Food program but still it was clearly a violation of sanctions.

Mr. ALLEN. But when you locate the responsibility for the violation itself, the smuggling itself, that was between the Iraqi Government and Jordan or Syria or whatever other countries were involved?

Mr. CHRISTOFF. If we are talking about responsibility, first responsibility would be on the neighboring nations. They were responsible for enforcing the sanctions. They should have precluded the smuggling. But at the same time, the Sanctions Committee, which is also the Security Council, was responsible for implementing the overall sanctions.

Mr. ALLEN. And so the question raised is whether the U.N. Sanctions Committee did enough to control oil smuggling.

Mr. CHRISTOFF. Correct.

Mr. ALLEN. And one of the members of the U.N. Sanctions Committee was the United States; am I right?

Mr. CHRISTOFF. Correct.

Mr. ALLEN. In my mind, there are a series of important questions that are really beyond the reach of this subcommittee. Mr. Babbin was talking about what areas, France, Russia, documents in France and Russia that may be beyond the reach of Paul Volcker. They are certainly beyond our reach as well. And it is probably too early in the investigative process to answer these questions but I wanted to get your reaction if you have one to these.

We have already talked about oil smuggling and I think one question would be exactly what steps did the U.S. take or could have taken to prevent the oil smuggling that went on through its position on the Sanctions Committee or otherwise. I don't know if you have anything further to add on that, what the U.S. should have done.

Mr. CHRISTOFF. The U.S. did address oil smuggling to the Sanctions Committee. As far back as 1996, the Maritime Interdiction Force, which was U.S.-UK, first reported on the oil smuggling and reported it to the Sanctions Committee and the Security Council.

Mr. ALLEN. The GAO report states that the Security Council proposed that U.N. agents review contract and compliances at Iraq's

Oil Ministry but Iraq refused these conditions. What access did U.N. agents then have to Iraq contracts and how could they enforce any kind of oversight? Again, I think that is a question for full investigation, but if you have any further comment on it, I would be interested.

Mr. CHRISTOFF. All members of the Sanctions Committee, for example, had access to all the contracts. They had access to look at the contracts. And I think as we pointed out in our statement, the U.S. was the most prodigious in putting holds on the contracts, $5 billion worth of holds as of the end of 2002. So all of the members of that Sanctions Committee had access to those contracts.

Mr. ALLEN. I see my time is expiring, Mr. Chairman, so I yield back.

Mr. HALL. I thank you. The Chair recognizes the gentleman from Arizona, Mr. Shadegg, for 5 minutes.

Mr. SHADEGG. Thank you, Mr. Chairman.

Ms. Rosett, it seems to me that the key to your testimony was that we need to get the U.N. to release normal documentation. What efforts have been made to date to that point and have you looked at Congressman Flake's bill as an effort to force the U.N. to release what you refer to as normal documentation?

Ms. ROSETT. I think I am probably going beyond what that bill is trying to do and what I am suggesting—I think I am treading outside routine practical politics here, but I think it needs to be said. The contracts, for example, that went with this program, which Mr. Christoff mentioned, there was important information in the original versions of those; amended versions were handed over to the CPA, or rather the data from amended versions. So you didn't actually see a lot of what happened. There are leaks where in my own reporting, what I am able to see leads you to interesting conclusions and something of the beginning of a picture of how some of this worked. For instance, I say—and it is speculative at this point—I think that you had many cases in this program that sort of collapsed back to particular groupings where what looked like businesses in many different countries actually tracked back to one particular place.

I would also caution it was about more than money. There were three things going on here. This was oil for palaces, it was oil for political influence, and it was probably also oil for terror and arms, which is why it is so urgent. What I was saying here is when this program was underway, the U.N. simply didn't release any information that would tell you anything specific about the deals being done. For instance, you could see that there were milk contracts coming out of Russia. You need a leaked document and these take hunting, and it is absurd that you have to go hunting this sort of thing, all of us. What you didn't see was that the milk, for instance, in that case shipped in from Russia had come from Zarubezhneft, which is a state oil company. Why were they selling milk? That would lead you to the further question of was there ever any milk sold? Which would lead you to wanting to look at the contract. What bank was this paid into, when did it happen, who signed the deal? Was he among the people the U.N. then tried to get in touch with just after the program who disappeared, as many did?

This is basic information where in keeping it secret, the U.N.—there is an entire Russian press corps that would look at that and lights would go on. You would at least have that happening. That is what I am talking about. I am saying this that Volcker's Commission has now appropriated as its possession, no one else should see, that is madness and especially—I am almost to the end of this—if you are talking about terror funding flowing through this—and I think there is much reason to believe it did, Treasury's testimony would suggest that. The commercial bank of Syria where more than a billion was diverted into funds, into accounts there sitting next to accounts that funded al Qaeda, if you will look back at the Treasury testimony, Al Wasel & Babel in Dubai. This is urgent. This should not wait 6 to 8 months. There should be every resource possible deployed. That is why I am saying it would be both healthy for the U.N. in the long run and it would be urgently importantly helpful in this investigation now.

Mr. SHADEGG. I completely agree with that. I think from your answer you have confirmed what I believe, which is that the Volcker investigation will not produce that information. I guess my question to you is if the Flake bill does not go far enough, what is the vehicle you would best recommend, whether it is an investigation by this committee, an investigation by the Senate, an investigation by the International Relations Committee, and what is the mechanism if it is not Congressman Flake's bill, if it is something beyond Congressman Flake's bill, what is the mechanism that you can see would best force the disclosure of this information which we agree the world deserves to see, indeed desperately needs to see?

Ms. ROSETT. Every piece of daylight possible. I am a reporter, not a politician. I cannot advise you on strategy but I can tell you that where congressional committees—I don't even know exactly whether this is within your power, but you are able to get copies of the contracts, you are able to get the precise names, the dates. I have leaked names and dollar figures through 2001, but I can't see a crucial chunk of the program when I look.

I would suggest that you get everything you can and release it. Release it to the public, the press. Let the Iraqis see it, let us see it, let people who are expert in the related industries go over and see it. Let people who know milk in Russia figure out why Zarubezhneft was selling milk. That is just one of scores and scores of strange, strange cases you can see when you look at what has been leaked. Release it in detail, and you will find out a great deal more than by leaving it in these sort of careful contained investigations.

Mr. SHADEGG. So to the extent that it is within the jurisdiction of the full committee and the jurisdiction of this committee, your message to the chairman of the full committee and your message to the chairman of this subcommittee would be to seek these documents, notwithstanding any of the other investigations and make them public?

Ms. ROSETT. Absolutely.

Mr. SHADEGG. Thank you. I yield back.

Mr. HALL. Thank you, Mr. Shadegg. The Chair recognizes Ms. McCarthy for 5 minutes.

Ms. McCarthy. Thank you very much, Mr. Chairman. I thank the panelists very much for the wisdom that you are sharing with us today. I am just curious, given the documentation that we have—and you may have touched upon this before I arrived at the hearing—but how is it possible that the violations continued for so long, from 1997 to 2002? Anyone.

Ms. Rosett. Yes. The people who knew didn't want to talk about it. The people who had the proof didn't want to talk about it, and the people who wanted to talk about it didn't have the proof. Which again goes back to the bottom-line message. You have a highly non-transparent U.N. It has arrived at the level of farce in some senses. They put in the Office of Internal Oversight Services I think in 1994 at U.S. behest to try and make sure that things worked better. That office is now I believe investigating itself, to the great dissatisfaction of the staff. They have external auditors.

When Mr. Christoff was being questioned about this—may I just add France was chairing the board of external auditors during the crucial year 2003. Layer after layer gets added in which the U.N. effectively reports to itself. Again, the example of why was the report on the son of the Secretary General, on Kojo Annan's business activities, connected to a company deeply connected to this program. Why was that done by an employee of Kofi Annan and kept confidential? Why is it still confidential?

It would be helpful to see, because if you then look at an internal audit that leaked against U.N. wishes in May, you see that there were enormous problems with this, including what you start to see when you look through some of the documents that you carefully can finally tease out is—excuse me, I am straying a little here but this is an important point.

We all assume that because there was this program and there were sanctions that things were under control at the borders. Important observation about the lack of a meter. You then discover if you dig further, or if you dig in other directions on the inspecting of relief goods coming in, evidently the U.N. understanding was that these inspectors were just there to make sure that the shipping manifest matched the contract. In fact, they inspected—was this figure yours—fewer than 10 percent of the shipments visually. And further, according to the U.N.'s own statements, if you had driven a truck carrying a missile launcher past the U.N. relief inspectors, they would not have done anything except tell the guy delivering the missile launcher, we cannot arrange for your payment, you will have to do that elsewhere. They wouldn't have stopped him. So you had no real control.

Again, none of this is put out there. It is this highly shrouded environment. What I am saying is the United Nations, which has so little accountability anyway, responsibility diffuses, just disperses among the members, the best protection, if you want to save the United Nations, the best thing you can do is crack it open, make it share with everybody what goes on with its financial dealings, its deals, its contracts, its procurement especially. That is why—it is one thing to look and say, gee, that looks like a crooked program to me. It is another thing when someone says, show me the proof. Say, here are the documents I would need to begin to take you down that trail. However, the U.N. will not release them.

Mr. BABBIN. Ms. McCarthy, if I just might add to that in a few seconds. I think Claudia is making a very good point, and I wanted to go back to what Mr. Shadegg was saying a few minutes ago. If we are looking for ways to improve the United Nations, what we need to do is to withhold sufficient funding from them unless and until they open up their records. We should not have to ask for each and every audit report. Each and every audit report from the United Nations should be sent to the United States of America, open and in the press, and we should not have to grope and gripe every time we need some facts. This is a very corrupt culture that will hide anything and everything unless they are compelled to reveal it.

Mr. CHRISTOFF. If I could just add three brief reasons why this continued and happened. No. 1, Iraq was sovereign. It negotiated the contracts directly. No. 2, no one looked at prices to assess whether or not the prices were reasonable. And No. 3, member nations did not enforce the sanctions, particularly those nations that bordered Iraq and did not prevent the smuggling.

Ms. MCCARTHY. What are the people of Iraq doing now for food?

Mr. CHRISTOFF. The public distribution system continues. It was assumed controlled by Iraq on July 1. Prior to that, the world food program was running the food distribution system along with the CPA, and it is now the responsibility of the Iraqi Ministry to continue the program.

Ms. MCCARTHY. And the funds to do that?

Mr. CHRISTOFF. The funds? Iraq is now in charge of the Development Fund for Iraq, all the resources that are in it. It was the primary source that was used to fund the public distribution system that fed basically all Iraqis, $24 million.

Ms. MCCARTHY. Thank you very much. I yield back, Mr. Chairman. Thank you very much. Thank you all very much.

Mr. HALL. The Chair notes that Chairman Barton is present. Mr. Chairman, I recognize you for 5 minutes.

Chairman BARTON. Thank you, Mr. Chairman. The first thing I need to do is make an announcement. I have spoken with the Assistant Secretary at the State Department, I have got a phone call in to the Secretary of State who is at the White House with the President. He is going to call me back in the next hour or so, but we have total cooperation with the State Department. They cannot be more willing to cooperate. They are just excited to have the opportunity to cooperate. There will be other hearings by this committee at which the State Department and other Federal departments will testify, and there is a fair chance that some of those hearings will be oversight hearings where they will testify under oath. I want to let the members of the committee on both sides of the aisle know that we have had a very productive morning with the State Department.

I have not called the U.N. I don't have quite the authority over the U.N. that I do as chairman of a committee that has jurisdiction over the State Department. I will get in touch with the United Nations, however.

My first question, it is a general question: Since the U.N. is an international body, is it possible for the U.S. Congress to make, encourage, incentivize the U.N. to cooperate with this type of an in-

vestigation? And if they won't cooperate with the Congress, is there any international—do their protocols have any accountability provision for an outside authority to investigate them?

Mr. CHRISTOFF. I don't think there are any outside authorities to investigate the U.N. In terms of incentivizing U.N. cooperation, this Congress did that in the past through Helms-Biden to try to ensure U.N. cooperation with its reform agenda. We issued a report just a few months ago looking at their efforts to try to engage in reform. They are succeeding in areas to try to reform their management structures, their personnel structures. So you have done that in the past and it has been successful in the past.

Mr. HALL. Mr. Chairman, I think whereas there may not be the international framework or any subpoena power and all that, I think the courage of authors like Mr. Babbin and Ms. Rosett, their research and their tenacity sometimes brings that to the world's newspapers, and people read those and sometimes react to them. That is one thing we do have going for us.

I wish you would speak to the U.N. because your changing the State Department's attitude is another indication of why I think you are a fine Chairman of Commerce and following the old pattern that has been set by former members.

Chairman BARTON. I appreciate that. I am going to call the U.N. I don't want to misrepresent that I am not willing to. Secretary Powell was in the building, and so it was much easier to get ahold of him and his people today than it is to get ahold of the U.N. people.

Mr. HALL. You may have the same result that poor old Richard Nixon had when he called Dial-A-Prayer; they hung up on him.

Chairman BARTON. I still have a question. I wanted to ask Mr. Babbin if he had any idea how to force the U.N. or encourage the U.N. to cooperate.

Mr. BABBIN. At the risk of sounding a little too colloquial, I am reminded of the old story about two folks trying to get a mule to move, and the city slicker pulling on the reins and pulling and pulling and arguing with the mule, and the farmer walking up and saying, You know, you've just got to get his attention first; picked up a 2 by 4 and hit him on the side of the head and the mule moved.

I think you have a mule in New York and a lowly sight. I say this considerately. I think you are going to have to do something very drastic in restricting the funds that go to the United Nations in order to get them to move. There is no internal oversight of any effect in the United Nations. There is no opportunity to impose one. The problems with the U.N. as I say in my book, the U.N. is broken and can't be fixed, Mr. Chairman. The reason it can't be fixed is the nations which are the problem would have to approve the changes. You need a two-thirds vote of the Security Council and a two-thirds vote in the General Assembly, plus in the Security Council a unanimous five veto-holding members' votes supporting any change to the U.N. charter. So if you want to change the U.N. charter and impose some audit requirement, for example, and disclosure to the American people, what you are going to have to do is get the approval of all the people who are the problem.

So I don't think you can do much except withhold money and hit that mule upside the head with a piece of 2 by 4.

Chairman BARTON. Does the Volcker Commission have any authority delegated to them officially by the U.N. that would give them the ability to force compliance or more disclosure, or is former Chairman Volcker operating under purely moral authority but doesn't have any more explicit ability to investigate and to get documents than we do?

Mr. BABBIN. Mr. Chairman, the only authority that Mr. Volcker has, as I understand it, is a U.N. Security Council resolution; forgive me, I don't remember the number off the top of my head, but it basically welcomed his appointment and the Security Council applauded the investigation. I don't believe that he has any authority to compel the production of documents, testimony of witnesses, even to get into all of the corners, nooks and crannies, in the United Nations itself. He may have some very solemn assurances from Mr. Kofi Annan, but I quite frankly don't know that Mr. Volcker can do other than be a little too optimistic at this point.

Chairman BARTON. If in fact officials at the U.N. benefited personally from this program—and there is some anecdotal evidence that that happened—is there existing protocol, regulation, standards at the U.N. that would hold those officials accountable if you could prove that such-and-such U.N. official pocketed money in a personal account because of this Oil for Food program?

Mr. BABBIN. I don't know the answer to that question, Mr. Chairman.

Chairman BARTON. Do either of the other two?

Mr. CHRISTOFF. I don't know.

Chairman BARTON. So basically if you are a U.N. official, at least in a general sense, you literally have a license to steal?

Mr. BABBIN. Mr. Chairman, I have said this on talk radio and I hesitate to say it here, but it is coming to the point that the biggest difference between the United Nations and the Mafia is that the Mafia holds its people accountable for what they do.

Chairman BARTON. I don't want to be attributed to that quote.

Mr. BABBIN. I didn't think you would, sir.

Chairman BARTON. My time has expired. I want to thank these witnesses for voluntarily coming, No. 1. I thank all three of you for what you have done to bring this issue to light. The GAO indicates, if I am not mistaken, that somewhere in the range of $60 to $70 billion went to the program and your number was at least $10 billion is probably totally skimmed off, then used for purposes that Saddam Hussein——

Mr. CHRISTOFF. $5.7 billion in oil smuggling, $4.4 billion through kickbacks and illegal surcharges on oil; right.

Chairman BARTON. Do you have, sir, any evidence that that money might still be secreted somewhere? I mean, there might be some secret accounts somewhere, that that money is still in play, so to speak?

Mr. CHRISTOFF. That is what the Iraqi Assets Working Group is trying to do right now. It is headed by the Treasury Department. They have been tasked for the past year to try to find out where the hidden assets are of the regime. They are under Juan Zarate over at Treasury and they are trying earnestly to find that money.

Chairman BARTON. I thank you all. We will be in touch as this investigation progresses and we will also be—if you have areas where you think the committee staff should probe, if you will let us know, we will try to make sure that those probes are conducted. Yes, ma'am.

Ms. ROSETT. Mr. Chairman, there is one important thing I just think you should all be aware of to do with the oil smuggling. It speaks to a question that Congressman Allen was also asking; because if you look at numbers that you are going to be talking about here, that $5.7 billion in smuggling, the oil that was produced to be smuggled was produced because the U.N. brought in oil parts. Part of the program, Oil for Food, was they began authorizing at the specific public urging of the Secretary General of the United Nations and Benon Savon who ran the program and whose office employed the oil overseers who oversaw that in particular. They didn't have meters for this, but the import of equipment to produce the oil. That was how they were able to—that is the connection between the U.N. Program, between Oil for Food and the smuggling. It supplied the equipment. I just think that is important to know, because the U.N. keeps explaining how it wasn't responsible for anything. In fact, it seems—also I wanted to tell you the phone number is 212-963-1234.

Chairman BARTON. Thank you. Thank you, Mr. Chairman.

Mr. HALL. Thank you, sir. The Chair recognizes Mr. Shimkus for 5 minutes.

Mr. SHIMKUS. Thank you, Mr. Chairman. This is a great hearing. This is something we need to keep talking about. I represent southern Illinois. I really enjoy public policy here in the United States and I am involved with the NATO Parliamentary Assembly. I do have my finger on international activities. In my part of the country, it is not a positive to really be pro-Atlanticists or international involvement and there is not a lot of support for the United Nations. Period.

I would say that for the U.N. to remain viable, it has to open up its books. I would concur with your statements. It makes it very difficult for us who understand the importance of having interactions with friends and allies, and even enemies, that there is transparency. I always tell people, the NATO Parliamentary Assembly that I am involved with is an international organization of democratically elected governments that have a mission, for self-defense. It is the foundation which holds us together. Basic principles and even some of these guys that we are talking about maybe in this U.N. problem are members of the NATO itself, but the foundational principles make us stronger and give us the more transparency. It should not be surprising in the U.N. where there is no foundational ideological basis for this grouping of member states—Mr. Babbin, did you want to say something?

Mr. BABBIN. I didn't want to interrupt. My comment is that you are dead bang on the money. The point of the matter is we share values, or at least we used to, with the NATO nations. The U.N. is founded on a false principle. We are in our Constitution enshrining the idea that all men are created equal. But in the United Nations charter, essentially all nations are created equal. That just is wrong.

Mr. SHIMKUS. That is what has to be part of the debate. Why do we not have transparency? Why don't we have the Freedom of Information Act? Why can't we get documents? Why do we allow this to go on so long? Because of that basic premise. There are no democratic principles brought to bear, there is no rule of law, there is no focus on individual rights and freedoms. We have got totalitarian regimes that are members of the U.N. This should not be a surprise to the Nation that we have this problem and why there is no transparency. And because of that, it makes it very difficult for us in the heartland of this country to say, you know, we ought to be sending all this money to the U.N.

I say two things. I say it is important to have a place where states can talk. I don't expect any action, but I do think that that is important. They do some benefits on inoculations and refugee issues which I believe is relatively good work. But after that, forget it. They can't control peace. They can't move troops. They are overfunded and overpaid. That is what we have a problem with.

The Dominicans I think was the order that have lobbied me numerous times before this recent war, asking for releasing more Food for Oil programs. I have still in my office, in my Springfield, Illinois office, a little package of food, a little beans, a little bit of rice, a little pack; they say the Iraqi people are starving and this is what is a ration for a week or whatever. And so they are saying please allow more exports of oil. And my response to them was, we are not too sure that all this money is going to trying to feed these people.

I think, Ms. Rosett, your comments were we had thought there were some irregularities but we couldn't find the facts. It made it difficult for me to tell these Dominican sisters that we couldn't find the trail. Now we can. I would encourage you all to continue. My time is running short.

I do have one question that I did write. The United States may try to put a hold on some of these contracts, is that correct, Mr. Christoff?

Mr. CHRISTOFF. Yes.

Mr. SHIMKUS. Did any other nation try to put a hold on any contract?

Mr. CHRISTOFF. The U.K. Did.

Mr. SHIMKUS. That was it? Only two?

Mr. CHRISTOFF. Those were the two that the United Nations reported to us as being the key countries.

Mr. SHIMKUS. But the answer is you don't know because the U.N. may have had other people that they did not report to you?

Mr. CHRISTOFF. Don't know if others put holds?

Mr. SHIMKUS. Right. You have no ability to get information from the United Nations, only what they provide you. Is that correct?

Mr. CHRISTOFF. We don't have audit authority over the United Nations, but we do get their cooperation and get information from them.

Mr. SHIMKUS. And the second question that I would ask is to—I talked about transparency and I talked about corruption. We have talked about this internally in some Commerce Committee meetings. A problem with former Fed Chairman Volcker is that he really has no subpoena power. Would you agree with that?

Mr. CHRISTOFF. The U.N. doesn't have subpoena power, so of course he doesn't.

Mr. SHIMKUS. That is my point. So for all the platitudes, without subpoena power—we have subpoena power of the documents that we have or the relationships that we have with the U.N. We could subpoena the U.S. documents or agreements that we have with the U.N.?

Mr. CHRISTOFF. I don't know if you can subpoena U.N. documents, but all the members of the Sanctions Committee got the contracts. So the contracts that were part of an interagency U.S. process there are within the U.S. Government.

Mr. SHIMKUS. Mr. Chairman, I would respectfully request that we try to get those from our representation on that committee.

Mr. CHRISTOFF. It is over 30,000.

Mr. SHIMKUS. That is all right. We are going to have an August break coming up.

Mr. OSE. Will the gentleman yield?

Mr. HALL. Does the gentleman yield?

Mr. SHIMKUS. The gentleman yields, but I am out of time.

Mr. HALL. The gentleman's time has expired. Who seeks recognition?

Mr. ALLEN. Mr. Chairman, could I be recognized for just a moment?

Mr. HALL. For what purpose?

Mr. ALLEN. I would like to offer a couple of documents for inclusion in the record.

Mr. HALL. Without objection, they will be offered and accepted.

Mr. ALLEN. Mr. Chairman, I offer for inclusion the article in the Wall Street Journal, the op-ed in the Wall Street Journal of July 7, written by Paul Volcker.

And something I will probably never do again, I would also offer for inclusion in the record the Wall Street Journal editorial on July 7 entitled "Progress on Oil for Food" which celebrates the fact that Mr. Volcker's U.N.-backed probe will not be entirely dependent on the goodwill and cooperation of the U.N. and its member states.

True, it lacks subpoena power in its own right, but Mr. Volcker points out that there are opportunities, indeed there is a necessity for cooperation between his investigators and law enforcement authorities in the United States and elsewhere. It deals in sharp contrast to some of the statements that were made by Mr. Babbin and by my friends on the committee. I thank you.

Mr. HALL. Will you make available to our court reporter there these copies?

Mr. ALLEN. Absolutely.

Mr. HALL. Without objection.

[The information referred to follows:]

Wall Street Journal Editorial – July 7, 2004
Progress on Oil-for-Food

Paul Volcker offers an update on his investigation into the United Nations Oil-for-Food scandal. We think the former Federal Reserve Chairman provides a couple of real news nuggets worth emphasizing.

The first is that Mr. Volcker's U.N.-backed probe will not be entirely dependent on the goodwill and voluntary cooperation of the U.N. and its member states. True, it lacks subpoena power in its own right. But Mr. Volcker points out that "there are opportunities -- indeed there is a necessity" for cooperation between his investigators and law enforcement authorities in the U.S. and elsewhere. He adds that there are already "appropriate memorandums of understanding with a number of official investigatory bodies."

It wouldn't surprise us to see Manhattan District Attorney Robert Morgenthau, with whom Mr. Volcker is known to be on friendly terms, among those wielding their subpoena powers in ways that might benefit the Volcker team. Representative Chris Shays of Connecticut, one of the Congressional leaders pursuing this story, also told us yesterday that he expects his work to complement the Volcker probe. One obvious target: BNP Paribas, the French

bank that handled the Oil-for-Food accounts, which is chartered in the State of New York.

The second piece of news is Mr. Volcker's commitment to keeping the public informed of his progress. Concerns have been expressed in some quarters that the Volcker report could wind up being buried by U.N. Secretary-General Kofi Annan. But Mr. Volcker writes that "we are conscious of our responsibility to provide a full public report of our findings" and suggests that an interim report may be coming within months.

This is as it should be. Iraq will be a central issue this election year, and voters will have a right to the latest information on Oil-for-Food, which bears directly on the debate over whether the continued "containment" of Saddam was even an option. The information we have so far suggests the sanctions regime was even more porous than suspected before the war. It certainly will be harder to blame President Bush for failing to win Security Council approval for military action if three of that body's "Permanent Five" are found to have been effectively on Saddam's payroll.

In short, the stakes are huge and a lot of people would seem to have a lot to hide. Last week Ihsan Karim was murdered in Baghdad. Mr. Karim was head of the Iraqi Board of Supreme Audit, which Paul Bremer had recently charged with overseeing the Iraqi side of the Oil-for-Food investigation. His death may not be related, since a number of other officials working with the coalition to build a new Iraq have been killed. But the possibility certainly cannot be ruled out.

Mr. Volcker has an important investigation on his hands, and we welcome his commitments to timely and public work.

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A Road Map for Our Inquiry

PAUL A. VOLCKER

The multibillion-dollar Oil-for-Food Program of the United Nations, in operation from 1996 to 2003, was designed to provide humanitarian assistance to an Iraqi population suffering grievously under the regime of Saddam Hussein. The central idea was to permit exports of Iraqi oil only so long as the financial proceeds were used for the purchase of food, medical supplies and, after a time, other essential imports for the Iraqi people.

Grave charges have been made that, whatever the humanitarian purposes, billions of dollars were lost in the process, $4 billion to $5 billion by a preliminary estimate of the U.S. General Accounting Office. Critics have cited evidence of failures of effective oversight by the U.N. and its agencies. Examples have been published of underpayments for oil sales, overcharging for poor quality food and medicine, and imports of nonessential goods. A systematic pattern of kickbacks and bribery is alleged to the benefit of Saddam, his friends and others, extending even to charges of corruption by at least one senior U.N. official.

All of that has cried out for investigation: independent, impartial and intensive. Responding to that demand, U.N. Secretary-General Kofi Annan asked me to chair a three-person Independent Inquiry Committee, a request backed by the secretary of state and the U.S. ambassador to the U.N. I and my two associates, Justice Richard Goldstone of South Africa and Prof. Mark Pieth of the University of Basel, agreed only after being given assurances of freedom for staffing and decision-making, adequate finance, support facilities apart from the U.N. itself, and unfettered access to U.N. staff and records. Importantly, the Security Council, in supporting the investigation, has called for full cooperation by all member states.

I realize questions have been raised in the press and by some in the Congress as to whether an investigation undertaken at the initiative of the U.N. can be truly independent and dependably financed. There have been demands for parallel or competing investigations.

To a point, that is natural and constructive. Governing authorities in Iraq will want to trace and recover lost funds. Prosecutors in the U.S., and hopefully in other countries as well, will want to investigate companies that may have been engaged in corrupt business practices violating their laws. Clearly, there are opportunities -- indeed there is a necessity -- for constructive cooperation between our committee investigators and those authorities. Appropriate memorandums of understanding with a number of official investigatory bodies are in place or in negotiation.

There is another reality. It is, after all, only the Independent Inquiry Committee that I chair that has the mandate, the international framework and, I believe, access to resources, both human and financial, to provide the kind of comprehensive fact-finding and analysis the investigation requires.

We mean to discharge that responsibility as carefully and as expeditiously as possible. Moreover, we recognize the concerns of Congress and the press that the committee achieve in fact full access to the evidence,

that the necessary financing is provided, and that member-state cooperation is forthcoming. Oversight in those respects is welcome. We are conscious of our responsibility to provide a full public report of our findings and recommendations, insofar as possible to disclose the evidence for those findings, and to provide interim reports.

What we cannot do is impair the objectivity and necessary confidentiality of the investigative process by responding to requests for information in our possession prematurely, before determining that such release is consistent with our investigative requirements. That approach is fully consistent with accepted practice for investigations into institutional malfeasance and possible criminal activity. Certainly, witnesses who may wish to provide sensitive information in confidence deserve to have that assurance and protection. Those considerations apply with extra force to an investigation so charged with institutional and political implications as the Oil-for-Food Program. Selective leaking of isolated facts, quasi-facts and even "facts" of questionable origin are hardly helpful.

The doubts raised by a few about our staffing and financing are unwarranted. Contrary to the implications of some press reports, the $4 million promptly provided by the U.N. in response to our request is only for "start-up" costs, pending our determination of requirements over time.

The stature and integrity of my fellow committee members are without question. Justice Goldstone, in the midst of violence in South Africa at the end of apartheid and at personal risk, successfully investigated corruption in the police and army. He has prosecuted human-rights violators in both Bosnia and Kosovo. Prof. Pieth, well known internationally as a leading expert on organized crime, money laundering and corporate corruption, is widely credited with successfully negotiating among all OECD countries a convention on corporate corrupt practices much along the lines of U.S. law. That achievement quite fortuitously should help our investigative efforts. These are not men to be easily swayed by parochial institutional or political considerations.

There is a happy outcome to our intensive search to find and attract strong people to conduct the investigations. On June 15, we were able to announce a full complement of senior staff, with a truly exceptional mix of experience and diversity.

Reid Morden, a former director of the Canadian Security Intelligence Service and deputy foreign minister, with subsequent experience in private investigative work, will serve as executive director. Michael Cornacchia and Mark Califano, the committee's chief investigative counsel and chief legal counsel respectively, will spearhead the investigative process. Both bring extensive experience from U.S. Attorneys' offices in successfully supervising large securities and transnational fraud investigations. As the committee's chief of forensic services, Frank Hydoski, a former head of the forensic technology practice of PricewaterhouseCoopers, is rapidly developing a strong team to organize and analyze the vast records within the U.N. and its agencies. A small European office will be headed by Laurent Kasper-Ansermet, a highly experienced Swiss investigative magistrate who is familiar with legal practices and investigative resources in continental Europe. As counsel to the committee, Susan Ringler, fresh from the World Bank's team concerned with institutional integrity, will help guide the investigatory practices.

Liaison with Baghdad authorities has been developed with the assistance of former Ambassador Richard Murphy, longtime Chairman of Credit Suisse First Boston John

Hennessy, and investment banker/investigator Walter McCormack.

The simple fact of the matter is that the committee is now building a staff that, to the best of my knowledge, cannot be matched in breadth of experience, in diversity of relevant background, in direct familiarity with complex and international fraud investigations, or in its ability to reach beyond national and conventional legal processes -- including full access to U.N. personnel and records.

Our aims are simple to state. They will be challenging to achieve.

As a matter of priority, we seek to answer conclusively the allegations of corruption within the U.N. professional staff. We aim to provide, hopefully in six to eight months, the truly definitive report on the administration of the Oil-for-Food Program. In conjunction with responsible Iraqi and other national authorities as appropriate, we want to trace corrupt contractors and ill-gotten funds wherever they may be found. The chips will fall where they may. At the end of the day, our hope and belief is that the truth will better enable the U.N. to go forward, with reforms as necessary, and provide the forum for international cooperation that we need and in which all of us can have confidence.

Mr. Volcker, former chairman of the Federal Reserve, is chairman of the Independent Inquiry Committee into the U.N. Oil-for-Food Program. Those with information are invited to contact the committee at info@iic-offp.org.

Mr. Hall. The Chair recognizes Mr. Walden.

Mr. WALDEN. Thank you, Mr. Chairman.

Ms. Rosett, in Mr. Babbin's book "Inside the Asylum," he states there is even emerging evidence that money from the program might have gone to support al Qaeda. And then he references you in the footnote from Oil for Terror, I believe. I had to step out. Maybe you have addressed this already, but can you expound on that? What is the reference there? Did Oil for Food money go to fund al Qaeda?

Ms. ROSETT. The financial corridors through which it would have gone, could have gone, are certainly there. The question that needs to be answered is did money flow, where did it end up? I believe that Treasury may be looking at some of this, but I don't think that any investigation is looking systematically at the U.N. contracts. I would strongly suggest that this was exactly the style in which Saddam Hussein would have been likely to do it. It was hidden in plain sight. It was U.N. approved. The contracts had this kickback structure coming and going. There was an opportunity there to collect kickbacks and build palaces or to fund whatever else he might have been interested in.

As of 1998 onward, a signal year in the development of terrorist networks in various ways, this program had been consolidated in such a way that Saddam Hussein was proud to be pretty sure he could dependably game in. It had become an agency, a department in its own right at the United Nations, he had kicked out the weapons inspectors and the U.N. had responded by doubling the size of the oil he was allowed to sell, and in the following year lifted the cap completely, in other words, expanding this program. There are quite specific links. I would urge you, if you hold further hearings, to call as a witness—am I allowed to do this?

Mr. WALDEN. Sure.

Ms. ROSETT. A private investigator who works at a New York law firm, John Faucett, coauthor of one of the best reports on corruption under Saddam. It focuses heavily on this program. It came out in late September 2002. I have mentioned it in my written statement here. It is worth looking at. He would be worth calling. They are involved in bringing lawsuits on behalf of victims of September 11, and this involves looking into terrorist connections. There are many.

Again, the difficulty is you can see the likely corridor. You need authority that for instance I do not have, but you may be able to find ways to ask what really went through. But, sure, there are several that have already been mentioned. I am happy to supply you with articles about it. A firm in Liechtenstein with direct ties to Bank Al Taqwa listed on the U.N. terror watch list in the Bahamas as al Qaeda Financing. I could tick off a set more. But yes. Also that commercial bank of Syria mentioned in the Treasury testimony. There is plenty of reason to be plenty, plenty worried about this. It may be funding the murder of Iraqis and Americans right now.

Thank you.

Mr. WALDEN. Let me ask another question about some of the specific programs. There has been speculation that some countries have participated, including perhaps Australia in their wheat sales

to Iraq, that the price was greatly inflated for what the world market was. Can any of you address that?

Mr. CHRISTOFF. I think the DCA audit did a very good job of looking at particularly the food contracts, and they found that 87 percent of the food contracts they looked at were overpriced by at least 22 percent. They also expressed concerns about the use of middlemen. In other words, you would have one country that would purchase the wheat or other commodities and then sell it and negotiate the contracts with the Iraqi regime, and that use of the middlemen constituted an additional 20 percent in the price.

Mr. WALDEN. And so what is being done to look at those countries?

Mr. CHRISTOFF. The key countries that were the primary shippers of food to Iraq were Australia, Thailand, and Vietnam. If there is any look at the contracts in detail, that should be part of what we recommend, looking at a statistically valid sample of all of the contracts and trying to identify which of the companies that consistently overpriced and the countries that condoned the overpricing.

Mr. WALDEN. Is somebody doing that?

Mr. CHRISTOFF. We have to get the contracts first.

Mr. WALDEN. And that is the heart of the issue here.

Mr. CHRISTOFF. Yes.

Mr. WALDEN. Mr. Chairman, my time has expired. Thank you, sir.

Mr. HALL. Thank you. On behalf of the subcommittee, Mr. Christoff, if you had to make one or two recommendations as to actions Congress should take to bring the scandal to a resolution and prevent it from happening again, what would be your recommendations?

Mr. CHRISTOFF. I think there are many resolutions and bills that are being enacted in Congress, or are being considered about GAO having access to certain documents. I think that is important. In terms of the policy decisions, I would defer to the Congress in deciding whether or not they would want to enact Mr. Flake's bill. But I think the more important recommendations would be to how do you ensure that a future U.N. program doesn't have the same kind of mismanagement in the future; and that is that you should have a program in which you have adequate internal controls, you have a program with a lot of oversight, and you have to have a program that has the oversight built into the system that is trying to provide the food or the humanitarian services. And you can't rely on a rogue regime to manage itself and oversee itself.

Mr. HALL. I recognize Mr. Rogers for 5 minutes.

Mr. ROGERS. Thank you, Mr. Chairman. I am going to yield to Mr. Ose for his follow-up.

Mr. OSE. I thank the gentleman. Mr. Chairman, the questions by Mr. Shimkus actually were on point in terms of how you go about getting these documents. We have been following that particular issue closely. To the extent that the United States representatives sat on the Sanctions Committee, the review of such contracts that came before the Sanctions Committee on behalf—the review on behalf of the United States was delegated to an interagency working group, and the agencies of the U.S. Government that participated

in that review were the State Department, the Treasury Department and CIA, according to the responses we have received from previous hearings on this matter.

The State Department, the Treasury Department, and the CIA. So if you are going to focus your subpoena, your potential subpoena power, it would be on this interagency working group who advised the U.N. representative of the U.S. Government as to whether or not these contracts should be approved or not. And I just wanted to offer that for the committee's consideration. And I thank the gentleman.

Mr. ROGERS. Thank you, Mr. Ose. Reclaiming my time. This is all fascinating to me. In my old career as a special agent with the FBI, somebody, when I first got in, described the U.N. as a place for spies, thieves, and those people who love to live in New York but hate America. And I guess we can add a new one to that, terrorism as well. And I am very, very concerned about this. And I just hear two reoccurring themes: Transparency is just about nonexistent in this agency. And the internal investigative system there is also dysfunctional or nonexistent. Is there—well, do you have comment on it, Mr. Christoff? I am trying to understand it.

Mr. CHRISTOFF. Right. The U.N. does an internal audit function, the OIOS, Office and Internal Oversight Services. Those are the reports that we are all trying to get. They did 55 internal audits of the Oil for Food Program, four pending audits. And I don't want to state that they didn't do a good job, but I would like to see the internal audit reports to see exactly what they were looking at. I hope they did a good job.

Mr. ROGERS. Tell me how that works. How do you end up as an auditor on OIOS?

Mr. CHRISTOFF. I don't know what their hiring practices are. But the OIOS was set up in 1994. It was something that GAO had been recommending for years, that they have some type of an internal audit function equivalent to IGs that we have in of our cabinet-level agencies. And so they have been in the business for many years trying to do internal audits and reviews of a variety of this programs within the U.N.

Mr. ROGERS. I mean, do they have independence?

Mr. CHRISTOFF. The reports go to the head of the agency that is being audited, and the head of the OIOS can also make a decision as to whether or not those reports go to the Secretary General. That is a little bit different than what our IGs have, where the reports go both to the Congress, they can go to the Congress as well as to the head of the agency.

Mr. ROGERS. Can any member request, any U.N. member request those reports?

Mr. CHRISTOFF. I don't think so. Hold on. Can they? They are listed, and all members nations can get briefings on the OIOS internal audit reports, but I don't believe you can get copies of the entire report.

Mr. ROGERS. Yes.

Ms. ROSETT. If I might just add a bit to this, having tried to find pieces of—the kind of briefing you would get would be, for instance, since there is one that leaked on Cotecna, the firm that employed Kofi Annan's son just before getting the contract with the U.N. to

inspect goods coming in. And what you see once you have the leaked report is that the Secretary General Kofi Annan, in fact, forwarded a mention—he forwards it to the general assembly. He described in two paragraphs the gist of some of this report. And he referred to a serious problem with a company involved in Oil for Food. What dropped out in the briefing was the name of the company.

So, suddenly in searching for that you would no longer find Cotecna, the company in question, you would just find a company. That is the kind of glossing over that goes on in these briefings. Thank you.

Mr. ROGERS. I see my time is running short here. And Mr. Babbin, might it not be also prudent for us to withhold funding until there is a truly functioning IG type apparatus within the United Nations that has some transparency?

Mr. BABBIN. I think you are on the right track, Mr. Rogers. But I don't think even that is going to be anywhere near enough. I think you have to have complete visibility into the organization. And as a former law enforcement officer, I think you can appreciate what that would mean. I can just see what we would be seeing here right now today if Enron had decided to say you guys in the FBI stay away, we have hired Paul Volcker, it just doesn't work. You have to have complete transparency. You should not have to ask for these reports. They should be subject to immediate review and testing by our own people.

Mr. ROGERS. I see my time has expired, Mr. Chairman. Thank you very much. And thank you for your time today. I appreciate it.

Mr. HALL. All right. I thank Mr. Strickland, no questions? Thank you. Is there anyone else who seeks recognition? If not, I think we have terminated a very worthwhile hearing, and I thank you for your input and for your time. Your time is valuable, and thank you for the work you do on behalf of the people.

With this, we will be—don't be dismayed by the lack of attendance here, because this all goes into the record; each of them will get a copy, each Member of Congress will ultimately have a copy of it, and we will read and reread these, this testimony in the future hearings. We thank you very much, and appreciate your time. Thank you. With that, we are adjourned.

[Whereupon, at 11:50 a.m., the subcommittee was adjourned.]

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