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HOW SADDAM HUSSEIN ABUSED THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

HEARING

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

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NOVEMBER 15, 2004

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HOW SADDAM HUSSEIN ABUSED THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

MONDAY, NOVEMBER 15, 2004

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 12:04 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Norm Coleman, Chairman of the Subcommittee, presiding.

Present: Senators Coleman, Levin, Collins, Bennett, Lieberman, Pryor, and L. Graham.

Staff Present: Raymond V. Shepherd, III, Staff Director and Chief Counsel; Joseph V. Kennedy, General Counsel; Leland Erickson, Counsel; Mark Greenblatt, Counsel; Steven Groves, Counsel; Jay Jennings, Investigator; Katherine English, Counsel; Mary D. Robertson, Chief Clerk; Katherine Russell, Detailee, FBI; Phillip Thomas, Detailee, GAO; Gregory Coats, Detailee, IRS; Jeffrey James, Detailee, IRS; Sean Gray, Intern; Elise J. Bean, Staff Director and Chief Counsel to the Minority; Dan Berkovitz, Counsel to the Minority; and Zack Schram, Professional Staff to the Minority.

OPENING STATEMENT OF SENATOR COLEMAN

Senator COLEMAN. This hearing of the Permanent Subcommittee on Investigations is called to order. Good morning, and thank you all for being here.

Today's hearing represents the first findings from our investigation into the United Nations Oil-for-Food (OFF) Program. The Permanent Subcommittee on Investigations began this bipartisan investigation in April. After 7 months of investigating, 8 subpoenas, 13 Chairman's letters, numerous interviews with key participants and the receipt of over a million pages of evidence, we are just beginning to understand the behind-the-scenes machinations of participants in the Oil-for-Food Program.

The magnitude of fraud perpetrated by Saddam Hussein in contravention of UN sanctions in the Oil-for-Food Program is staggering. The Majority staff estimates that Saddam generated personal profits of over $21.3 billion, in contravention of UN sanctions, from 1991 to 2002.

Today, we examine in more detail how it occurred. But why it was able to occur and flourish over the course of a decade is still not fully understood. The extent to which member states were motivated by Saddam's influence-peddling to ignore the fraud and lack

of oversight has not been fully explored. The question that hangs out there is how high up does the corruption go?

The extent to which UN officials personally benefited from Saddam's influence-peddling has not been fully explored. We need substantially greater cooperation from the United Nations to answer these and other questions. Senator Levin and I have joined together and requested access to the United Nations' investigative reports and personnel. To our dismay, those requests have to date been denied.

In addition, I am angered by the proactive interference of the United Nations with our efforts to question groups contracted by the United Nations to oversee parts of this program. I believe the credibility of the United Nations to monitor any future sanctions programs hangs in the balance unless the corruption and mismanagement in Oil-for-Food is identified and rooted out.

In the end, my goal, and I believe the goal of all of us on this Subcommittee is to reach conclusions based on facts, to ask questions to which answers must be given, and hopefully when candor and fairness return, end the quagmire of doubts about the Oil-for-Food Program and the United Nations' role in it.

The Oil-for-Food Program was intended to allow the Government of Iraq to provide for humanitarian aid and assistance for its people. Instead, under the Oil-for-Food Program, Saddam Hussein generated massive amounts of money that had one sole purpose—to keep him in power. He used the money to cultivate international support to avoid being responsive to UN resolution after UN resolution. The Iraqi people suffered, the world is more dangerous, and Saddam laughed at world opinion and UN sanctions.

And the failure of the program wasn't just in providing food, medicine and comfort to the Iraqi people, but the failure of the program was also in not having strong oversight and checks and balances that would have prevented a small group of people and nations from reaping billions and billions of dollars from the people of Iraq.

Finally, the question must be raised as to what happened to Saddam's billions, and are they being used today to fuel an insurgency that has taken the lives of over 1,000 American and Coalition servicemen and women and thousands of our Iraqi allies? The clear inference can be drawn that the failed management of the Oil-for-Food Program has cost the lives of many innocent individuals.

We have an obligation to more fully understand how this massive fraud was able to thrive for so long, who benefited from it, and what has been its past and ongoing costs in dollars and in lives. So how much money did Saddam generate, in contravention of the UN sanctions, from 1991 to 2002?

As stated earlier, the Majority staff estimates the figure to be $21.3 billion. That figure builds upon previous estimates of the General Accounting Office, $10.1 billion, and the figure contained in the Duelfer report, $10.9 billion. This $21.3 billion estimate is based upon evidence discovered during our investigation and was formulated with the assistance of experts from the Joint Economic Committee, the Congressional Budget Office, and GAO.

The estimate of $21.3 billion includes—and I would refer to a chart to my left, Chart 1a.[1]—it includes oil smuggling facilitated through trade protocols with Iraq, as well as unauthorized smuggling, including topping-off of oil tankers, $13.5 billion; surcharges on oil purchases, $241 million; kickbacks on humanitarian goods, $4.4 billion; sub-standard goods purchased under the Oil-for-Food Program, $2.1 billion. I believe that is a new category that had not been included in other estimates, as are the abuses in the Northern Kurdish region, $405 million, and investment of illicit revenues, $403 million.

Today, the Subcommittee will unveil evidence that will show how Saddam used vouchers to peddle influence and reward friends around the world, how Saddam extracted illegal surcharges from oil purchases, and how blue chip international corporations gave Saddam millions in illegal kickbacks.

Our first witness today is Charles Duelfer, Special Advisor to the Director of Central Intelligence on Iraq's WMD. We look forward to his testimony about the report he prepared for the Administration detailing Iraq's abuse of the OFF Program.[2]

The Duelfer report concludes that Saddam Hussein's primary goal was to have UN sanctions lifted. In addition, he found that the introduction of the OFF Program was a key turning point for the regime. This program provided additional illicit billions of dollars in revenue streams of kickbacks and surcharges.

More importantly, the program rescued Iraq's economy from UN sanctions by increasing economic activity and reducing international support for UN sanctions. It appears that OFF abuses, particularly vouchers to well-placed individuals and entities favoring Iraq, and kickbacks and surcharges which went unhindered by the UN Security Council despite their knowledge of them, emboldened Saddam Hussein to finance and procure missile delivery systems, dual-use items and military munitions. As we know, Saddam Hussein devised a myriad of ways to violate the OFF Program.

On the second panel, investigative counsels from the Subcommittee will present new evidence that describes three of the principal ways that Hussein abused the sale of Iraqi oil under the OFF Program.

First, we will hear testimony that illustrates how Saddam converted oil into influence. In that segment, we will examine how Saddam gave so-called oil vouchers to foreign officials, journalists and possibly even terrorist entities in order to peddle influence and reward friends. In doing so, we will reveal previously undisclosed evidence that indicates what oil vouchers were and how the voucher process worked.

For instance, we will introduce a number of documents that illustrate how high-ranking officials in Saddam's regime, such as Tariq Aziz, were personally involved in handing out these favors. We will present a step-by-step review of how voucher recipients turned these favors into cash. For instance, we will see evidence of how

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[1] See Exhibit No. 1a., which appears in the Appendix on page 102.

[2] *Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD, September 30, 2004* (Volumes I, II, and III), prepared by Charles Duelfer, Special Advisor to the Director of Central Intelligence, retained in the files of the Subcommittee as Exhibit No. 37.

Vladimir Zhirinovsky, a prominent Russian politician, invited an American oil company to negotiate the sale of an oil voucher.

We will show how vouchers which translated into formal oil contracts were then approved by the UN. As an example, we will trace a voucher given to a Syrian journalist named Hamidah Na'na, and see how that voucher ended up as a formal contract for the sale of oil under the Oil-for-Food Program. In the end, our presentation will reveal how Saddam turned UN sanctions on their head and actually used the Oil-for-Food Program to his own advantage.

Aside from our analysis of Saddam's oil vouchers, we will examine a second method that Saddam used to abuse the sale of oil under the OFF Program, namely oil surcharges. While the voucher scheme was employed to peddle influence, the surcharge was simply a way to generate under-the-table revenue for Saddam's cash-strapped regime.

We will explore how Saddam managed to generate roughly $230 million in revenue through the oil surcharges. Our presentation will include new evidence of who made under-the-table payments to the regime. We will also explore how they made those payments. For instance, we will trace one transaction that involved an American oil company in which more than $1 million in illegal payments were made to the Hussein regime. Finally, we will present an excerpt of a document created by the Government of Iraq that details each and every surcharge payment.

In addition to influence-peddling and generating illicit revenue from oil vouchers and surcharges, Saddam Hussein concocted a separate scheme to siphon off billions of dollars for himself by demanding kickbacks on contracts for humanitarian goods. Saddam used his freedom to contract with whomever he pleased to cut deals that were in his own best interests and not for the humanitarian needs of his people.

We will also hear testimony describing the kickbacks paid by a Scottish company called The Weir Group, which did over $80 million worth of business under the Oil-for-Food Program. The story of Weir is particularly disturbing, since it demonstrates that legitimate, reputable corporations were complicit in enriching the regime of Saddam Hussein.

Our investigation revealed that in June 2000, the Iraqi regime demanded kickbacks from Weir. Rather than reject the demand, Weir agreed to enter into an arrangement to pay a portion of every subsequent contract back to Saddam. We will hear testimony detailing this arrangement and a step-by-step description of how Weir inflated its contracts by marking up the price of its products and by overstating the quantity of parts shipped.

At the direction of the Iraqi regime, and over the course of 4 years and 15 contracts, Weir paid over $8 million into a secret Swiss bank account in the name of a non-existent corporation called Corsin Financial Limited. Weir and Iraq were able to transact business in this manner with impunity under the nose of the United Nations and without regard of the sanctions imposed by the international community. The Office of the Iraqi Program, the UN entity that oversaw the Oil-for-Food Program, approved Weir's contracts even though the prices of the contracts were sometimes inflated by 30 to 40 percent.

Assistant Secretary of the Treasury Juan Zarate is the perfect witness to wrap up the hearing today. As head of the Interagency Iraqi Asset Tracking Task Force, Mr. Zarate will provide valuable information on the efforts of the U.S. Government and its Coalition partners to identify, locate and repatriate the assets of the Iraqi people.

Although the Department of the Treasury's primary mission is recovery of Iraqi assets, one tangent of this recovery effort has been the uncovering of information pertaining to the illegal kickbacks, surcharges and other fraudulent activities committed by the former Iraqi regime under the UN Oil-for-Food Program.

How much of the $21.3 billion, as estimated by this Subcommittee, has been channeled into the hands of terrorists or is currently funding the insurgency in Iraq? I don't know if Mr. Zarate can answer this question, but he will provide examples of Treasury's efforts in undermining terrorist activities through the identification and freezing of assets, as well as the designation of terrorist individuals and organizations. Again, the question of how much of this $21.3 billion is fueling insurgency today is one that ultimately has to be answered.

The weaknesses in the Oil-for-Food Program raise serious questions about the United Nation's ability to enforce sanctions and administer a humanitarian aid program in the future. American taxpayers pay close to 22 percent of the UN's operating costs. They need assurances and deserve assurances that their tax dollars are being well spent, especially in light of the fact that sanctions will likely be imposed upon other nations in the future.

The mal-administration—and I submit to you this is an understatement—of the program has also undermined the infrastructure and the economy of Iraq, which has led to a substantially greater level of U.S. money needed for the reconstruction of Iraq after the war.

The Iraqi people were harmed by sub-standard food and medicine, severely affecting the quality of life of innocent Iraqis.

Finally, allegations have been raised by credible sources that money diverted from the OFF Program has been diverted to the Iraqi insurgency and to terrorist activities both in Iraq and elsewhere around the world. If these allegations are true, then the failure of the OFF Program can be tied directly to the loss of American lives, Coalition lives and the lives, as I said before, of thousands of our Iraqi allies.

I anticipate that our investigation will lead to many more disclosures over the next several months. The Subcommittee will continue to work diligently to uncover the truth, and when we feel confident that we have found it, we will schedule additional hearings. I especially want to thank Mr. Duelfer and Mr. Zarate for their cooperation in helping us get to the truth. I hope that others will be equally forthcoming.

Before I turn it over to the Subcommittee's Ranking Member, Senator Levin, I do want to acknowledge the presence of our Committee's Chairman, Senator Collins, and the Ranking Member, Senator Lieberman. Thank you both very much for being here.

With that, I turn it over to the Subcommittee's distinguished Ranking Member, Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman. Today, the Permanent Subcommittee on Investigations is conducting the first of several hearings examining efforts by Saddam Hussein to undermine the United Nations Oil-for-Food Program and to misuse its humanitarian aims to obtain illicit revenues.

It is important that we take some time to understand what worked and what didn't work in the Oil-for-Food Program, how the program succeeded and how it failed, and how Saddam Hussein worked to undermine the sanctions. Sanctions are a club which can have an impact, as they apparently are doing today in Iran. It is useful to learn from the Iraqi experience, in which sanctions basically achieved their goals but were weakened in a number of ways, so that we can make sanctions work as effectively as possible. The Subcommittee's investigation can contribute to that learning process.

Much of the testimony today will concern how Saddam Hussein attempted to circumvent the UN sanctions program to obtain revenues that helped perpetuate his regime's iron grip on power in Iraq. A major focus of today's hearing will be the Duelfer report.[1] This report provides extensive detail on how Saddam Hussein gamed the system, including the use of so-called trade protocols, oil vouchers, contract awards, surcharges and kickbacks in an attempt to undermine the sanctions, while simultaneously obtaining illicit revenues and prohibited military equipment.

The objective of the UN sanctions was to prevent Saddam Hussein from developing weapons of mass destruction and rebuilding Iraq's conventional military forces. The sanctions were not intended to stop all international trade with Iraq, but to prevent Iraq from re-arming and threatening regional stability.

While Saddam had some success in circumventing sanctions, for the most part the UN sanctions achieved their intended objective of preventing Saddam from re-arming and developing weapons of mass destruction. In testimony before the Senate in 2001, Secretary of State Colin Powell testified that the sanctions had been successful and should be continued.

He explained as follows, "Saddam Hussein has not been able to rebuild his army, notwithstanding claims that he has. He has fewer tanks in his inventory today than he had 10 years ago. Even though we know he is working on weapons of mass destruction—we know he has things squirreled away—at the same time we have not seen that capacity emerge to present a full-fledged threat to us." Referring to sanctions, Secretary Powell added, "So I think credit has to be given for putting in place a regime that has kept him pretty much in check," referring again to the sanctions regime.

Earlier this year, our new Ambassador to Iraq and former U.S. Ambassador to the UN John Negroponte testified before the Senate that the sanctions had largely achieved their purpose, "The U.S. Government supported the program's general objective of creating a system to address the humanitarian needs of the Iraqi civilian

[1] *Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD, September 30, 2004* (Volumes I, II, and III), prepared by Charles Duelfer, Special Advisor to the Director of Central Intelligence, retained in the files of the Subcommittee as Exhibit No. 37.

population, while maintaining strict sanctions enforcement of items that Saddam Hussein could use to rearm or reconstitute his WMD program." And Negroponte concluded, "We believe the system the Security Council devised by and large met those objectives."

Most recently, the Duelfer report provided a detailed analysis of how UN sanctions constrained Saddam's efforts to re-arm. The Duelfer report states, "Sanctions imposed constraints on potential WMD programs through limitations on resources and restraints on imports. The sanctions forced Iraq to slash funding that might have been used to refurbish the military establishment and complicated the import of military goods. Rebuilding the military, including any WMD capability, required an end to sanctions."

The Duelfer report also found that sanctions had prevented Iraq from significantly rebuilding its conventional forces, confirming Secretary Powell's 2001 assessment, as well as a report by the General Accounting Office in 2002.

The GAO report stated the following, "According to U.S. and UN officials, there is no indication that Iraq has purchased large-scale weapons systems, such as aircraft, ships or armor. Iraq's conventional rearmament efforts are limited to purchases of small arms and spare parts to keep weapons and vehicles not destroyed during the Gulf War operational. Most importantly, according to State Department arms experts, conventional weapons systems such as aircraft and ships are expensive and UN controls have limited the amount that Iraq can spend on arms."

Now, the chart that I am putting up which was compiled from data recently updated by the GAO shows how effective the UN sanctions were in reducing Iraq's ability to develop weapons of mass destruction and large-scale conventional forces.[1]

The data shows that Iraq's military spending after sanctions were imposed in 1991 fell to a small fraction of what it had been prior to sanctions. It indicates that despite Saddam Hussein's relentless efforts to circumvent the sanctions, once they were imposed Iraq's military spending plummeted.

The fact that the sanctions were basically meeting their objective was the main reason that Saddam Hussein tried so hard to get around them. The Duelfer report surmises that had Saddam Hussein succeeded in ending the sanctions, he would likely have resumed re-arming Iraq, with potentially dangerous results. Whether Saddam Hussein would have succeeded in ending sanctions will never be known. What we do know is that the sanctions, in fact, largely prevented Iraq from re-arming.

We also know that the Oil-for-Food Program weakened the sanctions by allowing Saddam to pick the winners of the contracts issued under the program. The proceeds from the oil sales went into an escrow account for humanitarian use, but Saddam repeatedly inflated the dollar amount for humanitarian contracts and obtained kickbacks from these contracts and the oil sales to the tune of about $1.7 billion.

Saddam's abuse of the Oil-for-Food Program, however, provided only a fraction, about one-sixth, of Iraq's total illicit income. According to the Duelfer report, the vast majority, which is in blue

[1] See Exhibit No. 31, which appears in the Appendix on page 174.

there, nearly three-quarters of Saddam's illicit income during the sanctions period, was generated through publicly-disclosed trade agreements, called protocols, to sell Iraqi oil to its neighbors, primarily Jordan, Syria, and Turkey.

Those protocols constituted a far greater subversion of the sanctions because Iraq, instead of the UN, controlled the estimated $8 billion in proceeds. The world, including the United States, knew of these contracts between Iraq and its neighbors, but winked at them, even though they represented the vast majority of Saddam Hussein's illicit income.

Now, the chart, which uses data in the Duelfer report, depicts the amounts and types of illicit income earned by Iraq during the sanctions period.[1] It shows that the trade agreements which were not part of the Oil-for-Food Program were the largest single source, about 75 percent, of Iraq's illicit income, generating $8 billion out of a total that was estimated in the Duelfer report of $10.7 billion. According to the Duelfer report, the Oil-for-Food Program generated about $1.7 billion, or about 16 percent of Iraq's total illicit income.

Iraq also used the trade protocols to obtain illicit income; also, not only that, but military items prohibited by the UN sanctions. The Duelfer report provides extensive information about how Iraq used the protocols, those sales agreements, to obtain equipment for its conventional military forces, including missile, jet engine and radar components. Indeed, it appears from the Duelfer report that the vast majority of Iraq's illegal military equipment was procured through the trade protocols rather than through abuse of the Oil-for-Food Program.

Iraq's ongoing oil sales to its neighbors was no secret. Both the United Nations and the United States knew of it and deliberately let the trade continue, presumably to maintain the support of Iraq's neighboring countries for the overall sanctions regime and to obtain other foreign policy objectives.

In the United States, successive Administrations, both the Clinton Administration and the Bush Administration, acknowledged the existence of the Jordanian and Turkish trade deals, and routinely waived provisions of U.S. law that would have prohibited U.S. foreign aid to these countries for violating the UN sanctions on Iraq.

According to the Duelfer report, Jordan and Syria were the major sources of illicit income for Iraq during the sanctions regime and the major sources of prohibited military equipment as well. The failure of U.S. Administrations to take forceful action to stop Iraq's illicit dealings with Syria, a nation branded by the State Department as a major sponsor of terrorism, is perhaps the most troubling.

The illicit oil trade between Iraq and Syria began in late 2000 with the opening of a pipeline and it quickly expanded. In February 2001, Secretary of State Powell said that he had obtained personal assurances from the Syrian president that he would place the Syrian-Iraqi trade under the UN Oil-for-Food Program.

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[1] See Exhibit No. 32, which appears in the Appendix on page 175.

According to a contemporaneous press report, "Mr. Powell said that he had won agreement from Syria to place into a United Nations escrow account revenues that Mr. Hussein was receiving from oil flowing through Syrian pipelines. In the last few months, those revenues have been going into Mr. Hussein's pockets, illustrating the fraying of sanctions. The commitment from Syria was so firm that President Assad stated it three times during the meeting, Secretary Powell said, that the Secretary said that he telephoned President Bush to tell him."

But Syria not only failed to keep its promise; it increased its oil trade with Iraq, paying Saddam more than $1 billion annually. This trade continued right up to the outbreak of war, when the U.S. military finally cut off the illegal flow of oil from Iraq to Syria.

Iraqi oil sales to Syria supplied Saddam Hussein with billions of dollars in illicit revenue. Yet, the United States and other nations apparently did little to stop it. In February 2002, *The Washington Post* reported, "U.S. officials have applied little direct pressure on Damascus, even though this revenue is one of the few ways Iraqi President Saddam Hussein can pay to maintain his military and finance any efforts to acquire weapons of mass destruction."

It then quoted an Administration official who acknowledged the trade but expressed little, if any, determination to curtail it, "Make no mistake about it, the pipeline issue is a serious topic and a point of contention. Are we willing to make it a sticking point so that it affects the relationship between our two countries? No. We have to be pragmatic."

The bottom line is the United States and other nations tolerated the trade protocols and the Iraqi oil sales which, according to the Duelfer report, produced billions of dollars in unaccounted revenue for Saddam, as well as prohibited military equipment for Iraq. Evaluating whether this policy of acquiescence was the right course of action is a key issue not only in drawing lessons from the Iraqi sanctions, but also in designing future international sanctions programs.

The Oil-for-Food Program abuses themselves were presumably not acquiesced in. These abuses included awards of oil vouchers and allocations to curry favor, contract surcharges to generate kickbacks, and the use of front companies and bank accounts in countries with corporate and bank secrecy laws.

We will hear not only about Saddam Hussein's demand for corrupt payments, but also about the willingness of some companies and individuals to go along with those demands. Oversight was supposed to be provided not only by the United Nations Security Council and its 661 Committee, including the United States, which took on the responsibility of reviewing Oil-for-Food contracts, licensing U.S. companies to do business with Iraq and monitoring Iraq's compliance with UN sanctions.

We need to examine the shortcomings in oversight, with the same goal of ensuring that future sanctions regimes will be tighter and more effective. That is what this hearing and subsequent hearings before this Subcommittee are about, helping the world design more effective international sanctions, and I commend Chairman Coleman for his strong leadership in that effort.

Thank you.

Senator COLEMAN. Thank you, Senator Levin. Chairman Collins.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. Thank you, Mr. Chairman. Let me begin by commending you for conducting this much-needed investigation into Saddam Hussein's abuse of the United Nations' Oil-for-Food Program. I know that you have worked extraordinarily hard during the past several months to unravel the strands of this corrupt scheme.

We should remember during the course of this investigation that the Oil-for-Food Program was created out of a genuine desire by the members of the United Nations Security Council to meet the humanitarian needs of the Iraqi people while the UN sanctions worked to force compliance with Security Council resolutions. But what happened was that the effort quickly mutated into what the *Wall Street Journal* has called "the largest bribery scheme in the history of the world."

One of the most disturbing aspects of this scandal is its sheer size. While the world may never know exactly how much money was plundered by Saddam Hussein's regime, the Government Accountability Office estimated in July that Saddam amassed more than $10 billion in illegal revenues between 1997 and 2002. That is $10 billion out of a total of $67 billion during that time period. The Subcommittee's estimate, which looks at a longer time frame, is more than $21 billion.

It is deeply troubling that the UN sanctions could be circumvented by Saddam Hussein on such a massive scale. Moreover, the evidence suggests that the Oil-for-Food Program was manipulated by Saddam Hussein to erode the international community's resolve to enforce the sanctions against his regime.

Just one example of how this money was stolen can be found in Saddam Hussein spending $2 billion during the 1990s to build nine lavish presidential palaces. As former General Tommy Franks said during a visit to one such palace, perhaps the Oil-for-Food Program should have been dubbed the Oil-for-Palaces program instead.

But far worse, much of Saddam Hussein's illicit revenue was used for the more sinister purpose of undermining sanctions and rebuilding the Iraqi war machine. I view what happened a little differently than my friend and colleague from Michigan, Senator Levin.

One of today's witnesses, Charles Duelfer, will tell us, as he reported in September, that "The billions of dollars of revenue generated by the various protocols, illicit surcharges and oil smuggling schemes drove the explosive growth in Iraq's military imports." This allowed the Iraq Military Industrialization Commission, which was the agency responsible for overseeing the Iraqi military-industrial infrastructure, to smuggle millions of dollars' worth of military equipment into Iraq, in contravention to the UN sanctions. Mr. Duelfer's report explains that this commission's budget grew from $7.8 million in 1996, to $350 million in 2002, to $500 million in 2003, all during a period when Iraq was supposed to be under strict UN sanctions.

I look forward to hearing the testimony of today's witnesses and the light that they will shed on this very complex course of events.

I think this investigation and series of hearings is extraordinarily important. I commend the Chairman and Senator Levin for investigating the scope of this scandal and for identifying what steps need to be taken to ensure that this kind of blatant wrongdoing and corruption never again occurs in any future humanitarian programs.

Thank you, Mr. Chairman.

[The prepared statement of Senator Collins follows:]

PREPARED STATEMENT OF SENATOR COLLINS

Let me begin by commending you for conducting this much-needed investigation into Saddam Hussein's abuse of the United Nations Oil-for-Food Program. I know that you have worked extraordinarily hard for months at unraveling the strands of this corrupt scheme.

The Oil-for-Food Program was created out of a genuine desire by the members of the United Nations Security Council to meet the humanitarian needs of the Iraqi people while UN sanctions worked to force compliance with Security Council resolutions. But this effort quickly mutated into what the *Wall Street Journal* has called "the largest bribery scheme in the history of the world."

One of the most disturbing aspects of this scandal is its sheer size. While the world may never know exactly how much money was plundered by Saddam Hussein's regime, the Government Accountability Office estimated in July that Saddam amassed more than 10 billion dollars in illegal revenues between 1997 and 2002. That's 10 billion dollars in a 67 billion dollar program. The Subcommittee's estimate over a longer period is a staggering 21 billion dollars. I am deeply troubled that UN sanctions could be circumvented by the former Iraqi regime on such a massive scale. Moreover, the evidence suggests that the Oil-for-Food Program was manipulated by Saddam to erode the international community's resolve to enforce the sanctions against his regime.

Just one example of how this money was stolen can be found in Saddam spending two billion dollars during the 1990s to construct nine lavish presidential palaces. As General Tommy Franks said during a visit to one such palace, perhaps the Oil-for-Food Program should have been dubbed the "Oil for Places" program instead.

But far worse, much of Saddam Hussein's illicit revenue was used for the more sinister purpose of undermining sanctions and rebuilding the Iraqi war machine. One of today's witnesses, Charles Duelfer, reported in September that, "The billions of dollars of revenue generated by the various protocols, illicit surcharges, and oil smuggling schemes drove the explosive growth in [Iraq's] military imports. This allowed [Iraq's Military Industrialization Commission] to smuggle millions of dollars worth of military equipment into Iraq in contravention of UN Sanctions."

The Military Industrialization Commission, incidentally, was the agency in Iraq's government responsible for overseeing the Iraqi military-industrial infrastructure. Mr. Duelfer's report explains that this Commission's budget grew from 7.8 million dollars in 1996 to 350 million dollars in 2002 to 500 million in 2003, all during a period when Iraq was supposed to be under UN sanctions.

I look forward to the testimony of today's witnesses, and the light they will shed on this very complex course of events. And I again commend Senator Coleman and Senator Levin for investigating the scope of this scandal and what steps need to be taken to ensure that the same kind of wrongdoing never occurs in future such humanitarian programs.

Senator COLEMAN. Thank you, Chairman Collins. Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thanks, Mr. Chairman. I thank you and Senator Levin for initiating this critically important investigation.

Mr. Chairman, this investigation is not only important insofar as we learn lessons from it that will help us and the United Nations and the international community in the application and implementation of sanctions. I think it may be important in terms of our understanding, and perhaps even the American people's understanding, of the history of what was going on in Iraq.

I am pleased to see Mr. Duelfer here. I must say that the bottom line here is that this investigation, Mr. Duelfer's and now the Subcommittee's, has shown us the way in which a supposedly humanitarian program, certainly a program adopted for humanitarian reasons, in part as a result of a cunning international marketing campaign by the Saddam Hussein regime to develop concern about people suffering in Iraq as a result of the sanctions—that humanitarian program was corrupted and exploited by Saddam Hussein not only illicitly, but for the most horrible and aggressive of purposes.

Mr. Duelfer's report in this regard and the Subcommittee's investigation, I think, shows that Saddam Hussein was guilty of the grandest larceny in pursuit of a grand plan to re-arm, including the reconstitution of his program of weapons of mass destruction.

I must say, Mr. Duelfer, I appreciate that the Subcommittee has brought you back because I feel that your initial report was a superb piece of work and, in my opinion, may have been the most mis-reported and misinterpreted governmental document in my 16 years in the Senate of the United States.

The reason I say that is that too many people jumped on your conclusion that you did not find weapons of mass destruction, even though in your report—and I have read every word of it and I have read every public statement of yours on the report that I could find—you caution that readers not reach definitive conclusions based on your inability to find WMD, and certainly not to conclude that Saddam didn't have them at the time the war began, or perhaps even that there were not some there. In fact, your report documents a network of clandestine laboratories involved in work related to both biological and chemical weapons.

But more to the point of this investigation, what you make clear—and this is based not on any pre-war intelligence which we now have so much doubt about—it is based on the Iraq Survey Group which you headed, more than 1,500 people, as I recall, with full range, as much as you could throughout Iraq, and access to people that, needless to say, in Saddam Hussein's government, we had no access to prior to the war.

I think you reach some very clear and compelling conclusions, and I want to just read from the report. "Saddam Hussein wanted to recreate Iraq's WMD capability after sanctions were removed. Saddam aspired to develop a nuclear capability, but he intended to focus on ballistic missile and tactical chemical warfare capabilities in the short run."

I continue to quote, "Saddam recognized that the reconstitution of Iraqi WMD enhanced both his security and his image. Consequently, Saddam needed to end UN-imposed sanctions to fulfill his goals. Saddam continually directed his advisers to formulate and implement strategies, policies and methods to terminate the UN sanctions regime established by UNSCR 661."

I am continuing to read selectively from the report. "Under Saddam's orders, the Ministry of Foreign Affairs of Iraq formulated and implemented a strategy aimed at these United Nations Security Council members and international public opinion, with the purpose of ending UN sanctions and undermining its subsequent Oil-for-Food Program by diplomatic and economic means."

Then you say, "Once that undermining," by the various forms that we have heard described already today—"Once the money began to flow into Iraq, the regime's authorities devised and implemented methods and techniques to procure illicit goods from foreign suppliers. To implement its procurement efforts, Iraq, under Saddam, created a network of Iraqi front companies, some with close relationships to high-ranking foreign government officials, to procure illicit goods, services and technologies for Iraq's WMD-related conventional arms and/or dual-use goods programs," so again WMD-related. The regime financed these government sanctions programs by several illicit revenue streams that we will describe here today.

"Saddam used the Iraq Intelligence Service to undertake the most sensitive procurement missions. Consequently, the IIS facilitated the import of UN-sanctioned and dual-use goods into Iraq through countries like Syria, Jordan, Belarus, and Turkey. The Ministry of Foreign Affairs played a critical role in facilitating Iraq's procurement of military goods and dual-use goods pertaining to weapons of mass destruction, transporting cash and other valuable goods earned by illicit oil revenue and forming and implementing a diplomatic strategy to end UN sanctions and the subsequent Oil-for-Food Program by nefarious means." "Nefarious" is the right word.

So I conclude from this section of your report that Saddam Hussein was doing everything he could to both evade and abuse the sanctions program, the Oil-for-Food Program, with the purpose of protecting the intellectual and other capacity he had for a WMD program, including the development and delivery systems like long-range missiles, much of it with the intent of breaking out of the sanctions program for a primary purpose of reconstituting at full pace his WMD program, with an emphasis on long-range delivery systems and chemical weapons, but also returning to his biological and nuclear weapons programs, which says to me—and I apologize for this, but to me it is central—that those who argue that the war to overthrow Saddam was a mistake because WMD was not found, do not allow for the many other good reasons to overthrow Saddam because he was a brutal dictator and murdered hundreds of thousands of his people and he supported terrorism.

But based on your report, after the war, talking to people who weren't available before the war, and based particularly on these sections that document his cruel, merciless evasions of the sanctions program, it is clear to me that had we not overthrown Saddam Hussein, by this time he might have broken out of sanctions. He certainly would have been on the way to doing so, and therefore reconstituting his WMD program, which says to me, as many of us have said many times before, the world is a lot safer with Saddam Hussein in prison and not in power.

I want to just add a final word about the United Nations and complimenting the Chairman and Ranking Member of this Subcommittee on their persistence. For many of us who continue to hold dear the ideals which motivated the formation of the United Nations, too much of its behavior too much of the time has eaten away at what I believe are those ideals.

Your report here, and the Subcommittee's investigation unfortunately holds another cloud, a dark cloud over the United Nations and our hopes for its constructive peace-making and peace-keeping role in the world, because it is clear here that the UN not only mismanaged the Oil-for-Food Program, but that United Nations officials themselves may have participated in Saddam's efforts to undermine the very controls they were charged with enforcing.

Now, it goes without saying that those are extremely serious charges, and until the facts are in it would be premature and unfair to reach any conclusions. In fact, the UN has opened its own investigation, headed by Paul Volcker, former Chairman of the Federal Reserve. But that is no excuse for the United Nations not to have cooperated with this Subcommittee's investigation.

I wanted to join with Senators Coleman and Levin in urging the United Nations to cooperate fully and promptly with this Subcommittee's requests, or to risk further diminishing the support that does still exist in this Congress for the important work of the United Nations.

I thank the Chairman.

Senator COLEMAN. Thank you, Senator Lieberman. Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Thank you. I just wanted to really say thank you to Chairman Coleman and Senators Levin, Collins, and Lieberman, for your great leadership not just on this issue, because you have been great on the Oil-for-Food Program, but also on a variety of issues over the last couple of years since I have been in the Senate that relate to Iraq, homeland security, national defense and national security. They relate to intelligence, and the list goes on and on.

I want to thank you all, and if we don't accomplish anything else today other than to get a clear and accurate picture of what was going on in Iraq during the Oil-for-Food Program, this hearing would be worth doing. But I think there is a larger and more significant piece to this. That in and of itself is very important, but maybe more significant than that is to look to the future because we know it won't be long—we don't know when, but at some point the United Nations or some other organization will impose sanctions on some other country.

In fact, there are sanctions that exist today around the world, but to learn from what was going on in Iraq will help us to do a better job in the future to make sure that sanctions are most effective and that they actually accomplish the goals that they set out to accomplish.

So, again, I want to thank the Chairman and everyone for their leadership on this issue.

Senator COLEMAN. Thank you, Senator Pryor. Senator Pryor, let me return the compliment by saying I don't know if there is another single Member of this Subcommittee who has been as active in all our investigations and all the work we have done. So we greatly appreciate your deep involvement in all the matters that have come before us. Thank you.

We would now like to welcome our first witness at today's hearing, Charles Duelfer, the Special Advisor to the Director of the Central Intelligence Agency who prepared the comprehensive report of the Special Advisor to the DCI on Iraq's WMD. This recently released report provides an overview and some examples of the abuses related to the Oil-for-Food Program.

Mr. Duelfer, I want to express my personal appreciation for the extraordinary service you have rendered this Nation in your search for Saddam Hussein's conventional, radiological, chemical and biological weapons, and for your evaluation of the Oil-for-Food Program.

According to press accounts, I understand that an assassin sought to take your life during your recent visit to Baghdad, which resulted in the death of two American soldiers and the wounding of three others. I am glad that you were not injured and can be with us today. I also want to express my condolences to the families of those who gave their lives in service to this Nation and wish a speedy recovery for those who were injured in the attack.

I appreciate your attendance at today's important hearing and I am looking forward to hearing your observations about the Oil-for-Food Program. I note, Mr. Duelfer, that you have two of your colleagues with you. Would you identify them for the record, please?

Mr. DUELFER. Steve Zidek to my immediate left and Chris Johnsten next to him.

Senator COLEMAN. Thank you very much.

Gentlemen, before we begin, pursuant to Rule VI, all witnesses who testify before this Subcommittee are required to be sworn. At this time, I would ask you to please stand and raise your hand.

Do you swear that the testimony you give before this Subcommittee will be the truth, the whole truth and nothing but the truth, so help you, God?

Mr. DUELFER. I do.

Mr. ZIDEK. I do.

Mr. JOHNSTEN. I do.

Senator COLEMAN. We will be using a timing system today. Please be aware that approximately 1 minute before the red light comes on, you will see the lights change from green to yellow and it will give you an opportunity to conclude your remarks. Your written testimony will be printed in the record in its entirety. We ask that you limit your oral testimony to no more than 10 minutes.

Mr. Duelfer, you may proceed.

TESTIMONY OF CHARLES DUELFER,[1] SPECIAL ADVISOR TO THE DIRECTOR OF THE CENTRAL INTELLIGENCE ON IRAQ'S WMD, CENTRAL INTELLIGENCE AGENCY, ACCOMPANIED BY STEPHEN ZIDEK AND CHRISTOPHER JOHNSTEN

Mr. DUELFER. Mr. Chairman and Senators, thank you very much. It is customary to thank the Subcommittee for the opportunity to be here, and I do that. But again, as you noted, as a personal note I have to declare my thanks to three individuals who are not here.

[1] The prepared statement of Mr. Duelfer appears in the Appendix on page 67.

As you noted, there was a suicide bomb attack on a convoy I was in and we lost two of the protective details, a staff sergeant, Clinton Wisdom, and Specialist Donald Cleary. And Specialist Nathan Gray was badly injured. Without their actions, I doubt whether I would be here today.

And in a way, I think that lends even more gratitude that you are taking this interest in this material because the report and the facts we tried to assemble were not done without significant cost. And I think they merit debate; they merit a lot of attention in terms of lessons learned. This has been a long tragedy for many decades, and my experience last week was only just the most recent. So, as with your colleagues, Mr. Chairman, I think it is good that this investigation take place.

My report and the supporting analysis aimed at providing a synthetic view of the former regime's decisions and strategies as it related to WMD. It was one of my objectives to describe the context within which Saddam made his decisions about WMD.

WMD did not happen in a vacuum. To understand what happened to Iraqi and WMD, and perhaps to learn lessons that might inform future policies, I felt it was important to examine the surrounding factors that impinged on Saddam's decisions.

At different times, Saddam opted to have, and then to have not, WMD. It was my hope to try to illuminate the conditions that led to these different courses. I also tried to analyze the regime's relationship with WMD over time. We have been wrestling with the prospect of the Iraqi Nation with Saddam and WMD for almost three decades. It would have been grossly deficient to simply tally up the remnants of the WMD program. My goal was to understand the dynamics behind the decisions that Saddam made. To this end, we delved into the nature of Saddam's objectives and his perspectives on the world.

A significant part of the report addresses the manner of Saddam's rule and his vision for himself and Iraq. Unlike previous reports on the regime, we had access to primary sources, Saddam's top advisers, as well as to Saddam himself.

Understanding and analyzing WMD in Iraq is in one way simplified because the regime was basically one person—Saddam Hussein. This certainly bounded the analysis. The second way we found of bounding the problem was to consider the limited amount of resources available to the regime. Sanctions and the oil embargo put strict limits on Iraq's disposable income.

It struck me that if we could account for the resources available to the regime and examine how the regime allocated them, we could learn a great deal about its objectives and actions related to WMD. This line of investigation quickly highlighted not just the tangible resources available to Iraq, but also the influence that the regime accrued through the potential to allocate future resources. Examination of the resource decisions and actions that the regime took to disburse its favors proved an excellent way of highlighting the objectives and intentions of Saddam.

We identified several key inflection points in this history. One was the summer following the 1991 war. The UN Security Council had taken a decision to link the lifting of sanctions and oil embargo imposed in August 1990, when Iraq invaded Kuwait, to Iraq's rid-

ding itself of WMD. The new inspection organization was created for this purpose. Initially, all thought it would be short-lived, Saddam amongst them.

However, during the summer, early inspections proved more meddlesome than Saddam anticipated. And while he made early decisions to offer partial compliance, it became obvious that this would not suffice.

Saddam then established as his top priority to get out from the web of international sanctions, and other matters would be pursued on a non-interference basis with this prime objective. His policies, his actions, his tactics and strategies from that point all had the objective of getting rid of sanctions.

The evolution of his approach toward the UN Security Council reflected his usual dual approach of reward and threat. In the same way he ruled at home, he dealt with the international community and the UN Security Council, in particular. Saddam offered partial compliance combined with defiance. He always wanted to bargain. He exerted pressure on the Security Council and tried to divide it. He would acquiesce to their demands only when unavoidable, and usually he would acquiesce only partially. He preferred confrontation. His lieutenants criticized this approach as having prolonged the sanctions.

Saddam's goal of getting out of sanctions was prime and shaped all his relations with the Security Council and its members. The Security Council recognized from the start that sanctions were a penalty imposed on all Iraqis, not just the leadership.

From 1991 on, the Security Council had made available the option for Iraq to sell oil, under condition that the revenues would go only for humanitarian purposes. The Council was very sensitive to accusations that their actions—imposing the sanctions—were the cause of the suffering of the Iraqi people.

A pair of resolutions, UNSCR 706 and 712, first provided this option of humanitarian relief to the regime. Saddam understood this pressure and the leverage it conveyed to him. He understood that if he exercised the option of exporting oil under the condition that only humanitarian aid could be delivered, then it would relieve the pressure on the Council to lift sanctions in their entirety. He steadfastly refused to accept this option and at every opportunity chose to link the Security Council and the problems with the inspectors with the deaths of thousands of Iraqi children. In essence, he held his population hostage.

Saddam sustained this position for 5 years, during which time conditions in Iraq decayed. Infrastructure collapsed, health care diminished. Aid agencies such as UNICEF reported the statistics of decay. The middle class was wiped out. The value of one Iraqi dinar was over $3.00 before the 1991 war. By 1996, the value was on the order of 1,500 dinars to the dollar. In effect, the entire savings of the middle class vanished. Jobs vanished. Iraqis tried to leave to find work elsewhere.

In mid-1995, Saddam's son-in-law, Hussein Kamal, defected to Jordan. Hussein Kamal was the key figure who had been in charge of the development for Saddam of all the WMD programs. When he left, the regime was forced to acknowledge it had not been fully

forthcoming with the UN inspectors and WMD documents, materials and programs had been concealed.

The sympathy and support that had been building in the Security Council for the Iraqi position dissipated. Even Iraq's friends in the Security Council backed off. Suddenly, Baghdad realized sanctions would not soon be lifted. At the same time, their effect continued to grind down Iraq's people.

In 1995, a new resolution, Security Council Resolution 986, was passed to offer relief again to the Iraqi civilian population. This resolution, which became known as the Oil-for-Food Program, was not accepted by Saddam until December 1996, and only after several months of negotiations between the Office of the Secretary General and Baghdad. Saddam only accepted this program when the damage of the sanctions on the civilian infrastructure became regime-threatening.

The initiation of this program turned out to have many benefits for the regime. The program did achieve the higher objective of reducing the suffering of the Iraqi population. However, it also had unanticipated collateral benefits for the regime.

First, there began a large flow of businessmen to Baghdad in search of contracts. While the UN held the checkbook, in effect, Baghdad still made the decisions on who would get the money. This provided a lever that empowered Saddam to reward or punish those seeking OFF contracts.

The flow of commerce expanded quickly to include the refurbishment of the decayed oil infrastructure. Baghdad shrewdly played various parties off against one another to win their favor. They made it clear that sanctions would not last forever, and when they were lifted, Baghdad would remember who their friends were. This attitude permeated all transactions, and the attitude grew that sanctions were eroding and, "everyone else was making money." This effect was intangible, but powerful nevertheless.

The report describes the nature of income that Iraq was able to generate during this period. We broke them into largely four types. As some of you have mentioned, there were protocols with neighboring countries, there was smuggling of oil products, there were kickbacks associated with the OFF contracts, and there were surcharges on oil exported through the OFF Program.

The report describes in illustrative cases how transactions occurred, estimated their magnitude and, more to the point of the report, where the funds were directed. It has shown, for example, that the budget of the Military Industrial Commission surged from $7.8 million in 1998 to $350 million in 2001. In 2003, Iraq had budgeted $500 million for this organization. Saddam's priorities were quite clear.

The process of allocating oil liftings was also instructive in terms of the strategy and tactics of Saddam regarding escaping sanctions. We began obtaining data last winter from the oil ministry and the state oil marketing organization, SOMO. The objective was to review the resources that were available to Iraq and determine if they led to any WMD activities.

Combined with our investigation of the procurement mechanisms for sanctioned goods, we developed a fairly robust picture of the systems the regime used. It is not an all-inclusive picture. We

made no attempt to unearth all activities, but rather the illustrative examples that were supported by the testimony of Iraqis we debriefed.

It is important to emphasize that our work took as a point of departure the Iraqi perspective. We sought to understand what Iraq was doing. We were not investigating the countries that supplied sanctions to Iraq, nor were we investigating the judgments or culpability of any party. I will note a couple of major points from this examination.

We found that there was a momentum shift in late 1998, when Iraq terminated cooperation with UN inspectors. To that point, Iraq had been pursuing two tracks to getting out of sanctions. They participated in the inspection and monitoring process at the same time they worked to erode support for that process, and also the sanctions.

The decision by Baghdad to terminate cooperation and focus strictly on a policy of erosion of sanctions began in August 1998. The full cessation of cooperation with inspections provoked a limited 4-day bombing campaign by the United States and the United Kingdom in December 1998. Other Council members, including Russia and France, were furious at what they declared to be an unauthorized military action. This left the Security Council deeply divided.

At the same time, the OFF Program was continuing and commerce growing in Iraq. The inspectors were gone. As Tariq Aziz, the former Deputy Prime Minister, commented, Baghdad could have sanctions with inspectors or sanctions without inspectors. They chose the latter.

Throughout 1999, the Security Council debated how to address Iraq. The sanctions remained, but were fraying, and Iraq applied whatever tools it could to generate support for its position. Ultimately, the Council agreed upon a new resolution, 1284, in December 1999. This replaced the former inspection organ, UNSCOM, with a new one, UNMOVIC, and changed certain other provisions related to the prospects for lifting of sanctions based upon progressive steps of compliance by Iraq. Nevertheless, Iraq chose to ignore the resolution and did not permit inspection.

By 2000, funds from the four general revenue streams I noted earlier made life much better for the regime. I would observe that the Jordanian protocol created in the early 1990s now began to be replicated in this period. It was a model Iraq and its neighbors used to open and increase commerce.

The infusion of funding allowed Iraq to begin efforts to refurbish conventional military capabilities, among other things, such as palace construction. In 2000, we found Saddam made a decision to invigorate his long-range ballistic missile programs. This was directly keyed to the availability of resources and material and expertise, in spite of sanctions.

The view for Iraq was good in 2000 to 2001. Businessmen filled Baghdad's hotels. Flights were restored into Saddam International Airport. The Baghdad International Fairs were bursting with foreign companies and representatives soliciting business with the regime. Saddam was looking like a winner in many places.

Attention at OPEC meetings was riveted on the prospects for increased Iraqi oil production. Baghdad derived substantial international leverage from the speculation about its future decisions and their potential effect on markets. Oil analysts and traders were solicitous, if not groveling, with the Iraqi delegations.

It was also apparent to Baghdad that the American effort to revise sanctions with so-called Smart Sanctions was an indication of weakness. Baghdad was hearing from other Security Council members that these steps were all favorable to Iraq. It is also important to appreciate that Baghdad was never an easy friend to its supporters. The regime kept making more demands of its friends and often ignored their advice on how to relate to the Security Council.

True to form, Saddam made one last strategic blunder. He failed to grasp the effect of the attacks of September 11, 2001. He did not understand how this radically changed the international environment. Only following the January 2002 State of the Union Message did Saddam begin to realize he could no longer stonewall on weapons inspections. He realized too late that his friends on the Security Council were limited in what they could or would do.

Yet, he still insisted upon attempts to bargain. He would not simply accept inspections, but rather opened a long process of negotiation with the UN. Ultimately, this worsened the conditions under which Saddam finally accepted inspectors.

During 2002, while Saddam tried to negotiate conditions for accepting inspections, the United States pressed for a new resolution with tougher measures than the Council agreed previously, in December 1999. That was in Resolution 1284. This was as reverse from the trend in the Security Council of loosening constraints on Iraq. The tougher U.S. line found more traction in the Council following September 11. Saddam did not understand the changed environment.

In conclusion, the portion of this report devoted to the Oil-for-Food Program and the regime's finances is aimed at supporting assessments about WMD programs. It is also a vital indicator of the direction and intentions of the former regime. We were not conducting an investigation of the OFF Program, per se, the United Nations or other nations' actions. Our goal was to delve into the interior of a very opaque and dangerous regime. Much of what we found was ugly. The regime depended not on bringing out the best in people, rather on promoting the worst. It poisoned everything it touched, including the UN.

Thank you very much.

Senator COLEMAN. Thank you very much, Mr. Duelfer.

If we could put up Exhibit 2.[1]

Exhibit 2 is a timeline. Just to make sure I understand kind of the impact of Oil-for-Food, what I heard from you, Mr. Duelfer, is that with the implementation of the Oil-for-Food Program, there was almost a change in the whole atmosphere with Saddam.

We have had the Jordanian protocol, for instance, since 1991. But in 1996, we have Oil-for-Food. And if you look, UN actions in blue, and actions by Iraq in yellow. Illicit earnings in 1997 allow them to pursue military procurement, and I think in your testi-

[1] See Exhibit No. 2, which appears in the Appendix on page 107.

mony you indicated—are you making reference to the MIC, the Military Industrialization Commission, that their budget grew from $7.8 million in 1996 to $350 million in 2002, to $500 million in 2003?

Mr. DUELFER. Yes.

Senator COLEMAN. First of all, what was the MIC responsible for? What were they spending that money on?

Mr. DUELFER. The Military Industrial Commission or Corporation, depending on the translation, is basically the government-run military industrial complex. It is the entire defense industry.

Senator COLEMAN. So we see a huge increase in their military industrial complex from the time Oil-for-Food gets started until the end of Saddam's regime?

Mr. DUELFER. Correct.

Senator COLEMAN. And in 1997, Phase III—it is on the bottom of the chart, vouchers to favorable political parties and individuals. And we are going to have some more discussion of vouchers later on, but I think it is fair to say that Saddam—and you indicated that folks were now dealing directly with Saddam in the capacity to do the contracts, a direct relationship.

But vouchers, in effect, gave individuals the option and opportunity to buy Iraqi oil at less than market price, is that correct?

Mr. DUELFER. That is correct, yes.

Senator COLEMAN. I think in your report you may even have provided some approximation of where those vouchers went. Thirty percent to Russia, China 15 percent, and 10 percent France—is that from information in your report?

Mr. DUELFER. We presented the raw data that we received from Iraq in terms of the assigning of those vouchers, yes.

Senator COLEMAN. And then in 1998, Iraq weaponized VX gas, missile and warheads. Is that from your report?

Mr. DUELFER. No. There was a debate in 1998 where UNSCOM raised evidence that Iraq had weaponized VX prior to that time, which they had not admitted. This was a serious issue because it would have thrown off all of the declarations that Iraq had made with respect not only to its chemical weapons program, but also its missile program. This was a huge issue of debate between the UN and Iraq. It was never resolved.

Senator COLEMAN. Did the inspectors, in fact, find VX nerve gas in the summer of 1998?

Mr. DUELFER. What we found, or what the inspectors found, was degradation products in remnants of warheads that Iraq had declared has no VX in them. So what they found was evidence that there was VX where there should not have been.

Senator COLEMAN. If I can just touch upon the WMD capabilities, I want to touch upon that. At the onset of Operation Iraqi Freedom, can you just briefly talk about Saddam's WMD capabilities when it came to developing missile technology? How would you characterize that?

Mr. DUELFER. At the beginning of OIF, he had a very substantial program in something called the Al-Samood program, which was a missile developed from technology largely derivative of an SA–II, which is a surface-to-air missile. It had a range which exceeded the 150-kilometer limit by the UN.

I believe they had in their inventory at that time close to 80 missiles, and a couple of them were used during OIF.

Senator COLEMAN. A capable delivery system for nuclear weapons, chemical, and biological weapons?

Mr. DUELFER. What Iraq declared was simply conventional warheads. But, of course, in a WMD program the long pole in the tent is the ballistic missile. So we were concerned about what the potential was.

Senator COLEMAN. And it was fair to say that Saddam successfully acquired all the equipment and supplies necessary to begin manufacturing of biological weapons?

Mr. DUELFER. Iraq had the equipment, the intellectual capacity totally indigenously to create biological weapons, should it make that decision. But we did not see evidence that it had biological weapons at that time.

Senator COLEMAN. What I am trying to understand is, and what I heard in the testimony and read in the report, a sense that at one point Saddam was waiting for the end of sanctions, perhaps, to be able to move forward. On the other hand, it appears that with the Oil-for-Food Program Saddam had achieved a lot of his goals.

He had hard currency with kickbacks and surcharges, is that correct?

Mr. DUELFER. Yes.

Senator COLEMAN. Hard currency that was used to finance weapons procurement?

Mr. DUELFER. Absolutely.

Senator COLEMAN. He had influence-peddling, vouchers to politicians, vouchers to journalists who were supportive of the Iraqi cause. He had increased economic activity that you have outlined in your testimony that allowed a cover for smuggling. Smuggling included military weapons.

In fact, as you have laid out in your report, he had front operations for this smuggling. And is it correct to say that some of those front operations had Oil-for-Food contracts?

Mr. DUELFER. Yes, that is true.

Senator COLEMAN. So they could be profitable by Oil-by-Food at the same time they were involved in smuggling of weapons?

Mr. DUELFER. That is true.

Senator COLEMAN. And then the Oil-for-Food—I will move on. If I can, in your report, I want to get to some of the individuals who benefited from the vouchers, one in particular. You indicate that Benon Sevan got 13 million barrels. He was the Executive Director of the Oil-for-Food Program, is that correct?

Mr. DUELFER. That is correct. What we are reporting simply is what the Iraqis—their own data showed, because again we were not investigating the UN. We were simply reporting what the Iraqi data itself showed.

Senator COLEMAN. And when you say their data, what are you talking about?

Mr. DUELFER. Their listings of the oil vouchers and who got them.

Senator COLEMAN. And the way the oil vouchers work is if you had an oil voucher, you, in fact, could sell it to a legitimate oil trader and you would get a commission. In other words, the price set

by the UN for oil was below market price, so you could go to a legitimate oil trader and get a percentage commission, and you could still sell it to somebody at below cost of what the world price for oil was. Is that correct?

Mr. DUELFER. That is correct. I mean, the voucher had monetary value. You don't have to exercise it yourself.

Senator COLEMAN. And we are talking about tens of thousands, and perhaps in some cases hundreds of thousands of dollars that individual could profit from having these vouchers?

Mr. DUELFER. It obviously depended on the number of barrels that the voucher was for and the price discount, but they tended to be between 10 and 30 cents per barrel discounts, or profit that you could make off of it, which would mean each voucher was a substantial amount of money.

Senator COLEMAN. Now, you indicated in your report that Vladimir Zhirinovsky and the Liberal Democratic Party of Russia received 53 million barrels of oil. Now, that is one of the largest parties in the Duma?

Mr. DUELFER. Ask me a question about Iraq. I will feel more comfortable.

Senator COLEMAN. A lot of money you can make from 50 million barrels of oil, though.

Mr. DUELFER. It is, but again that is the Iraqi data. I can't tell you for sure that——

Senator COLEMAN. You found Iraqi data indicating that Zhirinovsky has got 53 million barrels. Do you know if Zhirinovsky is a known Iraqi sympathizer? Do you have any information about him?

Mr. DUELFER. Well, what I can tell you is what the Iraqis thought, and the Iraqis were quite pleased when he came and visited Baghdad. I mean, they saw him as a favorable influence.

Senator COLEMAN. Was it also correct—and I don't have a name here—that among those listed in Iraqi data as getting these vouchers were the son of a Russian ambassador to Iraq?

Mr. DUELFER. That was listed in their listing of oil vouchers. That is correct.

Senator COLEMAN. Russian presidential office?

Mr. DUELFER. That is correct.

Senator COLEMAN. Russian foreign ministry, no name?

Mr. DUELFER. Yes, that is correct.

Senator COLEMAN. Ukraine Communist Party?

Mr. DUELFER. Yes.

Senator COLEMAN. In France, Iraqi-French Friendship Society?

Mr. DUELFER. This is as they are listed in the Iraqi document.

Senator COLEMAN. Mr. Charles Pasqua, a former interior minister of France?

Mr. DUELFER. As listed by the Iraqis, that is true.

Senator COLEMAN. Syrian journalist Hamidah Na'na, author of a biography of former Iraqi Deputy Prime Minister Tariq Aziz?

Mr. DUELFER. I didn't know the latter part of that, but I will take your word for it.

Senator COLEMAN. There was a Samir Vincent, apparently a U.S. citizen—Samir Vincent.

Mr. DUELFER. That was on the list.

Senator COLEMAN. Do we know whether any organizations with specific terrorist ties were included as getting vouchers, such as Popular Front for the Liberation of Palestine?

Mr. DUELFER. I don't know off the top of my head. We looked at that question and to the extent—I don't know how thoroughly we could—we didn't go into every possible path, but we didn't see anything obvious.

Senator COLEMAN. I have a lot more to discuss with Mr. Duelfer, but would like to note the presence of Senator Graham, from South Carolina, who is not a Member of this Subcommittee.

Senator Graham, I do want to welcome you here today and give you the opportunity later to make a statement for the record, and certainly participate in the hearing.

Senator GRAHAM. Thank you, Mr. Chairman.

Senator COLEMAN. I will defer any further questions perhaps to the next round and go to the Subcommittee's Ranking Member, Senator Levin.

Senator LEVIN. Thank you very much, Mr. Chairman.

Mr. Duelfer, your report discusses the tactics which were used by Saddam Hussein to undermine UN sanctions on Iraq, including selling oil to his neighbors under the so-called trade protocols, and then offering oil vouchers and contracts under the Oil-for-Food Program to win favors from recipients—two different streams of illicit income, as you have pointed out in your report.

Why was Saddam trying to undermine the UN sanctions?

Mr. DUELFER. Well, I mean they were the largest constraint on his freedom of movement and in achieving what he envisioned as his grand future.

Senator LEVIN. Did they constrain his ability to rebuild his military?

Mr. DUELFER. They constrained his ability to do almost everything, but, of course, including the military.

Senator LEVIN. When Secretary Powell testified before the Senate Foreign Relations Committee that those sanctions then had been successful, at least to that degree or in that sense that they constrained him from rebuilding his military—as he put it, the sanctions regime kept him pretty much in check—do you agree with Secretary Powell?

Mr. DUELFER. Well, that is a judgment beyond, I think, what we were looking at because to determine whether sanctions are successful or unsuccessful is a very broad question because the sanctions have effects far beyond just limiting WMD or limiting conventional military. And, I think it is a vital question, it is an important debate, but it is much broader than the context of this report.

Senator LEVIN. Let's go back, then, to your testimony and your report. A number of times in your report you indicate that the sanctions were truly biting on Saddam and that his major goal, besides his own survival, was to get rid of those sanctions. Is that correct?

Mr. DUELFER. That is true.

Senator LEVIN. Weren't they then useful at least to that extent that they——

Mr. DUELFER. That became clear in 1991 that his highest priority, aside from survival, was to figure out a way of getting rid of the sanctions.

Senator LEVIN. And the fact that he couldn't get rid of the sanctions, does that not lead anyone reasonably to the conclusion that those sanctions were useful?

Mr. DUELFER. Well, the report again tries to not look at just a static point in time, and this is where the trends, and so forth, are important and we tried to identify the trends. And, certainly, the sanctions were in place up until OIF.

Senator LEVIN. You discuss a number of sources of illicit income for Hussein during that sanctions period, including now the trade protocol funds, which were those sales agreements that he had with a number of neighboring countries which were open. Is that correct?

Mr. DUELFER. That is correct.

Senator LEVIN. And they produced the bulk of his illicit income, did they not?

Mr. DUELFER. Certainly, they provided most of the revenues, as the charts have indicated, and the Jordanian one provided the most because that started the soonest.

Senator LEVIN. Those are your numbers, I believe.

Mr. DUELFER. Correct.

Senator LEVIN. Looking at that chart[1] and adding up your numbers, then, would you conclude that the blue [Trade Protocols] represents the bulk of his illicit income?

Mr. DUELFER. Yes, that is correct.

Senator LEVIN. Now, he openly entered into those agreements and the UN, including the United States, acquiesced in those agreements, did they not?

Mr. DUELFER. Well, I don't know whether they formally said they are OK. They took note of them, particularly the Jordanian one in 1991. I am not sure that anybody ever said, oh, that is OK. I suspect far from that.

Senator LEVIN. But we ignored them, didn't we?

Mr. DUELFER. Well, I am not——

Senator LEVIN. We allowed them to happen?

Mr. DUELFER. I am not in a position to answer that. I am not sure about the exchanges which went on.

Senator LEVIN. Well, let me then tell you what the law was. The law was that in order to maintain our aid agreements or our aid activities with Jordan and with Turkey that the President, whether it was President Clinton or President Bush, would have to sign a waiver. And they signed a waiver saying that they knew that these deals between Iraq and Turkey and Iraq and Jordan occurred.

Nonetheless, despite those deals and despite the fact that they provided the bulk of his illicit income, they said continue the aid. Is that not correct? Are you aware of that fact?

Mr. DUELFER. I am aware of it, sir. But, again my line of inquiry is focused on Iraq.

Senator LEVIN. But you were with UNSCOM at that point?

Mr. DUELFER. I was in UNSCOM, yes.

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[1] See Exhibit No. 32, which appears in the Appendix on page 175.

Senator LEVIN. Did you bring to the attention of the U.S. Government that why are you not putting pressure on countries which are getting around the sanction program? Why are you continuing to waive any action against countries that are producing the bulk of his illicit income? Did you ever express that opinion to the U.S. Government?

Mr. DUELFER. Sir, I was working at the United Nations at that time, and so that wasn't my job.

Senator LEVIN. Did you express it to the United Nations?

Mr. DUELFER. No, because, again we were looking for weapons of mass destruction at that point. I mean, it is a very legitimate point that you are making, but that was not my position.

Senator LEVIN. There are two exhibits, 33 and 34, Mr. Chairman, that I would ask be made part of the record at this point.[1]

Senator COLEMAN. Without objection

Senator LEVIN. These are the waivers that both President Clinton and President Bush's Administration filed with the Congress that were required if we were going to continue our aid programs to both Turkey and to Jordan, and indicating explicit awareness of the fact that these activities, in violation of the sanctions program, were going on.

For instance, the first exhibit (Exhibit No. 34) which is dated October 18, 2002, to then-Chairman Biden of the Foreign Relations Committee, signed by the State Department, says on page 4, "Despite UNSC [U.N. Security Council] resolutions banning Iraqi oil imports (except under the terms of 'oil-for-food' resolutions . . . Jordan has continued since 1991 to import oil from Iraq. The UN Sanctions Committee, with USG [U.S. Government] support, has 'taken note of' Jordan's imports of Iraqi oil and its lack of economically viable alternatives. That said, we have consistently urged Jordan to seek alternative energy sources."

So other than urging Jordan to look for other energy sources, we were very well aware of the fact that they were buying Iraqi oil in violation of the UN sanctions program. Is that correct?

Mr. DUELFER. Sir, that is not my mandate.

Senator LEVIN. I understand, but is that correct? Did I read that correctly?

Mr. DUELFER. Yes.

Senator LEVIN. And the vouchers, which is a different issue because here, under the Oil-for-Food Program, the UN allowed the sale of Iraqi oil to other entities, individuals and countries—they had to be reported, but Saddam was allowed to pick and choose who would get those vouchers. Is that correct?

Mr. DUELFER. That is correct.

Senator LEVIN. And it is your estimate that those vouchers and kickbacks produced about how much money?

Mr. DUELFER. Well, the $1.5 billion. I mean, that is an estimate.

Senator LEVIN. That is your estimate?

Mr. DUELFER. Correct.

Senator LEVIN. And your estimate is that that money then was a clear violation of UN law, UN regulations, because there was no

[1] See Exhibits No. 33 and 34, which appear in the Appendix on pages 176 and 181.

provision in the Oil-for-Food Program that anybody would get a kickback. Is that correct?

Mr. DUELFER. That is right, and largely the methodology there was it was based on discussions with Iraqis in specific cases and we averaged it out to about 10 percent the value of a contract, was what they had to kick back to get the contract.

Senator LEVIN. That is your estimate. Now, you have an Annex B on your report which lists all of the voucher recipients, and I don't know how many thousands of—do you know about how many there are that are on that annex?

Mr. DUELFER. The number of the vouchers?

Senator LEVIN. Yes, approximately.

Mr. DUELFER. No, I'm sorry. I don't know.

Senator LEVIN. It's in the thousands, though?

Mr. DUELFER. No. I think it is hundreds.

Senator LEVIN. In the hundreds, all right. Whatever the number is, have you——

Mr. DUELFER. It was a lot.

Senator LEVIN [continuing]. Have you compared that—well, first of all, do you know that everybody on that list actually received a voucher or are you basing that on Iraqi documents?

Mr. DUELFER. We are going by Iraqi data, and the Iraqi data tends to indicate those—and it is pretty good; they are pretty methodical about this, but who received the voucher and if a lifting actually occurred.

Senator LEVIN. All right, but——

Mr. DUELFER. And that is reflected in those charts.

Senator LEVIN. Right, but the chart or the annex is based on Iraqi documents. Is that correct?

Mr. DUELFER. That is correct.

Senator LEVIN. You don't know that those vouchers were received, do you?

Mr. DUELFER. We did not check that, no.

Senator LEVIN. So you don't know that those vouchers were received? You base your statements that they were allocated on Iraqi documents, but you personally, for instance, have not concluded, have you, that those——

Mr. DUELFER. I have not gone through it and checked every voucher, but clearly the SOMO data is—money appeared in banks, oil left the terminals.

Senator LEVIN. Therefore, for instance, that that UN person who is named here, Benon Sevan——

Mr. DUELFER. We did not investigate individual cases, but certainly what happened was that vouchers were given, oil was lifted.

Senator LEVIN. We know that, but I am just trying to be very specific because my time is up. You have in your annex a title, "Known Oil Voucher Recipients." Do you know that Benon Sevan received a voucher? That is my question.

Mr. DUELFER. The Iraqi firmly believe that.

Senator LEVIN. Do you know that he did? This is your document. This isn't a document which says Iraqi documents that state the following. This is your——

Mr. DUELFER. I would conclude with high confidence from the data that the Iraqis provided from all that we saw that that happened.

Senator LEVIN. All right, so that you have concluded based on Iraqi documents that this UN representative has——

Mr. DUELFER. I certainly did not see——

Senator LEVIN. I understand that, but you have concluded that he has done that, because it is a very serious allegation. And that is one of the allegations this Subcommittee is looking at and it is one of the allegations we are determined to find out if it is true, and so Kofi Annan determined to find out whether it is true. It is critically important that UN officials not receive kickbacks. We are all interested in that.

And so my question is to you, have you concluded that, in fact, this person received an allocation of vouchers? That is my question to you.

Mr. DUELFER. But my response, Senator, is that was not our job to investigate these individuals. Our job was to investigate the approaches that Iraq was using to use its influence and whether or not these resources were funding WMD programs.

There is the Volcker Commission which is looking at this in excruciating detail. There are other investigations, such as this Subcommittee, which are going into that. I apologize, that was not our mandate to go look into these individual cases.

Senator LEVIN. Well, except your annex says that he is a known recipient.

Mr. DUELFER. We are conveying the data that we received from Iraq and when we had confidence in it, that is what we said.

Senator LEVIN. Thank you.

Senator COLEMAN. Thank you, Senator Levin. Senator Bennett.

OPENING STATEMENT OF SENATOR BENNETT

Senator BENNETT. Thank you, Mr. Chairman. I don't have an extended line of questions here. I am impressed by the 40,000-foot view that you have of this situation, and let me just go over that so that I understand it correctly.

This was a very carefully constructed program to evade UN resolutions. Is that correct?

Mr. DUELFER. A lot of thought went into it and a lot of testing and response to those tests, yes.

Senator BENNETT. So it wasn't a haphazard, lower-level kind of bureaucratic graft going on. It was centrally controlled and directed from the highest levels in Iraq?

Mr. DUELFER. Yes, it was run from the highest levels, but there was a lot of trial and error in how it evolved.

Senator BENNETT. But when it did evolve and got to its final status, would you describe it as a fairly well-oiled, shake-down kind of operation that ran rather smoothly?

Mr. DUELFER. Parts of it went fairly regularly in terms of the Oil-for-Food and how the oil liftings were allocated, and so forth. I could not conclude that they knew that they were going to derive these benefits when they signed up for the program in December 1996. I think they discovered this as they went along.

Senator BENNETT. I understand that, but when it reached its maturity, it would require not only a degree of coordination and shaken-down trial and error, but we have got it working properly. On the Iraqi side, would it not also require a degree of sophistication, trial-and-error experimentation and shaken down to a smooth-running operation on the other side; that is, those that were participating in it?

Mr. DUELFER. That is a fair statement, sir.

Senator BENNETT. So if there was something illicit and illegal going on, it would have to have been understood by the people on the other side that this wasn't just a one-time opportunity, this just wasn't something they had stumbled into, but it was a coordinated thing that they had made adjustments in order to keep it going on a continuing basis.

Mr. DUELFER. Well, of course, on the buy side, as it were, I mean they had to operate under whatever national rules and regulations that they operated. The Iraqis were providing the opportunity and they certainly did that with a great deal of thought. But how systematic the other side was, I really can't comment on that. That was not my line of inquiry.

Senator BENNETT. I see. Well, that is the impression that we get, and that is one of the areas, Mr. Chairman, that we want to look at here. The Iraqi put together a smoothly-functioning operation which was illegal and the question is were the people on the other side of the transaction equally aware of the fact that what they were doing was in violation of UN resolutions and that they themselves did a trial-and-error, shake-down kind of cruise so that when it was finally functioning on a regular basis, they had worked themselves into a system of regular violation of UN law.

That is not your charge to be in a position to comment on the other side.

Mr. DUELFER. Well, we certainly looked at, along the lines of an existence theorem, the way many of these transactions took place. For example, in the import of conventional munitions or weapons systems which could be applied to WMD, we would watch how those transactions took place.

They did become fairly systematic in terms of the front companies that were used and in terms of the funding, the bankings, who were provided false end user certificates, and so forth. And that became fairly systematic and we did lay that out in some detail in the report.

Senator BENNETT. So that which is fairly systematic on the part of those that are supplying weapons—would they have known that they were in violation of UN sanction requirements as they provided weapons?

Mr. DUELFER. Oh, absolutely.

Senator BENNETT. I see.

That is all I have, Mr. Chairman. Thank you. Thank you for convening this hearing. I think it is very important that we keep the spotlight on this issue and that it not be allowed to die.

Senator COLEMAN. Thank you, Senator Bennett. Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman.

Mr. Duelfer, as we have said, your report uncovered a lot of infuriating information about individuals, governments, groups that were cooperating with Saddam in undermining the UN sanctions program, including the Oil-for-Food Program, which obviously was intended to benefit the people of Iraq.

I should ask it in the form of a question. Am I correct that you do not consider it within the purview of the Iraq Survey Group to pursue investigations of those who were involved in these illicit efforts by Saddam to evade the sanctions program?

Mr. DUELFER. No, that was not our writ.

Senator LIEBERMAN. I simply raise the question rhetorically here, and perhaps when Secretary Zarate is on, we can ask him.

I wonder whether there is some kind of legal action, based on your work, by the United Nations, by the current Iraqi Government on behalf of the people of Iraq who lost the benefit of billions of dollars as a result of Saddam's illicit behavior, which benefited the people that you have itemized in this report, whether there may be some legal action to recover that money for the UN, or more directly, really, for the intended beneficiaries, which are the people of Iraq. But I leave that as a question.

I was interested because in our staff review—and this is also in Volume 1 of 3 of your report, and I am sure you know every single word in it—in our staff review of the oil allocation recipient list, there is a listing for the Popular Front for the Liberation of Palestine. And I was curious—and obviously you can't remember everything in this—whether you want to refresh your memory on that. I find it on page 195 of Volume 1.

It indicates that the Popular Front for the Liberation of Palestine, working through Awad Ammora and Partners, a Syrian group—is that in barrels, 2,000 barrels, oil allocation for 2,000 barrels?

Mr. DUELFER. Two million.

Senator LIEBERMAN. Two million, because we drop the zeroes, right?

Mr. DUELFER. Yes.

Senator LIEBERMAN. So that is a hefty number. Now that you look at it, does that sound right?

Mr. DUELFER. Yes.

Senator LIEBERMAN. There is obviously no way you would remember everything in here, but I wanted to point that out based on our staff review.

The staff review also found the name Abu Abbas on the list of recipients. Abu Abbas is an international terrorist who was the mastermind of the 1985 hijacking of the Italian cruise ship Achille Lauro, on which a wheelchair-bound American was killed. And he, in fact, was picked up in Iraq in April of last year, as I recall.

I don't know to what extent you can verify that. Obviously, there may be more than one person whose name is Abu Abbas, but do you know whether that is the terrorist Abu Abbas?

Mr. DUELFER. Sir, that one I did see, and just out of curiosity I asked that question. There is a lot of data in this report which I think should be looked at further by others. But I could not get a firm answer, because as you point out, Abu Abbas is not a very definitive name, but it certainly got my attention when I saw that.

Senator LIEBERMAN. Right, so that also would bear further investigation by somebody else. Thank you.

Let me ask you a very different kind of question. With the possible exception of Mr. Volcker and his staff and ongoing investigation, you probably know as much about the way in which Saddam Hussein corrupted and stole and abused and evaded the sanctions Oil-for-Food Program.

Based on what you know, if the UN came to you, or the Secretary of State of the United States came to you, and asked what mistakes were made here in this sanctions program, because sanctions programs are an important element of our foreign policy and international relations, what would you have done differently to avoid Saddam's nefarious behavior, what would you say?

Mr. DUELFER. Sir, the dilemma, I think, that the Security Council and the whole world faced was the dilemma which is faced by anyone who is confronting someone who has taken a hostage. The pain that the Iraqi people were enduring because of sanctions was—we are still learning it. When we see the devastation in Iraq today, some of it is because of the war. A great deal of it is because of a decade of sanctions. So the dilemma which the Security Council, I think, with honor, tried to address, was how do you separate the punishment between the people and the decisionmakers.

I would say that one of the key things that was taken advantage of by Saddam was the fact that he could pick the contracts. Yes, the Security Council kept their hands on the checkbook, but by giving the discretion to Saddam to pick who would get the check, that to me is one of the largest levers which we offered to him. That would be one thing. But I think this study by your Subcommittee and others—I think that is exactly the right question to ask.

Senator LIEBERMAN. Thanks, Mr. Duelfer. Let me just say that the point you make is a very important point. It seems obvious, but it wasn't so obvious then that the UN could have had an Oil-for-Food Program, but retained the right to approve all of the contracts, the agreements that Saddam was making so as to prohibit exactly what happened here, because what we did was give him billions and billions of dollars to play with, essentially, for his own benefit, including the re-armament of his country. Thank you for drawing that lesson. Thank you for your extraordinary work.

I cannot resist, Mr. Chairman, in a burst of very parochial pride to point out for the record that the first time I met Mr. Duelfer he gave full disclosure, which was that he and I went to the same high school, Stamford High School. As is evident, I am sure, to you, he went considerably after I did.

The Stamford High School Black Knights are very proud of your work, Mr. Duelfer.

Mr. DUELFER. My record, I am sure, was far inferior to yours.

Senator LIEBERMAN. Thank you.

Senator COLEMAN. Thank you, Senator Lieberman. Senator Graham.

TESTIMONY OF SENATOR LINDSEY O. GRAHAM, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator GRAHAM. Thank you, Mr. Chairman. I appreciate your letting me participate. I have been on the Armed Services Com-

mittee and other committees following this issue, and I am very proud of what you are trying to do here in a bipartisan fashion.

I think there are 270 entries of where people were receiving units of oil we call vouchers. I think that is the number of people. Every transaction is illegal?

Mr. DUELFER. No. The voucher system was the system which Iraqis used to allocate the oil that was going to be lifted. The Oil-for-Food Program—lifting oil from Iraq under the Oil-for-Food Program is not illegal or illicit.

The method by which Saddam selected those who would benefit—that was legal from his perspective. I mean, it was quite natural. I talked at length with Naji Sabri and he said, well, of course we rewarded our friends. Wouldn't you?

But the way they tried to leverage it was to try to reward those who would support him in the Security Council. Those who would break the sanctions he would reward because, again, his goal was to cause an erosion. He wanted to create the aura that everybody else is doing it, and so there is an intangible but very important element of this that is sort of the image that Iraq is going to come out of this.

And what Saddam was trading on was the future, in a sense. If you want to be my friend tomorrow when the sanctions are gone, if you want to be my friend and get a concession on oil-lifting or a concession on oil development, you better be my friend now. And that was the greed that he played up to. I mean, this is a guy who really understood how people worked at their basic level.

Senator GRAHAM. So the UN program would allow this dictator, if he wanted to, to give money to a terrorist organization by assigning units?

Mr. DUELFER. Well, that was the allocation that Saddam made, and the approval of who was authorized to lift was by the UN. Now, if you are referring to the previous point on the Palestinian issue, the person who got the—I am just looking at the chart—the person who got the allocation and the person who lifted—the entities were two different ones. And the UN approved the entity lifting the oil.

Senator GRAHAM. Well, let's see if we can explain this a little bit. The man who is overseeing the program—what was his name, Sevan?

Mr. DUELFER. In the UN?

Senator GRAHAM. Right.

Mr. DUELFER. Benon Sevan was the head of the——

Senator GRAHAM. The allegation is—and that is what Senator Levin is trying to say—that basically this guy who is overseeing the whole operation—because of Iraqi data, they have him receiving units of oil. Is that right?

Mr. DUELFER. It is certainly the case that Iraq allocated him vouchers and oil was lifted.

Senator GRAHAM. Once the contract was approved for that unit, would the people who write the checks know that Sevan was involved at all?

Mr. DUELFER. Not the way it was done because there was an intermediary organization which actually did the lifting, and I think it was the——

Senator GRAHAM. So there are no fingerprints on this guy's involvement, is what you are saying?

Mr. DUELFER. Well, not unless you start walking backwards a few steps.

Senator GRAHAM. Well, why would they even put his name down?

Mr. DUELFER. Well, I don't think the Iraqis—they weren't anticipating being invaded and then having to cough up all these documents to people like me.

Senator GRAHAM. Yes, but why would they put down an illegal transaction?

Mr. DUELFER. Well, because they do keep a lot of records. And, if you look at the Muquabarat records, there is a lot of documentation on who they were paying off in various places.

Senator GRAHAM. So, basically, you found books that you think show who the Iraqis were paying off? Long story short.

Mr. DUELFER. Yes.

Senator GRAHAM. OK, and one of the groups we are looking at as to who they paid off is the guy running the program?

Mr. DUELFER. That certainly is what it indicates.

Senator GRAHAM. Thank you.

Senator COLEMAN. Thank you, Senator Graham.

We are going to do another 5-minute round.

Senator LEVIN. Thanks.

Senator COLEMAN. Just a couple of follow-ups. Senator Lieberman asked about the Popular Front for the Liberation of Palestine, and also asked about Abu Abbas. And though we don't know who he is, we know that is the name of a known terrorist.

It is correct to say, if you look at your document listing who received the vouchers, that both the Popular Front for the Liberation of Palestine and Abu Abbas both contracted with the same company, a company out of Syria called Awad Ammora and Partners Company. Is that correct?

Mr. DUELFER. That says it is listed as a lifter.

Senator COLEMAN. In regard to the question that Senator Graham asked about documenting who they paid off—and I think our staff exhibits will show this—in fact, we have the vouchers in which a political favor was received. We then have the kickbacks on the Oil-for-Food Program, the humanitarian goods. And I take it you have looked at some of the documents there in which they list the exact contract and then the commission.

Mr. DUELFER. That is correct.

Senator COLEMAN. And just literally piece by piece, here is the contract, here is the kickback, and then here is the new total amount that is presented to the UN?

Mr. DUELFER. There is a lot of data on that and we have had access to some of it. Steve Zidek, my colleague here, has been through stacks and stacks of these.

Senator COLEMAN. Can I just walk you through Exhibit 11,[1] if you have a copy of that in front of you? We have blocked out who this is to and where it is from, but Exhibit 11 is a letter and it says "Thank you for the opportunity to meet with . . . and you during

[1] See Exhibit No. 11, which appears in the Appendix on page 117.

our recent visit to your offices in Moscow." Then it summarizes our proposal for future cooperation.

In the third paragraph, it says, "Firstly," again named blocked out, "is prepared to assist and/or cooperate with . . . on oil development project opportunities in Iraq, which are being offered to . . ." and again blanked out, "for completion after sanctions are lifted." And then this document lays out some of the things after sanctions are lifted, and then it goes into the—"Secondly" is talking about the purchase, allocation of Iraqi oil and the price. If you go to the second page, ". . will pay SOMO's"—let me back you up. What is SOMO? You have made reference to that. Can you tell us for the record what SOMO is?

Mr. DUELFER. SOMO is the state organization for the marketing of oil. It is the marketing arm. The oil ministry develops the oil fields. These are the guys that sell it.

Senator COLEMAN. And they set the price, the SOMO price?

Mr. DUELFER. This is actually—under the Oil-for-Food Program, there were two individuals at the UN called the oil overseers and they would actually set the price, but SOMO did the other contracting.

Senator COLEMAN. And here on page 2, this document says, again blanked out who it is, ". . . will pay SOMO's official selling formula price applicable for the month of lifting plus $0.07/barrel." So what they are saying is we will pay here 7 cents.

And if you go then to the next page, it is another letter. It says, "I refer to the portion . . . which includes the purchase of," again not saying who has got the allocation, ". . . allocation under the fourth period U.N. . . ., we are pleased to increase our premium to S.O.M.O.'s official selling price from $0.07/barrel to $0.09/barrel." So now they are saying we will actually go up a little bit.

And then if I can go forward, what these documents show—actually, right before Exhibit 12,[1] the last thing in this series of correspondence. "Dear Sirs: Thank you for time spent with . . ., we confirm once again the bid of USD 0.13 premium . . . " So the price still involved—now, it is 13 cents.

But the bottom line is this doesn't strike you as unusual that, in effect, there is a bidding process going on here until they decide how much of a premium or kickback they want to get. Is that a fair reading of these?

Mr. DUELFER. Correct. That is correct, absolutely.

Senator COLEMAN. Let me just touch, if I can, one other area, and if I can have Exhibit 2 again,[2] please, put back up there. There were a couple of decisions that the United Nations made after the Oil-for-Food Program. One of them is that the UN decides to raise the revenue ceilings on oil exports and then completely remove the ceiling on Iraqi oil exports. So at a certain point in time, the UN removed the ceilings. Iraq could sell as much oil as it wanted, Saddam deciding who to sell it to. Is that correct?

Mr. DUELFER. That is right.

Senator COLEMAN. So he can get more money from the surcharges associated with oil exports. Is that correct?

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[1] See Exhibit No. 12, which appears in the Appendix on page 123.
[2] See Exhibit No. 2, which appears in the Appendix on page 107.

Mr. DUELFER. Yes. That was part of Resolution 1284. As I mentioned, there was a period of a year during which the Council was in a lot of turmoil.

Senator COLEMAN. And you found that by June 2000, French companies had Oil-for-Food contracts totaling $1.78 billion and Russia had received 32 percent of the total amount of Oil-for-Food contracts under Oil-for-Food?

Mr. DUELFER. Yes. Those proportions tended to shift as Iraq tried to play off one against the other. They wanted to keep a tension between those who were trying to do favors for them.

Senator COLEMAN. And are you aware that with regard to 1284, the United Nations Security Council resolution that removed the ceiling, Russia insisted on language for the suspension and ultimate elimination of sanctions in the same resolution? Is that correct.

Mr. DUELFER. Well, as part of my previous job at the UN, I sort of witnessed that evolution, and I wouldn't disagree with your characterization.

Senator COLEMAN. Would it be fair to say that, in addition, Russia and France pushed to reduce the Kuwaiti Compensation Fund, lowering that from 30 percent to 25 percent of the oil revenues in UN Security Council Resolution 1330, which also increased Saddam's revenue?

Mr. DUELFER. Sir, again I wasn't—that is not part of my WMD mandate. It is a fact that that proportion was reduced at that time and that had a sizable effect on what Iraq was able to generate in terms of revenues.

Senator COLEMAN. Because some of the legitimate money from Oil-for-Food was supposed to go into the Iraqi Compensation Fund?

Mr. DUELFER. That is correct.

Senator COLEMAN. So if you lessened that, then there is more money available for Saddam.

Mr. DUELFER. I believe it was on the order of $250 million a year difference in terms of what they were able to receive.

Senator COLEMAN. And I think it is then fair to pull all this together. What happened is that we had a situation where the Iraqi people were suffering and Oil-for-Food was put together for a humanitarian purpose. There is absolutely no question about that. Is that correct?

Mr. DUELFER. That is correct.

Senator COLEMAN. And I think this was a question that you responded to from Senator Lieberman. By putting Saddam directly in charge of who he deals with, who he contracts with, he then had the capacity to line his pockets from any number of ways under the purview of Oil-for-Food.

Mr. DUELFER. That is correct. I would observe that part of the nature of this dynamic was played out when you saw that the Oil-for-Food benefits to the northern part of Iraq, to Kurdistan, were handled separately because they were concerned that that was an area which the regime did not have control over. They were concerned that the benefits also go there, so they set out a separate process to handle that. I am not an expert on that, but it was for exactly those kinds of reasons.

Senator COLEMAN. We can have an argument that there are some differences perhaps in the total amount. You saw the figure that the Majority staff put together, and they calculated, by the way, smuggling from 1991 to 1996. That calculation is not included in your report, is it?

Mr. DUELFER. No. We do have a calculation on smuggling from that time, but it is evidently smaller. I mean, we tried to err on the conservative side of much of this.

Senator COLEMAN. The bottom line is that Saddam was able to pilfer untold billions, while the UN supposedly was managing, overseeing and trying to enforce an Oil-for-Food Program.

Mr. DUELFER. He certainly was able to generate a lot of money around OFF and through the leverage that the OFF Program offered him.

Senator COLEMAN. And Mr. Zarate, our last witness, can answer this and I am not sure what expertise you have, but do we know whether that money today is being used to fuel an insurgency?

Mr. DUELFER. I don't know, but it is well worth going after.

Senator COLEMAN. And we clearly don't know where all the money is, though, do we, as we sit here today?

Mr. DUELFER. That is true.

Senator COLEMAN. Thank you. Senator Levin.

Senator LEVIN. Thank you.

You separate in your four-part stream of illicit income smuggling from these vouchers. Is that correct?

Mr. DUELFER. Yes. Smuggling we had as a separate category, and we had kickbacks as a separate one as well.

Senator LEVIN. So you have four categories.

Mr. DUELFER. Right.

Senator LEVIN. You have got smuggling, kickbacks, vouchers—I am sorry——

Mr. DUELFER. Protocols.

Senator LEVIN. Protocols—I am sorry—protocols, which are the sales that were openly arrived at or openly known about, right?

Mr. DUELFER. Right.

Senator LEVIN. And the fourth category?

Mr. DUELFER. Well, it was the kickbacks.

Senator LEVIN. Smuggling, kickbacks, protocols.

Mr. DUELFER. And there was the surcharges on the——

Senator LEVIN. And the surcharges.

Mr. DUELFER. Yes, which didn't really amount to that much.

Senator LEVIN. All right. On Annex B which has a couple hundred names, which are the people that were the recipients of the vouchers, have you compared that annex, your annex, with the UN list?

Mr. DUELFER. No, we have not. It would be a very interesting exercise, for other reasons.

Senator LEVIN. Why have you not compared the list of the recipients shown on the Iraqi documents with the UN list of vouchers that they have in their possession?

Mr. DUELFER. Well, on the UN side they had people who were contracting to provide under OFF. On the UN side, they had their list. The OIP, the Office of Iraqi Programs, had a list of who lifted. But, frankly, while it would be interesting to see if those match up,

that wasn't—we were looking for WMD and what we were trying to do is just get a sense of what revenues were available which could be used for the MIC corporation and what this indicated about the regime's intentions.

Senator LEVIN. You have looked for WMD, but you have also reached certain conclusions that certain people were engaged in illicit conduct.

Mr. DUELFER. This is as a result of our investigation of what were the regime's long-term goals and objectives, and how it was going about to achieve them. We had to draw a line someplace, sir.

Senator LEVIN. I understand, but you reached a conclusion that certain people, including a very highly-placed person at the UN, engaged in illicit conduct.

Mr. DUELFER. We certainly concluded that the Iraqis were working that and that is what they were doing. That was part of the——

Senator LEVIN. You have also said here today that you have concluded that he was the recipient.

Mr. DUELFER. Based on the Iraqi data.

Senator LEVIN. Right, but that is your conclusion. I am just simply saying that that is not just looking for WMD. And by the way, you may be right, and if you are, we ought to root this out and get to it and the UN ought to take appropriate action. That is clear, but you have gone beyond WMD. You have reached certain conclusions that certain individuals have engaged in illicit conduct. You have reached that conclusion.

Mr. DUELFER. Sir, we are looking at where the regime was headed over time, what were its directions and how was it planning on getting there. The question of the existence or non-existence of WMD at any point in time is interesting, but to me I felt that a more dynamic analysis of it was important, and that caused us to look at things that you might not consider to be strictly WMD.

Senator LEVIN. Are you aware of the fact that some of the named oil voucher recipients in your annex deny receiving vouchers?

Mr. DUELFER. I am unaware of that, but again it is Iraqi data. Some of them, the Iraqis indicate that oil was not lifted. Someone may have received a voucher, but never have—or the Iraqis may believe they have issued one, but the oil was never lifted.

Senator LEVIN. You are not aware of the fact that some of the people listed in your annex as having received vouchers by the Iraqis deny receiving those vouchers? You are not aware of that fact?

Mr. DUELFER. No.

Senator LEVIN. In late 2000, Syria opened up that oil pipeline I referred to to Iraq and began importing large amounts of oil from Iraq, which would be a clear violation of UN sanctions. And here is what your report says, "Syria was Iraq's primary conduit for illicit imports from late 2000 until Operation Iraqi Freedom. Military and security entities openly contracted with Syrian companies under the auspices of the Iraq-Syria trade protocol." Is that correct?

Mr. DUELFER. That is true.

Senator LEVIN. Now, Secretary Powell received a pledge three times from the President of Syria in 2001 that Syria would come

into compliance with the sanctions by putting its trade with Iraq under the Oil-for-Food Program and UN oversight. Are you aware of that?

Mr. DUELFER. I hadn't followed that, no.

Senator LEVIN. So you don't know whether or not they made that pledge or not?

Mr. DUELFER. No.

Senator LEVIN. Thank you. Thank you, Mr. Chairman.

Senator COLEMAN. Senator Graham.

Senator GRAHAM. Senator Levin always intrigues me because he asks great questions, and now I am a bit confused.

Senator LEVIN. On my question or the answer?

Senator GRAHAM. By both, actually, but not so much by the question, but by the answer, to be honest with you.

Let's break this simply. Saddam gives me a unit, a voucher. Since I don't own any oil tankers or refineries, I am eventually going to have to get this in the hands of somebody who does, right?

Mr. DUELFER. That was the practice.

Senator GRAHAM. So the bottom line is that when you look at names, some of those people are end users and some of those people are just individuals who could not have possibly done this without turning around and selling the voucher or giving it to someone with the capacity. Is that correct?

Mr. DUELFER. That is correct, because the lifters also had to be approved by the UN.

Senator GRAHAM. And the likelihood of the lifter being the director of the program on a UN book is probably zero?

Mr. DUELFER. According to the Iraqi data, that person did not lift it, but it was transferred to someone else who could.

Senator GRAHAM. So within the data, there is likely recording of transactions that were clearly illegal because it was not legal for Saddam Hussein to pick someone without UN approval. Is that correct?

Mr. DUELFER. No. Well, the procedure was that lifters—in other words, if you were going to go to Umm Qasr and lift oil, you had to be approved by the UN.

Senator GRAHAM. Right.

Mr. DUELFER. And there were UN people there who assured that that took place.

Senator GRAHAM. Well, why would you ever give a voucher to somebody who didn't have the capacity to lift the oil? To buy favor, right?

Mr. DUELFER. Well, you are looking for something in return.

Senator GRAHAM. Right, and one of the people that allegedly got those vouchers was the director of the program, and Senator Levin's question is a great question. I think this person has denied it. What could we do, what could the Congress do, what could this Subcommittee or any other committee do to go find out whether that is a fact?

Mr. DUELFER. I would start, Senator Graham, by having the opportunity to question them. That would probably be a good start.

Senator GRAHAM. Yes, and I know you are frustrated, but I mean from your point of view, what could we do?

Mr. DUELFER. Well, you could talk to Iraqis. The Iraqis have been very candid.

Senator GRAHAM. Could you give the names to the Chairman of who you think might help solve this riddle?

Senator COLEMAN. We are pursuing many of these routes, Senator Graham.

Senator GRAHAM. Well, I applaud the Subcommittee for your effort because without you, I don't think we are ever going to get to the bottom of this. And so I am glad you let me come.

Senator COLEMAN. Thank you.

Mr. Duelfer and gentlemen, I thank you for your testimony. I thank you for your service. I thank you for your sacrifice. This panel is excused.

Mr. DUELFER. Thank you.

Senator COLEMAN. I would now like to call Mark Greenblatt and Steven Groves, investigative counsels for the Majority on the Permanent Subcommittee on Investigations.

I appreciate all of the staff's hard work in this investigation. Today, they will present a portion of the evidence that has been gathered so far. Mr. Greenblatt will testify on how Saddam Hussein curried favor with oil allocations, colloquially referred to as vouchers, that were granted to individuals, companies and government officials. Further, Mr. Greenblatt will present evidence that Saddam Hussein gained almost $230 million by imposing illegal surcharges on oil sales under the Oil-for-Food Program. Mr. Groves will testify about the kickbacks that were required as a condition for receiving a contract to provide humanitarian goods to the Iraqi people.

Gentlemen, as you are well aware, pursuant to Rule VI, before we begin, all witnesses who testify before this Subcommittee are required to be sworn. At this time, I would ask you both to stand and raise your right hand.

Do you swear the testimony you are about to give before this Subcommittee is the truth, the whole truth and nothing but the truth, so help you, God?

Mr. GREENBLATT. I do.

Mr. GROVES. I do.

Senator COLEMAN. As you are also well aware, your full written presentation will be presented in the record in its entirety. Mr. Greenblatt will be allocated 15 minutes. Mr. Groves will be allocated 10 minutes.

Mr. Greenblatt, I understand that you are to testify first and then we will proceed with Mr. Groves. Mr. Greenblatt, you may proceed.

TESTIMONY OF MARK L. GREENBLATT,[1] COUNSEL, U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Mr. GREENBLATT. Mr. Chairman, Ranking Member Levin, and Senator Graham, thank you for this opportunity to testify before you concerning the Subcommittee's investigation into the UN Oil-for-Food Program.

[1] The prepared statement of Mr. Greenblatt appears in the Appendix on page 73.

The purpose of my testimony is to examine two ways in which the Hussein regime abused the program and present evidence obtained by the Subcommittee that illustrates our conclusions.

First, I will discuss what have been called oil vouchers, namely how Saddam Hussein turned oil into influence. The second portion of my presentation will illustrate how Saddam Hussein exacted millions of dollars through illegal surcharges under the Oil-for-Food Program.

We just heard Mr. Duelfer explain the oil vouchers, which could also be called oil allocations. I hope to explain the process by which those oil vouchers became cash in the hand of a recipient.

In the beginning of the Oil-for-Food Program, SOMO allocated oil to traditional oil companies throughout the world. Those companies then contracted with SOMO to purchase oil and then lifted the oil themselves. Starting roughly in 1998, however, Saddam Hussein attempted to manipulate that typical oil allocation process. His plan was simple. Rather than giving allocations to traditional oil purchases, he gave allocations to foreign officials, journalists, and even possible terrorist entities, who then flipped their allocations to traditional oil companies in return for a sizable commission. In doing so, Saddam could give a foreign official or a journalist hundreds of thousands of dollars without ever paying a dime.

So how did these allocations get translated into cash? That monetization involved a simple three-step process which we have illustrated in Exhibit 5.[1] This three-step process is the basic framework for the sale of allocations, but I should note that each instance varied slightly. I will now explore each of these steps and present evidence to illustrate them.

Step 1: Numerous sources, including senior officials of the Hussein regime, have stated that Saddam Hussein personally approved the people and/or entities that received oil allocations, and would even delete those who had fallen out of favor. The Subcommittee has obtained evidence that senior officials, such as Tariq Aziz, were also intimately involved in the allocation process.

If I could direct your attention to Exhibit 6,[2] this document is a letter from SOMO to the Minister of Oil concerning an allocation provided to a Syrian journalist named Hamidah Na'na. This letter illustrates the in-depth, personal involvement of high-ranking members of the Hussein regime.

For example, the first paragraph of the letter refers to a telephone call between the Minister of Oil and the Vice President of Iraq concerning an allocation to Ms. Na'na. In addition, on the bottom left-hand corner of the letter, you can see that the Minister of Oil personally ratified this letter.

If I could direct your attention to Exhibit 7,[3] I should note before we describe the content of this letter that the Subcommittee has redacted out the names of some of the individuals and/or entities mentioned in the letters when they are part of the Subcommittee's ongoing investigation.

This exhibit is a letter from a prospective oil purchaser to a Russian voucher recipient. In the letter, the oil purchaser discusses a

[1] See Exhibit No. 5, which appears in the Appendix on page 110.
[2] See Exhibit No. 6, which appears in the Appendix on page 111.
[3] See Exhibit No. 7, which appears in the Appendix on page 112.

face-to-face meeting in Moscow between the allocation holder and Tariq Aziz, one of Hussein's closest aides. The meeting related to a problem that the allocation holder was having with respect to its voucher.

Moving on to step 2 on the chart,[1] once the recipients learned they had been allocated oil, they would negotiate with an oil company to sell the secret voucher. That is step 2. The primary issue of the negotiations was the commission paid to the allocation holder. I will present two exhibits that shine some light on these negotiations.

First is Exhibit 9.[2] This letter was written by Vladimir Zhirinovsky, the leader of the Liberal Democratic Party of Russia. On official party letterhead, Zhirinovsky invites an American oil company to Moscow to "negotiate" with him. He says: "It is my honor to invite you for negotiations to Moscow from the 18th to the 25th of January, 1999. Will be happy to meet with you."

The date on this letter, or the date of the invite, January 1999, is crucial because the Subcommittee has obtained evidence that Zhirinovsky received an oil allocation from Hussein at some point in late 1998 or early 1999.

If I could direct your attention to Exhibit 10,[3] this document is a fax from a representative of a secret voucher holder who is offering, "a full corporate offer" for two shipments of 2 million barrels of oil apiece. The key aspect of this offer is that the representative demands, "a seller's fee" of 75 cents per barrel.

After these negotiations, once the voucher holder sells the allocation to an oil company, the voucher holder would then inform SOMO that that oil company will be buying the allocation. One example of that is Exhibit 13.[4] In this letter, Hamidah Na'na, the Syrian journalist we discussed earlier in Exhibit 6, informs SOMO that Devon Petroleum will lift the oil in connection with her allocation.

The third step of the process, which is at the bottom of the chart—the third step is once the voucher has been sold, the oil purchaser would then execute a formal contract with SOMO. Only after the contract was executed would the parties notify the UN and request its approval of the contract.

As a result, the moment the contract is submitted to the UN for approval is the first time that the UN would get involved. Therefore, the entire transfer of the voucher between the allocation holder and the oil buyer is conducted completely under the table. To show how this step works, we will once again revisit the case of Syrian journalist Hamidah Na'na to show how her allocation became a formal UN-approved contract under the Oil-for-Food Program.

If I could direct your attention to Exhibit 14,[5] if you will recall, Ms. Na'na sold her allocation to Devon Petroleum and Devon's contract with SOMO was numbered M/13/26. These documents relate to that very contract, M/13/26. They are the first page of the con-

[1] See Exhibit No. 5, which appears in the Appendix on page 110.
[2] See Exhibit No. 9, which appears in the Appendix on page 114.
[3] See Exhibit No. 10, which appears in the Appendix on page 116.
[4] See Exhibit No. 13, which appears in the Appendix on page 124.
[5] See Exhibit No. 14, which appears in the Appendix on page 125.

tract—if I could direct your attention to the first page of the exhibit, you will see it is a contract between SOMO and Devon Petroleum.

Next is the signature page of the contract. You will see a signature from a representative of SOMO and a signature from the buyer, Devon Petroleum. The next page of the exhibit is the application from Devon Petroleum to the UN for approval of that very contract, M/13/26.

Once this contract has been approved, as we will see on the next page, which is the UN letter to Devon approving that contract, M/13/26—once that approval comes through, Devon would lift the oil from SOMO. Once that lifting happens, the next document comes into play, and that is the invoice for that lifting. This is an invoice from SOMO to Devon Petroleum, and on the right-hand side of the exhibit you will see contract number M/13/26. Note that the name of Hamidah Na'na, the journalist who received the voucher, is nowhere to be found on any of these documents. All the transactions related to Na'na and Devon Petroleum are under the table.

Moving on, once the oil was lifted, the commission to the allocation holder would become due. We have an exhibit of an invoice related to this commission debt as Exhibit 15.[1] This is an invoice from Al Wasel and Babel Company for, "selling of Iraqi oil allocation." The Subcommittee has learned that the purchaser prepared this invoice itself. The key point, however, is that the purchaser will be paying a 17-euro-per-barrel commission to Al Wasel and Babel. I should further note Al Wasel and Babel is perhaps the No. 1 front company of the Hussein regime.

So that is how the process of Iraqi oil allocations or oil vouchers would be monetized. In short, this is the method by which Saddam Hussein could give hundreds of thousands of dollars without actually paying a dime.

I will now move on to a different topic related to the oil side of the program, namely how Saddam extracted millions of dollars of illegal surcharges from oil purchasers. I should emphasize that while the oil allocations were the way that Saddam used oil to reward friends and influence world leaders, the surcharge scheme was solely designed to generate illegal revenue.

In mid-2000, Hussein directed SOMO to generate additional revenues outside the Oil-for-Food Program. Pursuant to that directive, on September 1, 2000, SOMO began lowering the price of oil and demanding a "surcharge" of 10 cents a barrel for each barrel exported from Iraq.

Over the succeeding months, the rate of the surcharge fluctuated widely, reaching a peak of roughly 30 cents a barrel. Exports to the United States had a higher surcharge than shipments elsewhere in the world. These surcharges were to be paid by the oil purchaser directly to the regime, illegally bypassing the UN-controlled escrow account at BNP Paribas.

As a result, many of the traditional oil companies refused to pay the surcharges. Out of the shadows, however, came numerous unknown middle-men that were quite eager to participate in the scheme. The scheme continued on for 2 years, until the United

[1] See Exhibit No. 15, which appears in the Appendix on page 130.

States and the UK, as members of the Subcommittee overseeing the program, took action to end it. The device they used was called retroactive pricing.

For the sake of brevity, I will not get into detail concerning what retroactive pricing is, but suffice it to say that retroactive pricing was completely effective in ending the surcharges. Over that 2-year period that the surcharges were in effect, Saddam amassed more than $230 million in the scheme. Every single one of those dollars was obtained under the table, outside the OFF Program. I will now present a behind-the-scenes look at how those dollars went into Saddam's coffers.

The Subcommittee has learned that oil purchasers generally paid surcharges to the regime in two ways which are reflected in Exhibit 16.[1] First is Method A, which illustrates direct payments from the oil purchaser to bank accounts controlled by the regime. The second is Method B, which goes through a third party that would facilitate the transaction.

The simplest method for the surcharge payment was a direct payment from the oil purchaser to the regime-controlled account. To that end, the Hussein regime maintained numerous accounts at banks throughout the Middle East, in particular Jordan and Lebanon.

Some companies were willing to comply with Saddam's demand for surcharges, but they wanted to hide the payment as much as possible. As a result, they would make payments to a third party, a middle-man, as reflected in Method B. Sometimes, the voucher recipients, the folks whom we discussed, the journalists, the officials that we discussed in the first presentation, would be willing to be that very conduit. They would transfer the money on behalf of the oil buyer.

The next two exhibits present evidence of how those voucher recipients would facilitate the transaction. If I could direct your attention to Exhibit 17,[2] this is an example of a surcharge payment going through an allocation recipient, a voucher holder. In this case, we revisit Hamidah Na'na, the Syrian journalist we have discussed earlier. Here, she commits to paying the oil surcharge on behalf of Devon Petroleum, the company that purchased her oil allocation.

If I could direct your attention to Exhibit 18,[3] Exhibit 18 is a set of documents which is another example of how a voucher recipient would act as a middle-man to facilitate the surcharge payment. These documents relate to a contract between Al-Hoda International Trading and an American oil company.

Al-Hoda purchased 4 million barrels of oil in connection with contract M/09/15 under the Oil-for-Food Program and sold half of that oil, 2 million barrels, to the American company. According to page 2 of the contract between Al-Hoda and the American company, which is page 2 of the exhibit, there was a 40-cent markup on the official selling price per barrel.

Interestingly, the payment mechanism for this oil contract was divided in three parts. I will direct your attention to the last para-

[1] See Exhibit No. 16, which appears in the Appendix on page 131.
[2] See Exhibit No. 17, which appears in the Appendix on page 132.
[3] See Exhibit No. 18, which appears in the Appendix on page 133.

graph on the bottom of page 2. That paragraph describes a payment "inside the letter of credit," which refers to the approved letter of credit within the Oil-for-Food Program where the funds would go to BNP Paribas.

Moving up to the next paragraph, the second to last paragraph on the page, there is a payment of 10 cents a barrel "outside the letter of credit" at the instruction of Al-Hoda.

Moving up to the third paragraph from the bottom, there is another payment outside the letter of credit, this one for 30 cents per barrel. The Subcommittee will demonstrate how that 30-cent payment outside the letter of credit was, in reality, an illegal surcharge to the Hussein regime.

Moving on to the third page of this exhibit, it is a handwritten sheet of paper by the oil buyer which confirmed that the 40-cent fee is broken down into two separate payments, a 10-cent letter of credit to Al-Hoda and an identified 30-cent payment. The question remains, where is that 30-cent payment going?

The next document in the exhibit is an invoice from Al-Hoda requesting payment for the 40-cent markup which amounts to roughly $836,000. This $836,000 includes the mystery 30-cent-per-barrel fee.

The next document in this exhibit is the order from the oil company to its bank, which just happens to be the Geneva affiliate of BNP Paribas, to make the payment of $836,000.

The next document in this exhibit is an excerpt from the oil company's accounting ledger that confirms that a payment to Al-Hoda for $836,000 from the company's BNP Paribas account was actually paid.

So how do we know that the $836,000 payment included a 30-cent surcharge to Iraq? The Subcommittee has obtained SOMO records that provide detailed information about each surcharge payment that was received. Included in this chart is a 30-cent payment from Al-Hoda for this very contract.

If I could direct your attention to Exhibit 19,[1] this is an excerpt of the chart created by SOMO in February 2004 that details each oil contract in which a surcharge was paid. The column headers, which are in Arabic and therefore read from right to left, are as follows: Phase, contracting company, contract number, amount of oil lifted, amount of surcharge owed—I am sorry—amount of oil lifted, and then that is the surcharge rate is the fifth column, the amount of surcharge owed, the amount of surcharge paid, and finally is the difference, the balance owed on the surcharge.

If we look at the entry on the chart for Al-Hoda's contract M/09/15, which falls roughly in the middle of the page, we see that Al-Hoda agreed to pay a surcharge of 30 cents per barrel. Therefore, it appears that the mystery 30-cent fee did indeed reflect an illegal surcharge payment to the Hussein regime.

From the remaining columns, we see that Al-Hoda actually paid more than $1.2 million in connection with this contract. To reiterate, such a payment bypassed the UN-controlled account and went straight into Saddam's coffers. What he did with that money we do not know.

[1] See Exhibit No. 19, which appears in the Appendix on page 139.

With that, I will end my presentation and I would be happy to answer any questions the Subcommittee may have.

Senator COLEMAN. Mr. Groves.

TESTIMONY OF STEVEN GROVES,[1] COUNSEL, U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Mr. GROVES. Thank you, Chairman Coleman and Members of the Subcommittee, Ranking Member Levin, and Senator Graham. You have just heard from my colleague how Saddam Hussein peddled influence and generated illicit revenue by granting oil vouchers and demanding surcharge payments on oil sales. Not satisfied with the extra cash that he was skimming from these oil sales, Saddam concocted a separate scheme to siphon off billions of dollars for himself by demanding kickbacks on contracts for humanitarian goods.

Under the terms of Security Council Resolution 986, Saddam was permitted to contract with whomever he pleased. Theoretically, this freedom to contract would have allowed Iraq to negotiate contract terms that were in the best interests of the Iraqi people. In practice, however, Saddam used that freedom to negotiate contract terms that were in his own best interests and the interests of his brutal regime. He did this by demanding kickbacks.

Now, a kickback is defined as a bribe paid by a seller of goods to a purchasing agent in order to induce the agent to enter into a contract. Kickbacks are normally a victimless crime, simple graft. But under the Oil-for-Food Program, kickbacks had a direct impact on the Iraqi people. You must understand that for every dollar that was kicked back to Saddam on a contract was a dollar that did not go to buy humanitarian goods, food or medicine or anything else, for the Iraqi people.

Hundreds, and possibly up to 1,000 companies paid kickbacks to the Hussein regime. My testimony this afternoon details the kickbacks paid by one such company, a company called The Weir Group, and we will walk through one specific kickback transaction to see exactly how it was done.

The business of The Weir Group is the manufacture and sale of industrial valves and pumps for the oil industry and the water and sewer industry. Weir is hardly what you would call a fly-by-night company. Rather, it is a reputable, publicly-traded, blue chip engineering company based in Glasgow, Scotland. Weir subsidiaries span the globe, including ten locations here in the United States.

In short, Weir is not the type of company one would normally associate with shady Iraqi middle-men and with secret Swiss bank accounts. Unfortunately, that was the case here. The Weir Group did over $80 million worth of business under the Oil-for-Food Program mainly through two of its subsidiaries, Wemco Enviro-Tech Pumpsystems in France and Wesco Dubai in the United Arab Emirates.

Weir also utilized an Iraqi agent who was based in Baghdad to help secure the rights to these contracts. And for completed contracts, Weir would pay this Iraqi agent between 17 and 27 percent commissions. Now, for the first 7 phases of the program, Weir executed 16 contracts with the government of Iraq without incident.

[1] The prepared statement of Mr. Groves appears in the Appendix on page 81.

That changed, however, at the beginning of Phase VIII of the program in June 2000.

At that time, Weir had three pending offers with Iraq, one each with the mayor of Baghdad, the North Oil Company and the South Oil Company. As was the normal protocol on these contracts, the Weir sales representative traveled to Iraq to put the final completion on the contracts. But when he arrived on this trip, he was informed by the Iraqis that they would no longer enter into contracts with Weir unless the contract price was inflated, unless it was raised by a certain percentage, and that Weir would be required to pay that percentage back to Iraq.

Now, this was the critical moment in time for Weir. It could have refused to inflate its contracts. It could have refused to pay back any money to the government of Iraq. It could have decided to take its business elsewhere. Unfortunately, Weir agreed to comply with the new Iraqi demands, and for the remainder of the Oil-for-Food Program, Weir inflated each of its 15 contracts by between 11 and 14 percent and deposited that inflated amount into a bank account in Geneva in the name of Corsin Financial Limited, a company that appears to have no existence other than being the holder of that particular bank account.

Now, you may ask why and how Weir and the Iraqis were able to get away with this while Iraq was supposedly under sanctions, and for answers we are going to take a closer look at one of the particular transactions. This chart, which is Exhibit 21 in your books,[1] displays each step in contract number——

Senator COLEMAN. Do me a favor. With the exhibits, if we can just kind of separate them out so I can see the back exhibit. Why don't you just move that over? That would be helpful.

You are certainly welcome if you want to move over.

Senator GRAHAM. Fine. Thank you. I am fine.

Mr. GROVES. Thank you, Senator.

This chart displays the key documents in a particular transaction for contract number 1030484. The first document, which is Exhibit 22 in your book,[2] is the original tender offer that Weir made to the Iraqis. The total price of the offer is about 2.15 million euro, or about $2.6 million, and represents what the actual cost of this contract would have been.

After the Iraqis received that first offer and the Weir sales representative traveled to Basra, they met with the Iraqis, and the Iraqis demanded a 13-percent kickback. There is no record of this meeting. These were verbal agreements entered into at least as far as Weir was concerned. There is no paper trail.

At that point, as in the prior contracts where they had agreed to pay kickbacks, they entered a second tender offer. They had to manufacture a tender offer that would now meet the 13-percent kickback price. And if you do a side-by-side comparison of the two documents on the top of the chart and the second document—that is Exhibit 23;[3] that is the inflated offer, the revised offer—you will see that each line item on the two offers has been inflated by exactly 10 percent. And the quantities on some of the line items have

[1] See Exhibit No. 21, which appears in the Appendix on page 141.
[2] See Exhibit No. 22, which appears in the Appendix on page 142.
[3] See Exhibit No. 23, which appears in the Appendix on page 149.

been increased in order so that the total tender offer amount on the second offer is exactly 13-percent higher than the first, a total of 2.44 million euro. And in that way, The Weir Group agreed to the 13-percent demand.

With that kickback in place, the Iraqis in turn agreed to sign the contract with Weir, which they did on December 8, and that is at Exhibit 24.[1] Weir submitted this completed contract with the inflated price to the UN Office of the Iraq Program for review and approval. And if you turn to Exhibit 25,[2] that is their submission to the UN. And if you go to the purchase order that is attached to the submission, you will see that the total amount is 2.44 million euro. That is the submission on January 7.

At this point in the proceeding, the UN Office of the Iraq Program is tasked to discover whether or not this contract is reasonable for its price and value. Now, despite that the contract had a 17-percent commission built into it, and despite the fact that there was a 13-percent kickback amount built into it, for a total of over 30 percent inflated price, the Office of the Iraq Program concluded that the item price and value have been examined and appear to be within a reasonable and acceptable range.

And you can see the UN's approval of the contract at Exhibit 26.[3] And if you scroll down on Exhibit 26 to the part where it says "Pricing," you will find that the Office of the Iraq Program stated that the 30-percent inflated contract is reasonable and within an acceptable range.

With the UN's approval in place, the goods were shipped from Scotland to Iraq, and this presents a second opportunity for this contract to be caught there because at the port of Umm Qasr, the UN has hired Cotecna Inspection, which is an inspection company who is there to make sure that the goods that are contracted for actually arrive.

If an actual customs inspection had occurred at this point, they would have realized that there were only two of a particular item in the shipment, where the contract calls for 20. There were only 5 in the box that got shipped to the port, whereas in the contract it called for 50. But as we have learned, this review process was not an actual customs inspection, as you and I would know it, but rather just an authentication that a particular set of goods had arrived on a particular day. So, indeed, the goods were not caught at that point in the process and this contract went forward.

Now that the goods had arrived in Iraq, Cotecna Inspection sent their certificate of arrival to BNP Paribas, which makes Weir eligible for payment. Now, once they are eligible for payment, BNP makes the contract payment to Weir in Glasgow. And then Weir, making good on its verbal agreement with the government of Iraq, enters a kickback amount into the Swiss bank account. And you can see that particular item itemized on the last part. For contract 1030484, there was a $111,000 kickback that was put into the Corsin account.

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[1] See Exhibit No. 24, which appears in the Appendix on page 155.
[2] See Exhibit No. 25, which appears in the Appendix on page 161.
[3] See Exhibit No. 26, which appears in the Appendix on page 164.

And this chart, Exhibit 30,[1] itemizes each of the 15 contracts that Weir agreed to inflate for a kickback amount and then made a separate payment into the Corsin Financial account in Geneva, Switzerland. And the contract value is represented in euro and pounds, and the amount of kickbacks which were all made in pounds in the fourth column. And then the final column is a conversion into today's exchange rates from pounds to dollars. In total, there were just over $8 million worth of deposits made into the account of Corsin Financial. The Subcommittee has been in touch with the Swiss authorities in regard to this particular account, in the hopes that the money may still be there and can be repatriated to the Iraqi people.

Thank you for allowing me to testify about these issues and I would be pleased to answer any questions.

Senator COLEMAN. Thank you, Mr. Groves, and thank you, Mr. Greenblatt.

Mr. Greenblatt, if I can just direct attention to Exhibit 8,[2] and it is the exhibit that says "Oil Coupons." It is in Iraqi on the left-hand side and then English on the right-hand side. It reads, "In the name of Allah the Most Merciful, The Republic of Iraq, Presidency of the Republic, the Secretary." It says, "Top Secret and most urgent, Number 9525/K." Are these coupons numbered?

Mr. GREENBLATT. They are numbered. We have heard testimony from witnesses, including individuals who have actually received allocations under the program, and they have informed us—and others in the oil industry—that the identification mechanism for each oil allocation was a number designation.

Senator COLEMAN. So let me go through this further. It says, "Comrade Amer Muhammad Rashid Minister of Petroleum." It says, "The President . . . (may Allah preserve him) has ordered in connection with a letter from the Iraqi embassy in Cairo of 18 August, 2002, as follows: six million barrels of petroleum will be allocated to Mr. Ustadh," which is honorary title for professors, lawyers and journalists, "journalist Mahmud Al-Tamimi in appreciation of his nationalist positions which he has adopted since the thirty-nation aggression," which is the Iraqi designation for the coalition which expelled Iraq from Kuwait, "in the year 1991 in confronting the unjust blockade of our dear country," etc., etc., signed by the Secretary of the President of the Republic.

So this is a coupon. This is one of those that gives somebody who is not an oil trader an allocation that would allow them then to sell or to get a commission by giving it to someone who could translate this coupon into oil.

Mr. GREENBLATT. That is my understanding, sir, yes.

Senator COLEMAN. And we then do have documents. The Iraqis, in what I see as kind of a methodical, documented pillaging, have documented how a lot of these coupons were then translated into actually allocated oil. Is that correct?

Mr. GREENBLATT. That is right.

Senator COLEMAN. I raise this because of the questions of Senator Graham and Senator Levin regarding Mr. Sevan. And if we

[1] See Exhibit No. 30, which appears in the Appendix on page 173.
[2] See Exhibit No. 8, which appears in the Appendix on page 113.

had actually coupon numbers, it would be possible then to see whether that oil was actually allocated and whether it was lifted and who did the lifting. Is that correct?

Mr. GREENBLATT. That is right.

Senator COLEMAN. This Corsin Financial Limited we saw payments going to—you said that is a shell corporation. What kind of investigation did we do to try to find out who these folks are?

Mr. GROVES. Well, we found out about this particular account only about 2 weeks ago, and we have done an exhaustive search of all publicly available resources to see if any such company exists, and it doesn't seem to exist on any continent where we could do research.

We have contacted the Swiss authorities through the Subcommittee and we have also been in contact with representatives at the Treasury Department to see if we can track down how much money is still in that account.

Senator COLEMAN. There is almost like what I would call an Alice in Wonderland quality to what is going on here. This is a world in which your second bid is higher than your first bid in order for you to get the contract. Is that correct?

Mr. GROVES. Yes, Senator, it is.

Senator COLEMAN. And the second bid then reflects the inflated price?

Mr. GROVES. Yes, it does, unlike a normal contractual situation where you would be bargaining the seller down.

Senator COLEMAN. They are bargaining up. The money then goes to a Syrian account, Jordanian account, some account somewhere which we believe then is at the disposal of Saddam Hussein?

Mr. GROVES. Yes, Senator. In this case, it went to a Swiss account.

Senator COLEMAN. I also note with some interest on Exhibit 26 [1]—by the way, when we talk about Weir, they have admitted that they participated in this kickback scheme. Is that correct?

Mr. GROVES. Yes, Senator, they have.

Senator COLEMAN. And in Exhibit 26, I note that Weir is a Scottish company, but in the final what appears to be the UN document it says "Mission: United Arab Emirates."

Mr. GROVES. Yes, Senator.

Senator COLEMAN. What does that reference?

Mr. GROVES. Well, according to Weir, the Iraqis were loathe to contract with countries who were strong supporters of the sanctions, such as the United States and the UK. And so Weir did the bulk of its business through either its French subsidiary, or in this particular case through its subsidiary in the United Arab Emirates. They were nations who were more palatable to Iraq.

Senator COLEMAN. By the way, in terms of the timing of this, do we know when Saddam began assessing the surcharges for this program?

Mr. GROVES. The evidence that we have seen indicates that it was sporadic through various early phases, but then became systematic, more industry-wide in every ministry in roughly June 2000, which was the beginning of Phase VIII.

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[1] See Exhibit No. 26, which appears in the Appendix on page 164.

Senator COLEMAN. One of the things that I just have great difficulty in understanding is with the number of companies involved, those executing humanitarian contracts number, I think, over 3,500. Is that correct?

Mr. GROVES. That is correct.

Senator COLEMAN. And is it fair to say that if you didn't execute a kickback once Saddam put this in place, you probably weren't going to get a contract?

Mr. GROVES. It is, Senator. After June 2000, in Phase VIII, all evidence indicates that unless you agreed, you didn't get the contract.

Senator COLEMAN. Weren't there folks who complained that they had to pay kickbacks? I mean, somewhere within the corporate world out there, there has got to be some sense of morality that says, hey, this is not the right thing to do. Did anybody raise a red flag?

Mr. GROVES. We haven't found a single complaint where kickbacks were demanded, mainly because they don't appear to have been refused that often. And that is why the Weir example is so troubling because it is a very reputable, publicly-traded company that you think would reject these offers.

Senator COLEMAN. There was a report in *The Washington Post* yesterday that focuses on the activities of Mr. Sevan and it indicates that there were some whistleblowers, but that their requests or their concerns were dismissed. So they were actually sent back to their original country and said, do this internally.

How does that relate to the stuff that we are discussing here today?

Mr. GREENBLATT. Well, there were widespread complaints concerning the surcharges on the oil side of the deal and the UN Security Council and the overseers were somewhat slow to respond. It took 2 years for the 661 Committee, which is the committee that oversaw the UN Oil-for-Food Program—it took 2 years for any action to be taken that would end the surcharges, and that action was taken by the U.S. and the UK representatives.

Senator COLEMAN. This was the retroactive pricing you talked about?

Mr. GREENBLATT. That is right.

Senator COLEMAN. And essentially what the retroactive pricing does is if you have retroactive pricing and afterwards you say this is the price, you take away the platform, you take away the opportunity to create a commission somewhere between the basic price and the market price at that time, which was what folks were allowed to do.

Mr. GREENBLATT. That is right.

Senator COLEMAN. If you go retroactive, then there is no room to maneuver. You simply pay a price and you can't guarantee that the folks who were paying the kickback or the surcharge are actually going to make any money.

Mr. GREENBLATT. That is right.

Senator COLEMAN. So that effectively killed it at least on the oil side.

Mr. GREENBLATT. That is exactly right.

Senator COLEMAN. And you said it took 2 years. Can you tell me a little bit more about what the United States and the UK tried to do here?

Mr. GREENBLATT. Well, sure. From what we have learned from the individuals who were intimately involved in that stage of the Oil-for-Food Program, the United States and the UK were typically more assertive about attempting to shut down those types of schemes, in particular the surcharge scheme, and they felt resistance for a significant amount of time to actually formally ending the surcharge payments.

Senator COLEMAN. You indicated that Cotecna was the company that had some responsibility for, I am trying to understand what, for verifying that the goods sold were the goods that were actually part of the contract? Is that essentially what their responsibility was?

Mr. GROVES. Yes, Senator. It turns out that their responsibilities were not to inspect every shipment that came through, but merely to authenticate that a shipment had arrived.

Senator COLEMAN. And it is clear that there wasn't the kind of authentication that would somehow have caught the misdeeds that were going on here.

Mr. GROVES. Not in the case of Weir. They had 15 contracts that would have gone through with quantities having been shifted that weren't caught.

Senator COLEMAN. Do we know anything about the fees that were generated by Cotecna during their participation in attempting to oversee this program?

Mr. GROVES. Well, we have reviewed their contracts and they were done on a per-phase basis and each contract is in the multi-millions of dollars.

Senator COLEMAN. Do you know about how many contracts they were involved with?

Mr. GROVES. Well, they won the contract from Lloyd's Register back in December 1998 and remained the inspection agents for the program up to Operation Iraqi Freedom, so a substantial period of time.

Senator COLEMAN. You mentioned some of the prices. If you just look at it, there is a 30-percent kickback involved here, so you would think of some inflated prices. Do you know if any contract was ever rejected by Cotecna for over-pricing?

Mr. GROVES. The body that would have had to have rejected for over-pricing would have been the Office of the Iraq Program, and we have heard information that at no time was a single contract under the Oil-for-Food Program denied or rejected for being over-priced.

Senator COLEMAN. And I take it we haven't had the opportunity to speak with UN personnel as to why nothing was rejected. We haven't had the opportunity to get the information that we would like to get to be able to review how this was able to occur without anybody catching anything?

Mr. GROVES. Not yet, Senator.

Senator COLEMAN. Senator Levin.

Senator LEVIN. Thank you, and thank you to both of our witnesses for their work and their testimony.

I just had a few questions. One has to do with the question of whether or not—apparently, the United States, as I understand it, was the biggest end user of Iraqi oil during the sanctions period. Is that your understanding?

Mr. GREENBLATT. It was certainly a significant purchaser. I don't know if it was No. 1, but it bought a massive amount of oil from Iraq.

Senator LEVIN. Now, how would the subsequent purchaser of Iraq oil know whether there were any kickbacks that had been paid?

Mr. GREENBLATT. They may not have known. It is not necessarily a statement of fact that every end purchaser would know. I would note that during the surcharge period, it was somewhat well-known, it was just well publicized that virtually every contract had a surcharge during those 2 years.

Senator LEVIN. So there would be nothing on the paper itself, though, on the transfer documents, that would show that surcharge for the end user?

Mr. GREENBLATT. No. That is right.

Senator LEVIN. And there was no due diligence requirement?

Mr. GREENBLATT. Oh, I don't know that. I can't answer that.

Senator LEVIN. On Corsin Financial, Corsin Financial is the account that the money was deposited in, and you said, I think, 15 contracts were inflated and then the inflated amount was deposited in that account. Is that correct?

Mr. GROVES. Yes, Senator.

Senator LEVIN. And we have tried to find out from the Swiss embassy, as you know, whether or not there is a pending investigation of that account and they have told us they don't know of any investigation. Is that correct?

Mr. GROVES. That is correct.

Senator LEVIN. The Swiss are fairly opaque, are they not, when it comes to bank accounts?

Mr. GROVES. That is one way to put it.

Senator LEVIN. Non-transparent. That is going to be a real issue. We take that up with the next witness, I think, in terms of the transparency of bank accounts so that we can track the money which Saddam illicitly obtained here to various accounts. We need governments to cooperate and to be transparent relative to any illicit money which is deposited in accounts in their country and we will pursue that further with our next witness.

Just two other questions. On our Exhibit 3,[1] it is entitled "Selected Secret Oil Voucher Recipients." As I understand it, that title is taken from the Duelfer report, as well as the contents of this chart. Is that correct?

Mr. GREENBLATT. That is my understanding.

Senator LEVIN. And so the Subcommittee has not yet reached its own conclusions about whether the listed individuals actually received vouchers or money. Is that correct? This is based purely on Duelfer's——

Mr. GREENBLATT. This document, I believe, is taken strictly from the Duelfer report, yes.

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[1] See Exhibit No. 3, which appears in the Appendix on page 108.

Senator LEVIN. Now, in terms of the listed individuals on that document, has the Subcommittee or the staff actually concluded that those vouchers were received or that money was received for them?

Mr. GREENBLATT. I think the answer would be the same as Mr. Duelfer's, looking at the documents from SOMO that the Subcommittee has obtained. We may be able to draw some conclusions, but those would again be solely from Iraqi documents. At this stage, we can't comment on whether money flowed or anything of that sort.

Senator LEVIN. Have those conclusions yet been drawn?

Mr. GREENBLATT. I don't believe so.

Senator LEVIN. And finally, on the Weir contracts that were submitted to the UN for approval, those were inflated contracts. Should the 661 Committee at the UN have caught those inflated prices?

Mr. GROVES. Senator Levin, the 661 Committee was tasked to do certain tasks in reviewing the contracts primarily for a review of dual-use items. But there are procedures in place that were set up to regulate the day-to-day operations of the program that explicitly tasked the secretariat to review all contracts under the program for price and value.

Senator LEVIN. For pricing?

Mr. GROVES. Price and value.

Senator LEVIN. And value. And was that then part of the responsibility of the 611 Committee?

Mr. GROVES. No, Senator. It was the responsibility of the Office of the Iraq Program under the secretariat.

Senator LEVIN. All right, so they only had the one function, the dual-use function. They were not to look at the pricing and value.

Mr. GROVES. That is correct.

Senator LEVIN. Thank you.

Senator COLEMAN. Senator Graham.

Senator GRAHAM. I just want to compliment the Subcommittee and the work that you are doing. I just wish the whole Senate could be part of this. This is really fascinating.

Some of the things are very open. The letter from the Iraqi journalist on Tab 13 [1] where she writes to SOMO—was that a common occurrence where you would have someone say I am going to assign the voucher that Saddam gave me to a specific company?

And the company had to know about this, Devon, right?

Mr. GREENBLATT. Well, this is the way that SOMO would learn who the contract was going to. Whether it occurred in a letter or a telephone call or an E-mail, I have no idea.

Senator GRAHAM. Well, would this put the company on notice that something illegal is going on?

Mr. GREENBLATT. Well, the company would know that the voucher recipient was getting a voucher, and would know that SOMO would have to find out at some point because eventually they are going to have to contract directly with SOMO. So I don't know how to answer your——

[1] See Exhibit No. 13, which appears in the Appendix on page 124.

Senator GRAHAM. This company pays this journalist money for this unit, right?

Mr. GREENBLATT. That is my understanding, yes.

Senator GRAHAM. Did the company know that was illegal, or is that illegal?

Mr. GREENBLATT. Well, under the rules of the Oil-for-Food Program, all payments for the oil purchased under the program were destined solely for the BNP Paribas account, the UN-controlled escrow account at BNP Paribas.

Senator GRAHAM. So when this company wrote a check to this person, to the journalist, they had to know that was illegal.

Mr. GREENBLATT. I don't know. I can't comment on that. I would assume that if an oil company were writing a check to a politician or a foreign official, that might raise an eyebrow. But I can't speculate on what they would know or what they would think.

Senator GRAHAM. And the journalist winds up being a middle person for a money transaction, is that right?

Mr. GREENBLATT. It can be.

Senator GRAHAM. In this case, that is what she did, right?

Mr. GREENBLATT. In this case, she paid the surcharge, or at least she committed to pay the surcharge. The money for that surcharge would have had to come from the purchaser of the oil.

Senator GRAHAM. Which is Devon, right?

Mr. GREENBLATT. Which would be Devon in this case.

Senator GRAHAM. Did they know that was illegal?

Mr. GREENBLATT. They may not have known about the surcharge at all. I don't know whether Devon knew about that.

Senator GRAHAM. Why would they write a check if they didn't know?

Mr. GREENBLATT. Well, they could have viewed that as the commission to the voucher holder and not known anything about—plausible deniability. I don't know. I can't speculate as far as what Devon knew at the time. All I can do is present the evidence as we receive it, and in this situation Na'na clearly committed to pay the surcharge. And I would assume that she wasn't paying that just out of the goodness of her heart; she must have been getting the money from somewhere.

Senator GRAHAM. When it comes to the UN inspector, the person in charge, has there been any evidence of an account number? There is an accounting procedure for the vouchers. Is that right?

Mr. GREENBLATT. Oh, the number designations?

Senator GRAHAM. Yes.

Mr. GREENBLATT. I have not seen any designation for a voucher for—I assume you are talking about Mr. Sevan.

Senator GRAHAM. Right.

Mr. GREENBLATT. I have not seen any number directly related to any voucher for Mr. Sevan.

Senator GRAHAM. OK, thank you.

Senator COLEMAN. If I can, I am going to follow up on that question. Can I have Exhibit 3 again, please?[1]

Senator GRAHAM. And it really would apply to all these non-end users, I guess, that question.

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[1] See Exhibit No. 3, which appears in the Appendix on page 108.

Senator COLEMAN. Again, Exhibit 3, the Senator Levin letter—this comes clearly from Mr. Duelfer's report, right?

Mr. GREENBLATT. That is correct.

Senator COLEMAN. But in Exhibit 3, at least what the report says is that the recipient is Benon Sevan; that the amount allocated—that is what the voucher would be—would be 13 million barrels. But this exhibit does say that barrels were lifted. So somewhere there is documentation that says that this voucher was converted into oil. Again, just based on records, that is who the Iraqis say it is. But we do know that there is some documentation that that voucher was actually converted into barrels that were lifted. Is that what lifted means?

Mr. GREENBLATT. That is exactly right.

Senator COLEMAN. Thank you. Senator Levin, anything further?

Senator LEVIN. No, thank you.

Senator COLEMAN. Gentlemen, thank you for your outstanding work and testimony today. Thank you. This panel is excused.

We will now call our third panel. We welcome our final witness, Juan Carlos Zarate, the Assistant Secretary for Terrorist Financing and Financial Crimes at the Department of the Treasury.

Mr. Zarate, I appreciate your attendance at today's hearing and look forward to hearing your views on the Oil-for-Food Program, including Saddam Hussein's abuse of the program, the amount of money that was pilfered by the Iraqi regime, the amount of money that has been repatriated to the Iraqi people, and whether the remaining funds are being used to fund the Iraqi insurgency or terrorist groups.

In addition, Mr. Zarate will discuss the extent to which the funds that were illicitly obtained under the Oil-for-Food Program were used for purposes that were prohibited under the UN sanctions regime. I am particularly interested in knowing what remedies may be available to assist in the further recovery of Iraqi assets.

Again, before we begin, all witnesses who testify before this Subcommittee pursuant to Rule VI are required to be sworn. At this time, I would ask you to stand and please raise your right hand.

Do you swear that the testimony you are about to give before the Subcommittee is the truth, the whole truth and nothing but the truth, so help you, God?

Mr. ZARATE. I do.

Senator COLEMAN. We will be using the timing system, Mr. Zarate. Before the red light comes on, a minute before you will see the light change from green to yellow, which will give you an opportunity to complete your remarks. Your written testimony will be entered into the record in its entirety. We ask that you limit your oral testimony to 10 minutes.

Mr. Zarate, you may proceed.

TESTIMONY OF JUAN CARLOS ZARATE,[1] ASSISTANT SECRETARY, TERRORIST FINANCING AND FINANCIAL CRIMES, U.S. DEPARTMENT OF THE TREASURY

Mr. ZARATE. Chairman Coleman, thank you very much for the invitation to be here. Senator Levin and Senator Graham, it is an honor to be before you. It is an important issue, testifying with respect to the allegations of fraud pertaining to the UN Oil-for-Food Program, as well as the U.S. Government's continuing efforts to identify, freeze and repatriate Iraqi assets around the world.

Allow me, Mr. Chairman, to commend the work of this Subcommittee, as well as your staff, as well as Mr. Duelfer, who was on the first panel, for pursuing this issue so aggressively and so well.

Since Secretary Snow's call on March 20, 2003, to engage in a worldwide hunt to find and repatriate stolen Iraqi assets back to the Iraqi people, the Treasury Department and the entire U.S. Government have worked intensely to do just that. In the course of this work, we have seen and uncovered a vast corruption of the sanctions regime by Saddam Hussein.

It is clear now, Mr. Chairman, that Hussein's thievery was the economic twin to his tyranny. It was Saddam Hussein who transformed the goodwill of the international community, represented in the OFF Program, into a corrupt enterprise. Although there may have been many who engaged in sanctions-busting and OFF-related schemes, such enterprises were the making of a malevolent dictator.

In essence, the Hussein regime created a system of kickbacks, as we have heard today, skimming schemes and smuggling operations to bilk the international sanctions regime of all of its potential value and profits. He used the implements of the State, the central bank, commercial enterprises and his diplomatic and intelligence assets to help skirt international restrictions.

In some cases, he used this system to attempt to procure weapons and other banned goods, all in an effort to fortify his regime. While the Iraqi people suffered under Hussein's oppression, he and his sons paid for pleasure palaces and armaments.

Our role, Mr. Chairman, as set out by the President and Secretary Snow, has been to try to find, freeze and repatriate Iraqi assets from around the world, be they official Iraqi assets or the assets looted by Hussein and his family members. This has been and continues to be quite a complicated mission. Even so, on a daily basis, through interviews, diplomacy and analysis, we have unmasked the financial webs used by the regime.

Mr. Chairman, if you will allow me, I would like to lay out some of the achievements since March of last year and some of the important successes in returning assets to the Iraqi people.

We have frozen nearly $6 billion of Iraqi-related assets worldwide. Since March 2003, over $2 billion of Iraqi assets have been newly identified and frozen outside the United States and Iraq. The United States, foreign countries, and the Bank of International Settlements have transferred back to the Iraqi people over $2.7 bil-

[1] The prepared statement of Mr. Zarate appears in the Appendix on page 85.

lion in frozen Iraqi funds. Approximately $1.3 billion in cash and valuables have been recovered in Iraq.

We continue to identify key individuals and entities who acted as operatives for Saddam Hussein. The Department of the Treasury has designated now 232 individuals, parastatals and front companies that formed part of the Hussein financial network pursuant to Executive Order 13315. Almost all of these names have been listed by the United Nations 1518 Committee, which is responsible for maintaining the list of Hussein-related entities.

Mr. Chairman, two such designated front companies bear mentioning in the context of this hearing. On April 15, 2004, the Treasury Department designated Al Wasel and Babel Company, a UAE-based company, as a front for the Hussein regime. This company was controlled by, and acted on behalf of, senior officials of the former Iraqi regime. The Iraqis used this company to engage in OFF-related transactions and kickbacks, and also to attempt to procure restricted items, including a sophisticated surface-to-air missile system.

Another such company which we designated was the Al-Bashair Trading Company. Al-Bashair acted as the largest of Iraq's arms procurement front companies and was involved in a range of sanctions-busting and corruption schemes on behalf of the Hussein regime. Al-Bashair reported directly to the Organization of Military Industrialization, which was responsible for Iraq's military procurement programs.

We know from documents removed from Al-Bashair's headquarters that the company was involved in a variety of deals involving sham contracts, kickbacks, falsified export documentation and money laundering designed to deceive UN inspectors. The company was then used to deliver, among other things, missile components, surveillance equipment and tank barrels to the former Iraqi regime.

In Iraq, Mr. Chairman, and throughout the world, our financial investigators have uncovered well over 1,000 relevant accounts and interviewed key detainees, as well as bankers, lawyers and accountants who acted as financial facilitators for the regime. These efforts have yielded countless leads.

An example of this occurred when our agents determined that the former Iraqi ambassador to Russia had stolen $4 million in Iraqi assets. As a result, that amount has been frozen in Russia, and we are working to have it repatriated. The Departments of Treasury and State have provided identifying information on over 570 identified Iraqi bank accounts to 41 countries for review and follow-up.

The Secretary of the Treasury has used Section 311 of the Patriot Act to identify two banks, the Commercial Bank of Syria and Infobank in Belorussia as "primary money laundering concerns," in part because these institutions facilitated illicit financial activity with Iraq. Finally, we are working closely with others in the U.S. Government to trace U.S. currency seized in Iraq in order to determine the flow of funds that may support attacks within Iraq.

All of these efforts are guided by the strong recognition that this mission is critically important for several reasons. Iraqi assets must first be recovered so that they can be used to pay pensioners,

construct schools, equip hospitals and rebuild Iraq. It is equally imperative to recover Iraqi assets to prevent them from being used to fund the Iraqi insurgency and to keep them out of the hands of terrorists. The United States and the international community cannot permit these assets to be used against our troops, our Coalition partners and innocent civilians in Iraq. Finally, Mr. Chairman, our successful prosecution of this hunt serves as a strong warning to other rogue regimes which might seek to loot their countries and hide the stolen assets in the international financial system.

Our commitment to the people of Iraq is unwavering. We are now working directly with them, with representatives from the Iraqi interim government, to help them take on many of the tasks we have previously led. Given the importance of this to the Iraqi people, I am confident that with time and training, the Iraqis themselves will be able to prosecute this asset hunt for as long as is necessary.

Our domestic efforts and our U.S. efforts now have to be focused on finding sources of funding that are being used to foment violence and terrorism within Iraq. In coordination with others in the U.S. Government, that is precisely what we are doing. We owe a debt of gratitude, Mr. Chairman, to the civilians, especially the IRS Criminal Investigation Division agents in Baghdad who have served nobly, and our troops on the ground who are engaged in these worthy and important efforts.

We appreciate the support of Congress and look forward to working with you. Again, Mr. Chairman, I thank you and the Subcommittee for your attention and for your diligent work on these very important issues.

Senator COLEMAN. Thank you very much, Mr. Zarate. I want to get right into the question of terrorist financing. Before I do that, though, Saddam used front companies to hide illicit funds. Can you help me understand better how these companies were set up? And then I want to get to our ability to kind of track them down and get any of the money that they collected.

Mr. ZARATE. Mr. Chairman, we have to date identified 11 classic front companies, and by front companies I mean those companies that were used and controlled by the regime itself, as opposed to companies that were simply doing business with the Hussein regime.

What we have found is that certain companies were located outside of Iraq, companies like Al Wasel and Babel which I mentioned, which is based in the UAE. That company was used in part to engage in OFF-related contracts and deals, but at the same time it was engaged in operations to try to procure goods that were outside of the Oil-for-Food Program.

There are other companies, some companies, for example, within Iraq that were established and controlled by Saddam Hussein, in some cases by Uday and Qusay. For example, there was one company, the Al-Hoda Tourism and Trade Company which was used as a front by Saddam Hussein's sons to bilk religious pilgrims coming to Iraq to visit the Shiite holy shrines, to bilk them of upwards of $500 million—money that went into the hands of Saddam Hussein and his cronies.

So there were a variety of different front companies located both outside of Iraq and within Iraq that were used to raise money, that were used to move money and ultimately to hide money as well.

Senator COLEMAN. With the earlier witnesses, we had testimony about a Swiss account, Corsin Financial Limited, and our investigators have not been able to find any legitimate company with that name. Clearly, this company would have assets of tens of millions of dollars.

What capacity do you have to track down that operation and to get access to Swiss accounts?

Mr. ZARATE. Well, Mr. Chairman, we have since the start of this effort been working very closely with foreign counterparts around the world, including the Swiss. We, as the Subcommittee has done, and Subcommittee staff, have reached out to the Swiss Government with respect to this particular account and we are following up with the Swiss.

We have several conduits to working with the Swiss. We certainly work very closely with their finance ministry and with their sanctions body, known as SECO. We also work with their prosecutorial bodies, and we have worked with them very closely, for example, in their freezing of over $140 million in Iraqi-related assets to date. So we have both official channels and powers of persuasion, as well, with our counterparts around the world, including the Swiss.

Senator COLEMAN. Let me talk a little bit about terrorist funding. At the beginning of Operation Iraqi Freedom, the Bank of Syria, I believe, had over $1 billion of deposits on record from various Oil-for-Food abuses and smuggling protocols. Is that a fair statement?

Mr. ZARATE. Yes, Mr. Chairman. It was approximately $1 billion that existed in what was then the combined account, the combined trade account and cash account that existed in Syria right before the commencement of the war.

Senator COLEMAN. And the Syrians disbursed, I believe, $800 million of that to what they claimed were bona fide, legitimate folks who they said were owed the money. Is that correct?

Mr. ZARATE. Yes, sir. What we found was when we sent our investigators to Damascus upon review of the documents and review of the transactional data, it became clear that the Syrians had, in fact, paid out the vast bulk of the amount that had existed in that particular account.

Senator COLEMAN. And they are claiming that these were legitimate brokers and traders. Have we had a chance to test the veracity of the Syrian claims?

Mr. ZARATE. That is something we are working with the Syrians on as we speak. One of the things, and I mentioned it in my oral remarks, that we have done is to use the power that Congress gave us in Section 311 to pressure the Syrian government. It was the imposition of Section 311 actions against the Commercial Bank of Syria which have, in essence, opened the dialogue with respect to what was going on not only at the time of the war, but before the war, and what transactions have been facilitated by the Commercial Bank of Syria.

Senator COLEMAN. Certainly, this Chairman, and I have no doubt this Subcommittee have deep concerns about this issue of terrorist financing, and the knowledge that there is $1 billion in Syrian accounts that have been disbursed without us getting information to verify, in fact, that there were legitimate traders or claims upon that.

We have folks on the front line right now who are sacrificing their lives and who are under fire, and somewhere, somehow, there is money being used to fuel that insurgency. And I would just hope that a very strong message is delivered to the Syrians that we get their cooperation, that we track this down and we figure out what is what.

Mr. ZARATE. Mr. Chairman, let me assure you that this issue has been front and center in terms of the dialogue with the Syrian government. It is front and center in terms of the Section 311 action taken. It has been part of the dialogue at the highest levels, so we are very much concerned, as you are, that the amounts paid out were either not paid out to legitimate claimants or were paid out to people who are attempting to do us harm now.

Senator COLEMAN. Is there anything else that you can tell us about the possibility of the money that Saddam pilfered, stole from the Oil-for-Food Program or in violation of the UN sanctions—anything more you can tell us about whether that money is being used to fuel an insurgency right now?

Mr. ZARATE. Mr. Chairman, I can't speak in this forum to specific evidence, but it is certainly a concern of ours that assets that are not yet frozen, that are unattended to in a sense, could be used by former regime elements to fuel the insurgency.

I think what we are concerned about are, in essence, three pools of money that could be fueling the terrorist attacks we see within Iraq. First are these unattended-to, former regime-related assets, and that is why we continue to work on it. We also have assets within Iraq, and that is why the Department of Defense, our soldiers on the ground, the FBI, and others are working so hard to try to find those caches of cash within Iraq. And then, finally, you have traditional sources of terrorist funding in the region which are mobilizing for the Iraqi jihad, in essence. So it is all three pots of money there that are of concern to us.

Senator COLEMAN. And the amounts of money that are involved here are pretty overwhelming. You have indicated you have recovered about $6 billion?

Mr. ZARATE. Six billion, worldwide.

Senator COLEMAN. And if we have estimated over a 10-year period $21 billion, you could build all the castles you want, but that is not going to account for $21 billion, is it?

Mr. ZARATE. That is right, sir. I think one of the challenges is nobody, including GAO, Mr. Duelfer, or even the Treasury Department, has been able to account for how much of that was spent, how much of that was used by agents abroad, how much of that was simply used as part of the ongoing governance of Iraq. So it is very hard to tell how much is still lingering out there.

Senator COLEMAN. What can we do within this Congress to assist you in your ability to recover these stolen, pilfered funds and get-

ting them back to the purposes that they were supposed to be used for?

Mr. ZARATE. Mr. Chairman, I think continuing this investigation is critical. As I mentioned in my written testimony, as well as my oral testimony, our mandate has been to try to find and repatriate Iraqi assets abroad. It has not necessarily been our mandate to investigate the Oil-for-Food Program or activities of companies abroad that traded with Iraq. Your work in that respect and with respect to what was happening at the UN would be extremely beneficial to us and it is already bearing fruit, I would think.

Senator COLEMAN. Anything legislatively that we need to do?

Mr. ZARATE. Mr. Chairman, if I could, I would like to take that back and think about it a bit. Let me just emphasize again—and this is a credit to Senator Levin and to others—the power that Congress gave us in Section 311 of the Patriot Act is an incredibly helpful tool because it allows us to identify actual foreign institutions that present a money laundering concern. And sanctions-busting falls within the category of money laundering issues, so that has been an incredibly important power.

Senator COLEMAN. Thank you. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman, and thank you for your testimony, Mr. Zarate. When you just made reference to the amount of money which you have tracked down of Iraqi assets held abroad, that is from whatever source, correct?

Mr. ZARATE. Yes.

Senator LEVIN. That figure that you used does not necessarily flow from any of the subject matter of this Subcommittee's current inquiry. Is that correct?

Mr. ZARATE. That is correct, Senator.

Senator LEVIN. Some of it may have come from that.

Mr. ZARATE. Exactly.

Senator LEVIN. But you haven't identified what the source of those funds are, if they were Iraqi government funds. You are after them regardless of the source.

Mr. ZARATE. Yes, Senator.

Senator LEVIN. It could be oil, it could be humanitarian contracts with kickbacks. Whatever the source is—it could be totally different from that—you are after it.

Mr. ZARATE. Yes, Senator. Actually, one of the issues I would clarify is that in terms of companies that were actually trading with Iraq and may have perhaps garnered profits or benefits from that trade, we are not necessarily looking at that. We are looking for assets that were controlled by the former Iraqi regime.

Senator LEVIN. Now, the Chairman talked about Syria being a real concern for us, and it surely is. We at one point, according to Secretary of State Powell, received assurances that Syria would place its trade with Iraq under the UN Oil-for-Food Program. It did not meet that commitment.

Do you remember that?

Mr. ZARATE. Yes, Senator.

Senator LEVIN. What was our response when they did not live up to the commitment that they made to Secretary Powell?

Mr. ZARATE. Senator, I can't speak for the Secretary or the State Department generally, but I will say that this Administration im-

plemented vigorously the Syrian Accountability Act, and in coordination with that the Section 311 actions. And as I mentioned, at the core of the Section 311 decision by the Administration, by the Secretary of the Treasury, was the fact that not only had the Commercial Bank of Syria been used to facilitate the illicit financial activity that we are talking about here today, but the fact that the Syrians had not taken action to secure the assets that were rightfully the Iraqis and have failed to still transfer money that is frozen within the Syrian banking system.

Senator LEVIN. You say that you are working now with Syria to try to identify the actual use of the money which has disappeared or moved out of the accounts. Is that correct?

Mr. ZARATE. Yes, Senator. One of the things that we are trying to do is we are brokering a discussion between the Iraqis themselves and the Syrians to actually review the payments made out. Our figures are closer to about $600 million, but to review those payments and to verify who exactly received them, under what claims.

Not only is it important in terms of the very important concerns the Chairman mentioned, but it also goes to the very integrity of the sanctions program itself and Security Council Resolution 1483 which requires the repatriation of these assets.

Senator LEVIN. How would you characterize Syria's level of cooperation at this point in trying to identify where that money went?

Mr. ZARATE. I would have to say poor, Senator.

Senator LEVIN. I think we are going to need from the Administration, perhaps not from you, but for the record what the steps are going to be to improve that cooperation. Can you, if it is all right with the Chairman, supply that for the record?

Mr. ZARATE. I am glad to get back, Senator.

Senator COLEMAN. That request will be forthcoming.

Mr. ZARATE. Absolutely.

Senator LEVIN. You have indicated you are working with the Swiss on the Corsin Financial issue, or have you not yet begun that?

Mr. ZARATE. Senator, just very recently—in fact, this is one of the fruits of your labor, actually, working with your staff. We are following up, as well, to try to help you and to help ourselves.

Senator LEVIN. All right. I know all of the staff has been involved in a whole host of issues. That is one of the things we have taken on and it would be helpful to the Subcommittee if you can do what we have been unable to do, which is to get the Swiss to answer the question relative to that particular account.

What about bank accounts in Jordan? What is the level of cooperation with that government?

Mr. ZARATE. Cooperation with Jordan has been generally very good. The Jordanians have been fairly open with us in terms of sharing account information. We have had investigators out in Amman looking at accounts. There is always an issue with respect to looking behind certain transactions or accounts, so we are continuously working with the Jordanian government to try to get at some of the activity behind the accounts and transactions we have reviewed.

I will note that the Jordanian government has been very cooperative in terms of returning Iraqi assets. They have repatriated now $250 million back into the Development Fund for Iraq. We consider that to be significant, especially in comparison to Syria which has transferred zero.

Senator LEVIN. You have graciously made reference to my efforts on the Patriot Act to require some due diligence from U.S. banks when they open accounts for senior foreign government officials or their associates, or wealthy foreign individuals or foreign financial institutions.

The regulations pursuant to that Act have not yet been issued. Can you tell us when they will be issued?

Mr. ZARATE. Senator, that section of the Patriot Act, Section 312 which you know well, is frankly the most complicated, I think, of the measures coming out of Title III of the Patriot Act. We issued the interim final rule in July 2002 which has the force and effect of law. In fact, Senator, I would note that there have been a couple of enforcement-related actions based on those very rules recently.

I cannot give you a specific date, but I will tell you that this is at the top of the priority at the Treasury Department. But I will also tell you, Senator, that it is a very complicated rule, given the impact both on the banking system as well as on the enforcement community.

Senator LEVIN. Well, obviously, we are looking forward to the final regulations.

What is the role of the Office of Foreign Assets Control in the review of contracts which are submitted to the UN for the purchase of humanitarian goods? Is there a role at all?

Mr. ZARATE. OFAC, the Office of Foreign Assets Control, is the body within the U.S. Government that administers all the economic sanctions. We currently administer 29 of the sanctions programs, varying from Burma all the way to the terrorist financing program which everyone is quite aware of.

OFAC, once the OFF Program was instituted, had the responsibility of administering the regulations. With respect to executory contracts that were allowed with Iraq, OFAC on a case-by-case basis did review the contracts and did review to make sure that the UN 661 Committee had approved of the transactions. During the course of the OFF Program, OFAC issued over 1,000 licenses to allow for the legitimate commerce with Iraq under the Iraqi regulations that they administered.

Senator LEVIN. Now, was OFAC responsible for reviewing the price of the contracts for reasonableness?

Mr. ZARATE. I would have to go back and check, Senator, to see if on the case-by-case basis we would review the price. I would think that perhaps that was part of the process, but again I would have to check to make sure it was done in each and every instance.

Senator LEVIN. Well, if it was done at all, because one of the big issues here is how was that not found out when there would be an increase in the price from the first bid to the second bid or where the price seemed to be out of keeping with what the market price was. Why wouldn't the committee at the UN have been alerted or found out on its own that that discrepancy existed so it could have done an investigation?

If you could go back and check your records and see whether or not that was your—when I say "your," I am talking about the OFAC function which I understand is under your supervision.

Mr. ZARATE. Yes, Senator.

Senator LEVIN. If that was OFAC's function or responsibility; if so, whether or not they ever identified contracts where there was that discrepancy, and if so, whether the secretariat at the UN or that committee, which is the 661 Committee, was notified of that discrepancy. That would be helpful for the record.

Mr. ZARATE. Absolutely.

Senator LEVIN. Thank you.

Senator COLEMAN. Thank you. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

These 1,000 licenses that were issued, are those to American companies by the American Government?

Mr. ZARATE. Yes, Senator. Those were for delivery of humanitarian goods, as well as oil field parts and general commercial activity that was allowed under the Iraqi sanction regulations.

Senator GRAHAM. So if you are an American-based company and you want to participate in this program, you have to get a license from our government?

Mr. ZARATE. Yes, sir.

Senator GRAHAM. Have you dealt with the UN at all in your investigation?

Mr. ZARATE. Not in the context, Senator, of the Oil-for-Food Program and sort of the scandal surrounding it. We have certainly dealt with the UN in the context of designating front companies, designating the parastatals and some of the——

Senator GRAHAM. Have they been cooperative?

Mr. ZARATE. The UN has been very cooperative. In fact, the 1518 Committee which is responsible for this job, which is chaired by the Romanian ambassador, is very cooperative. We have certainly been working through potential problems that we have had with certain states, member states, that object to some of the designations, but we have generally worked through those and been able to designate the vast majority of nominees.

Senator GRAHAM. What about Belarus?

Mr. ZARATE. Belarus has been silent in the context of these issues. They certainly were not pleased when we issued the Section 311 designation of Infobank. That designation, I think, is significant because it lays out pretty clearly that Infobank was being used quite obviously to help in terms of procurement of military equipment from Belorussia to Iraq.

Senator GRAHAM. One last thing I might suggest. The Subcommittee has done a great job of identifying organizations that have very troubling names and that have a history of international connections to terrorism that have allegedly, by Iraqi documents, received various units of oil that could be converted to monetary benefit for these organizations.

Have you looked into that aspect at all?

Mr. ZARATE. We have started to look into that based in part on the work of this Subcommittee. And, again, what I said earlier I meant, which is your work is bearing fruit and the work of your staff is bearing fruit. And documents that you come up with—the

PFLP reference in terms of the voucher is extremely significant to us and it is something that we plan on following up on, and frankly was not known to us before.

Senator GRAHAM. Thank you.

Senator COLEMAN. Thank you very much, Mr. Zarate. I appreciate your testimony and I appreciate the work that you are doing and will continue to do. It is very important to all of us.

Senator COLEMAN. I am going to keep the record open for 2 weeks.

Before we close this hearing, I would defer to my Ranking Member for any closing comments.

Senator LEVIN. Just very briefly, Mr. Chairman, first of all let me join you in thanking Mr. Zarate for the work that he and the Treasury are doing. And I want to thank you again, Mr. Chairman, for your very thorough and tenacious work in this area.

It is an intriguing subject because we start with the premise that sanctions were working, UN sanctions were working, and then we had Saddam who was trying to get out from under them. But according to both Secretary Powell and others, we had a sanction regime which was in place which was succeeding in stopping Iraq from re-arming. And so you had Iraq trying to undermine that regime. They did it in a number of ways.

First, they did it in a corrupt way, a secretive way, which we have heard about today. But, ironically, the bigger amount of money that they were able to obtain came from sales agreements that they had with neighbors that were open and which we acquiesced in. They are both a problem as far as I am concerned. Even though the corrupt amount is a smaller amount, in the few billions, and the amount of the open sales which were a way of circumventing the Oil-for-Food Program and were outside of the Oil-for-Food Program represented about four times that amount, they both represented a problem because they both put money in Saddam's pocket and they both were aimed at undermining a regime which was otherwise working.

I would hope that we look, in addition, to what we are doing with the UN, which is, I think, very important. And I know the UN—after talking with the head of the UN, it is something that they are very much interested in getting to the bottom of, too. I have to believe that when the Secretary General tells us that he wants to find out if there is truth to the allegation which is created by that document that the head of the UN program himself received these monies or these rights, that is extremely troubling thing.

But we also have to keep our eye on another ball, which is what did we do or what did we fail to do as a country? And we decided that the amount of money which Saddam was getting from these oil sales to Syria and to Jordan and to Turkey, for instance, was something that we would acquiesce in. We knew about it. Two Presidents of both parties waived any action that would be taken in response to those sales even though they circumvented the Oil-for-Food Program. That represents a very intriguing kind of a dynamic which it seems to me we have to be willing to look at in terms of future sanction regimes.

We want sanctions to work. It is important. It is one of the tools which we have. It is not a perfectly effective tool. It is not like tak-

ing military action in many ways, but it is a tool, and it is this Subcommittee's determination, I think, that we make this tool work better and that we look at the failures and the flaws during the Iraq years so that we can see if we can't have a stronger, tougher regime of sanctions that the world community can impose to try to change conduct short of war.

With that comment, Mr. Chairman, I just want to again thank you and the staff that have been working so hard. Your staff, my staff, all of our staffs have been working hard on this matter, and I think they have produced some very important documents and material.

Senator COLEMAN. Thank you. Senator Graham.

Senator GRAHAM. Thank you for letting me come, Mr. Chairman. It has been an excellent job by your Subcommittee. Thank you.

Senator COLEMAN. Thank you. I thank Senator Levin and the witnesses. This has been very helpful. This really is a start. We have got a lot more work to do. We need greater cooperation from the United Nations. They have an important stake in getting to the bottom of this. This Subcommittee can help and we are prepared to do that. We will get to the bottom of this. It may take a little while.

With that, this hearing is adjourned.

[Whereupon, at 3:30 p.m., the Subcommittee was adjourned.]

APPENDIX

Statement For the Record
Of
CHARLES DUELFER
Special Advisor to the DCI
For Iraq WMD
To
Senate Governmental Affairs Committee
Permanent Subcommittee on Investigations
15 November 2004

Thank you for the opportunity to be here and share some elements of my recent report on Iraq WMD.

The report and the supporting analysis aimed at providing a synthetic view of the former Regime's decisions and strategies as related to WMD. It was one of my objectives to describe the context within which Saddam made his decisions about WMD.

WMD did not happen in a vacuum. To understand what happened to Iraqi WMD and perhaps to learn lessons that might inform future policies, I felt it was important to examine the surrounding factors that impinged on Saddam's decisions. At different times, Saddam opted to have and then not have WMD. It was my hope to try to illuminate the conditions that led to these different courses.

I also tried to analyze the Regime's relationship with WMD over time. We have been wrestling with the prospect of the Iraqi nation with Saddam and WMD for almost three decades. It would have been grossly deficient simply to tally up the remnants of the WMD program. My goal was to understand the dynamics behind the decisions Saddam made.

To this end, we delved into the nature of Saddam's objectives and his perspectives on the world. A significant part of the report addresses the manner of Saddam's rule and his vision for himself and Iraq. Unlike previous reports on the Regime, we had access to primary sources – Saddam's top advisors as well as Saddam himself.

Understanding and analyzing WMD in Iraq is, in one way, simplified because the regime was basically one person – Saddam Hussein. This certainly bounded the analysis.

A second way of bounding the problem was to consider the limited amount of resources available to the regime. Sanctions and the oil embargo put strict limits on Iraq's disposable income. It struck me that if we could account for the resources available to the Regime, and examine how the regime allocated them, we could learn a great deal about its objectives and actions related to WMD.

This line of investigation quickly highlighted not just the tangible resources available to Iraq, but also the influence that the Regime accrued through the potential to allocate future resources. Examination of the resource decisions and the actions the

Regime took to disperse its favors proved an excellent way of highlighting the objectives and intentions of Saddam.

We identified several key inflection points in this history. One was in the summer following the 1991 war. The UN Security Council had taken the decision to link the lifting of sanctions and oil embargo imposed in August 1990 when Iraq invaded Kuwait, to Iraq's ridding itself of WMD.

A new inspection organization was created for this purpose. Initially, *all* thought it would be short-lived—Saddam amongst them. However, during the summer, early inspections proved more mettlesome than Saddam anticipated and while he made early decisions to offer partial compliance, it became obvious this would not suffice.

Saddam then established, as his top priority, to get out from the web of international sanctions. Other matters would be pursued on a non-interference basis with this prime objective. His policies, his actions, his tactics and strategies from that point – all had the objective of getting rid of sanctions.

The evolution of his approach toward the UN Security Council reflected his usual dual approach of reward and threat. In the same way he ruled at home, he dealt with the international community and the UN Security Council in particular.

Saddam offered partial compliance combined with defiance. He always wanted to bargain. He exerted pressure on the Security Council and tried to divide it. He would acquiesce to their demands only when unavoidable and usually partially. He preferred confrontation.

His lieutenants criticized this approach as having prolonged the sanctions.

Saddam's goal of getting out of sanctions was prime and shaped all his relations with the Security Council and its members.

The Security Council recognized from the start that sanctions were a penalty imposed on all Iraqis, not just the leadership. From 1991 on, the Security Council had made available the option for Iraq to sell oil under conditions that the revenues would only go for humanitarian purposes. The Council was very sensitive to accusations that *their* actions, imposing the sanctions, were the cause of the suffering of the Iraqi people. A pair of resolutions, UNSCR 706 and 712 first provided this option of humanitarian relief to the Regime.

Saddam understood this pressure and the leverage it conveyed to him. He understood that if he exercised the option of exporting oil under the condition that only humanitarian aid could be delivered, then it would relieve the pressure on the Council to lift sanctions in their entirety. He steadfastly refused to accept this option and at every opportunity chose to link the Security Council and the problems with the inspectors, with the deaths of thousands of Iraqi children. In essence, he held his population hostage.

Saddam sustained this position for five years during which time conditions in Iraq decayed. Infrastructure collapsed. Health care diminished. Aid agencies such as UNICEF reported the statistics of decay.

The middle class was wiped out. The value of one Iraqi dinar was over three dollars before the 1991 war. By 1996, the value was on the order of 1500 dinars to the dollar. If effect the entire savings of the middle class vanished. Jobs vanished. Iraqis tried to leave to find work elsewhere.

In mid-1995, Saddam's son-in-law, Hussein Kamal, defected to Jordan. Hussein Kamal was the key regime figure who had been in charge of the development for Saddam of all the WMD programs. When he left, the regime was forced to acknowledge it has not been fully forthcoming with the UN inspectors and WMD documents, materials, and programs had been concealed.

The sympathy and support that had been building in the Security Council for the Iraqi position dissipated. Even Iraq's friends in the Security Council backed off. Suddenly, Baghdad realized sanctions would not soon be lifted. At the same time, their effect continued to grind down Iraq's people.

In 1995, a new resolution, UNSCR 986, was passed to offer relief to the Iraqi civilian population. This resolution, which became known as the Oil-for-Food (OFF) program, was not accepted until December 1996 and only after several months of negotiations between the office of the Secretary General and Baghdad. Saddam only accepted this program when the damage of the sanctions on the civilian infrastructure itself became regime-threatening.

The initiation of this program turned out to have many benefits for the Regime.

The program did achieve the objective of reducing the suffering of the Iraq population. However, it also had unanticipated collateral benefits for the regime.

First, there began a large flow of businessmen to Baghdad in search of contracts. While the UN held the checkbook, in effect, Baghdad still made the decisions on who would get the money. This provided a lever that empowered Saddam to reward or punish those seeking OFF contracts.

The flow of commerce expanded quickly to include the refurbishment of the decayed oil infrastructure. Baghdad shrewdly played various parties off against one another to win their favor. They made it clear that sanctions would not last forever, and when they were lifted, Baghdad would remember who their friends were. This attitude permeated all transactions and the attitude grew that sanctions were eroding and "everyone else" was making money. This effect was intangible, but powerful nonetheless.

The report describes the nature of income that Iraq was able to generate during this period. We broke them into largely four types:

Protocols with neighboring countries
Smuggling of oil products
Kickbacks associated with OFF contracts
Surcharges on oil exported through the OFF program

The report describes in illustrative cases how transactions occurred, estimated their magnitude, and, more to the point of the report, where the funds were directed. It is shown, for example, that the budget of the Military Industrial Commission (MIC) surged from $7.8 million in 1998 to $350 million in 2001. In 2003 Iraq had budgeted $500 million for MIC. Saddam's priorities were clear.

The process of allocating oil liftings was also instructive in terms of the strategy and tactics of Saddam regarding escaping sanctions.

We began obtaining data last winter from the Oil Ministry and the State Oil Marketing Organization. The objective was to review the resources that were available to Iraq and determine if they led to any WMD activities. Combined with our investigations of the procurement mechanisms for sanctioned goods, we developed a fairly robust picture of the systems the Regime used. It is not an all-inclusive picture. We made no attempt to unearth all activities, but rather the illustrative examples that were supported by the testimony of Iraqis we debriefed.

It is important to emphasize that our work took as a point of departure, the Iraqi perspective. We sought to understand what Iraq was doing. We were not investigating the countries who supplied sanctioned items to Iraq, nor were we investigating the judgments or culpability of any party.

I will note a couple of major points from this examination.

We found that there was a momentum shift in late 1998 when Iraq terminated cooperation with UN inspectors. Iraq has been pursuing two tracks to getting out of sanctions. They participated in the inspection and monitoring process at the same time they worked to erode support for that process and also the sanctions.

The decision by Baghdad to terminate cooperation and focus strictly on a policy of erosion of sanctions began in August 1998. The full cessation of cooperation with inspections provoked a limited four-day bombing campaign by the United States and United Kingdom in December 1998.

Other Council members including Russia and France were furious at what they declared to be unauthorized military action. This left the Security Council deeply divided. At the same time, the OFF program was continuing and commerce growing in

Iraq. The inspectors were gone. As Tariq Aziz commented, Baghdad could have sanctions with inspectors or sanctions without inspectors. They chose the latter.

Throughout 1999, the Security Council debated how to address Iraq. The sanctions remained, but were fraying and Iraq applied whatever tools it could to generate support for its position. Ultimately, the Council agreed upon a new Resolution 1284 in December 1999. This replaced the former inspection organ, UNSCOM, with a new one, UNMOVIC, and changed certain other provisions related to the prospects for lifting of sanctions based upon progressive steps of compliance by Iraq. Nevertheless, Iraq chose to ignore the resolution and did not permit inspections.

By 2000, funds from the four general revenue streams I noted earlier made life much better for the Regime. I would observe that the Jordanian protocol created in the early nineties now began to be replicated in this period. It was a model Iraq and its neighbors used to open and increase commerce.

The infusion of funding allowed Iraq to begin efforts to refurbish conventional military capabilities among other things such as palace construction. In 2000 we found Saddam made a decision to invigorate his long-range ballistic missile programs – this was directly keyed to the availability of resources and material and expertise in spite of sanctions.

The view for Baghdad was good in 2000-2001. Businessmen filled Baghdad's hotels. Flights were restarting to Saddam International Airport. The Baghdad International Fairs were bursting with foreign companies and representatives soliciting business with the Regime. Saddam was looking like a winner in many places.

Attention at OPEC meetings was riveted on the prospects for increased Iraqi oil production. Baghdad derived substantial international leverage from the speculation about its future decisions and their potential effect on markets. Oil analysts and traders were solicitous if not groveling with the Iraqi delegations.

It was also apparent to Baghdad that the American effort to revise sanctions with so-called "Smart Sanctions" was an indication of weakness. Baghdad was hearing from other Council members that these steps were all favorable to Iraq.

It is also important to appreciate that Baghdad was never an easy friend to its supporters. The Regime kept making more demands of its "friends" and often ignored their advice on how to relate to the Security Council.

True to form, Saddam made one last strategic blunder. He failed to grasp the effect of the attacks of September 11, 2001. He did not understand how this radically changed the international environment. Only following the January 2002 State of the Union Message, did Saddam *begin* to realize he could no longer stonewall on weapons inspections. He realized too late that his "friends" on the Security Council were limited in what they could or would do.

Yet he still insisted upon attempts to bargain. He would not simply accept inspections but rather opened a long process of negotiations with the UN. Ultimately, this worsened the conditions under which Saddam finally accepted inspectors.

During 2002 while Saddam tried to negotiate conditions for accepting inspections, the US pressed for a new resolution with tougher measures than the Council agreed previously in December 1999 in Resolution 1284. This was a reverse from the trend in the Security Council of loosening constraints on Iraq. The tougher US line found more traction in the Council following September 11. Saddam did not understand the changed environment.

In conclusion, the portion of this report devoted OFF and the Regime's finances is aimed at supporting assessments about WMD programs. It is also a vital indicator of the direction and intentions of the former regime. We were not conducting an investigation of OFF, the United Nations, or other nation's actions. Our goal was to delve into the interior of a very opaque and dangerous regime. Much of what we found was ugly. The Regime depended, not on bringing out the best in people, rather on promoting the worst. It poisoned everything it touched.

Thank you.

STATEMENT BY

MARK L. GREENBLATT

COUNSEL

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

ON THE

UNITED NATIONS OIL-FOR-FOOD PROGRAM

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

NOVEMBER 15, 2004

Mr. Chairman, Ranking Member Levin, and Subcommittee Members:

Thank you for this opportunity to testify before you concerning the Subcommittee's investigation into the United Nations Oil for Food Program and how Saddam Hussein abused that Program. The purpose of my testimony is to examine two ways in which the Hussein regime abused the Program, and present evidence obtained by the Subcommittee that illustrates our conclusions. First, I will discuss what have been called "oil vouchers" – namely, how Saddam Hussein turned oil into influence. The second portion of my presentation will illustrate how Saddam Hussein exacted millions of dollars in illegal surcharges under the OFF Program.

I. BACKGROUND: WHAT IS AN ALLOCATION OF OIL?

To understand how Saddam Hussein turned oil into influence, we start with how Iraq sold its oil under the Program. The arm of the Iraqi government that controlled the sale of Iraqi crude oil was the State Oil Marketing Organization, which was commonly called "SOMO." In order to manage the volume of oil flowing through its pipelines, SOMO divided its oil supply into discrete units. It then allocated these units to prospective oil purchasers, essentially giving those recipients an option to purchase that allotment of oil. These options are typically called "allocations" or "quotas." Allocations typically ranged from 1 to 2 million barrels of crude oil.

SOMO distributed allocations for each of the 13 Phases of the Program, which lasted 6 months apiece. Each allocation would be valid for the current phase of the Program. Witnesses, including at least one recipient of an oil allocation, have informed the Subcommittee that allocations would have a designated number that SOMO, the allocation holder, and the prospective oil purchasers used to identify the particular allotment. While some allocations were solely verbal in nature, others were documented in writing, as we will see in a few moments. These written allocations are where the term "oil vouchers" comes from.

I should note two critical characteristics of allocations. First, an allocation was only an *option* to buy a certain allotment of oil in a certain window of time – it was <u>not</u> a gift of oil and did not mean that a purchase of oil would necessarily follow. In fact, many of SOMO's allocations under the OFF Program

never resulted in an oil sale. Page 200 of Mr. Duelfer's report provides a list of 71 unused allocations from the 13th Phase alone. The second critical fact is that allocations were transferable – that is, a recipient of an allocation could sell his/her allocation to a third party and that third party would then have the option to buy Iraqi oil.

II. HOW SADDAM USED OIL ALLOCATIONS TO GARNER INFLUENCE

In Phases I and II of the OFF Program, SOMO allocated oil to traditional oil companies throughout the world. Those companies then contracted with SOMO to purchase the oil and lifted the oil themselves. For example, if you would please turn to pages 168 and 169 of Mr. Duelfer's report, which list the oil transactions in Phases I and II, you will see that the allocation recipients, which appear in under the header "Allocation Holders," and the ultimate purchasers of the oil, which appear under the header "Contracted Company," are identical.

Starting in Phase III of the Program, however, Saddam Hussein attempted to manipulate the typical oil allocation process in order to gain influence throughout the world. His plan was simple: rather than giving allocations to traditional oil purchasers, Hussein gave oil allocations to foreign officials, journalists, and even terrorist entities, who then sold their allocations to the traditional oil companies in return for a sizeable commission. In doing so, Saddam could give a foreign official or journalist a bribe of hundreds of thousands of dollars – *without actually paying a dime.*

Now, the key question is why the allocations were valuable. The answer has to do with the price of Iraqi oil. Although the regulations of the OFF Program required that Iraqi oil be sold at "fair market value," Saddam Hussein instructed SOMO to sell the oil at discounted prices. For example, if the market price for oil was $10 per barrel, Iraq would sell its oil at $9.50 per barrel. Therefore, purchasers of Iraqi oil enjoyed massive profits, and clamored to get access to the discounted oil. By allocating the oil to favored people or entities, Hussein forced oil purchasers to obtain allocations from the favored few. Those favored recipients became gatekeepers to cheap Iraqi oil. As gatekeepers, the allocation holders demanded a "commission," which ranged from 3 to 30 cents per barrel. Oil companies were quite willing to pay that 3- or 30-cent commission because the total price for their oil, even including that commission, was still significantly lower than market price. A commission of 3 to 30 cents on an allocation of 1 million barrels would translate to a $30,000 – $300,000 in cash for the allocation holder. As you can see, an allocation from SOMO was certainly valuable.

According to multiple sources, including SOMO documents obtained by PSI, allocation recipients included:

- Benon Sevan, the Executive Director of U.N.'s Office of the Iraq Programme,
- Foreign officials, such as Vladimir Zhirinovsky, the Leader of the Liberal-Democratic Party of Russia, Charles Pasqua, the former French Interior Minister, and George Galloway, a Member of the British Parliament,
- Terrorist entities, such as the Popular Front for the Liberation of Palestine, and Mujahadeen Khalq of Iran, and
- Journalists, such as Hamidah Na'na.

So how did these allocations get translated into cash? That monetization involved a simple process, which we have illustrated in the chart numbered **Exhibit 5.**

Exhibit 5: The chart reveals the steps used to convert an allocation into a shipment of oil and a commission to the allocation recipient.

STEP 1. Saddam himself would approve the grant of an allocation of oil to whomever he sought to influence or reward, typically a government official, journalist, or terrorist organization;

STEP 2. Next, the recipient of the oil allocation would sell the allocation to oil companies for a hefty commission and then inform SOMO of the sale;

STEP 3. The oil company would then formally purchase oil under the Oil for Food Program – which meant entering a formal contract with the Iraqi government for the allocated oil, submitting that contract to the U.N. for approval under the OFF Program, and then lifting the oil pursuant to the contract. Once the oil was lifted, the purchaser would pay the agreed-upon commission to the allocation recipient.

This 3-step process is the basic framework for the sale of oil allocations, although each instance varied slightly. I will now explore each of these steps and present selected evidence to illustrate the various steps.

STEP 1: Saddam Gives Allocations to Foreign Officials, Journalists, and Terrorist Entities

Numerous sources, including senior officials of the former regime, have stated that Saddam Hussein personally approved the people and/or entities that received oil allocations, and would delete those who had fallen out of favor. The Subcommittee has obtained some evidence that senior officials, such as Deputy Prime Minister Tariq Aziz, were also intimately involved in the allocation process.

Exhibit 6: This document is a letter from SOMO to the Minister of Oil concerning an oil allocation provided to a Syrian journalist named Hamidah Na'na. This letter illustrates the in-depth, personal involvement of high-ranking members of the Hussein regime in the granting of oil allocations. For example, the letter states in the first paragraph of text: "With reference to the allocations of 12/09/2002 for phase (13) and ***the approval of Mr. Taha Yasin Ramadan, the Vice-President, as per the telephone call with your Excellency*** on 11/29/2002 regarding the increase of the quantity allocated to Mrs. Hamidah Na'na at the rate of (1) million barrels...." This letter was personally ratified by the Minister of Oil in the bottom left corner of the letter. From this letter, we can see that both the Vice President and the Minister of Oil of the Hussein regime were intimately involved in oil allocations granted to Hamidah Na'na.

Exhibit 7: Before I describe this letter, I should note that we have redacted out the names of some of the entities and/or individuals mentioned in these letters when they are part of the Subcommittee's on-going investigation. In this case, we have redacted out the name of the author of the letter and the recipient. Turning back to the exhibit, this is a letter from a prospective oil purchaser to an allocation holder that is based in Moscow. In the letter, the oil purchaser refers to a face-to-face meeting in Moscow between the allocation holder and Tariq Aziz, one of Hussein's closest aides. The meeting related to a problem that the allocation holder was having with respect to the allocation. The oil purchaser suggests that the allocation holder inform SOMO of the meeting, saying: "***During last week a high ranked*** [sic] ***Iraqi delegation lead*** [sic] ***by his Excellency Mr. Tariq Aziz visited Moscow. The allocation holder... had a personal meeting with him and we are informed that the discrepancies regarding this allocation will be solved very soon***."

Exhibit 8: This document appears to be one of the written allocations that I referred to previously – the original certificate in Arabic is on the left and the translation is on the right. In this allocation, it appears that Saddam Hussein personally ordered an allotment of 6 million barrels to journalist Mahmud Al-Tamimi in recognition of his pro-Saddam stances during the first Gulf War: "***The President leader ... has ordered*** ... as follows: ***six million barrels of petroleum*** will be allocated to ***journalist Mahmud Al-Tamimi in appreciation of his nationalist positions which he has adopted*** since the thirty-nation aggression in the year 1991 in confronting the unjust blockade of our dear country." I should note that this journalist does not appear in any report of allocation recipients, including the *Al Mada* list, Charles Duelfer's report or SOMO documents obtained by PSI.

STEP 2: The Sale of the Oil Allocation and Assignment of the Allocation to the Purchaser

Once recipients learned that they had been allocated oil, they would negotiate with an oil company to sell the allocation. The primary issue of the negotiations was the commission paid to the allocation holder. PSI has obtained evidence, including testimony from witnesses, that some of these negotiations occurred in the lobby of the Al-Rashid Hotel in Baghdad. In those situations, an allocation recipient or their representative would literally bargain with oil traders in the hotel's lobby over the allocation and the rate of the commission. Aside from bargaining at the Al-Rashid, these negotiations also occurred in writing. PSI has obtained evidence of the written negotiations between the allocation holders and the prospective oil purchasers:

Exhibit 9: This letter is written by Vladimir Zhirinovsky, the leader of the ultra-nationalist Liberal-Democratic Party of Russia. On official Party letterhead, Zhirinovsky invites an international oil company to Moscow to "negotiate" with him: "***It is my honor to invite you for negotiations to Moscow, from the 18th to the 25th of January 1999. Will be happy to meet with you.***" I should note that PSI has obtained evidence that Zhirinovsky obtained an oil allocation from Hussein in Phase V of the Program, which ran from November 1998 through May 1999. In addition, if you turn to page 173 of Mr. Duelfer's report and look at entry 51, you will see Mr. Zhirinovsky's name next to the Liberal-Democratic Party of Russia as the allocation recipient.

Exhibit 10: This document is a fax from a representative of an allocation holder who is offering a "Full Corporate Offer" for 2 shipments of 2 million barrels of oil. We know that this is a contract under the Oil for Food Program because it is dated April 2001, which falls in the correct timeframe, and the qualifications of the offer (which are listed in the middle of the page) require that the contract be approved by the United Nations. For our purposes, the key aspect of this offer is that the representative demands a "Seller's Fee" of "***U.S.$ 0.75 / net barrel inclusive of SOMO's***." For now, the key concept is that the holder of the allocation, who is acting as the gatekeeper to the oil, is demanding a significant fee. We will return to the question of what "inclusive of SOMO's fee" means shortly. I should note that the actual recipient of this allocation is unknown.

Exhibit 11: In this series of letters between an allocation holder and a prospective oil buyer, the parties negotiate the amount of the commission. On page 1 of the first letter, the purchaser states that the allocation recipient has been offered "***oil development project opportunities in Iraq***, which are being offered to [the allocation recipient] for completion ***after sanctions are lifted***." These "*oil development project opportunities*" for "*after the sanctions are lifted*" might explain why Hussein would give this company an oil allocation. We will return to this concept later in the presentation. Moving on to Page 2 of that letter, the purchaser offers to by the allocated oil at "SOMO's official selling formula price applicable for the month of lifting ***plus $0.07/barrel***." In the next letter, the purchaser raises its offer, saying "***I refer to the portion of our proposal which includes the purchase of [the recipient]'s allocation under the fourth period U.N. oil sale*** [*sic*]***, we are pleased to increase our premium to S.O.M.O's official selling price from $0.07/barrel to $0.09/barrel***." In the next letter, the allocation recipient rejects that bid, saying commissions of less than 12 cents ***"are not competitive and will not be taken into consideration***." In the following letter, the prospective oil purchaser caves in and accepts the allocation holder's demand. Months later, the purchaser confirms its "***bid of USD 0.13 premium above [official selling price] for any quantities of Iraqi oil that you may decide to make available to us***."

These letters provide a first-hand glimpse at how the negotiations between an allocation recipient and a prospective oil purchaser occurred. Once the allocation holder and the prospective oil purchaser agreed on the amount of the commission, the allocation holder would assign his/her right to the allocation to the purchaser, and inform SOMO of the assignment. In doing so, the allocation holder established a direct link between the prospective oil purchaser and SOMO, thereby eliminating his/her further involvement in the transaction. PSI has obtained evidence of such assignments by the allocation holders and the subsequent notification of SOMO:

Exhibit 12: In this letter, an allocation holder memorialized his commission agreement with a prospective oil purchaser in a letter entitled, "Acceptance of commission": "***Thank you for your cooperation and your letter dated 22 November 1999 in which you guarantee the payment of US $0.10 (ten cents of a US Dollar) per barrel for my commission, referred to in your above mentioned letter.*** I enclose herewith a letter addressed to S.O.M.O. by which I nominate your company [] for the lifting of the crude oil allocated to me[.]" In the attached letter, the allocation holder informed SOMO of the assignment and authorized the purchaser to "handle the crude oil that is allocated to me in all its stages."

Exhibit 13: In this letter, an allocation holder informs SOMO that Devon Petroleum will lift the oil in connection with her allocation, saying "I, Mrs. Hamidah Na'na the presentee cede my allocation for phase (13) totaling (1.5) million barrels to Devon Petroleum Ltd., and empower Mr. Denney Gunel to sign for me."

STEP 3: Oil Purchased & Payment to Allocation Holder

Once the allocation recipient informs SOMO of the identity of the prospective oil purchaser, that oil company would have to execute a formal contract with SOMO. Only after a contract was executed would the parties notify the U.N. of the agreement and seek approval. As a result, the moment the contract is submitted to the U.N. for approval is the first time that the U.N. gets involved.

PSI has obtained evidence of these contracts and the related correspondence with the U.N. For example, please refer back to **Exhibit 6**, which we reviewed earlier when discussing the involvement of senior Hussein officials. In that exhibit, the Minister of Oil was informed that Na'na has assigned her allocation for Phase XIII to Devon Petroleum and that Devon and SOMO had executed a contract. Notice that the contract was numbered M/13/26.

Exhibit 14: These documents illustrate how contract M/13/26 between Devon-SOMO was approved. They are (a) the first page and the signature page of the contract M/13/26, (b) the application of Devon Petroleum to the U.N. for approval of the contract M/13/26, (c) the approval of the U.N. for contract M/13/26, and (d) the official invoice from SOMO for the purchase of oil pursuant to contract M/13/26. If you would turn to page 197 of the Duelfer Report, you will see in entry 26 that contract M/13/26 was allocated to Hamidah Na'na and ultimately purchased by Devon Petroleum.

Once the oil was lifted, the commission for the allocation holders would become due. PSI has obtained some invoices from the allocation holders:

Exhibit 15: This invoice is from Al Wasel & Babel Co. for "***[s]elling of Iraq oil allocation.***" It is our understanding that the oil purchaser actually prepared this invoice themselves and that it could be a draft of an invoice. The key point, however, is that the oil purchaser was paying a commission of 0.17 euros per barrel to Al Wasel & Babel. Notably, Al Wasel & Babel is a well-known front company for the Hussein regime.

So that is the story of how Saddam would use oil to reward friends and exert influence throughout the world. The key question remains: **what did the allocation holders do for Saddam in exchange for the allocations?** While we have no direct evidence of a quid-pro-quo for the allocation of oil, we have seen circumstantial evidence. For example, please turn back to **Exhibit 11**, which we reviewed when discussing the negotiations over the commission payment. In this letter, it appears that the allocation holder, a Russian entity that we believe to be affiliated with the Russian government, was negotiating "***oil development project opportunities ... for completion after the sanctions are lifted***" when it received the allocations. This could suggest that Saddam granted this company an allocation in connection with deals for the post-sanction Iraq. Similarly, the Subcommittee has learned that Vladimir Zhirinovsky and his Liberal-Democratic Party received allocations of nearly 80 million barrels of oil. We have observed that, when Hussein kicked out weapons inspectors in the late 1990s and the U.S. threatened military action in response, Zhirinovsky pushed Russia to provide military support to Iraq. That timeframe coincides with the allocation to Zhirinovsky that we discussed earlier (in **Exhibit 9**), which was granted in Phase V (November 1998 through May, 1999). Finally, we discussed the Syrian journalist Hamidah Na'na who received allocations and transferred those allocations to Devon Petroleum and other companies. Ms. Na'na stated in an interview in 2003 that "***The embargo that was imposed on Iraq has been my biggest obsession, and I have devoted much time and effort, as both a journalist and a citizen, in endless attempts to lift the embargo. I have also written a lot about this topic in the papers and magazines I've worked for.***" When she made this statement, she had already received allocations totaling between 10 – 12 million barrels of oil. SOMO estimated her profit from those allocations at $1.4 million.

I will now move on to a different topic related to the oil side of the OFF Program – namely, how Saddam exacted millions of dollars in surcharges from oil purchasers.

III. SURCHARGES – BACKGROUND

A. The Surcharge period: September 2000 to Mid-2002

In mid-2000 (which fell in Phase VIII), Hussein directed SOMO to generate additional revenues outside the OFF Program in connection with the sale of oil. Pursuant to that directive, on September 1, 2000, SOMO began lowering the price of oil even further than usual and demanding a "surcharge" of 10 cents for each barrel exported from Iraq. Over the succeeding months, the rate of the surcharge fluctuated widely, reaching a peak of roughly 30 cents per barrel.

These surcharges were to be paid by the oil purchaser directly to the regime – *i.e.*, outside the U.N.-controlled escrow account maintained at BNP Paribas. Because those payments were not deposited to the BNP account, these surcharges were in direct violation of the OFF Program. As a result, many of the traditional oil companies refused to pay the surcharges. Out of the shadows, however, came

numerous unknown middlemen that were quite eager to participate in the scheme. Those middlemen would contract with Iraq to purchase oil (at the below-market rate), pay the surcharge, and then sell that oil on to the traditional oil industry for a significant profit.

For example, if hypothetical market price of oil was $10 per barrel, Iraq would sell oil to the middleman at only $9.50 per barrel, and then demand a 30-cent surcharge. Therefore, the middleman would pay $9.50 to the U.N.-controlled account at BNP and then 30 cents to a regime-controlled account. Even after paying the surcharge, the middleman would have essentially bought oil at $0.20 per barrel below market rate. The middleman would then sell the oil on to the oil industry at market price – i.e., $10 per barrel. While the profit margin may appear slim (in terms of cents per barrel), Iraqi oil shipments routinely amounted to millions of barrels of oil. As a result, such spreads can be incredibly lucrative – a one million barrel shipment in the example above would net the middleman a quick profit of $200,000.

The amount of the surcharge fluctuated over the subsequent two years. Eventually, Saddam settled on a surcharge range of 25 – 30 cents per barrel. Exports to the U.S. carried a higher surcharge than shipments elsewhere in the world, possibly to spite the U.S.

B. The U.S. and U.K. End Surcharges through "Retroactive Pricing"

Complaints about the illegal surcharge were widespread. In fact, numerous articles concerning Saddam's illegal surcharges appeared in newspapers worldwide. The U.N. learned of the charges and instructed approved purchasers to refuse to make such payments, but did little more to enforce the rule. After roughly 2 years of U.N. inaction in stopping the surcharges, the U.S. and the U.K. (as members of the committee that oversaw the Program) devised a method to eliminate the illegal fees, called "retroactive pricing."

Retroactive pricing meant that the U.S. and U.K., as members of the oversight committee, would not approve the price of oil until the end of the month – *i.e.*, after the sale had been completed. In doing so, the monitors could retroactively set the price at the market price, thereby eliminating any opportunity for a surcharge. Retroactive pricing was completely effective in ending Saddam's illegal surcharges. Over the two year "surcharge period," Saddam amassed $228 million in illegal surcharges. Every single one of those dollars was obtained outside the OFF Program. I will now address how those dollars went into Saddam's coffers and present detailed evidence that illustrates how those transactions occurred.

IV. BEHIND THE SCENES: HOW THE SURCHARGES WERE PAID

PSI has learned that oil purchasers generally paid surcharges to the Hussein regime in two ways – (1) through direct payments to regime-controlled bank accounts and (2) through third parties that would facilitate the transaction.

Exhibit 16: This chart illustrates the two general methods that illegal surcharges were paid.

A. Direct payments by oil purchaser

The simplest method for the surcharge payments was a direct payment from the oil purchaser to the regime-controlled bank account. To that end, the Hussein regime maintained numerous accounts at banks throughout the Middle East, in particular Jordan and Lebanon.

B. Payments through Third-Parties

While many oil companies were willing to comply with Saddam's demand for illegal surcharges, they wanted to conceal those payments as much as possible. As a result, they refused to make direct payments to regime-controlled accounts. In those circumstances, the oil purchaser would make payments to a third party, who would then forward the surcharge on to the regime accounts. Similarly, the recipients of the allocation of oil were also used as a conduit for the surcharge payment.

Exhibit 17: This is an example of the surcharge payment going through the allocation recipient. In this letter, Hamidah Na'na, the Syrian journalist that we discussed earlier, commits to pay the oil surcharge, saying "***I hereby undertake to settle the surcharge at the rate of 30 U.S. cents per barrel for American destination, and 25 U.S. cents per barrel for Europe or the Far East destinations for 1.5 million barrels which Devon Petroleum Company will lift from contract M/11/100 dated 02/11/2002 signed in the name of the aforesaid company on my behalf during Phase 11.***"

In addition, I refer back to **Exhibit 10**, in which a representative of an allocation holder issued a "Full Corporate Offer" for 2 – 4 million barrels of oil under the Program. In connection with this Offer, the representative demands a "Seller's Fee" amounting to "U.S.$ 0.75 / net barrel ***inclusive of SOMO's***." Notably, the price for the oil is already set at the "SOMO price formula." Therefore, the "fee" to SOMO referred to in "Seller's Fee" cannot refer to the price of the oil, but instead must be a separate payment to SOMO – *i.e.*, an illegal surcharge. In short, this document reveals that the seller of the allocation is offering to pay the surcharge for the oil purchaser.

Exhibit 18: This set of documents relates to a contract between Al Hoda International Trading and an oil company. Al Hoda purchased 4 million barrels of oil in connection with Contract M/9/15 under the OFF Program, and sold half of that oil to the oil company. According to Page 2 of the contract between Al Hoda and the oil company, the oil price was the official selling price of the oil plus 40 cents per barrel. Interestingly, the payment mechanism is divided in three parts. Starting with the last paragraph on page 2, we see the payment "inside the letter of credit," which we will see refers to the letter of credit used to pay the U.N.-controlled account under the OFF Program. Moving up to the next paragraph is a payment of 10 cents per barrel "outside the letter of credit" at the direction of Al Hoda. Third, however, is another "payment of [U.S. dollars] 0.30 per ... barrel to be paid outside the letter of credit as instructed by Al-Hoda..." The next document is an invoice from Al Hoda requesting payment for the "Balance amount due not covered by Letter of credit NR. LCIM 2176337," which PSI has confirmed is the letter of credit for payment for the oil to the U.N.-controlled account within the OFF Program. The balance requested is 40 cents per barrel shipped (the 10 cent commission plus the 30 cent surcharge) which amounts to more than $836,860.60. The next document is the order from the oil company to its bank to make the payment for the $836,860.60 invoice. The next document is an excerpt from the oil company's ledger that confirms that a payment for the $836,860.60 invoice to Al Hoda was actually paid.

So how do we know that that payment (or some portion thereof) was a surcharge payment to Iraq? The Subcommittee has obtained SOMO records that provide detailed information about the surcharge payments it received.

Exhibit 19: This is an excerpt of a chart created by SOMO in February 2004 that details each oil contract in which a surcharge was paid. Specifically, the chart details the contract number, the surcharge payer, the amount of oil lifted, the rate of the surcharge, the surcharge owed, the amount of the surcharge that was actually paid, and whether there are any outstanding balances. If we look at the highlighted entry on the chart, which relates to Al Hoda's contract M/9/15, *this chart confirms that, for Contract M/9/15, Al-Hoda made a surcharge payment of 30 cents per barrel.* Therefore, it appears that the 30-cent clause in the Al Hoda-oil company contract did indeed reflect a surcharge payment.

With that, I will end my presentations and I would be happy to answer any questions that the Subcommittee may have.

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STATEMENT BY

STEVEN GROVES

COUNSEL

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

ON THE

UNITED NATIONS OIL-FOR-FOOD PROGRAM

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

NOVEMBER 15, 2004

I. Introduction

Thank you, Chairman Coleman and members of the Subcommittee. The international community was very concerned about the potential impact of sanctions on the Iraqi people when it created the Oil-for-Food Program. The Program was created in large part to allow the Iraqi regime to purchase humanitarian goods with revenue from oil sales. As we have seen, however, Saddam Hussein manipulated the Program to the tune of billions of dollars. You have just heard from my colleague how Saddam Hussein peddled influence and generated illicit revenue by granting oil vouchers and demanding surcharge payments. Not satisfied with the extra cash made from oil sales, he concocted a scheme to siphon off billions for himself by demanding kickbacks on contracts for humanitarian goods.

Under the terms of Security Council Resolution 986, Saddam Hussein was permitted to purchase humanitarian goods from whomever he pleased. Theoretically, the Oil-for-Food Program was designed to permit Iraq to negotiate contract terms that were in the best interests of its people. In practice, however, Saddam was permitted to negotiate contract terms that were in his own best interests and the interests of his brutal regime. Among the various ways that Saddam abused the Oil-for-Food Program was to demand "kickbacks" from companies who were supplying Iraq with humanitarian goods.

II. Kickbacks on Contracts for Humanitarian Goods

A "kickback" is defined as a bribe paid by a seller of goods to a purchasing agent in order to induce the agent to enter into the contract. Kickbacks under the Oil-for-Food Program had a direct impact on the people of Iraq -- by definition, every dollar that was siphoned off by Saddam Hussein from the Iraq escrow account at BNP Paribas was a dollar that did not go to buy food, medicine, or other humanitarian goods for the Iraqi people.

Over 3,500 companies contracted with Iraq under the Oil-for-Food Program and likely hundreds upon hundreds paid kickbacks to the Hussein regime. My testimony this afternoon concerns the kickbacks paid by one such company, The Weir Group, and we will walk through one specific kickback transaction from its inception to the kickback payment.

III. The Weir Group PLC

The business of The Weir Group is the manufacture and sale of industrial valves and pumps for the oil industry, the water and sewer industry, and for other major engineering projects. The Weir Group is hardly a "fly-by-night" company or paper corporation. Nor is it one of the many front companies created by the Hussein regime to generate illicit cash from the Oil-for-Food Program. Rather, Weir is a legitimate, reputable, publicly-traded "blue chip" engineering company based in Glasgow, Scotland. Weir is a multinational corporation with subsidiaries and operating companies across the globe, including ten locations in the United States. In short, Weir is not the type of company one would normally associate with shady Iraqi middlemen or with secret Swiss bank accounts. Yet that is what occurred here.

The Weir Group did over 80 million dollars worth of business under the Oil-for-Food Program, the vast majority of the deals were done through two of Weir's subsidiaries -- Wemco EnviroTech Pumpsystems in France and Wesco Dubai in the United Arab Emirates.

Weir dealt with three Iraqi entities -- the North Oil Company and the South Oil Company, which are divisions of the Ministry of Oil, and the Baghdad Mayoralty -- essentially the Mayor of Baghdad. Weir utilized an agent in Baghdad to secure contracts on Weir's behalf. For completed contracts, Weir would pay this agent a commission between 17 and 27%.

Now, for the first seven phases of the Oil-for-Food Program, Weir's contracts with these Iraqi companies followed a standard protocol:

- Weir's Baghdad agent would forward to Weir a list of parts needed by Iraq for an oil project or a water and sewer project;
- Weir would submit a tender offer to the Iraqis quoting a price for the job;
- The Iraqis would then ask a Weir sales representative to travel to Iraq to complete the contract;
- The contract would be signed, submitted to the U.N., the goods would be shipped from Scotland to Iraq, and Weir would receive payment from the escrow account at BNP Paribas.

IV. Iraq Demands Kickbacks from The Weir Group

This standard protocol changed at the beginning of Phase Eight of the Program, in June of 2000. At that time, Weir had three tender offers pending with Iraq -- one each with the Baghdad Mayoralty, the North Oil Company, and the South Oil Company. The Weir sales representative traveled to Iraq to complete the contracts, but when he arrived he was informed by the Iraqis that they would no longer enter into contracts with Weir unless the contract price was inflated by 10% and that the additional amount would be paid back to Iraq.

This was the critical moment for Weir. They could have refused to inflate their contracts, they could have refused to pay any money back to the Hussein regime. Unfortunately, they agreed to move forward with the new Iraqi demands. Weir was given information for a bank account in Geneva, Switzerland where the kickback was to be paid. For the remainder of the Oil-for-Food Program, each of Weir's 15 contracts were inflated by between 11 and 14% and Weir deposited the inflated amount into a bank account in Geneva in the name of "Corsin Financial Limited" -- a company that has no existence other than being the holder of that bank account.

Now, you may ask how Weir and the Iraqis were able to pull this of while Iraq was under sanctions. How were these contracts approved by the U.N. when -- given the commission of the Iraqi agent and the inflated kickback amount -- Weir's contracts were regularly priced 30, 35, or even 40% higher than the actual cost of the goods. For answers, we will look at one of those 15 contracts in greater detail.

V. Step-by-Step Transaction for Contract Number 1030484

This chart displays each step in Contract Number 1030484; (1) the initial tender offer from Weir to Iraq, (2) the meeting between Weir and the South Oil Company, (3) the revised tender offer from Weir inflating the previous tender by 13.17%, (4) the contract between Weir and Iraq, and (5) the submission and approval of the contract by the U.N. Office of the Iraq Program.

The first tender offer, dated August 15, 2001, is the original offer that Weir made to Iraq for an oil project for the South Oil Company. The prices reflect Weir's actual cost to ship the parts to Iraq plus Weir's standard commission of 17.5% to their Iraqi agent. Naturally, the commission amount is not itemized on the offer, but is instead built into the price. The total price of the offer is €2,156,536.

Now, after the Iraqis received the first offer, the Weir representative was required to come to Iraq and meet with the Iraqis to negotiate the final contract. At that meeting, the kickback was demanded and was agreed to by the Weir representative.

What results is a revised tender offer dated September 15, 2001. A side-by-side comparison of the two tender offers reveals that the price of each part has been inflated by 10%. Now, because the kickback demanded on this particular contract was 13%, Weir manipulated the quantity of the parts so that the final revised price -- €2,440,640.40 -- met the 13% requirement. The second line item of each tender offer presents a good illustration:

Tender Offer #1: 2 Grub Screw M6 at €24.00 ea. for a total of €48

Tender Offer #2: 20 Grub Screw M6 at €26.40 ea. for a total of €528

In this manner, Weir manipulated the price of the parts as well as the quantity of the parts until the total revised tender offer was 13% higher than the original tender offer.

With the revised tender offer in place, Iraq agreed to sign a contract with Weir for the inflated price on December 8, 2001. The contract was signed by both parties and the inflated tender offer was attached as an exhibit.

Through the UAE mission to the U.N., the completed contract was submitted to the Office of the Iraq Program for review and approval. Now, despite the fact that the contract

amount includes a 17% commission for Weir's Iraqi agent, and despite the fact that the contract was inflated by an additional 13% kickback, the contract is approved by the Office of the Iraq Program, who states that "the item price and value have been examined ... and appear within a reasonable and acceptable range."

Once the contract was approved by the U.N., the goods were shipped from Scotland to Iraq, in this case to the port of Umm Qasr.

At Umm Qasr, the goods are supposed to be inspected by the independent inspection agent -- Cotecna Inspection. If an actual inspection had taken place, Cotecna may have discovered that the quantities listed in the bill of lading were in conflict with the actual quantities shipped. The inspection, however, amounted to no more than an "authentication" that certain goods had actually arrived at the port. As with every other shipment of Weir goods, Cotecna authenticated the arrival of the goods for Contract #1030484 and issued a "certificate of authentication" to BNP Paribas.

Now, once BNP Paribas receives the confirmation of arrival, it wires payment for the contract to Weir. Weir would then make good on its agreement to pay the inflated amount back to Iraq by paying the kickback amount into the account for Corsin Financial Limited at Banque Safdie on the Rue de la Tour-de-L'ile in Geneva, Switzerland.

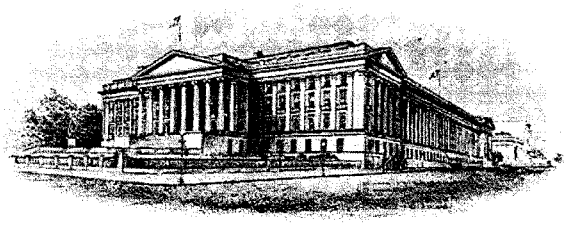
VI. Contract #1030484 is Amended to Remove the 10% Kickback

However, there is a footnote to Contract #1030484. After Operation Iraqi Freedom, the Coalition Provisional Authority took over the responsibility for any Oil-for-Food contracts that were in the pipeline -- contracts that had been approved by the U.N. but had not yet been shipped to Iraq. CPA officials learned that most, if not all, of the contracts in the pipeline were inflated by at least 10%. As a result, the CPA forced hundreds of companies, including Weir, to reduce their total contract price by 10% to remove the kickback. Companies who refused to remove the kickback amount were not permitted to have their contracts funded. In the case of Contract #1030484 and one other contract, Weir agreed to the amendment. As you see in the highlighted portion, the amendment removes 10% of the total contract price from €2,440,640.40 to €2,218,764, a difference of €221,876.40.

VII. Total Kickbacks Paid by The Weir Group

This final chart details the kickbacks paid by Weir into the Corsin account for each of the 15 kickback contracts. The contracts themselves were transacted in British Pounds and Euros, and the kickbacks were paid into the Corsin account in Pounds. The final column shows the kickback amounts as converted into today's dollars. As you can see, Weir paid a total of over 8 million dollars into the Corsin bank account.

Thank you for allowing me to testify. I would be pleased to answer any questions you may have.



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 12:00 Noon EST
November 15, 2004

Contact: Betsy Holahan
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Testimony of
Juan Carlos Zarate, Assistant Secretary
Terrorist Financing and Financial Crimes
U.S. Department of the Treasury

Before the Senate Permanent Subcommittee on Investigations of the Committee on Governmental Affairs

Chairman Coleman, Ranking Minority Member Levin, and distinguished Members of the Permanent Subcommittee on Investigations, thank you for inviting me to testify today about allegations of fraud pertaining to the United Nations Oil-For-Food Program (OFF), and the U.S. government's continuing efforts to identify, freeze and repatriate Iraqi assets around the world. In part, my testimony today builds upon my March 18, 2004 testimony before the House Committee on Financial Services, Subcommittee on Oversight and Investigations. I am attaching this prior testimony to my statement today, and request that it be admitted into the record of this hearing.

Since Secretary Snow's call to engage in a worldwide hunt to find and repatriate stolen Iraqi assets to the Iraqi people in March 2003, the Treasury Department and the entire U.S. government have worked intensely to do just that. In the process of facilitating the finding and freezing of nearly $6 billion in Iraqi assets outside of Iraq, the return of over $2.7 billion of that, and the recovery of over $1 billion in cash inside Iraq, we have seen and uncovered the vast corruption of the sanctions regime by Saddam Hussein. The scandal now surrounding the corruption of the economic sanctions on Iraq and the Oil-For-Food Program was the direct result of the treachery and thievery of Saddam Hussein, his sons, and his regime. It was Saddam Hussein who transformed the goodwill of the international community and the international humanitarian effort represented in the OFF Program into a global criminal enterprise. Although there may be many who engaged in sanctions busting and OFF-related kickbacks and schemes, such enterprises were the making of a malevolent Saddam Hussein and his regime.

As Mr. Duelfer noted during his October 2004 testimony before the Senate Armed Services Committee, "After the 1991 war, Saddam established as his prime objective (after survival) the termination of UN sanctions on Iraq, and he weighed all policy actions and steps for their impact on this overarching objective." And, "the steps the Regime took to erode sanctions are obvious in the analysis of how revenues, particularly those derived from OFF, were used."

One of Mr. Duelfer's main points in his reports was to say, "Although Saddam had reluctantly accepted OFF by 1996, he soon recognized its economic value and additional opportunities for further manipulation and influence of the UNSC Iraq 661 Sanctions Committee member states."

In essence then, the Hussein regime created an ongoing system to milk the international sanctions regime of all of the potential value and profits, while his people suffered the consequences. In this sense, as well, he used the implements of the State – the Central Bank, commercial enterprises, and his diplomatic and intelligence assets – to help skirt international restrictions and bring profit to his regime.

The challenge still before us is to help the Iraqi Interim Government and the Iraqi people recover those assets that have yet to be returned to them. Just as important is the need for us to continue to search for assets that we have not yet identified or frozen, since unattended assets could very well be used to fuel the insurgency or terrorist attacks against our soldiers, our Coalition partners, and innocent civilians.

The testimony below provides an overview of our continuing international and interagency mission to recover and repatriate assets looted by the prior regime, in addition to a sense of how the former regime's systematic pilfering of OFF may be funding the Iraqi insurgency and may have assisted Saddam Hussein's efforts to acquire illicit military equipment. Finally, the testimony lays out the continuing Iraqi asset recovery mission, efforts to combat insurgency financing, and how we can reduce the likelihood of another OFF-type scandal in the future.

The Iraqi Asset Recovery Mission

Since March 2003, the U.S. government has focused on the need to find, freeze, and repatriate Iraqi assets from around the world – as well as to find cash and assets within Iraq that were stolen and hidden by elements of the former Hussein regime.

The identification, freezing, and transfer of Iraqi assets remains a priority for this Administration for several reasons. It is critical that the Iraqi people have access to funds that are rightfully theirs – so that they can rebuild a country burdened by a dictator's decades of neglect. This is also essential to prevent any such former regime assets from being used to fund the Iraqi insurgency and to keep them out of the hands of terrorists both within and outside Iraq. The international community cannot permit these assets to be used against our troops, coalition partners, and innocent civilians in Iraq, or potentially to support the nefarious activities of terrorists around the world.

Moreover, the efforts of the international community to identify and repatriate assets stolen by Saddam Hussein and his former regime serve as a strong warning to other tyrants and

kleptocrats, who might seek to loot their countries and hide the stolen assets in the international financial system. Lessons learned by the U.S. and the international community in the hunt for Iraqi assets will serve as a model, both for the U.S. Government and for the international community, on how to respond and identify, trace, freeze, and repatriate national patrimony stolen by corrupt despots in the future.

With the June 28, 2004 transfer of sovereignty to Iraq and the establishment of the Iraqi Interim Government (IIG), our efforts to identify and repatriate Hussein-related assets underwent an important transformation. While our asset recovery efforts continue, the primary lead for much of the Iraqi asset recovery has now passed to the IIG, with U.S. and international assistance. U.S. government efforts are now concentrated on supporting those efforts to identify, freeze, and repatriate looted Iraqi assets that have been concealed in the international financial system behind a maze of front companies and straw men. Our ability to view the success of our international efforts to obtain asset transfers is somewhat limited post-transition given control by the IIG of access to information related to the Development Fund for Iraq.

U.S. Leadership in the Asset Hunt

From the beginning, under the President's leadership, the U.S. took the world-wide lead in trying to locate and recover Iraqi assets for the reconstruction of Iraq and the benefit of the Iraqi people. Our efforts to identify and recover Iraqi assets targeted three basic groups of assets:

- Assets frozen in 1990 under UNSCR 661 that are subject to freeze and transfer under UNSCR 1483, as well as additional Iraqi assets covered by 1483;
- Assets that exist in the countries that did business with Iraq either legally or illegally under the UN sanctions regime in place before March 2003 (called "trading states") — Jordan, Lebanon, Syria, and Turkey;
- Assets looted and hidden outside Iraq by Saddam Hussein and senior members of his former regime, their immediate families, agents, and front companies.

Identifying, tracing, and recovering these funds involves numerous tools – investigatory, diplomatic, and intelligence. The variety of these tools, and the respective expertise of the different departments and agencies in employing them, has required close interagency collaboration. And indeed, our mission, though daunting and complicated, has achieved success, due in large part to the unprecedented interagency cooperation and coordination of all components of the U.S. Government. I am pleased to have this opportunity to share with you the cooperation we have received from our colleagues in other agencies, and the dedication and bravery of our financial investigators and staff in Baghdad, who have placed themselves in harm's way to accomplish this very complex mission.

Saddam Hussein's Abuse and Avoidance of International Sanctions

Saddam Hussein's regime used a variety of ways to enrich itself with pleasure palaces, expensive cars, and armaments at the expense of the Iraqi people. Our work has helped crystallize how this was done and provided leads for possibly finding and returning some of those funds to the Iraqi people.

Uncovering Hussein-Era Smuggling, Kickback, and Skimming Schemes

Treasury's financial investigation and analysis has helped us develop a better understanding of some of the schemes that Saddam Hussein and his regime used to raise and launder illicit assets, in violation of the UN's Iraqi sanctions regime.

Although we do not know the full universe of Iraqi assets amassed by Saddam Hussein and the former government of Iraq in violation of UN sanctions, our financial investigation and analysis to date indicate that the former regime generated significant revenues from a complex web of financial activities. These activities included kickbacks and skimming funds from the OFF program, as well as oil smuggling outside the OFF program.

A May 2002 GAO report "conservatively" estimates that from 1997 to 2001, the Hussein regime obtained $6.6 billion from oil smuggling and kickbacks from UN-sanctioned oil sales alone. As Mr. Duelfer noted in the Key Findings of his report, the former Iraqi regime used "illicit revenue streams" to amass "more than $11 billion from the early 1990's . . . ."

The following is a summary of the types of schemes the Hussein regime used to avoid the international sanctions regime and to take advantage of the OFF Program.

Unauthorized Surcharge on OFF Oil Sales

In response to Iraq's invasion of Kuwait in August, 1990, the United Nations Security Council imposed sanctions on Iraq that prohibited virtually all commercial transactions with Iraq and required Member States to freeze Iraqi assets. In 1995, building upon previous humanitarian exceptions to the UN sanctions regime, the Security Council further responded to the plight of the Iraqi people by creating the OFF program, which authorized Iraq to sell oil under UN supervision and use the proceeds to purchase goods for the humanitarian needs of Iraqi citizens.

The Hussein regime abused this program to generate illicit revenues by instituting a surcharge scheme on OFF oil sales, beginning in the late 1990s. Pursuant to this scheme, Iraq would charge an extra 10 to 35 cents per barrel "surcharge" on Iraqi oil sales transacted under the OFF program. The size of the "surcharge" varied with the oil shipment's destination. After this became known in late 2000, the U.S. and UK thwarted further surcharges by requiring "retroactive pricing" of Iraqi oil, ensuring that the actual price paid was close to market price. Before the surcharges ended, however, money reportedly was accumulated at Iraqi embassies or deposited into bank accounts in various jurisdictions, and later withdrawn in the form of cash. This cash was then transported back to Iraq and reportedly deposited into the Central Bank of Iraq.

Some of the cash generated by this kickback scheme was not repatriated to Iraq, but instead was used to buy military equipment and other goods prohibited by international sanctions, without the knowledge of the UN.

After Sale Service Fee Scheme

The "after sale service fee" scheme involved kickbacks generated from Iraqi purchases of goods authorized under the OFF program. Under the OFF program, proceeds from official OFF Iraqi oil sales were deposited in a designated UN account, to be used for humanitarian purposes, such as purchasing food and medical supplies for the Iraqi people. To circumvent the restrictions on purchases and generate additional illicit revenue, the Iraqi government ordered each of its ministries to institute a 10% kickback scheme. Vendors selling goods to the Iraqi government were required to inflate the contractual purchase price typically by 10% and kick back the excess charge to the Iraqi government. Thus, a vendor would submit records to the UN indicating that it was selling $110 worth of goods to Iraq, when in fact the vendor was selling only $100 worth of goods, and was returning the additional $10 to Iraq as a kickback. The illicit funds generated by this scheme reportedly were handled similarly to the oil price surcharges, and were either repatriated as cash to Iraq or used to buy goods in violation of UN sanctions. After Iraqi ministries began cooperating with the former CPA, a process was instituted to renegotiate these contracts, with a view of eliminating kickbacks.

Trade Protocol Funds

A third scheme involved the sale of oil in violation of UN sanctions under "trade protocols" with neighboring countries. Beginning in the early 1990s, the former Iraqi government entered into signed official agreements with Jordan, Turkey, and Syria to sell Iraqi oil to each of these countries outside the OFF Program and precursor international sanctions. In each country, the proceeds of the oil sales were split between a trade account and a cash account. Most of the funds (60%-75%) were placed in the "trade account."

Under the trade protocols, the Iraqi government was required to use the money in the trade account to purchase goods from vendors and businesses in the particular protocol-partner country. The money from the cash account (25%-40% of oil sale proceeds) in each of the protocol countries was transferred to bank accounts in Jordan and Lebanon -- usually through bank accounts set up in the names of front companies or individuals, to further disguise the scheme and the movement of the funds. Eventually, the cash account funds generated under all of the protocols were deposited in bank accounts controlled by the Central Bank of Iraq, Rasheed Bank, or Rafidain Bank. After this, the money was withdrawn in the form of cash and transported back to Iraq. When the money reached Baghdad, it was deposited into the vault at the Central Bank of Iraq.

We are using the information about the oil smuggling, kickback, and skimming schemes developed by our investigation to better identify and trace Iraqi assets in several jurisdictions. For example, in one neighbouring country, we have examined 68 accounts of 16 front companies involved in the trade protocol skimming scheme, and are seeking to trace the flow of this money.

Understanding these enrichment schemes used by the Hussein regime to enrich itself provides not only leads, but also a clear case study as to how a notorious regime will go about abusing the goodwill of the international community to enrich and embolden itself.

Front Companies

We know that the Hussein regime relied on front companies that it secretly owned or controlled to engage in illegal commerce and to move funds outside of the gaze of the international community. The assets of front companies are subject to freezing and transfer to DFI under UNSCR 1483, Paragraph 23. Our investigation has identified front companies involved in transactions under the trade protocols, as well as other commercial activities. We have designated many such front companies used by the regime to engage in commercial activity.

OFF-Related Funds and Acquisition of Illicit Military Goods

This Subcommittee has asked that I address the extent to which the OFF Program was allegedly used by Saddam Hussein to obtain funds for prohibited transactions to purchase military equipment and other goods prohibited under UN sanctions. Treasury and U.S. government investigations, including the Duelfer Report, have concluded that Saddam Hussein and regime elements did, in fact, seek to abuse OFF in order to obtain illicit military equipment.

As noted in the Duelfer Report, "The steps the Regime took to erode sanctions are obvious in the analysis of how revenues, particularly those derived from the Oil-for-Food program, were used. Over time, sanctions had steadily weakened to the point where Iraq, in 2000-2001 was confidently designing missiles around components that could only be obtained outside sanctions."

Clearly, Saddam Hussein and his cronies endeavored to abuse the OFF program to the best of their abilities. It is nonetheless worthwhile to note the aggressive U.S. government reaction to stanch further abuses by remaining regime criminals. Following are three examples of Treasury actions to designate, under EO 13315 and the UNSCR 1483, regime elements that illegally abused OFF and engaged in other illegal activity to obtain illicit military materiel. These designations occurred on April 15, 2004, and have been adopted by the UN.

- **AL-WASEL AND BABEL GENERAL TRADING LLC**

  Information available to the U.S. indicates Al Wasel and Babel was controlled by, and acted for or on behalf of, senior officials of the former Iraqi regime, including Iraqi Deputy Prime Minister and Finance Minister Hikmat Mizban Ibrahim al-Azzawi. Al-Azzawi has been named by the United Nations as a senior official of the former Iraq regime on the list established pursuant to UNSCR 1483.

  Much of this information was developed during an investigation by U.S. authorities on Al Wasel and Babel's attempts to procure a sophisticated surface-to-air missile system for Iraq. Other information developed by the U.S. Government indicates Al Wasel and Babel played a key role in the former Iraqi regime's schemes to obtain illicit kickbacks on goods purchased through the U.N. Oil-for-Food (OFF) Program.

- **AL-ARABI TRADING COMPANY**

  Al-Arabi is the ultimate holding company for a variety of Iraqi front companies that engaged in military procurement for the former regime. Al-Arabi owns 99 percent of the UK-incorporated company Technology and Development Group Limited (TDG), which in turn owns TMG Engineering Limited. TDG and TMG were involved in Iraq's arms procurement network during the late 1980s.

- **AL-BASHAIR TRADING COMPANY**

  Al-Bashair, directed by Munir Al-Qubaysi, reportedly acted as the largest of Iraq's arms procurement front companies and was involved in a range of sanctions busting and corruption schemes on behalf of the regime. Al-Bashair reported directly to the Organization of Military Industrialization, which was responsible for Iraq's military procurement programs and was headed by former Deputy Prime Minister Abd-al-Tawab Mullah Huwaysh. Huwaysh has been named by the U.N. as a senior official of the former Iraq regime on the list established pursuant to UNSCR 1483.

  Reporting based on documents removed from Al-Bashair's headquarters describes a variety of deals involving sham contracts, kickbacks, falsified export documentation and money laundering designed to deceive U.N. inspectors and deliver, among other things, missile components, surveillance equipment and tank barrels to the former Iraqi regime. The company also allegedly helped seniors officials of the former regime launder and hide Iraqi government funds.

Unfortunately, it is not possible to know how much of the funds from illicit activities can be recouped by further U.S. government, Iraqi, and international efforts. Nevertheless, the United States government, working with the IIG and its successor, intends to continue its mission to identify and recoup hidden funds with all the tools at our disposal -- which include freezing actions, designations, and providing enhanced assistance to the Iraqis in their forensic accounting and asset investigatory efforts.

Important Progress to Date

We have achieved important success in returning assets to the Iraqi people and in unearthing the schemes and networks used by the regime to steal from Iraq.

- Since March 20, 2003, with U.S. leadership, over $2 billion of Iraqi assets have been newly identified and frozen outside the U.S. and Iraq.
- Since March 20, 2003, approximately $847 million have been transferred by other countries to the Development Fund for Iraq (DFI). In total, the U.S., foreign countries, and the Bank for International Settlements have transferred back to Iraq over $2.7 billion in frozen Iraqi funds;
- Approximately $1.3 billion in cash and valuables has been recovered in Iraq.
- We continue to identify key individuals and entities who acted as operatives for Saddam Hussein. As of today, the Department of the Treasury has designated 30 immediate

family members of senior officials of the former Iraqi regime pursuant to Executive Order 13315. The U.S. has submitted these individuals, as well as the identities of 191 Iraqi parastatal (quasi-government) entities, to the United Nations, and requested that they be listed by the UN 1518 Committee under UNSCR 1483. The 1518 Committee added these submissions to a list of senior Iraqi officials and entities that we previously joined with the UK and France in submitting to the UN for listing under UNSCR 1483;

- In Iraq, our financial investigators have conducted over 85 interviews of key individuals who have information relating to Iraqi assets or possible insurgency financing, ranging from the top ministers of the State Oil Marketing Organization (SOMO), to the laborers who buried Saddam's U.S. currency. Our investigators continue to seek out and interrogate key financial facilitators like accountants and bankers, who have knowledge about the movement of Iraqi assets within and outside of Iraq. Under IRS-CI questioning, these witnesses have identified assets that can be recovered for the new Iraqi government. We aggressively pursue any leads in tandem with the IIG.
- In Iraq, we are working closely with the Department of Defense, the Federal Reserve Board, and the Bureau of Engraving and Printing to trace U.S. currency seized in Iraq, in order to determine the flow of funds that may support the insurgency.
- Our designation of Wasel and Babel as an Iraqi front company, and successful submission of this name to the United Nations for listing under UNSCR 1483, resulted in the UAE taking action against Wasel and Babel and freezing its assets.
- While searching for Iraqi assets abroad, IRS-CI agents determined that the former Iraqi Ambassador to Russia had stolen $4 million in Iraqi assets that had been entrusted to him. As a result, that amount has been frozen in Russia, and we are working with the Iraqis and Russians to have it repatriated. On August 2, 2004, we designated this Ambassador under EO 13315, and submitted his name to the United Nations 1518 Committee.
- While continuing to work closely with the governments of Liechtenstein, Switzerland, and Jordan, we have taken aggressive action to recover one of Saddam's Falcon 50 corporate jets and to uncover a financial network that had been used by the Iraqis to move money and people in the heart of Europe. As a direct result of these efforts, this former symbol of the Hussein regime will be returned to the Iraqi people. This past week, the Falcon 50 was released from Jordan, and flown to Switzerland for refitting.
- The financial investigation teams also uncovered important leads for other IRS-CI financial investigations that have been pursued in jurisdictions outside Iraq. We identified bank accounts and other assets held in over twenty countries, including Switzerland, France, Germany, Liechtenstein, Russia, Spain, Egypt, Thailand, Indonesia, Lebanon, Belarus, Iran, South Korea, Malaysia, Japan, Morocco, Saudi Arabia, UAE, British Virgin Islands, Jordan, Syria and Yemen. We will work with the IIG to ensure that these assets are accounted for and returned to the Iraqi people.
- As I previously testified, as a result of interagency cooperation and investigative and other efforts in Baghdad and at Headquarters, the Departments of Treasury and State have provided identifying information on over 570 identified Iraqi bank accounts in 41 countries for review and follow-up. Those accounts were identified as belonging to the Central Bank of Iraq, Rafidain Bank, and Rasheed Bank. Again, we are working with the IIG to pursue these accounts.

We continue to devote resources to this effort:

Treasury Resources Dedicated to the Mission

- As of November 2004, an IRS attaché has been stationed at the US embassy in Baghdad. He is following up on designations of former regime individuals and entities, coordinating the U.S. and Iraqi government efforts to identify and recover assets both inside and outside Iraq, uncover new front companies and pursue all possible financial leads involving the ongoing insurgency in Iraq.
- IRS-CI Agents, embedded with the U.S. military in Baghdad, are working to counter insurgency financing, as well as continue to seek out information concerning former regime assets. As the Department of Defense identifies financially related information, the IRS personnel are integrated into the process of delivering relevant information to competent authorities for appropriate handling. In addition, the IRS Agents are helping to train their Iraqi counterparts – so that over time, the Iraqis can carry out their own independent financial investigations.
- In addition to the IRS attaché, a Department of Treasury attaché has also been assigned to the U.S. embassy in Baghdad. The Treasury attaché coordinates activities, along with the IRS attaché and their Iraqi counterparts, to find hidden assets from the former Hussein regime that may still be in the country. They are also helping the Iraqis craft a legal regime that can further catalyze the process of confiscating assets from the former regime.
- Treasury personnel continue to work closely with the military, especially where bulk U.S. currency is identified. The military passes relevant financial information back to the Federal Reserve Board of Governors and the Bureau of Engraving and Printing, in order to trace the flow and source of specific funds.
- An Office of Foreign Assets Control (OFAC) Analyst has been stationed at CENTCOM in Tampa, Florida to work closely with military personnel on insurgency financing matters.

International Cooperation and Challenges

The United Nations Role in the Asset Recovery Process

The United Nations has played an important role in the Iraqi asset recovery process. UNSCRs 1483 and 1546 require all member countries to identify, freeze, and promptly transfer to the Development Fund for Iraq (DFI) Iraqi assets in their jurisdictions, including assets held in the name of the Iraqi government, and assets held by or on behalf of Saddam Hussein, his regime cronies and their immediate family members, front companies, or agents. The United Nations' 1518 Committee is responsible for implementing these UNSCRs and is responsible for maintaining the international list of individuals and entities whose assets are covered by the freeze and transfer requirements of UNSCRs 1483 and 1546.

UN designations are an important tool in the Iraqi asset investigation. UN designations facilitate international cooperation with our own investigatory efforts to identify Iraqi assets located in other countries, and prod the international community to identify, freeze, and transfer Iraqi assets

in their jurisdictions. To date, the U.S. has submitted the names of 232 Iraqi-related entities and individuals, comprised of 191 parastatals (quasi-government entities), 30 individuals, and 11 front companies, to the United Nations, with the request that they be listed under UNSCR 1483 by the 1518 Committee. To date, the UN 1518 Committee has adopted 228 of these submitted names, including 191 parastatals, 27 individuals, and 10 front companies.

The UN 1518 Committee has not yet designated the names of three individuals and a front company that the U.S., along with the U.K and the Interim Government of Iraq, submitted to the 1518 Committee on August 2, 2004. The names proposed for designation on August 2 included two former Iraqi ambassadors, one of which is the former Iraqi ambassador to Russia I referenced already, who used their senior positions to engage in a variety of illicit activities, ranging from financing foreign anti-Coalition fighters during Operation Iraqi Freedom, to the embezzlement of regime funds.

The proposed designations also included a Bangkok-based company serving as a front for the Iraqi Intelligence Service (IIS) during the former regime, along with its owner and director, a former IIS officer suspected of planning attacks in January 2003, against U.S. citizens in Thailand. The UN 1518 Committee has not yet adopted these names because Russia has placed a hold on them and prevented Committee action. The Departments of State and of the Treasury have been working diligently to convince Russia to lift its hold. We hope that the UN designations will spur other countries to undertake independent investigations, publish similar listings, and return Iraqi funds to the DFI, consistent with the requirements of UNSCRs 1483 and 1546.

Indeed, as a direct result of UN designations, Switzerland has frozen and is in the process of transferring $140 million in Iraqi assets held by designated front companies and individuals, and the UAE has taken action against Wasel and Babel, a designated front company.

European and other governments have stated that they have been hampered in implementing UNSCR 1483, which calls for the identification of Iraqi-related accounts and blocking and return of assets, because under their domestic laws, nations cannot freeze assets in the absence of a specific listing of individuals and entities at the United Nations. We therefore will continue to submit names to the UN for listing as a way of helping other countries fulfill their obligations to identify, freeze, and transfer Iraqi assets. The listings to date are not intended to be exhaustive, and we will work with the IIG to identify additional individuals and entities for US designation and UN listing.

I would like to re-emphasize, however, that the U.S. strongly believes that, while U.N. listing is helpful, UNSCRs 1483 and 1546 require member states to freeze and transfer all covered assets, independent of whether they have been identified by the UN. This is an ongoing UN obligation, and one which the Iraqis themselves are beginning to promote.

The General International Effort

Although we have made great progress in identifying, freezing, and transferring Iraqi assets to the DFI, largely with the help of allies abroad, there is still much to do. As indicated above,

since March 20, 2003, over $2.7 billion of Iraqi assets have been identified and frozen outside the U.S. and Iraq. The U.S. has led the effort to prompt the identification and return of frozen Iraqi funds around the world, resulting in approximately $847 million dollars being transferred by other countries to the DFI. Ten foreign countries are confirmed to have transferred amounts into the DFI, and more have pledged to do so. For example, as of the June 28 transition, Japan had transferred $98.1 million; the United Kingdom had transferred $186.8 million; Jordan had transferred $250 million; and Tunisia had transferred $8 million. With the help of other countries, and in tandem with the IIG, we hope to uncover additional accounts and identify numerous companies and individuals who were part of the regime's financial web. Even willing countries, however, face challenges to freezing and repatriating Iraqi assets:

- *Sanctions Implementation.* The lack of a defined government agency in most countries that administers sanctions in a focused, long term manner has led to less organized efforts in these countries. In addition, a poor accounting of what Iraqi assets existed in countries around the world and the shifting nature of some of those accounts presented problems of accounting at the outset of our global efforts. These factors, in combination in certain instances with less developed financial systems, makes locating and securing assets more problematic than in the U.S.
- *Legal Difficulties.* Countries have legal problems with taking title to property and immediately repatriating it to Iraq. The mechanism and obligation established in UNSCR 1483 to dealing with Iraqi assets represents a novel, aggressive approach to immediate repatriation of assets under international law. As a result, some countries are in the process of examining what legal measures exist or need to be created within their domestic systems to enable them to comply fully with the requirements of 1483. Other countries are determining what processes need to be put in place to transfer Iraqi assets. We are working with governments around the world and the Iraqis to find legally viable ways to transfer funds to the DFI.
- *Claims.* In some jurisdictions, the existence of extensive third party claims on Iraqi money has complicated asset recovery. Under UNSCR 1483, countries are obligated to return the funds unless such funds are themselves the subject of a lien or judgment that predated the Resolution. While this novel legal mechanism is intended to forestall adjudication of unperfected legal claims until a later date, some countries have insisted on addressing what we consider to be unperfected commercial and other claims against Iraqi funds in their banking systems as a condition of transferring assets to the DFI. We have been working with the Iraqis and various countries to try to resolve these issues and maximize the amount of money transferred to the DFI.

As with all of these efforts, international outreach and diplomatic troubleshooting are ongoing throughout the world. We are continuing to work with our partners abroad to obtain the return of previously identified Iraqi funds and to identify suspect Iraqi accounts.

Interagency Cooperation

The complex challenge of uncovering the trail of Iraqi assets demands that all relevant government agencies work together in a comprehensive and coordinated manner, and share and

enhance information obtained from whatever source. That is precisely what we have been doing, and will continue to do.

In particular, we have established two interagency mechanisms that serve as a model for interagency coordination — the Iraqi Asset Working Group and the DIAC Fusion Center.

Iraqi Asset Working Group

The interagency Iraqi Asset Working Group (IAWG), which I chair, includes Treasury components – my Office (Terrorist Financing and Intelligence (TFI)), IRS-CI, OFAC, and FinCEN; the Departments of State, including USUN; Justice, including the FBI; Defense; Homeland Security; the intelligence community and the NSC. The Iraqi Asset Working Group brings the unique expertise of each of these agencies and departments to bear on the hunt for Iraqi assets, as well as on the sources and movements of funds for the Iraqi insurgency. The group oversees and coordinates the U.S. Government's international search for Iraqi assets, and also helps coordinate insurgency funding efforts.

Among other things, we set priorities for the international forensic investigations, direct financial investigation teams to various jurisdictions, set priorities for diplomatic outreach, discuss and analyze possible UN and domestic designations under EO 13315 and UNSCR 1483 of Iraq-related individuals and entities, and help coordinate activities among former CPA and Iraqi officials to facilitate action by the Iraqis to transfer assets to the DFI. The IAWG has proven to be an efficient and highly effective means for handling issues as they arise. It has allowed us to closely monitor investigative and diplomatic developments, track our progress, and determine our next steps by group consensus. And of course, it provides an ideal mechanism for efficiently sharing relevant information across the U.S. Government.

In addition to our regular weekly meetings, the inter-agency group communicates extensively and intensively. We draft and clear papers and cables together, target assets and jurisdictions for investigation, help investigation teams obtain required military training and deployed, share intelligence, diplomatic, and investigatory information, and otherwise conduct the business of the group in a detailed and collegial way.

Financial Component at DIAC Fusion Center

In addition to the Iraqi Asset Working Group, Treasury and the Defense Department have established a financial intelligence and investigation component at the Fusion Center at the Defense Intelligence Analysis Center at Bolling Air Force Base. The financial component is staffed primarily by IRS-CI agents, and operates under the auspices of the Iraq Survey Group. The Fusion Center receives intelligence information and investigative leads obtained in Iraq and other foreign jurisdictions relating to Iraqi assets and Iraqi insurgency financing.

This information is centralized, analyzed, and shared with all relevant intelligence and law enforcement entities. Leads are then sent back to the field, to trace and recover Iraqi assets worldwide, as well as secure information concerning insurgency financing. Where appropriate, we provide leads to foreign governments for follow-up and freezing of hidden Iraqi assets.

This approach is designed to produce new leads on an ongoing, interagency basis, and helped us pierce the complex layers of transactions involved in the international flow of Iraqi assets. The synergy between the intelligence functions, the Department of Defense, and the Treasury components has led to concrete results in the field.

The international and interagency issues I have just covered offer only a snapshot of the important U.S. government and international work that has taken place and is still underway to find and return Iraqi funds to the Iraqi people, and to identify insurgency financing. When we turn to consider the sophistication of Saddam Hussein's tactics to exploit OFF, we can more fully appreciate the difficulty of our work and the significance of our accomplishments.

OFF (OFF) Program – Treasury's Role

It bears mentioning what Treasury's role has been with respect to the OFF Program. As noted above, the United States and the international community acting through the United Nations, established the OFF Program and permitted companies to do business with Iraq under that program and appropriate licensing. A recounting of Treasury's involvement with the OFF Program may be helpful in the context of this hearing.

Following the Iraqi invasion of Kuwait on August 2, 1990, the President, under the International Emergency Economic Powers Act (IEEPA), declared a national emergency and issued Executive Order 12722, blocking all Iraq and Kuwait government-controlled assets within the U.S. and imposing an immediate and comprehensive trade embargo. On August 6, 1990, the UN Security Council adopted UNSCR 661, which imposed sweeping economic sanctions against Iraq and occupied Kuwait. On August 9, 1990, the President issued Executive Order 12724, under the authority of both IEEPA and the UN Participation Act, broadening the U.S. sanctions so that they would fully conform to UNSCR 661. Executive Orders 12722 and 12724 essentially prohibited the exportation and importation of goods, services, and technology; dealing in property of Iraqi origin; transactions related to travel and transportation; performance of contracts; and the commitment or transfer of funds or economic resources to Iraq. OFAC had primary responsibility within the executive branch for implementation of Executive Orders 12722 and 12724.

OFAC administered the sanctions program against Iraq through the Iraqi Sanctions Regulations that implemented Executive Orders 12722 and 12724. 31 CFR § 575.205 prohibited the exportation of any goods, technology or services from the U.S. to Iraq, except for donated articles intended to relieve human suffering that were authorized by OFAC on a case-by-case basis. Under 31 CFR §§ 575.520 and 575.521, U.S. persons could apply to OFAC for authorization to export donated food and donated supplies intended strictly for medical purposes to Iraq. This was the sanctions landscape prior to the institution of OFF.

As this Committee well knows, in April 1996, the UN Security Council adopted Resolution 986 (OFF), which permitted the former Government of Iraq (the "GOI") to sell and export from Iraq two billion dollars worth of petroleum and petroleum products every six months and to purchase and import humanitarian materials and supplies to meet the essential needs of the civilian population in Iraq. All such activities were to be under UN supervision. In December 1996, the

first oil sold under OFF was loaded at the Mina-al-Baker terminal in Iraq. Via Federal register publication of December 11, OFAC amended its Iraqi sanctions regulations to provide statements of licensing policy with respect to OFF. 31 CFR §575.522, for the first time, authorized U.S. persons to enter into executory contracts with the GOI for the purchase of Iraqi-origin petroleum and petroleum products, and to trade in oilfield parts and equipment and civilian goods: including medicines, health supplies and foodstuffs.

U.S. persons were also authorized to enter into executory contracts with third parties outside OFAC's jurisdiction that were incidental to permissible executory contracts with the GOI. U.S. persons, however, were not authorized to engage in transactions related to travel to, or within, Iraq for the purpose of negotiating and signing executory contracts. To mitigate this handicap, OFAC issued a December 12, 2003 clarification, which stated that U.S. persons were authorized to enlist and pay the expenses of non-U.S. nationals to travel to Iraq on their behalf for the purpose of negotiating and signing executory contracts.

U.S. persons who had entered into executory contracts with the GOI for the sale of civilian goods and oilfield parts and equipment were required to submit an application to OFAC for a case-by-case review and approval prior to performance of each contract. As part of the review process, each application was referred to the Department of State for policy guidance as to whether performance of the contract should be authorized, and for forwarding a copy of the contract to the UN 661 Committee for approval of payment upon delivery of the goods to Iraq. OFAC made a final determination with respect to licensing the applicant to perform the terms of that particular contract only after receiving from State a copy of the 661 Committee approval of payment and a separate memorandum from State recommending that a license be issued to the applicant.

Under this OFF regime, OFAC issued approximately 1050 licenses to U.S. persons for various aspects of the OFF program, primarily under three provisions of the Regulations. Sales to the GOI of oilfield parts and equipment and humanitarian aid were subject to licensing under, respectively, 31 CFR§§ 575.524 and 575.525. Three U.S. companies were authorized under § 575.524 to sell oilfield parts and equipment directly to the GOI, and 23 U.S. companies were authorized under § 575.525 to make direct sales to the GOI of humanitarian aid. A total of 48 licenses were issued to these 26 U.S. companies, authorizing performance of sales contracts entered into with the GOI. In addition, nine licenses were issued to U.S. companies, authorizing the performance of contracts previously-approved by the UN 661 Committee for the purchase of Iraqi-origin petroleum or petroleum products directly from the GOI.

Many more U.S. persons were authorized to engage in trade transactions with third country entities that were contractors or subcontractors with the GOI. Under 31 CFR 575.523, OFAC issued 13 licenses to seven U.S. persons for activities that facilitated the purchase of Iraqi oil by third parties. The remaining approximately 1000 licenses authorized transactions by U.S. persons with third parties related to sales to the GOI, or authorized non-U.S. persons to engage in transactions involving U.S.–origin goods or components being supplied to the GOI.

31 CFR § 575.526 provided a general license[1] authorizing U.S. persons to import Iraqi-origin petroleum and petroleum products into the U.S. if the goods in question had been approved for purchase and export from Iraq by the United Nations 661 Committee. In a January 1997 memorandum from OFAC to the U.S. Customs Service (Customs), OFAC recommended that Customs require U.S. importers to provide a copy of the 661 Committee approval for which the petroleum or petroleum products in question comprised all or a part of the original purchase. In addition, OFAC suggested that Customs might request from the importer a brief statement describing the type and amount of the imported products and affirming that, to the best of the importer's knowledge and belief, the imported petroleum or petroleum products comprised all or a portion of the purchase covered in the accompanying UN document. In a memorandum to OFAC dated March 6, 1997, Customs confirmed that it had issued instructions to Customs field offices pursuant to the guidance contained in OFAC's memorandum.

Terrorist Financing Connections

This Subcommittee has asked important and pointed questions about the extent to which monies pilfered by the Iraqi regime from OFF are being used to fund the Iraqi insurgency or terrorist groups. Although I cannot discuss ongoing investigations, it is certainly possible that former Iraqi regime elements, within and outside of Iraq, are using available assets to fund insurgency or terrorist activity. While we do not know the extent to which the former Iraqi regime derived such funds from OFF, we do know that Saddam Hussein and his regime cronies used a variety of illicit schemes, including OFF surcharges and kickbacks, as well as the proceeds of illicit oil smuggling, to profit the regime. It is likely that some of these funds ended up in the coffers that are now available to fuel the Iraqi insurgency and terrorism inside and outside of Iraq. It is this possibility that continues to motivate and drive our analytic, investigatory, and diplomatic efforts to unearth and freeze these assets.

Insurgency Finance Task Force in Iraq

Following the return of sovereignty to Iraq, insurgency financing has become of paramount concern to the Treasury Department, and we are aggressively addressing it with our interagency and international partners. In addition to fielding our own forensic investigation teams dedicated to identifying, tracing, and recovering Iraqi assets located outside Iraq, as soon as it was formed, we sent an IRS-CI investigatory agent to participate with the FBI and others in the Defense Joint Interagency Task Force on the Iraqi Insurgency, operated by CJTF-7, the Coalition Command Authority in Iraq.

The financial component of this Task Force has been tasked to identify and recover funds that could be used to fuel the Iraqi Insurgency and attack our troops, our Coalition partners, Iraqi officials and police, and innocent Iraqi civilians. More recently, we have deployed teams of IRS-CI agents to the Insurgency Task Force. Since the June 2004 transfer of sovereignty to Iraq, all IRS Agents are working with CJTF-7, and we will continue to rotate in teams of IRS agents to the Insurgency Task Force. The recently-appointed IRS Attaché is likewise heavily engaged in these efforts.

[1] A general license is a license set forth in the regulations themselves. There is no need to apply for a general license.

The participation of IRS forensic investigators on the Insurgency Task Force provides a valuable opportunity to coordinate our ongoing asset hunt – especially for hidden assets held by or on behalf of Former Regime Elements – with the overlapping insurgency finance investigation. Finding and recovering Iraqi assets, both inside and outside Iraq, is instrumental in keeping this money from being used for nefarious purposes, whether by Iraqi insurgents, terrorists, or other criminals.

Working with the Iraqi Interim Government to Focus on Asset Recovery

Since the June 28 handover of authority to the Iraqis, we have been working intensively with the IIG to continue the search for Iraqi assets and to aggressively attack the financial underpinnings of the insurgency and of terrorists that are attacking U.S. civilians and military personnel in Iraq. We have already shared extensive information culled from our own Iraqi asset "trace and chase" effort, to help the IIG take over primary responsibility for recovering frozen assets and addressing outstanding claims against those assets. We have met with senior Iraqi officials – help them coordinate their asset recovery efforts and to concentrate their attention on high-value engagements. In this regard, we have invited the IIG to send a delegation of financial experts to the U.S. to receive advanced forensic investigation training, with the aim of supporting the IIG's efforts to trace and recover additional assets both inside and outside Iraq. Our IRS-CI investigators on the ground in Iraq are working in tandem with Iraqi law enforcement colleagues to target insurgency financiers and identify and secure assets that are funding the insurgency.

We are also focused on setting Iraq on the right path to deal with the issues of financial integrity and oversight. Our experience around the world on issues related to money laundering and terrorist financing teaches us that Iraq must develop the strongest possible financial infrastructure – both formal and informal – as quickly as possible. We know that this requires robust anti-money laundering and anti-terrorist financing laws and regulations. All components of the Treasury Department are working with the Departments of Justice and State, the Federal Reserve, the CPA and Iraqi Governing Council and Ministries to put in place mechanisms to protect the Iraqi financial system, including charities, money exchangers and hawaladars, bulk cash couriers, money remitters, and the banking industry itself, from abuse by financial criminals and terrorists. We are also working with the IIG to promote transparency and to combat government corruption, so that the kinds of debaucheries that undermined the OFF program will be less likely to occur.

This entire endeavor has taught us some important lessons and is sending a clear message around the world. First, these efforts provide a model for U.S. interagency cooperation. The use of all of the expertise and tools available to the U.S. government is critical when dealing with complicated matters such as this. Second, we have set a template for launching aggressive international efforts to respond to requests by other countries, or by the international community as a whole, to find and repatriate assets stolen by foreign officials and placed in the international financial system. This effort, in combination with other steps we have taken in this arena, such as the conclusion of the negotiations of the UN Anti-Corruption Convention, will strengthen international mechanisms to locate, seize and return assets stolen by kleptocrats. In addition, Treasury has issued a regulation implementing Section 312 of the USA PATRIOT Act, which requires U.S. financial institutions to guard against accepting the proceeds of foreign corruption

from kleptocrats, their families, and other associated "politically exposed persons" in the first place.

We are not alone in pursuing this type of regulatory requirement. In Switzerland, for example, recent amendments to Swiss anti-money laundering laws and regulations are designed to enhance protections against accepting the proceeds of foreign corruption from politically exposed persons. Additionally, the Financial Action Task Force (FATF), as well as groups of private financial institutions, has addressed the need for financial institutions to guard against accepting funds looted by other countries' political figures.

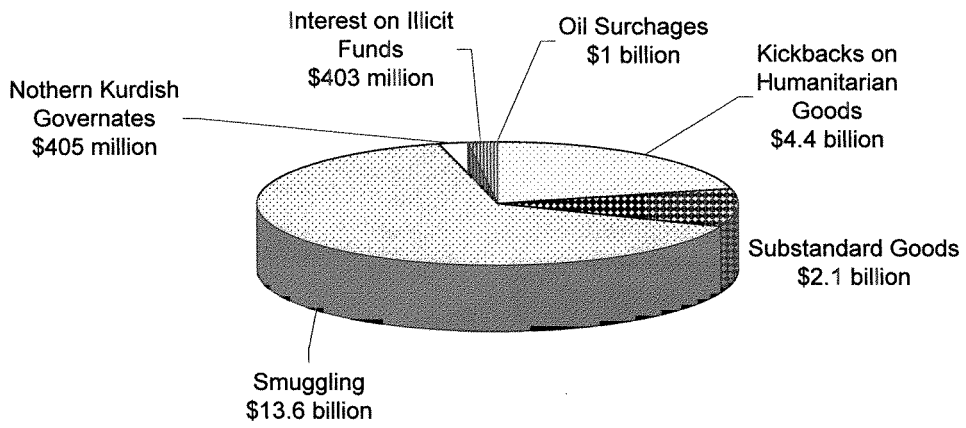
The Department of the Treasury is in the process of using these important international steps and the model of the Iraqi asset hunt to broaden efforts to recover funds looted by other despots – as in the case of Charles Taylor. The lessons we have learned, and will continue to learn as the hunt proceeds, are valuable. And we are eager to continue to put them to good use.

All of this sends a clear message to the tyrants of the world. We will find your money and will return it to the people from whom you've stolen it.

Conclusion

Every day, we are learning more about the maze of Hussein's money trails, and every day, we take concerted efforts to get other countries to identify Iraqi assets, transfer the funds that they have already frozen, and keep funds out of the hands of the insurgency or terrorists. The investigation, especially as it turns increasingly to the hidden, unofficial assets, is a time-consuming, laborious, and potentially dangerous task. This is a process that, by its very nature, will take time. We owe a debt of gratitude to the civilians – especially the IRS-CI agents in Baghdad – and our troops on the ground in Baghdad, who are engaged in these worthy and important efforts. We appreciate the support of Congress in these efforts and look forward to working with you.

Estimate of Total Illicit Iraqi Income During UN Sanctions (1991-2003)



Permanent Subcommittee on Investigations
EXHIBIT #1a

United States Senate
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
Committee on Governmental Affairs

Prepared By
Permanent Subcommittee on Investigations
Majority Staff

METHODOLOGY
FOR
ESTIMATE OF TOTAL ILLICIT IRAQI INCOME DURING
UN SANCTIONS (1991-2003)

PSI's ILLICIT REVENUE ESTIMATE

From 1991 to 2003, we estimate that the former Iraqi regime acquired $21.3 billion in illegal revenues.

Specifically, oil smuggling prior to the Oil for Food Program was estimated at $3.9 billion. Oil for Food Program (1997-2003) abuses brought in an additional $17.3 billion - $4.4 billion in kickbacks on humanitarian goods contracts; $241 million in illegal surcharges on oil sales; $2.1 billion derived from substandard goods; $9.7 billion from oil smuggling; $405 million derived from Northern Kurdish abuses on humanitarian good contracts; and $403 million from oversees investment of illicit income.

SCOPE and METHODOLOGY

PSI's estimate of total illicit Iraq revenues covers the entire U.N. sanctions period (1991 – 2003) including the Oil for Food Program.

To develop our estimate of total illicit income, we reviewed the recent GAO testimony and illicit income estimate[1] and the Iraq Survey Group (ISG) estimate[2], consulted with key analysts of both groups, and received assistance from economists of the Joint Economic Committee and the Congressional Budget Office. A detailed explanation of our methodology follows.

Our model for estimating illicit gains under the Oil for Food Program builds largely upon the GAO model, but adds additional categories of revenue and uses updated figures based upon new evidence. The GAO estimate did not include the value of illicit smuggling for the period 1991 thru 1996, although the ISG report estimated the amount of smuggling via a bilateral trade protocol with Jordan during the pre-OFF years. The GAO model also did not include an estimate of illicit funds for 2003. The underlying theme of the PSI model is that the Iraqis had a learning curve of corruption, and as they saw how much they could get away with, the pace of corruption increased over the life of the program. This theme is supported by the ISG report, which found that Saddam Hussein's primary goal was to end U.N. sanctions, and by 2001, the former regime had managed to mitigate many of the effects of sanctions by undermining

[1] Testimony of Joseph A. Christoff, Director International Affairs and Trade, United Nations Observations on the Management and Oversight of the Oil for Food Program, April 4, 2004 (GAO-04-730T).
[2] Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD, Vol. I – Regime Finance and Procurement, September 30, 2004.

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EXHIBIT #1b

international support by using vouchers, kickbacks, and favorable allocations of oil contracts and humanitarian goods contracts.

Surcharges and Kickbacks

The first portion of the model, capturing illegal surcharges and kickbacks that the Iraqis demanded, was based on the ISG report, Defense Contract Audit Agency and Defense Contract Management Agency report[3] ("DCAA"), information from the Iraqi State Oil Marketing Organization (SOMO), PSI interviews with officials of Saybolt, the United Nations oil monitoring contractor and Cotecna, the United Nations humanitarian goods inspection contractor, U.S. government interviews with high level detainees of the former Iraqi regime, the U.S. Government Coalition Provisional Authority (CPA), U.N. officials, and other anecdotal evidence.

Oil surcharges were introduced in 2000 and terminated after the establishment of retroactive pricing by the United Nations in 2002. The United Nations established retroactive pricing in 2002 to reduce and curtail illegal surcharges. These surcharges were estimated at a weighted average of $0.10 a barrel in 2000, $0.28 a barrel in 2001, and $0.19 a barrel in 2002, based on SOMO documents. Given the clandestine nature of corruption and knowledge that some oil companies either refused to pay surcharges or did not pay surcharges, it is likely that not all oil exports under OFF had a surcharge. Thus, the surcharge revenue was calculated by multiplying 75% of the total number of barrels reported by the U.N. each year by these surcharge prices.

Commissions (kickbacks) were based on the letters of credit extended by the U.N. into the "59 percent account" (that is, the 15 governates in south and central Iraq). It is our belief that prior analysis on kickbacks and overcharging severely understated corruption in the early years of the OFF program. In particular, the GAO chose a conservative rate of 5% for the illicit commissions charged in 1997 and 1998, increasing the overcharging rate to 10% in 1999.

However, the GAO noted that the Iraqi regime instituted a fixed 10% commission in 2001 to "address a prior 'compliance' problem with junior officials" who had been "reporting lower commissions than what they had negotiated with suppliers and pocketing the difference." If corruption at lower levels was a problem, it is unlikely from an economic or conceptual standpoint that the government would increase the kickback rates in 2001 to keep these subordinates in line; thus, it is reasonable to assume that the junior officials were charging more than 10% prior to 2001 and simply reported lower numbers.

Accordingly, using 5% as a conservative estimate may help estimate the revenue garnered for the Iraqi government from illegal commissions, but it does not tally the actual cost to suppliers. For example, if a junior official kept 7% of a 12% kickback, the commission would be reported as a 5% surcharge for the Iraqi government. Nevertheless, the total overcharging would be 12%. We use this framework to set percentages of all humanitarian letters of credit that were subject to kickbacks, and assume conservatively that commissions were 10% for the first two years, 12.5% in 1999-2000, and then reverted back to 10% in 2001 as the regime made the kickbacks uniform to address the compliance problem. Interviews with State Department officials acknowledged kickbacks prior to 2000, with kickbacks of varying degrees, some as high as 30%, during the life of the program.

[3] Report on the Pricing Evaluation of Contracts Awarded under the Iraq Oil for Food Program, September 12, 2003.

Smuggling

The second portion of the model relies on the GAO's methodology for capturing smuggling volumes, which was based on numbers obtained through interviews with Iraqi and energy officials and U.N. figures. The level of smuggling is obtained by determining the volume of production based on Energy Information Administration estimates of Iraqi total production minus Iraqi domestic consumption, with the residual, left over as smuggling. For the Oil for Food years, the methodology is nearly the same, except that OFF volume based on U.N. statistics have been subtracted out in addition to Iraqi domestic consumption. This methodology accounts for the practice of "topping off" as all production volume left over from Iraqi domestic consumption and Oil for Food exports is used to determine smuggling, which would include topping off.

Revenues from smuggling are calculated by multiplying the implicit price for Iraqi oil by the volume determined through the method described above. Prices were obtained in two separate manners: for the pre-OFF years (1991-96), Iraqi oil prices were extrapolated forward from historical trends. In particular, Iraqi light oil traded at 102% of Iranian light oil on average over the period 1980-90. We started with this number for 1991, and then subtracted two percent a year to reflect the degradation of oil infrastructure and the loss of quality of Iraqi oil. Thus, Iraqi oil traded at the Iranian price for 1992, at 98% of Iranian in 1993, 96% in 1994, 94% in 1995, and 92% in 1996. This is consistent with a historical trend, and also fits the trend during the OFF Program, where over 1997-2003 Iraqi oil traded at an average of 91% of the Iranian price.

OFF year smuggling revenues are calculated in the same manner as the GAO's report – the implicit Iraqi price (calculated as total OFF revenues for that year divided by total volume) multiplied by the smuggling volume obtained above.

The one exception to this method is 1999, which shows positive smuggling revenues for Jordan, but negative smuggling and negative revenues for other countries. This result could be attributed to faulty data on production or, more likely, a change in domestic consumption not captured in the model. Whatever the cause, we assume for 1999 that there is no such thing as "negative smuggling", and assume that all production in 1999 was either consumed at home, used in the OFF program, or was smuggled to Jordan, with no oil smuggled to any other country. Smuggling estimates for this year are thus much lower than the years preceding and following.

Substandard Goods

The estimate on substandard goods is drawn from anecdotal information provided by officials of the former Iraqi regime, the United Nations, and U.S. government officials. Information on substandard deliveries is also drawn from reports of the Defense Contract Audit Agency and the Defense Contract Management Agency. Beginning with the assumption that other post-conflict situations have seen spoilage or substandard equipment on the order of 1% of all humanitarian aid supplied (and, over time, the spoilage rates should go down as security improves and infrastructure is rehabilitated), we add a premium for active Iraqi corruption on top of this. As identified in the ISG Report, this kickback scheme involved contracting for first-quality goods although the actual goods delivered were of lesser quality. The supplier would get a small percentage of the difference while the regime would keep the rest. The premium varies each year (ranging from 0.5% in 1997 to 6.5% in 2002), increasing over time as the regime became aware of the lucrative possibilities and made more use of substandard deliveries for profit. Using this method, our estimate assumes that, on average during 1997-2003, approximately 5% of all

goods delivered under OFF were substandard. Based on the DCAA's findings that food contracts were overpriced on average by 22%, along with the U.N.'s approval of baseline "fit for human consumption" testing rather than for the quality as specified on each contract, a 5% estimate is a reasonable assumption.

Kurdish Areas

The estimate of illicit revenue in the Northern Kurdish Areas represents anecdotal information on a variety of questionable activities related to the procurement, pricing, quality, and delivery of commodities. Procurement of bulk commodities such as food and medicine for the North by Saddam's regime in Baghdad was particularly vulnerable to pricing irregularities and kickbacks. This information was provided by representatives of the Kurdish Government, officials of the Defense Contract Audit Agency, and other U.S. Government officials. The three Northern Kurdish governates were to receive $8.1 billion in commodities over the life of the Oil for Food Program. We estimated that 5% of the $8.1 billion allocated to Iraqi Kurdistan resulted in illicit revenues amounting to around $400 million.

This is a conservative estimate used to quantify known problems with the former Iraqi regime's procurement of humanitarian goods on behalf of Iraqi Kurdistan and the U.N.'s failure to respond. Known problems include delays in spending money allocated to the Kurdish Government under U.N. Security Council Resolution 986. As such, the U.N. Secretariat admitted that there was $1.6 billion allocated to the Northern Kurdish Areas but never spent.[4] In addition, Northern Kurdish representatives indicate that close to $4 billion of goods were never received by the region due to manipulation by the former Iraqi regime. Therefore, a 5% estimate amounting to $400 million is reasonable.

Overseas Investment of Illicit Revenues

According to the U.S. Department of Treasury, about $6 billion of Iraqi assets and funds have been identified and frozen. Under United Nations Security Council Resolution 1483, those investments are supposed to be transferred to the Development Fund for Iraq. It is assumed that the sources for all those overseas investments were the illicit gains otherwise identified by the Subcommittee staff – from smuggling, surcharges, kickbacks, etc. We estimate that 75 percent of these Iraqi assets were placed in overseas bank deposits while Saddam used some illicit earnings for other purposes such as the construction of palaces, real estate holdings, or simply held assets in cash. Information that Iraqi assets were held in overseas accounts and used for other purposes was obtained from government sources. Current data on interest rates in Switzerland indicate a 1.28% annual return on money market funds denominated in U.S. dollars. Applying that 1.28% return to 75 percent of the $6 billion in total assets and funds over the period 1997 – 2003 yields a total return of just over $400 billion.

Total Illicit Gains

The total illicit number is a simple addition of the substandard deliveries estimate, the estimates of smuggling revenues, the estimate of losses in the Kurdish areas, the estimate of kickbacks and surcharges, and interest on illicit income. All illicit funds figures are presented in 2003 dollars.

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[4] Testimony of Howar Ziad, Representative, Kurdistan Regional Government, UN Liason Office, U.S. House of Representatives Committee on International Relations, April 28, 2004.

Permanent Subcommittee on Investigations

EXHIBIT #2

Oil for Food Timeline

1990

UNSCR 661 – Full trade embargo with Iraq except humanitarian aid

1991

Jordanian Trade Protocol – oil for commodities

1996

U.N. establishes Oil for Food Program UNSCR 986

1997

Illicit earnings allowed Iraq to pursue military procurement starting in 1997

12/97 – Phase III – vouchers to favorable political parties and individuals

Top three countries receiving vouchers under OFF

Russia (30%)

China (15%)

France (10%)

1998

06/98 – Iraq weaponized VX gas in missile warheads

12/98 – Iraq ended full cooperation with UNSCOM & IAEA

UN Security Council divided

Desert Fox – France, Russia opposed, U.S, U.K. led

RCC Secret Resolution to cancel all international obligations and resolutions which Iraq agreed upon

1999

10/99 – UNSCR 1266 -UN Security Council raised revenue ceiling for Iraqi oil exports

12/99 – UNSCR 1284 – removed the ceiling on Iraqi oil exports

Russia insisted on language re suspension and ultimate elimination of sanctions

2000

Syria &Turkey Trade Protocols – oil for commodities

By June 2000, French companies had OFF contracts totaling $1.78 billion.

Russia receives 32% of total contracts under OFF

12/00 - UNSCR 1330 - France & Russia push to reduce the Kuwaiti Compensation Fund from 30% to 25% of oil revenues increasing Iraq's revenue

2001

By 2001 – conventional weapons routinely shipped to Iraq including 380 liquid-fuel rocket engines

MIC budget increased 100 fold from 1996 – 2003, totaling $500 million by 2003

2003

5/03 – UNSCR 1483 – formally ends sanctions & UN OFF Program

Compiled from the Comprehensive Report of the Special Advisor to the DCI on Iraq WMD

Selected Secret Oil Voucher Recipients

		Millions of Barrels Allocated	Millions of Barrels Lifted
Mr. Zierbek	Russian Communist Party	110.10	87.391
Mr. Azakov and Mr. Velioshia	Rus Naft Ambix and the Russian Presidential Office	84.278	72.516
Vladimir Zhirinovsky and LDPR Companies	A former senior official in the Iraqi government stated that Zhirionvsky visited Iraq on a regular basis	53.0	79.8
"Russian Foreign Ministry"		55.0	42.722
Patrick Maugein	Iraq considered Maugein a conduit to French President Chirac, according to a former Iraqi official in a claim we have not confirmed.	14.0	13.199
"Raomin"	Allocations were made to an individual listed as Raomin who is further described in the voucher allocation list as the son of the former Russian ambassador in Baghdad.	13.5	13.071
Mr. Nikolayi Ryzhkov and Mr. Gotzariv	Members of the Russian Parliament (Duma)	12.0	11.88
Charles Pasqua	Businessman and former French Interior Minister	11.0	10.751
Benon Sevan, UN Chief of the Oil for Food Program	Former Iraqi officials say he received his illicit oil allocations through various companies that he recommended to the Iraqi government including the African Middle East Company.	13.0	7.291
Government of Namibia		7.0	7.123
Government of Yemen		5.0	4.713
Sukarnoputri Megawati President of Indonesia	Iraqi documents list President Megawati as a recipient of oil allocations.	6.0	3.779

Source: Figure 17 Vol. 1 – Regime Finance And procurement Section of the Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD

Permanent Subcommittee on Investigations

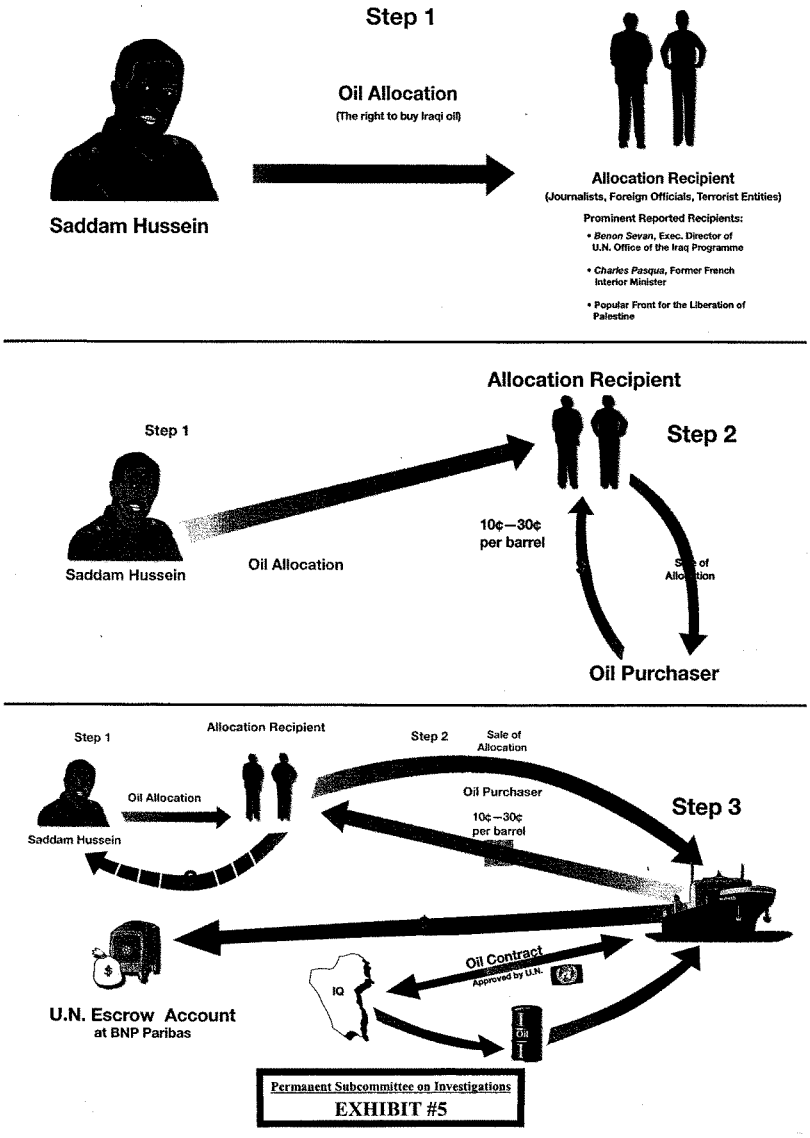
EXHIBIT #3

Permanent Subcommittee on Investigations
EXHIBIT #4

Oil For Food Contracts
Issued to Front Companies & Military Suppliers

Classification from Duelfer Report	Number of Companies	Number of Contracts	Value of Contracts(USD)
Front Company Conglomerates	1	3	$546,983
IIS Front Companies	4	83	$453,269,862
MIC Related Front Companies	18	191	$299,340,908
Suppliers Identified with MIC Procurement	3	17	$14,299,091
Companies Providing WMD Dual Use Goods	2	4	$1,121,113
Companies Providing Conventional Weapons	1	11	$63,359,204
		Total	$831,937,161

Source: Compiled from Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD; Banque National DeParis records



Permanent Subcommittee on Investigations
EXHIBIT #5

Permanent Subcommittee on Investigations
EXHIBIT #6

بسم الله الرحمن الرحيم

جمهورية العراق
وزارة النفط
شركة تسويق النفط (شركة عامة)

الرقم :
التاريخ : ١٠ شوال ١٤٢٢
الموافق : ٢٠٠٢/١٢/١٤

لعدل الرحمة تاج الحرية والحزم بديلا عن التردد
(فليس التأكد (حفظه الله ورعاه)
٢٠٠٠/٨/٨

وزارة النفط
مكتب الوزير
العدد
التاريخ:

السيد وزير النفـــــط المحترم

م/ المصادقة على عقود النفط الخـــام

استنادا إلى كشف التخصيصات للمرحلة (١٣) المؤرخ في ٢٠٠٢/١٢/٩ وموافقة السيد نائب رئيس الجمهورية الأستاذ طه ياسين رمضان المحترم وفق المكالمة الهاتفية مع سيادتكم في ٢٠٠٢/١١/٢٩ بشأن زيادة الكمية المخصصة للسيدة حميدة نخلع بواقع (١) مليون برميل غير المنفذة في المرحلة (١٢) .

تم التعاقد مع شركة DEVON PETROLEUM على تجهيزها بالنفط الخام وفق مايلـــي :-

١- اسم الشركة المتعاقدة : DEVON PETROLEUM LIMITED.
٢- اسم صاحب التخصيص : حميدة نخلع
٣- رقم العقـــــد : M/13/26
٤- تاريخ العقـــــد : ٢٠٠٢/١١/١١
٥- الجنسيـــــة : بنمية
٦- الكميـــــة : (٢) مليون برميل
٧- نوع النفط الخـــام : بصرة خفيف
٨- وجهة النفط الخـــام : امريكا الشمالية و / الشرق الاقصى
٩- التسعـــــرة : حسب وجهة الوصول
١٠- فترة التجهيـــز : لغاية ٢٠٠٣/٢/٦
١١- القيمة التقديريـــة للعقد بالييـــورو : حوالي (٤٢) مليون يورو (على أساس ٢١ دولار للبرميل الواحد) .

يرجى التفضل بالاطلاع والمصادقة مع التقدير .

رافد عبد الحليم جاسم
المدير العـــام

مصادقة السيد الوزير

In the Name of God, Most Gracious, Most Merciful

Republic of Iraq
Ministry of Oil
Oil Marketing Company (Public Company)

No.: KH2/15456
Date: 10 Shawal, 1422 H, equivalent to 12/14/2002

[TC: There is the stamp of the ministry to the left side of this page that reads:

"Ministry of Oil / Office of the Minister
No.: 21870
Date: 12/15/2002"]

"Make mercy the crown of justice and determination the substitute for hesitation"
The President Leader (may God Protect him)
08/08/2000

To: Minister of Oil
Subject: Ratification of the Contracts of Crude Oil
With reference to the allocations statement of 12/09/2002 for phase (13) and **the approval of Mr. Taha Yasin Ramadan, the Vice-President, as per the telephone call with your Excellency on 11/29/2002 regarding the increase of the quantity allocated to Mrs. Hamidah Na'na at the rate of (1) million barrels that have not been carried out in phase (12), we hereby inform you that the contract has been given to DEVON PETROLEUM** to supply them with crude oil as follows:

1- **Name of Contractual Company: Devon Petroleum Ltd.**
2- **Name of Allotment Individual: Hamidah Na'na**
3- **Number of Contract: M/13/26**
4- Date of Contract: 12/11/2002
5- Nationality: Panamian
6- Quantity: (2) million barrels
7- Type of Crude Oil: Al-Basrah light
8- Destination of Crude Oil: North America and / the Far East
9- Quotation: Depending on destination
10- Period of Supply: Until 06/02/2003
11- Presumptive Value of the Contract in Euro: About € 42,000,000 (based on the rate of $21 per barrel)

Please review and ratify.

Regards,
[Signature]
Rafid 'Abd-al-Halim Jassem
General Manager

KH2
[Signature]
12/17
For the Minister's ratification

I approve
[Signature]
12/17

Permanent Subcommittee on Investigations
EXHIBIT #7

[redacted]

TO: [redacted]
ATTN: [redacted]
FAX: [redacted]

Grateful if you could please forward following nominations on behalf of [redacted]

QUOTE:

To: S.O.M.O., Baghdad
Attn. Saddam Z. Hassan, Executive Director General
Attn. Mr. Awni, Shipping Dept.

As you are aware [redacted] is authorized to sign a contract for 10,000,000 barrels of Basrah light crude oil.

During last week a high ranked Iraqi delegation lead by his Excellency Mr. Tariq Aziz visited Moscow. The allocation holder of the above quantity had a personal meeting with him and we are informed that the discrepancies regarding this allocation will be solved very soon.

We hope that this will be done in the course of the current week. In anticipation of the above we hereby nominate the following vessels:

M/T " Astro Gamma/Sub" to load 2,000,000 barrels +/- 5% Mina Al Bakr on 22 August
and
M/T "Stena Companion"/Sub to load 2,000,000 barrels. +/- 5% Mina Al Bakr on 25 August

Astro Gamma	Vessel Details	Terminal Restrictions
DWT	268, 298 Metric Tones	MAX 349,999 Metric Tones
LOA	1,099.99 Feet	MAX 1200 Feet
FLAG	Greek	
ARRIVAL DRAFT	< 16.46 Meters	MAX 16.46 Meters
SAILING DRAFT	< 21.0 Meters **	MAX 21.00 Meters
BALLAST ON ARRIVAL	< 140,000 Metric Tones	MAX 140,000 Metric Tones

Stena Companion	Vessel Details	Terminal Restrictions
DWT	357,100 Metric Tones	MAX 349,999 Metric Tones
LOA	1,189.55 Feet	MAX 1200 Feet
FLAG	Norwegian	
ARRIVAL DRAFT	< 16.46 Meters	MAX 16.46 Meters
SAILING DRAFT	< 21.0 Meters **	MAX 21.00 Meters
BALLAST ON ARRIVAL	< 140,000 Metric Tones	MAX 140,000 Metric Tones

** Vessels will sail with max draft 21 Meters.

[redacted]

Thank you for your return acceptance as soon as possible.

UNQUOTE

Faithfully Yours,

[redacted]
For and on behalf of
[redacted]

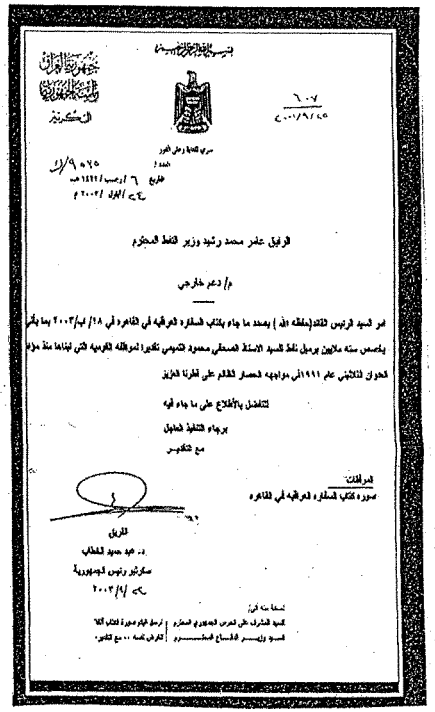
[redacted]

Sincerely Yours,
[redacted]

[redacted]

Permanent Subcommittee on Investigations

EXHIBIT #8



٦٠٧
٢٠٠٢/٩/٢٥

سري للغاية وعلى الفور

العدد : ٩٥٢٥/ك
التاريخ ٦ / رجب / ١٤٢٢ هـ
٢٤ / الأول / ٢٠٠٢ م

الرفيق عامر محمد رشيد وزير النفط المحترم

م/ دعم خارجي

امر السيد الرئيس القائد (حفظه الله) بصدد ما جاء بكتاب السفارة العراقية في القاهرة في ١٨/ اب/٢٠٠٢ بما يأتي
يخصص ستة ملايين برميل نفط للسيد الاستاذ المصطفى مسعود التميمي تقديرا لمواقفه القومية التي تبناها منذ مؤامرة
العدوان الثلاثيني عام ١٩٩١ التي مواجهه الحصار الظالم على قطرنا العزيز

لتفضل بالاطلاع على ما جاء فيه
برجاء التنفيذ العاجل
مع التقدير

المرفقات:
صورة كتاب السفارة العراقية في القاهرة

الفريق
د. عبد حميد الخطاب
سكرتير رئيس الجمهورية
٢٠٠٢/٩/٢٤

نسخة منه الى:
السيد المشرف على الحرس الجمهوري المحترم
السيد وزير الدفاع المحترم
ترسل خلال مدة اقصاها ٠٠ مع التقدير.

Oil Coupons

Coupon No. 1

In the Name of Allah the Most Merciful

The Republic of Iraq
Presidency of the Republic
The Secretary

Top Secret and most urgent

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

Comrade 'Amer Muhammad Rashid Minister of Petroleum

External Support

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

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

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

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

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

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

FROM : International Department PHONE NO. : [redacted] Jan. 13 1999 05:15PM P01

ФЕДЕРАЛЬНОЕ СОБРАНИЕ — ПАРЛАМЕНТ РОССИЙСКОЙ ФЕДЕРАЦИИ

ГОСУДАРСТВЕННАЯ ДУМА

ФРАКЦИЯ ЛИБЕРАЛЬНО-ДЕМОКРАТИЧЕСКОЙ ПАРТИИ РОССИИ

103265, Москва, Охотный ряд, д. 1. Тел.: 292-80-01, 292-77-11

«13» января 1999 г. № 5/31-52

Вице-президенту компании
[redacted]

г-ну [redacted]

Уважаемый г-н [redacted]!

Имею честь пригласить Вас для переговоров в Москву с 18 по 25 января 1999 г.

Буду рад встрече с Вами.

Руководитель фракции ЛДПР **В. Жириновский**

[redacted]

Permanent Subcommittee on Investigations
EXHIBIT #9

FEDERAL ASSEMBLY – PARLIAMENT OF RUSSIAN FEDERATION

GOVERNMENT DUMA

FRACTION OF THE LIBERAL – DEMOCRATIC PARTY OF RUSSIA

January 13, 1999 No. 51/31-52

Vice President of company
[redacted]

Mr. [redacted]

Dear Mr. [redacted]!

It is my honor to invite you for negotiations to Moscow, from the 18th to the 25th of January 1999.

Will be happy to meet with you.

The leader of fraction LDPR V. Zhirinovsky

Fax émis par : [redacted] [redacted] 03/04/01 06:42 Pg: 1

[redacted]

FULL CORPORATE OFFER

Date: April 2nd 2001,

Product	: Kirkuk Crude Oil
Quantity	: **2,000,000 barrels + / - 10 % and 2,000,000 barrels on the next month after the first delivery.**
Specification	: Standard export specification available by the Selle
Price	: **SOMO price formula (OSP)**
Seller's Fee	: **U.S.$ 0.75 / net per barrel** inclusive of SOMO's
Others	: SOMO terms and conditions to be applied
Payment	: By irrevocable, at sight, documentary letter of credit to be opened by a first class prime bank in favour of United Nations.
Shipment	: **FOB Ceyhan during May 2001 (Laycan 15-17)**
Validity	: **Three (3)** banking days.

This offer is subject to:

1. SOMO acceptance of the lay-days
2. Contract to be approved by the United Nations
3. Final confirmations of the price
4. Final confirmation of the necessary paper works and documents requested for this contract and accepted by the Seller
5. Final confirmation of all terms by all parties

P.S.: The OSP to be applied by the SOMO / Baghdad during the month of April 01 are as follows:

- On Kirkuk crude oil: **WTI minus US. $ 8.90 / net per barrel**
- On Basrha Light crude oil: **WTI minus US. $ 9.65 / net per barrel**

For **OSP May 2001** to be advised in due time.

Paris Representative Office France : Tel : [redacted] **– Fax :** [redacted]
E-mail : [redacted]

[redacted]

Permanent Subcommittee on Investigations
EXHIBIT #10

[redacted]

TO: [redacted]

ATTN: [redacted], Vice President
FAX: [redacted]

FROM: [redacted]

DATE: May 15, 1998

Dear Mr. [redacted]

Thank you for the opportunity to meet with [redacted] and you during our recent visit to your offices in Moscow.

I would like to summarize herein our proposal and ideas for future cooperation between our companies for you to consider with your colleagues.

Firstly, [redacted] is prepared to assist and/or cooperate with [redacted] on oil development project opportunities in Iraq, which are being offered to [redacted] for completion after sanctions are lifted. [redacted] would anticipate specific assistance in the following areas:

1. The sourcing of oil field equipment and/or services from North American suppliers in which [redacted] has contacts resulting from many years in the business based in [redacted]

2. To provide assistance in financing of projects through direct investment or arranging of project financing with the many financial institutions and companies which [redacted] has dealings.

3. Provide [redacted] offtake agreements for oil which is offered as a payment method for the projects in which [redacted] participates. This could also include assisting [redacted] in the structure and execution of this type of transaction which [redacted] has many years of experience with in Iraq.

Secondly, [redacted] is prepared to purchase all or part of [redacted] allocation of Iraqi oil from the future delivery periods of the humanitarian oil-for-food deal. Specifically, [redacted] basic proposed

[redacted]

[redacted] Permanent Subcommittee on Investigations
EXHIBIT #11 [redacted]

ns for purchase are as follows:

ume: Minimum of 2.5 million barrels, maximum 5 million barrels for each six month delivery period to be declared after allocations are made to all firms at the beginning of each period.

de: Basrah Light (or Kirkuk subject to prior approval of Bayoil).

tination: Intended for North America (other destinations subject to SOMO approval) [redacted] will agree to work solely with [redacted] in North American market under the circumstances [redacted] takes less than [redacted] full quota.

ivery: According to SOMO standard contract terms for nominations, etc.

e: [redacted] will pay SOMO's official selling formula price applicable for the month of lifting plus $0.07/barrel.

ıncing: [redacted] will open all credits for each lifting on behalf of [redacted] at [redacted] cost.

er: All other terms according to standard SOMO contract terms.

hope the above referenced terms of cooperation are acceptable to you. We would appreciate · comments and/or acceptance as soon as possible, as we are arranging our supplies of crude for ıext six months with SOMO during the next week.

erely,

[redacted]

[redacted]

[redacted]

[redacted]

TO: [redacted]

ATTN: [redacted], Vice President
FAX: [redacted]

FROM: [redacted]

DATE: June 2, 1998

REF: Our Proposal for Cooperation May 15, 1998

Dear Mr. [redacted]:

I refer to the portion of our proposal which includes the purchase of [redacted] allocation under the fourth period U.N. oil sale, we are pleased to increase our premium to S.O.M.O.'s official selling price from $0.07/barrel to $0.09/barrel.

I hope this meets your approval and we await your confirmatin and contractual details shortly.

Best regards,

[redacted]

[redacted]

1 : [redacted] PHONE NO. : [redacted] Jun. 04 1998 01:38PM P01

[redacted]

5.06.98 No.

on No. from - - 199

[redacted]

[redacted]

Attn. [redacted]

Ref. Your proposal for coopertion in SOMO's oil

Dear Mr. [redacted]

We would like to inform you that we have almost finished evaluation of various proposal for lifting crude oil from Iraq under the UN Resolutions, and would like to state that the proposals with the commission of less then 0.12 US Dollars per MT are not competitive and will not be taken into consideration.

Any other ideas would be highly appreciated.

Best regards,

[redacted]

Vice President [redacted]

[redacted]

[redacted]

[redacted]

TO: [redacted]

ATTN: Mr. [redacted], Vice President
FAX: [redacted]

FROM: [redacted]

DATE: June 8, 1998

Dear Mr. [redacted]

Thank you for your letter of June 3, 1998 of which we are in agreement . We have tried to contact you several times by telephone to inform you that we will be happy to participate in this cooperation and we look forward to receiving your firm offer for the crude oil premium.

Sincerely,

[redacted]

[redacted]

[redacted]

[redacted]

TO: [redacted]
ATTN: [redacted] Vice President

FAX: [redacted]

FROM: [redacted]

DATE: December 23, 1998

Dear Sirs:

Thank you for time spent with our Mr. [redacted], we confirm once again the bid of USD 0.13 premium over O.S.P. for any quantities of Iraqi oil that you may decide to make available to us. We understood that a decision on this matter would be taken by Thursday of this week. Please advise [redacted]

Sincerely,

[redacted]

[redacted]

[redacted] [redacted]

Permanent Subcommittee on Investigations
EXHIBIT #12

[redacted]

22 November, 1999

Mr. [redacted]

22 November, 1999

Dear [redacted]

Acceptance of commission

Thank you for your cooperation and your letter dated 22 November 1999 in which you guarantee the payment of US $0.10 (ten cents of a US Dollar) per barrel for my commission, reffered to in your above mentioned letter.

I enclose herewith a letter addressed to S.O.M.O. by which I nominate your company [redacted] for the lifting of the crude oil allocated to me

[redacted]

[redacted]

22 November, 1999

Mr. Saddam Hassan
Chief Executive
State Organization for the Marketing of Oil
Baghdad
Iraq

22 November, 1999

Dear Mr. Hassan:

Nomination and authorization of [redacted]

I take this opportunity to greet you and would like to inform you of the following:

- [redacted] is nominated and authorized by me to handle the crude oil that is allocated to me in all its stages.
- Consequently, the Chairman of [redacted], Mr. [redacted], is nominated and authorized to represent me in the process of negotiating the said allocation, and empowered to negotiate with all parties concerned, follow up procedures, sign documents on my behalf including (but not limited to) contracts, empower others with all or part of his authorities, sell, buy and transfer the entire allocation or parts of it to individuals and/or entities of his choice to the final end of marketing and selling this allocation in full.
- I believe that all documents that are necessary to draft a contract for this allocation has already been presented to you, however, if you require other documents please contact [redacted] at its Baghdad office; Tel: [redacted]

I thank you for your assistance in this respect and bid you a good day.

Yours faithfully

[redacted]

Holder of [redacted] Passport No. [redacted]

Issued on [redacted] - Expiry on [redacted]

[redacted]

TELEPHONE: [redacted] - FAX: [redacted]

Permanent Subcommittee on Investigations

EXHIBIT #13

بغداد في / تشرين ٢٠٠٢

السيد مدير عام شركة تسويق النفط العراقي (سومو)

المحترم

موضوع تنازل: انني السيدة حميدة نعنع بريزنتيه اتنازل عن حصتي

البالغة للمرحلة الثالثة عشرة والبالغة (١,٥) مليون برميل. وذلك

لشركة Devon Petroleum LTD وبموجب

السيد Deney Gunel بالتوقيع عن الشركة

وتقبلوا فائق التقدير

حميدة نعنع

السيد المدير العام المحترم

يرجى الاطلاع بالاستلام

مع التقدير

11/26

Baghdad, 11/25/2002

To: General Manager of Iraqi Oil Marketing Company (SOMO)
Subject: Cession

I, Mrs. Hamidah Na'na the presentee [This word was written phonetically in Arabic], **cede my allocation for phase (13) totaling (1, 5) million barrels to Devon Petroleum Ltd., and empower Mr. Deney Gunel [the name is in English] to sign for me.**

Regards,
Hamidah Na'na
[Signature]

Mr. General Manager,
Please review with regards,
[Signature]
'Abd-al-Jalil Hammadi
11/25

Reviewed
[Signature]
11/26

Contract between State Oil Marketing Organization (SOMO) (hereinafter called SELLER) of the one part and **DEVON PETROLEUM LIMITED** (hereinafter called BUYER) of the other part.

Whereby it is agreed as follows :-

SECTION ONE

Wherever the General Provisions of Section Two, attached and herein incorporated in this Contract, are at variance or in conflict with this Section One, the provisions of Section One shall govern.

ARTICLE ONE

DEFINITIONS

As used in this Contract, unless otherwise provided, the following words and terms shall have the following meanings :-

Barrel	:	means forty-two (42) U.S. Gallons at sixty degrees (60°) Fahrenheit and at normal atmospheric pressure.
Day	:	means a period of twenty-four (24) running hours Commencing at 00.01 hours local time at the port of loading.
Barrel per Day (B/d)	:	means the average number of barrels of crude oil supplied during a calendar day as defined above.
F.O.B.	:	means "Free on Board" as referred to in the ICC Incoterms 1990.
Dollar ($)	:	The currency of the United States of America.
Euro	:	The currency of the European Union
Month	:	means Gregorian Calendar month commencing at 00.01 hours local time at the port of loading on first day of the month.
Quarter	:	means a period of three (3) consecutive months Beginning on a 1st January or a 1st April or a 1st July or a 1st October.
Year	:	means a Gregorian Calendar Year.

Permanent Subcommittee on Investigations
EXHIBIT #14

9. This Contract shall be subject to SCR 986, SCR 1111, SCR 1143 SCR 1153, SCR 1210, SCR 1242, SCR 1281, SCR 1302, SCR 1330, SCR 1360, SCR 1382, SCR 1409, SCR 1447, the Procedures and the memorandum of Understanding between the Secretariat of the United nations and the Government of Iraq on the implementation of SCR 986 (United Nations document S/1996/356, dated 20 May 1996).
All other terms and conditions as per the standard SOMO General Conditions of F.O.B. crude oil sales contract (Section Two).
As per our contract No. M/13/26 Dated 11/12/2002.

ARTICLE TEN

ADDRESSES:

In addition to the notices, declarations and other communications required under Article Fourteen, notices, approvals, declarations and Communications required above for the Overseers, on behalf of the 661 Committee, shall be effected at the addresses below:-

FOR SELLER:
STATE OIL MARKETING ORGANIZATION
P.O. BOX 5118 BAGHDAD - IRAQ
TELEX : [redacted]
TELEPHONE: [redacted] 10 Lines FAX : [redacted]

FOR BUYER:
DEVON PETROLEUM LIMITED
ARANGO ORILAC BUILDING-3RD FLOOR
54, STREET NEUVA URANIZACION OBARRIO, PANAMA
TEL: [redacted]
FAX: [redacted]

FOR OVERSEERS
UNITED NATIONS, NEW YORK, U.S.A.
FAX : [redacted]

This Contract has been done and signed on the 15TH day of December 2002.

R. A. Jassim
FOR SELLER
RAFID A. JASSIM
DIRECTOR GENERAL
SOMO

D. M. Connell
FOR BUYER
DENIS CONNELL
DIRECTOR

13 Dec. 2002 17:18 No.3994 P. 22
FROM : SOMO*BAGHDAD*****
PHONE NO. : [redacted] Dec. 12 2002 02:11PM P20

29 AK MT, MJ, e

APPENDIX II

APPLICATION FORM TO REQUEST APPROVAL OF CONTRACT

The attached contract with the Iraqi State Oil Marketing Organization (SOMO) for the purchase of petroleum and/or petroleum products is submitted for approval in accordance with paragraph 1 (a) of Security Council resolution 986 (1995), Security Council resolution 1111 (1997), Security Council resolution 1143 (1997), Security Council resolution 1153 (1998), Security Council resolution 1210 (1998), Security Council resolution 1242 (1999), Security Council resolution 1281 (1999), Security Council resolution 1302 (2000), Security Council resolution 1330 (2000), 1360 (2001), Security Council resolution 1382 (2001), Security Council resolution 1409 (2002), Security Council resolution 1447 2002, and the procedures of the Security Council committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, adopted at its 142nd meeting held on 8 August 1990 .

Information about the Purchaser

Name of purchasing entity : Devon Petroleum Limited
Place of registration : Panama
Address : [redacted]
Contact person : Denis Connell
Telephone : [redacted] Telefax : [redacted] Telex : [redacted]

Summary of contract terms

Quantity of Crude Oil : 2 mill BBL
Quality of Crude Oil : Basrah
Pricing Formula : North America or F'East osp
Date(s) of Loading at Ceyhan : N/A
Date(s) of Loading at Mina Al-Bakr : TBN
Name of vessel and destination (if available) : TBN
Payment details (draft of irrevocable L/C, etc.) : Attached
Please find attached a copy of the contract, draft irrevocable

Letter of Credit to be opened and all supporting documents .

Signature : D. M. Connell

UNITED NATIONS **NATIONS UNIES**

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

S/AC.25/2002/OIL/1447/OC.29 18 December 2002

TO: DEVON PETROLEUM LIMITED S.A. PANAMA	FROM: THE OIL OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO.: [redacted]	FAX NO.: [redacted]
ATTENTION: Mr. DENIS CONNELL	REF.: OIL-FOR-FOOD ARRANGEMENT
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 1	

Re: Contract Number: **M/13/26** UN REF: **S/AC.25/2002/OIL/1447/COMM. 26**
Between: **SOMO and "DEVON PETROLEUM LIMITED S.A."**
Date of Receipt: **18 December 2002**
Quantity: **2,000,000 bbls**
Quality: **BASRAH LIGHT**
Pricing Formula: **NORTH AMERICA and FAR EAST Markets**
Port of Loading: **MINA-AL BAKR**

FURTHER TO YOUR ABOVE REFERENCED APPLICATION FOR APROVAL OF THE OIL CONTRACT, PLEASE BE ADVISED THAT THE APPLICATION HAS BEEN:

- **APPROVED**

cc:
SOMO
BNP Paribas
SAYBOLT ROTTERDAM
PERMANENT MISSION OF IRAQ TO THE UN

State Oil Marketing Organization

P.O Box 5118 Baghdad - Iraq

Commercial Invoice No. : B/12/2002

Sold to : DEVON PETROLEUM LIMITED

Exporting Port : MINA AL BAKR TERMINAL

Ships Name : NEW JANE

Destination : FAR EAST

Country of origin : IRAQ

Due date : 14/02/2003

Contract no. : N/13/28

BNP Confirmation no : H79/023

Opening Bank L/c No. : 0007683/1002

Shipment No. : BBL/3424

Description of commodity	Quantity Metric Tons	Long Tons	U.S. Bbls	Price per Barrel FOB	Total value in EURO
IRAQ CRUDE OIL					
BASRAH LIGHT	217,300.726	138,131.36	856,228	28.134	25,789,762.95
29.91 API GRAVITY AT 60 F °					
					25,789,762.95

Total EURO : TWENTY FIVE MILLION SEVEN HUNDRED EIGHTY NINE THOUSAND SEVEN HUNDRED SIXTY TWO AND NINETY FIVE CENT

Price Calculation : (OMAN DUBAI) (FIRST MONTH) MINUS 1.43% BBL AVERAGE OF TEN CONSECUTIVE QUOTATIONS STARTING FROM THE B/L DATE AS PUBLISHED IN PLATTS CRUDE OIL MARKET WIRE MINUS 0.49 API DEGRADATION

PAYMENT IS TO BE MADE TO THE UNITED NATIONS AT BANQUE NATIONAL DE PARIS, S.A. NEW YORK BRANCH FOR CREDIT TO THE UNITED NATIONS IRAQ ACCOUNT EURO SUB ACCOUNT(ACCOUNT NUMBER 0230-101752-00-05

Y.H.IBRAHIM
FOR GENERAL MANAGER SOMO

B/L DATED 16/01/2003

ORIGINAL

ALWASEL &
BABEL

INVOICE NUMBER -------

Messrs:
[redacted]

INVOICE

Date: 12/03/01

Contract Number: AB1101 dated 01/03/01

Item	Description	Fee Euro	Amount Euro
1	Selling of Iraq oil allocation for lifting "OLYMPIC BREEZE" B/L date 12.03.01 – Quantity 1,959,234 bbl	0.17 per bbl	333,070=

The Invoice shall be paid within 30 days with T/T transfer to the following bank:

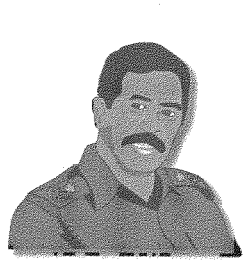
DUBAI ISLAMIC BANK
_____
_____

Authorised Signature, name and Company Seal/Stamp

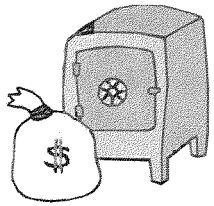
AL WASEL & BABEL
P.O. Box _____
Tel.: 971 _____ Fax: 971 _____

Permanent Subcommittee on Investigations
EXHIBIT #15

Surcharge Payments



Saddam Hussein



Secret Regime Bank Accounts

Allocation Recipient

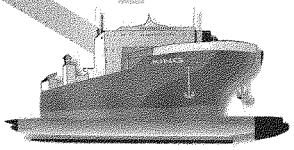
$

$

Method A

$

Method B



Oil Purchaser

Permanent Subcommittee on Investigations

EXHIBIT #16

4315010 Surcharge.indd 1 4/4/05 2:33:48 PM

بغداد ١٢/٢/٢٠٠٢

السادة شركة تسويق النفط
السيد المدير التنفيذي المحترم

تعهد

التعهد بدفع مبلغ الاسترجاعي بواقع ٣٠ سنت امريكي للبرميل لوجهة امريكا و ٢٥ سنت اميركي للبرميل لوجهة اوربا او الشرق لكمية (١,٥) مليون برميل والتي ستقوم برفعها شركة DEVON PETROLEUM والمؤرخ في ١١/٢/٢٠٠٢ والموقع باسم الشركة المذكورة اعلاه على العقد M/11/100 نيابة عني خلال المرحلة الحادية عشرة. وكذلك المبلغ المستحق عن المرحلة الثامنة والبالغ (٨٥) الف دولار على العقد السابق وذلك خلال (٣٠) يوم من تاريخ استحقاق كل شحنة ترفع على العقد اعلاه، وبذلك يكون مبلغ الاسترجاعي الكلي عن الكمية المرفوعة كالآتي ٢٠,٦٧ سنت اميركي للبرميل لوجهة الشرق واوربا و ٢٥,٦٧ سنت اميركي للبرميل لوجهة الولايات المتحدة.

مع التقدير والاحترام

حميدة نعنع

Baghdad, 02/12/2002

To: Oil Marketing Company / the Executive Manager

Commitment

I hereby undertake to settle the surcharge at the rate of 30 American cents a barrel for America destination, and 25 American cents a barrel for Europe or the East destination, for (1, 5) million barrels which Devon Petroleum Company will lift from contract M/11/100 dated to 02/11/2002, and signed in the name of the aforesaid company on my behalf [for me] during phase (11). I also undertake to settle the sum due for phase (8) totaling $85,000 for the previous contract within thirty (30) days of the due date of each shipment lifted from the above-mentioned contract, to make the total of the surcharge for the lifted quantity as follows:

- 30, 67 American cents a barrel for the East and Europe destination
- 35, 67 American cents a barrel for the United States destination.

Best regards,
Hamidah Na'na
[Signature]

Permanent Subcommittee on Investigations
EXHIBIT #17

[redacted] [redacted] PAGE: 6

[redacted]

FROM : AL HODA INT. TRADING CO. FAX NO. : [redacted] May. 30 2001 08:03AM P1

CONTRACT NO. M/09/15

WE WOULD LIKE TO CONFIRM THE FOLLOWING PURCHASE/SALE AGREEMENT BETWEEN AL-HODA INTERNATIONAL TRADING COMPANY, JORDAN AND [redacted] REFERENCE AL-HODA INTERNATIONAL TRADING COMPANY CONTRACT WITH SOMO, REFERENCE M/09/15

SELLER: AL-HODA INTERNATIONAL TRADING COMPANY
P.O.BOX 910536 AMMAN 11191 JORDAN
TEL.: [redacted]
FAX: [redacted]

SELLER BANK DETAILS:
BANK NAME : ARAB BANK
ACCOUNT NAME : [redacted]
ACCOUNT NO. : # [redacted]
SWIFT CODE : [redacted]
FAX : [redacted]
BANK ADDRESS: ABDLI BRANCH-AMMAN, JORDAN

BUYER: [redacted]

GRADE: KIRKUK CRUDE OIL OF NORMAL EXPORT QUALITY AS MADE AVAILABLE AT THE TIME OF LOADING AT CEYHAN

QUANTITY: 2,000,000 NET U.S. BARRELS OF KIRKUK CRUDE OIL PLUS/MINUS FIVE PERCENT TERMINAL OPERATIONAL TOLERANCE.

DELIVERY: FOB CEYHAN DURING DATE RANGE JUNE 16, 2001, SUBJECT TO FINAL TERMINAL ACCEPTANCE OF VESSEL M/T "AMAZON EAGLE" / SUB.

IF THE A/M LOADING PERIOD IS SUBSEQUENTLY AMENDED DUE TO CHANGES IN THE DELIVERY SCHEDULE CAUSED BY PRODUCTION CHANGES, WEATHER, OPERATIONAL MATTERS OR CIRCUMSTANCES BEYOND THE SELLERS REASONABLE INFLUENCE, SELLER WILL WITHOUT DELAY ADVICE BUYER.

1-7

Permanent Subcommittee on Investigations
EXHIBIT #18

[redacted]

[redacted] [redacted] PAGE: 7

FROM : AL HODA INT.TRADING CO. FAX NO. : [redacted] May. 30 2001 08:04AM P2

[redacted] 003/006

OF SUCH NEW LOADING PERIOD AND CONSEQUENCES OF SUCH NEW LOADING PERIOD WILL BE ACCEPTED BY BUYER.

THIS CONTRACT SHALL TERMINATE FORTHWITH IN THE EVENT THAT THE SECURITY COUNCIL OF THE UNITED NATIONS TERMINATES THE AUTHORIZATION TO IMPORT OR EXPORT PETROLEUM CRUDE OIL ORIGINATING IN IRAQ.

PRICE: PER NET U.S. BARREL FOB CEYHAN SHALL BE THE SOMO OFFICIAL SELLING PRICE FOR THE MONTH OF LOADING PLUS USD 0.40 PER NET US BARREL.

API ESCALATION/DE-ESCALATION CLAUSE TO APPLY:

TYPE OF CRUDE	API	PORT OF LOADING
KIRKUK	36.0	CEYHAN

PRICE MECHANISM IN EURO PER BARREL FOB:

PRICE SHALL BE THE STANDARD SOMO PRICE AS AGREED UPON BETWEEN SOMO AND THE UNITED NATIONS FROM TIME TO TIME.

PAYMENT: PAYMENT OF USD 0.30 PER NET BILL OF LADING BARREL TO BE PAID OUTSIDE LETTER OF CREDIT AS INSTRUCTED BY AL-HODA INTERNATIONAL TRADING, JORDAN VALUE 30 DAYS FROM BILL OF LADING DATE (B/L DATE = DAY ONE) AGAINST RECEIPT OF COMMERCIAL INVOICE.

PAYMENT OF USD 0.10 PER NET BILL OF LADING BARREL TO BE PAID OUTSIDE LETTER OF CREDIT AS INSTRUCTED BY AL-HODA INTERNATIONAL TRADING, JORDAN VALUE 10 DAYS FROM BILL OF LADING DATE (B/L DATE = DAY ONE) AGAINST RECEIPT OF COMMERCIAL INVOICE.

PAYMENT INSIDE LETTER OF CREDIT SHALL BE MADE BY BUYER IN US DOLLARS IN FULL WITHOUT DISCOUNT, WITHHOLDING, SETTOFF, COUNTERCLAIM OR OTHER DEDUCTION WITHIN THIRTY (30) DAYS FROM BILL OF LADING DATE (B/L DATE INCLUDED) BY PAYMENT UNDERTAKING IN A FORMAT ACCEPTABLE TO SELLER, CONFIRMED BY A FIRST CLASS INTERNATIONAL BANK

2-7

[redacted]

(3)

Dove Deal @ 40¢ + 2¢ | Side Letter

30 + 10

irrevocable unlabeling

L/C in [redacted] to PA-WDA

Consultancy Agreement based on Net B/L Between [redacted] and [redacted]

(Payable 10 days from B/L ??)

[redacted]

16/07 '01 07:55 FAX [redacted] [redacted] +++ [redacted] B 001

FROM : AL HODA INT. TRADING CO. FAX NO. : [redacted] Jul. 16 2001 02:01AM P1

بسم الله الرحمن الرحيم

Al-Hoda International Trading Co. شركة الهدى للتجارة الدولية

Commercial Invoice
No. M/15/09/K1 Dated16/7/2001

To: [redacted]

Further To Our Contract Dated May 29, 2001 And Contract Amendment July 3, 2001.

Vessel Name	:M/T "Amazon Eagle."
B/L Date	: 12/7/2001.
Load Port	:Ceyhan, Turkey.
Grade	: Kirkuk Crude Oil.
Origin	:Iraq.
Quantity	: 2,092,152 Net US Barrels. Balance amount due not covered by Letter of credit NR. LCIM 2176337.

USD-0.40 x 2092152 = 836,860.80

Payable Value: 22/7/2001 (10 Days From bill of lading date), Only Eight Hundred Thirty Six Thousand And Eight Hundred Sixty U.S. Dollar And Eighty Cents, as follows:

Arab Bank
Credit: Al- Hoda International Trading Co.
Account No. [redacted]
Swift Code: [redacted]
Address: Abdali Branch, Amman, Jordan.

Riyadh Khawam Al-Farhood
Chairman – General Manger

U.A.E. -Dubai
Tel.971-4-2680097
Fax.971-4-2680092
Jabel Ali-Telefax.971-4-48816032

Jordan - Amman
Tel.962-6-5653674/5
Fax: 962-6-5653876
E-mail:alhoda@nets.com.jo

Iraq - Baghdad
Tel. 964-1-5433775
Fax. 964-1-5425209

[redacted]

07/16/2001 18:51 FAX [redacted] 001

****
*** TX REPORT ***
****

TRANSMISSION OK

TX/RX NO	1608
CONNECTION TEL	[redacted]
CONNECTION ID	
ST. TIME	07/16 18:51
USAGE T	00'18
PGS. SENT	1
RESULT	OK

[redacted]

TO: BNP PARIBAS (SUISSE) SA, GENEVA
ATTN: [redacted]
FAX: [redacted]

FROM: [redacted]

DATE: JULY 16, 2001

RE: WIRE TRANSFER REQUEST

DEAR [redacted]

PLEASE EFFECT FOLLOWING PAYMENT VALUE FRIDAY JULY 20, 2001
FROM OUR [redacted] ACCOUNT:

AMOUNT: US$836,860.00

TO: ARAB BANK
ABDALI BRANCH, AMMAN, JORDAN

CREDIT: AL-HODA INTERNATIONAL TRADING CO.

ACCOUNT NO.: [redacted]

SWIFT CODE: [redacted]

THANK YOU FOR YOUR ASSISTANCE.

REGARDS,

[redacted]
[redacted]

11:24 AM
07/16/04
Accrual Basis

[redacted]
Transaction Detail By Account
January 1995 through December 2003

Type	Date	Num	Name	Memo	Class	Split	Amount	Balance

Redacted
by
Permanent Subcommittee
on Investigations

Check	7/20/2001	PYMNT	AL-HODA INTL ...	A.EAGLE-B	V-50153	BNP Paribas...	-836,860.00	-836,860.00

تاريخ ووقت التقرير ٢٠٠٤/٠٢/١٦ 7:18:11 PM

شركة تسويق النفط

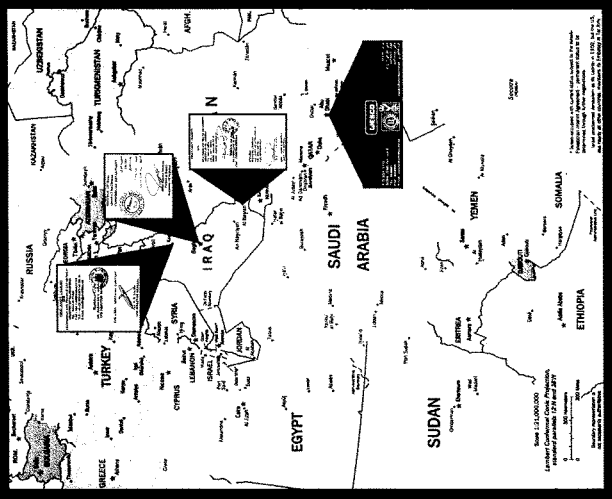
كشف بالمبالغ المسترجعه لعقود مذكرة التفاهم حسب المرحلة

للفترة من لغاية

عمولات

المرحلة	المشتري	رقم العقد	الكمية / برميل	مبلغ الاسترجاع دولار/برميل	المبلغ المستحق /دولار	المبلغ المسدد /دولار	المبلغ المتبقي /دولار
10	A&A SERVICES	M/09/47	1,000,000	0.30	300,000.00	240,000.00	60,000.00
10	ACTEC	M/10/83	5,667,025	0.28	1,613,520.30	1,613,520.30	0.00
10	[redacted]	M/[redacted]	1,003,958	0.25	250,989.50	159,628.47	91,361.03
10	AL TOUN TRADING	M/10/32	1,001,660	0.25	250,415.00	250,400.00	15.00
10	ALCON	M/10/03	8,036,186	0.29	2,310,319.10	2,310,319.10	0.00
10	ALCON	M/10/17	4,643,673	0.27	1,240,820.00	1,240,820.00	0.00
10	ALCON	M/10/59	2,003,095	0.30	600,928.50	600,928.50	0.00
10	ALEX	M/10/18	3,890,405	0.28	1,072,976.35	1,072,929.30	47.05
10	ALFA ECO	M/09/101	2,061,177	0.30	618,353.10	618,353.10	0.00
10	ALFA ECO	M/10/63	2,039,183	0.30	611,754.90	611,755.00	-0.10
10	AL-HILAL	M/10/56	989,688	0.25	247,422.00	247,422.00	0.00
10	AL-HODA TRADING	M/09/15	4,134,507	0.30	1,240,352.10	1,240,352.00	0.10
10	AL-HODA TRADING	M/10/106	2,063,333	0.30	618,999.90	619,000.00	-0.10
10	AL-HODA TRADING	M/10/68+M/10/22	2,022,622	0.30	606,786.60	606,787.00	-0.40
10	AL-RASHEED INTERNATIONAL	M/09/70	2,011,983	0.30	603,594.90	603,595.00	-0.10
10	AL-RASHEED INTERNATIONAL	M/10/21	2,003,864	0.30	601,159.20	601,160.00	-0.80
10	AREDIO	M/10/71	1,928,235	0.25	482,058.75	482,172.25	-113.50
10	AREDIO	M/10/82+M/10/84	4,047,790	0.27	1,111,874.35	1,111,874.35	0.00
10	AWAD AMMORA	M/10/04	3,894,689	0.27	1,068,771.55	1,068,771.55	0.00
10	AWAD AMMORA	M/10/28	2,049,445	0.25	512,361.25	512,361.14	0.11
10	BULF DREILING AND OIL SERVIC	M/09/55	961,769	0.25	240,442.25	240,479.00	-36.75

Permanent Subcommittee on Investigations
EXHIBIT #19



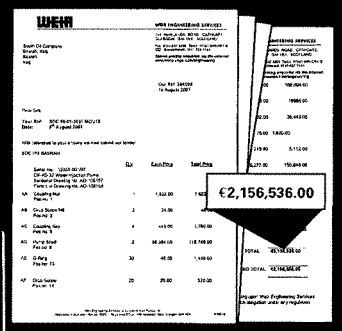
Permanent Subcommittee on Investigations

EXHIBIT #20

Permanent Subcommittee on Investigations

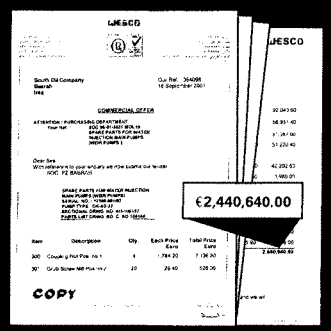
EXHIBIT #21

First Tender Offer
August 15, 2001

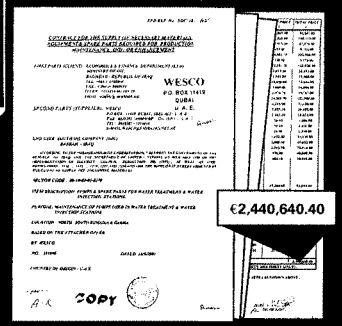


Meeting between WEIR and Ministry of Oil where 13% kickback is demanded.
September 2001

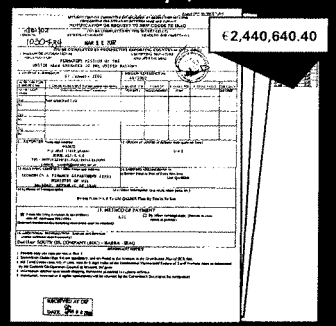
Second Tender Offer
September 18, 2001



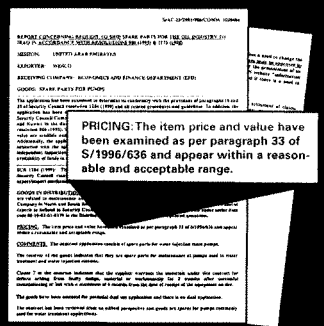
Contract
December 8, 2001



Contract Submission to U.N.
January 7, 2002



U.N. Clearance Form



WEIR

WEIR ENGINEERING SERVICES

149 NEWLANDS ROAD, CATHCART,
GLASGOW G44 4EX, SCOTLAND

Fax: 0141-637 0208 Telex: 77161 WPLCRT G
Switchboard: 0141-637 7141

Spares pricing enquiries via the internet:
www.weirpumps.com/engineering

South Oil Company
Basrah, Iraq
Basrah
Iraq

Our Ref: 384098
15 August 2001

Dear Sirs

Your Ref: **SOC 96-01-3031 MOU10**
Date: **9th August 2001**

With reference to your enquiry we now submit our tender

SOC IPZ BASRAH

		Qty	Each Price	Total Price
	Serial No: - 12350-001/07 OK-4D-32 Water Injection Pump Sectional Drawing No. AO-106157 Parts List Drawing No. AO-106158			
AA	Coupling Nut Pos no: 1	1	1,622.00	1,622.00
AB	Grub Screw M6 Pos no: 2	2	24.00	48.00
AC	Coupling Key Pos no: 5	4	445.00	1,780.00
AD	Pump Shaft Pos no: 6	2	58,384.00	116,768.00
AE	O-Ring Pos no: 13	30	48.00	1,440.00
AF	Grub Screw Pos no: 14	20	26.00	520.00

Permanent Subcommittee on Investigations
EXHIBIT #22

WP0019

WEIR ENGINEERING SERVICES

149 NEWLANDS ROAD, CATHCART,
GLASGOW G44 4EX, SCOTLAND

Fax: 0141-637 0208 Telex: 77161 WPLCRT G
Switchboard: 0141-637 7141

Spares pricing enquiries via the internet:
www.weirpumps.com/engineering

AG	Anti Extrusion Ring Pos no: 18	50	22.00	1,100.00
AH	O-Ring Pos no.: 19	50	64.00	3,200.00
AI	O-Ring Pos no. 28	35	43.00	1,505.00
AJ	O-Ring Pos no. 29	50	16.00	800.00
AK	Floating Oil Seal, Inner Pos no: 32	7	1,197.00	8,379.00
AL	Floating Oil Seal, Outer Pos no: 36	7	1,230.00	8,610.00
AM	Set Screw M16 Pos no: 38	20	13.00	260.00
AN	O-Ring Pos no. 39	5	10.00	50.00
AO	Shaft End Plate Pos no. 41	10	707.00	7,070.00
AP	Thrust Collar Nut Pos no: 42	10	1,408.00	14,080.00
AQ	Lock Washer Pos no: 43	50	698.00	34,900.00
AR	Retaining Ring Pos no: 44	10	838.00	8,380.00
AS	O-Ring Pos no: 46	50	83.00	4,150.00
AT	Thrust Bearing Pos no: 47	10	10,642.00	106,420.00

WEIR

WEIR ENGINEERING SERVICES

149 NEWLANDS ROAD, CATHCART,
GLASGOW G44 4EX, SCOTLAND

Fax: 0141-637 0208 Telex: 77161 WPLCRT G
Switchboard: 0141-637 7141

Spares pricing enquiries via the internet
www.weirpumps.com/engineering

AU	Thrust Pads (16/Set) Pos no: 47	2	5,120.00	10,240.00
AW	Thrust Collar Pos no: 49	4	5,754.00	23,016.00
AX	Journal Bearing N.D.E Pos no: 51	14	1,480.00	20,720.00
AY	Oil Thrower Pos no: 52	20	2,074.00	41,480.00
AZ	Oil Guard N.D.E Pos no: 53	20	1,632.00	32,640.00
BA	O-Ring Pos no: 54	50	16.00	800.00
BB	O-Ring Pos no: 56	50	16.00	800.00
BC	Shear Ring Pos no: 59	10	1,606.00	16,060.00
BD	Balance Drum Nut Pos no: 63	10	3,664.00	36,640.00
BE	Lock Washer Pos no: 64	20	594.00	11,880.00
BF	Packing Ring Follower Pos no: 65	50	1,018.00	50,900.00
BG	Packing Ring Pos no: 66	50	26.00	1,300.00
BH	O-Ring Pos no: 67	50	30.00	1,500.00
BI	Balance Drum Key Pos no: 68	10	403.00	4,030.00

WEIR

WEIR ENGINEERING SERVICES

149 NEWLANDS ROAD, CATHCART,
GLASGOW G44 4EX, SCOTLAND

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Switchboard: 0141-637 7141

Spares pricing enquiries via the internet
www.weirpumps.com/engineering

BJ	Balance Drum Restriction Bush Pos no: 69	7	10,462.00	73,234.00
BK	Balance Drum Pos no: 70	4	9,978.00	39,912.00
BL	Last Stage Diffuser Pos no: 73	5	17,154.00	85,770.00
BM	Last Stage Impeller Pos no: 74	5	18,930.00	94,650.00
BN	Last Stage Ring Section Pos no: 75	5	15,923.00	79,615.00
BO	Impeller Key Pos no: 76	20	416.00	8,320.00
BP	3rd Stage Impeller Pos no: 77	5	22,347.00	111,735.00
BQ	Abutment Ring Pos no: 78	20	235.00	4,700.00
BR	2nd Stage Impeller Pos no: 84	5	22,347.00	111,735.00
BS	Ring Section Wear Ring Pos no: 86	10	2,563.00	25,630.00
BT	Inter Stage Impeller Eye Wear Ring Pos no: 87	10	1,768.00	17,680.00
BU	Inter Stage Diffuser Pos no: 88	4	16,960.00	67,840.00
BV	Diffuser Wear Ring Pos no: 89	10	1,518.00	15,180.00
BW	Impeller Hub Wear Ring Pos no: 90	10	1,797.00	17,970.00

WEIR

WEIR ENGINEERING SERVICES

149 NEWLANDS ROAD, CATHCART,
GLASGOW G44 4EX, SCOTLAND

Fax: 0141-637 0208 Telex: 77181 WPLCRT G
Switchboard: 0141-637 7141

Spares pricing enquiries via the internet:
www.weirpumps.com/engineering

BX	1st Stage Impeller Pos no: 91	5	22,347.00	111,735.00
BY	Suction Guide Wear Ring Pos no: 92	10	2,950.00	29,500.00
BZ	1st Stage Impeller Eye Wear Ring Pos no: 93	10	1,872.00	18,720.00
CA	Joint Pos no: 94	10	1,512.00	15,120.00
CB	O-Ring Pos no: 95	40	24.00	960.00
CC	Anti Extrusion Ring Pos no: 96	40	64.00	2,560.00
CD	O-Ring Pos no: 101	50	24.00	1,200.00
CE	Journal Bearing D.E. Pos no: 10	14	1,502.00	21,028.00
CF	Oil Guard D.E. Inner Pos no: 106	20	1,891.00	37,820.00
CG	Oil Guard D.E. Outer Pos no: 109	20	3,587.00	71,740.00
CH	Lubricating Oil Filter Part no: E14656/04MS-15M	50	888.00	44,400.00
CI	Fan for Air Coller	16	621.00	9,936.00
CJ	Set: High Speed Thrust Bearing Pads, Gearbox Pos no: 9	6	13,946.00	83,676.00
CK	Pinion Shaft Journal Bearing, Gearbox Pos no: 12 & 13	6	8,629.00	51,774.00

WEIR ENGINEERING SERVICES

149 NEWLANDS ROAD, CATHCART,
GLASGOW G44 4EX, SCOTLAND

Fax: 0141-637 0208 Telex: 77161 WPLCRT G
Switchboard: 0141-637 7141

Spares pricing enquiries via the internet:
www.weirpumps.com/engineering

CL	Pinion Shaft Journal Bearing, Gearbox Pos no: 4 & 5	14	7,786.00	109,004.00
CM	Pinion Shaft Oil Catcher, Gearbox Pos no: 2 & 3	6	3326.00	19956.00
CN	Stationary Seal Ring, Mechanical Seal Pos no: 1	24	1,602.00	38,448.00
CO	Stationary Seal Ring Pkg. Mechanical Seal Pos no: 2	24	75.00	1,800.00
CP	Stationary Seal Ring Pkg. Mech. Seal Pos no: 2A	24	213.00	5,112.00
CQ	Rotary Seal Ring, Mechanical Seal Pos no: 5	24	6,277.00	150,648.00
CR	Rotary Seal Ring, Pkg. Mechanical Seal Pos no: 6	24	75.00	1,800.00
CS	Anti Extrusion Cap, Mechanical Seal Pos no: 37	20	29.00	580.00
CT	Anti Extrusion Washer, Mechanical Seal Pos no: 37A	20	29.00	580.00
CU	Anti Extrusion Cap, Mechanical Seal Pos no. 37B	20	29.00	580.00
			SUB TOTAL	**€2,156,536.00**
			GRAND TOTAL	**€2,156,536.00**

No contractual obligation arising out of this tender shall be binding upon Weir Engineering Services in the absence of a valid licence authorising the fulfilment of such obligation under any regulation having the force of law in the UK.

WEIR

WEIR ENGINEERING SERVICES

149 NEWLANDS ROAD, CATHCART,
GLASGOW G44 4EX, SCOTLAND

Fax: 0141-637 0208 Telex: 77161 WPLCRT G
Switchboard: 0141-637 7141

Spares pricing enquiries via the internet:
www.weirpumps.com/engineering

Delivered: Cost & Freight, Basrah

Despatch is 28 Working Weeks

If this does not meet with your requirements, please advise and we will investigate further.

Our terms of payment are: -

In accordance with the Memorandum of Understanding signed between Iraq and the United Nations.
Nett cash in Euro's available at sight against shipping documents through a recognised Bank against a confirmed irrevocable letter of credit at the time of placing the order. The letter of credit should be available for a period of 3 months in excess of the stated manufacturing period to cover any contingencies, which may arise during manufacture. In addition we would request that the letter of credit should permit payments to be made against partial shipments where these occur. We shall also require your confirmation that the L.O.C. can be revalidated. Please note that all Bank charges will be to your account.

The despatch offered will be calculated from receipt of your letter of credit.

In the event of a letter of credit being raised later than 90 days after the date of an order in respect to this quotation, we reserve the right to alter prices.

The prices quoted are fixed for the duration of this contract providing an order is received within 60 days from the date of this tender.

In the event of an order, please state the reference and date of this tender to assist in our internal administration.

This tender is subject to our general conditions of sale, except as amended in the text of this tender.

Yours Faithfully
For WEIR PUMPS LTD

Robert Morrison
Tendering Department
Weir Engineering Services

WESCO

P.O. BOX [illegible]
DUBAI, JEBEL ALI - U.A.E.
TEL : [illegible]
FAX : [illegible]
E-mail : wesdxb@emirates.net.ae

ص.ب : [illegible]
دبي، جبل علي - ا.ع.م
تليفون : [illegible]
فاكس : [illegible]
البريد الالكتروني : wesdxb@emirates.net.ae

South Oil Company
Basrah
Iraq

Our Ref. : 384098
18 September 2001

COMMERCIAL OFFER

ATTENTION : PURCHASING DEPARTMENT
Your Ref. : SOC 96-01-3031 MOU10
SPARE PARTS FOR WATER INJECTION MAIN PUMPS (WEIR PUMPS)

Dear Sirs
With reference to your enquiry we now submit our tender
SOC IPZ BASRAH

SPARE PARTS FOR WATER INJECTION MAIN PUMPS (WEIR PUMPS)
SERIAL NO. : 12350-001/07
PUMP TYPE : OK-4D-32
SECTIONAL DRWG. NO. AO-106157
PARTS LIST DRWG. NO. C. AO-106158

Item	Description	Qty.	Each Price Euro	Total Price Euro
300	Coupling Nut Pos. no:1	4	1,784.20	7,136.80
301	Grub Screw M6 Pos no:2	20	26.40	528.00

COPY

Permanent Subcommittee on Investigations
EXHIBIT #23

WESCO

Item	Description	Qty.	Each Price Euro	Total Price Euro
302	Coupling key Pos. no:5	4	489.50	1,958.00
303	Pump Shaft Pos no: 6	2	64,222.40	128,444.80
304	O-Ring Pos no:13	30	52.80	1,584.00
305	Grub Screw Pos no:14	20	28.60	572.00
306	Anti Extrustion Ring Pos no:18	50	24.20	1,210.00
307	O-Ring Pos no:19	50	70.40	3,520.00
308	O-ring Pos no:28	35	47.30	1,655.50
309	O-ring Pos no:29	50	17.60	880.00
310	Floating Oil Seal , Inner Pos no:32	7	1,316.70	9,216.90
311	Floating Oil Seal Outer Pos no:36	7	1,353. 00	9,471.00
312	Set Screw M16 Pos no:38	20	14.30	286.00
313	O-Ring Pos no:39	50	11.00	550.00
314	Shaft End Plate Pos no:41	10	777.70	7,777.00
315	Thrust Collar Nut Pos no:42	10	1,548.80	15,488.00
316	Lock Washer Pos no:43	50	767.80	38,390.00
317	Retaining Ring Pos no:44	10	921.80	9,218.00
318	O-Ring Pos no:46	50	91.30	4,565.00
319	Thrust Bearing Pos no:47	10	11,706.20	117,062.00
320	Set : Thrust Pads (16/Set)	20	5,632.00	112,640.00
321	Thrust Collar Key Pos no:48	10	88.00	880.00
322	Thrust Collar Pos no:49	4	6,329.40	25,317.60

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FORM No. [illegible] Rev. [illegible]

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WESCO

Item	Description	Qty.	Each Price Euro	Total Price Euro
323	Journal Bearing N.D.E. Pos no:51	14	1,628.00	22,792.00
324	Oil Thrower Pos no:52	20	2,281.40	45,628.00
325	Oil Guard N.D.E. Pos no:53	20	1,795.20	35,904.00
326	O-Ring Pos no:54	50	17.60	880.00
327	O-Ring Pos no:56	50	17.60	880.00
328	Shear Ring Pos no:59	10	1,766.60	17,666.00
329	Balance Drum Nut Pos no:63	10	4,030.40	40,304.00
330	Lock Washer Pos no:64	20	653.40	13,068.00
331	Packing Ring Follower Pos no:65	50	1,119.80	55,990.00
332	Packing Ring Pos no:66	50	28.60	1,430.00
333	O-Ring Pos no:67	50	33.00	1,650.00
334	Balance Drum Key Pos no:68	10	443.30	4,433.00
335	Balance Drum Restriction Bush Pos no:69	7	11,508.20	80,557.40
336	Balance Drum Pos no: 70	4	10,975.80	43,903.20
337	Last Stage Diffuser Pos no:73	5	18,869.40	94,347.00
338	Last Stage Impeller Pos no:74	5	20,823.00	104,115.00
339	Last Stage Ring Section Pos no:75	5	17,515.30	87,576.50
340	Impeller Key Pos no:76	20	457.60	9,152.00
341	3rd Stage Impeller Pos no:77	5	24,581.70	122,908.50
342	Abutment Ring Pos no:78	20	258.50	5,170.00
343	2nd Stage Impeller Pos no:84	5	24,581.70	122,908.50

COPY

FORM No. 005 Rev. 0

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WESCO

Item	Description	Qty.	Each Price Euro	Total Price Euro
344	Ring Section Wear Ring Pos no:86	10	2,819.30	28,193.00
345	Inter Stage Impeller Eye wear ring Pos no:87	10	1,944.80	19,448.00
346	Inter Stage Diffuser Pos no:88	4	18,656.00	74,624.00
347	Diffuser Wear Ring Pos no:89	10	1,669.80	16,698.00
348	Impeller Hub Wear Ring Pos no:90	10	1,976.70	19,767.00
349	1st Stage Impeller Pos no:91	5	24,581.70	122,908.50
350	Suction Guide Wear Ring Pos no:92	10	3,245.00	32,450.00
351	1st Stage Impeller Eye Wear Ring Pos no:93	10	2,059.20	20,592.00
352	Joint Pos no:94	10	1,663.20	16,632.00
353	O-Ring Pos no:95	40	26.40	1,056.00
354	Anti Extrusion Ring Pos no:96	40	70.40	2,816.00
355	O-Ring Pos no:101	50	26.40	1,320.00
356	Journal Bearing D.E. Pos no:10	14	1,652.20	23,130.80
357	Oil Guard D.E. Inner Pos no:106	20	2,080.10	41,602.00
358	Oil Guard D.E. Outer Pos no:109	20	3,945.70	78,914.00
359	Lubricating Oil Filter Part no: E14656/04MS-15M	50	976.80	48,840.00
360	Fan for Air Cooler	16	683.10	10,929.60

COPY

FORM No. [illegible] Rev. [illegible]

WESCO

SPARE PARTS FOR GEAR BOX
SECT.ARRANGEMENT : HSW 355SLG
DRWG.NO. 37864/8/G/D

361	Set :High Speed Thrust Bearing Pads Pos no.:9	6	15,340.60	92,043.60
362	Pinion Shaft Journal Bearing Pos no.:12 & 13	6	9,491.90	56,951.40
363	Pinion Shaft Journal Bearing Pos no.:4 &	6	8,564.60	51,387.60
364	Pinion Shaft Oil Catcher Pos no.:2 &3	14	3,658.60	51,220.40
	MECHANICAL SEAL PARTS			
365	Stationary Seal Ring Pos no. :1	24	1,762.20	42,292.80
366	Stationary Seal Ring Pkg Pos no. :2	24	82,50	1,980.00
367	Stationary Seal Ring Pkg Pos no. :2A	24	234.30	5,623.20
368	Rotary Seal Ring Pos no: 5	24	6,904.70	165,712.80
369	Rotary Seal Ring Pkg Pos no: 6	24	82.50	1,980.00
370	Anti Extrusion Cap Pos. no.37	20	31.90	638.00
371	Anti Extrusion Washer Pos. no. 37A	20	31.90	638.00
372	Anti Extrusion Cap Pos. no. 37B	20	31.90	638.00
	GRAND TOTAL , EURO			**2,440,640.40**

Delivered : CIP, Basrah VIA UM-QASSER
Delivery : 308 Days
Port of Shipment : Dubai
Country of Origin : United Arab Emirates
If this does not meet your requirements , please advise and we will investigate further

COPY

FORM No. 005 Rev. 0

WESCO

No contractual obligation arising out of this tender shall be binding upon WESCO Dubai in the absence of a valid licence authorising the fulfilment of such obligation under any regulation having the force of law in U.A.E .

Our terms of payment are: -
In accordance with the Memorandum of Understanding signed between Iraq and the United Nations.

The despatch offered will be calculated from receipt of your letter of credit.

This tender is subject to our general conditions of sale, except as amended in the text of this tender.

Yours Faithfully
WESCO Dubai

WESCO
P.O. BOX 11419
DUBAI
U. A. E.

Gordon Wingate
General Manager

COPY

EFD REF. No.: SOC/10/ 745

CONTRACT FOR THE SUPPLY OF NECESSARY MATERIALS, EQUIPMENT& SPARE PARTS REQUIRED FOR PRODUCTION MAINTENANCE AND / OR ENHANCEMENT

FIRST PARTY (CLIENT): ECONOMICS & FINANCE DEPARTMENT (EFD)
MINISTRY OF OIL,
BAGHDAD - REPUBLIC OF IRAQ
TEL: +964-1-4168040
FAX : + 964-1- 8869432
TELEX : +212216 M1 OIL IK
EMAIL : ecofin @ uruklink.net

WESCO
P.O. BOX 11419
DUBAI
U. A. E.

SECOND PARTY (SUPPLIER): WESCO
P.O BOX : 11419 DUBAI , JBEL ALI / U. A. E.
FAX: 8838595 / ~~AUH UAE~~ DUBAI , U.A.E.
TEL : 8838581 / 5554436
E-MAIL:WESCO@EMIRATES.NET.AE

AMACL

END USER: SOUTH OIL COMPANY (SOC)
BASRAH - IRAQ

ACCORDING TO THE "MEMORANDUM OF UNDERSTANDING " BETWEEN THE GOVERNMENT OF THE REPUBLIC OF IRAQ AND THE SECRETARIAT OF UNITED - NATIONS ON 20TH MAY 1996 ON THE IMPLEMENTATION OF SECURITY COUNCIL RESOLUTION 986 (1995) , AS WELL AS UNSC RESOLUTIONS 1153 , 1175 , 1210 , 1281 ,1302 ,1330 AND 1360 THE SUPPLIER IS HEREBY ASSIGNED BY THE CLIENT TO SUPPLY THE FOLLOWING MATERIALS :

SECTOR CODE : 08-10-02-01-0279

ITEM DESCRIPTION: PUMPS & SPARE PARTS FOR WATER TREATMENT & WATER INJECTION STATIONS.

PURPOSE: MAINTENANCE OF PUMPS USED IN WATER TREATMENT & WATER INJECTION STATIONS

LOCATION: NORTH , SOUTH RUMAILA & GARMA

BASED ON THE ATTACHED OFFER

BY: WESCO

NO: 384098 *DATED: 18/9/2001*

COUNTRY OF ORIGIN : U.A.E

A-K

COPY

Permanent Subcommittee on Investigations
EXHIBIT #24

AMACL

EFD REF. No.: SOC/10/ 75

THE TWO PARTIES AGREE AS FOLLOWS:

1- MATERIALS: TO COMPLY WITH RELEVANT QUALITY STANDARDS STIPULATED IN THE A/M OFFER. IF NO STANDARDS ARE SPECIFIED ,THEN RECOGNIZED INTERNATIONAL QUALITY STANDARDS SHALL APPLY. MOREOVER , THE SUPPLIER IS TO SUBMIT COMPLETE SET(S) OF FACTORY TEST CERTIFICATES.

2-PACKING: PACKAGES CONTAINING MATERIALS SHALL BE MARKED WITH THE APPROPRIATE ITEM NUMBERS INDICATED IN THE OFFER. THIS PACKING MUST BE ACCORDING TO THE NATURE OF THE GOODS AND THE MEANS OF TRANSPORTATION IN CONFORMITY WITH INTERNATIONALLY ACCEPTED NORMS AND STANDARDS.

3-TOTAL VALUE (EURO 2440640.40 CIP BASRAH VIA UM QASSER):- EURO (TWO MILLION FOUR HUNDRED FORTY THOUSAND SIX HUNDRED FORTY AND FORTY ONLY)

4-PAYMENT: BY L/C COVERED BY U.C.P. 1993 REVISION OF I.C.C. PUBLICATION NO. 500 OPENED BY BANQUE NATIONAL DE PARIS S.A. NEW-YORK BRANCH (IRAQ ACCOUNT) ACCORDING TO THE REQUEST OF THE CENTRAL BANK OF IRAQ FOR THE BENEFIT OF THE SUPPLIER PAYABLE FROM THE CASH COLLATERAL REQUIRED UNDER L/C AMOUNT AND ITS FEES PURSUANT TO THE (M.O.U.) AGREEMENT ACCORDING TO THE SUBMISSION OF THE FOLLOWING DOCUMENTS.

A.THE CUSTOMARY COMMERCIAL DOCUMENTATION AS LISTED IN PARA (14) BELOW.

B. A COPY OF THE UN LETTER STATING THAT THE SUPPLIER IS ELIGIBLE FOR PAYMENT FROM THE UNITED NATIONS IRAQ ACCOUNT.

C. A CONFIRMATION BY THE SECRETARY GENERAL'S DESIGNEE OF THE ARRIVAL OF THE EXPORTED MATERIALS IN IRAQ.

D.CERTIFICATE OF 3RD PARTY INSPECTION (AN INTERNATIONALY ACCEPTED SERVEYOR) CERTIFYING THAT THE GOODS ARE AS PER REQUIRED SPECIFICATIONS.

E. ANY REQUIRED GOVERNMENTAL LICENSE OR EQUIVALENT AUTHORIZING THE EXPORT PROVIDED THAT:

E1. THE BANK SHALL NOT MAKE ANY PAYMENT UNDER THE L/C UNLESS THE AUTHORIZED UNITED NATIONS OFFICIALS DESIGNATED AND HAVING APPROPRIATE AUTHORITY APPROVE SUCH PAYMENT.

E2. ALL REQUIRED DOCUMENTS LISTED ABOVE AND STIPULATED IN THE L/C ARE PRESENTED AND IN ORDER. IN ADDITION TO THAT, TERMS AND CONDITIONS OF L/C ARE COMPLIED WITH.

E3. PARTIAL PAYMENTS CAN BE MADE CORRESPONDING TO ACTUAL DELIVERIES TO IRAQ.

E4. INSTALLMENTS DOCUMENTARY DISCREPANCIES CAN BE WAIVED ONLY BY SECRETARY GENERAL.

E5. AMOUNTS RELATED TO THE SETTLEMENT OF CLAIMS RELEVANT TO SHORTAGES, DAMAGES AND ANY OTHER DISCREPANCIES FOR EACH SHIPMENT (ACCORDING TO THE CONFIRMATION OF THE SECRETARY GENERAL'S DESIGNEE) MUST BE REMITTED TO IRAQ ACCOUNT.

F. TWO CHARTERS OF THE OPENING AND MODIFICATION OF THE L/C WILL BORN BY THE SUPPLIER.

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EFD REF. No.: SOC/10/ 75

*5-**DELIVERY PERIOD:**(WITH PARTIAL DELIVERY ALLOWED) SHALL BE NOT MORE THAN (308) DAYS FROM THE DATE OF OPENING OF THE L/C. OTHERWISE THE SUPPLIER SHALL PAY TO THE CLIENT A PENALTY EQUAL TO 0.5% OF THE VALUE OF THE MATERIALS DELAYED FOR EACH WEEK OF DELAY. THE TOTAL AMOUNT OF THE PENALTY, HOWEVER, SHALL NOT EXCEED 5% OF THE VALUE OF THE MATERIALS DELAYED. THIS PENALTY SHALL BE DEDUCTED FROM THE INVOICE WHEN SUBMITTED WITH DOCUMENTS. DELAYS DUE TO CAUSES BEYOND CONTROL (FORCE MAJEURE) WILL NOT BE LIABLE TO PENALTIES PROVIDED THAT SUCH CAUSES HAD BEEN IMMEDIATELY NOTIFIED BY FAX, TELEX, OR REGISTERED MAIL AND APPROVED BY CLIENT.*

*6- **TRANSPORTATION:** THE CONTRACTOR SHALL SUBMIT TO THE CLIENT AND THE END USER THE NAME(S) OF THE TRANSPORTER (S) , VESSELS TRANSPORTING THE MATERIALS UNDER THE CONTRACT WITH A TIME SCHEDULE DETAILING THE NUMBER OF SHIPMENT AND THEIR EXPECTED DATE(S) OF ARRIVAL AT THE IRAQ PORT/BORDER.*

*7-**WARRANTY:** THE SUPPLIER WARRANTS THE MATERIALS UNDER THIS CONTRACT FOR DEFECTS ARISING FROM FAULTY DESIGN, MATERIAL OR WORKMANSHIP FOR (3) MONTHS AFTER SUCCESSFUL COMMISSIONING OR (6) MONTHS FROM THE DATE OF RECEIPT OF THE MATERIALS ON END USER'S SITE.*

*8-**BANK CHARGES:***

ALL BANK CHARGES ARISING INSIDE IRAQ TO BE BORN BY THE CLIENT WHILE BANK AND OTHER CHARGES OUTSIDE IRAQ INCLUDING L/C ISSUANCE & AMENDMENT FEES TO BE BORN BY THE CONTRACTOR.

CONTRACTOR/SUPPLIER SHALL BE RESPONSIBLE TO PAY ALL BANKING CHARGES DUE TO BNP PARIBAS-NEW YORK AND THE ADVISING BANK IN CASE OF, HIS FAILURE TO FULFILL HIS OBLIGATIONS UNDER THE CONTRACT OR TO USE THE AMOUNTS UNDER THE LETTER OF CREDIT OR CANCELLATION THEREOF.

THE CONTRACTOR/SUPPLIER SHALL ENSURE THAT AN UNDERTAKING IN THIS RESPECT SHALL BE PRESENTED BY HIS BANK TO BNP PARIBAS-NEW YORK UPON ADVISING THE L/C TO THE BENEFICIARY.

*9-**TAXES:** THE CLIENT UNDERTAKES TO PAY ALL TAXES AND CUSTOM DUTIES ARISING INSIDE IRAQ. ALL OTHER CHARGES SHALL BE BORNE BY THE SUPPLIER.*

10- THE L/C SHOULD ALLOW PARTIAL SHIPMENT AND TRANS- SHIPMENT .

11- THIS CONTRACT WILL BE EFFECTIVE FROM THE DATE OF THE NOTIFICATION OF THE L/C TO THE SUPPLIER BUT WILL NOT BE OPERATIVE IF THE L/C IS NOT OPENED WITHIN SIX MONTHS FROM THE DATE OF SIGNATURE OF THIS CONTRACT.

12-UNLESS THIS CONTRACT IS REGISTERED AT THE UN WITHIN (21) DAYS OF SIGNATURE , IT WILL BE LIABLE FOR REVIEW LEADING TO CANCELLATION.

*13-**ENTRY POINT INTO IRAQ:** UM QASSER*

*14-**FINAL DESTINATION :BASRAH***

*15-**DOCUMENTS REQUIRED FOR EACH CONSIGNMENT:***

-4 (FOUR) COPIES OF INVOICES.
-1 (ONE) COPY OF NON-NEGOTIABLE BILL OF LANDING.
-4 (FOUR) COPIES OF PACKING LISTS.

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EFD REF. No.: SOC/10/ 75

17-THIS CONTRACT IS SUBJECT TO THE PREVAILING UN APPROVAL PROCEDURES

DONE AND SIGNED IN BAGHDAD ON 8 / 11 / 2001

FIRST PARTY (CLIENT)	*SECOND PARTY (SUPPLIER)*
(EFD)	*WESCO*
(ECONOMICS AND FINANCE DEPARTMENT) *MINISTRY OF OIL, BAGHDAD* *TEL: +964-1-4168040* *FAX : + 964-1- 8869432* *TELEX : +212216 M1 OIL IK* *EMAIL : ecofin @ uruklink.net*	*P.O BOX : 11419 DUBAI , JBEL ALI / U. A. E.* *FAX: 8838595 / AUH UAE* *TEL : 8838581 / 5554436* *E-MAIL:WESCO@EMIRATES.NET.AE*
DR. ABDULILAH .M. MATLOUB *DIRECTOR GENERAL*	ANDREW MACLEOD. GENERAL SALES MANAGER 8/11/01.

END USER:
SOUTH OIL COMPANY
TLX: 207003 OR 207004 INOC IK
TEL: 00961 8867102
FAX: 008736425 70111

WESCO
P.O. BOX 11419
DUBAI, U.A.E.

11/10
ASRI S. MUSA
ABDUL BARRI M. SHAWKAT
for. *DIRECTOR GENERAL*

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PURCHASE ORDER NO. : SOC/10/ 75

SHIPPING MARKS

CODE NO.: 08-10-02-0279
ENQ.REF. : 96-01-3031 BS.MOU10

SOUTH OIL COMPANY
BASRAH - IRAQ
P.O.SOC/ 10/
ENQ.REF.: 96-01-3031 MOU10
LOCATION :- NORTH , SOUTH RUMAILA & GARMA

WESCO/ UAE
REF. : 384098
DATE :- 18-9-2001

ITEM	DESCRIPTION	UNIT	QTY.	UNIT PRICE €.	TOTAL PRICE €.
	SPARE PARTS FOR WATER INJECTION MAIN PUMPS (WEIR PUMPS UK) SERIAL NO. : 12350 - 001 / 07 PUMP TYPE : OK - 4D - 32 ; DRW. NO. C.AO - 106158				
300	COUPLING NUT POS. NO. 1	NOS	4	1,784.20	7,136.80
301	GRUB SCREW M6 POS. NO. 2	NOS	20	26.40	528.00
302	COUPLING KEY POS. NO. 5	NOS	4	489.50	1,958.00
303	PUMP SHAFT POS. NO. 6	NOS	2	64,222.40	128,444.80
304	' O ' RING POS. NO. 13	NOS	30	52.80	1,584.00
305	GRUB SCREW M8 POS. NO. 14	NOS	20	28.60	572.00
306	ANTI EXTRUSION RING POS. NO. 18	NOS	50	24.20	1,210.00
307	' O ' RING POS. NO. 19	NOS	50	70.40	3,520.00
308	' O ' RING POS. NO. 28	NOS	35	47.30	1,655.50
309	' O ' RING POS. NO. 29	NOS	50	17.60	880.00
310	FLOATING OIL SEAL INNER POS. NO. 32	NOS	7	1,316.70	9,216.90
311	FLOATING OIL SEAL OUTER POS. NO. 36	NOS	7	1,353.00	9,471.00
312	SET SCREW M16 POS. NO. 38	NOS	20	14.30	286.00
313	' O ' RING POS. NO. 39	NOS	50	11.00	550.00
314	SHAFT END PLATE POS. NO. 41	NOS	10	777.70	7,777.00
315	THRUST COLLAR NUT POS. NO. 42	NOS	10	1,548.80	15,488.00
316	LOCK WASHER POS. NO. 43	NOS	50	767.80	38,390.00
317	RETAINING RING POS. NO. 44	NOS	10	921.80	9,218.00
318	' O ' RING POS. NO. 46	NOS	50	91.30	4,565.00
319	THRUST BEARING POS. NO. 47	NOS	10	11,706.20	117,062.00
320	SET : THRUST PADS (16 / SET)	SET	20	5,632.00	112,640.00
321	THRUST COLLAR KEY POS. NO. 48	NOS	10	88.00	880.00
322	THRUST COLLAR POS. NO. 49	NOS	4	6,329.40	25,317.60
323	JOURNAL BEARING N.D.E POS. NO. 51	NOS	14	1,628.00	22,792.00
324	OIL THOWER POS. NO. 52	NOS	20	2,281.40	45,628.00
325	OIL GUARD N.D.E POS. NO. 53	NOS	20	1,795.20	35,904.00
326	' O ' RING POS. NO. 54	NOS	50	17.60	880.00
327	' O ' RING POS. NO. 56	NOS	50	17.60	880.00
328	SHEAR RING POS. NO. 59	NOS	10	1,766.60	17,666.00
329	BALANCE DRUM NUT POS. NO. 63	NOS	10	4,030.40	40,304.00
330	LOCK WASHER POS. NO. 64	NOS	20	653.40	13,068.00
331	PACKING RING FOLLOWER POS. NO. 65	NOS	50	1,119.80	55,990.00
332	PACKING RING POS. NO. 66	NOS	50	28.60	1,430.00
333	' O ' RING POS. NO. 67	NOS	50	33.00	1,650.00
334	BALANCE DRUM KEY POS. NO. 68	NOS	10	443.30	4,433.00
335	BALANCE DRUM RESTRICTION BUSH POS. NO. 69	NOS	7	11,508.20	80,557.40
336	BALANCE DRUM POS. NO. 70	NOS	4	10,975.80	43,903.20

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ITEM.	DESCRIPTION	UNIT	QTY.	UNIT PRICE €.	TOTAL PRICE €.
337	LAST STAGE DIFFUSER POS. NO. 73	NOS	5	18,869.40	94,347.00
338	LAST STAGE IMPELLER POS. NO. 74	NOS	5	20,823.00	104,115.00
339	LAST STAGE RING SECTION POS. NO. 75	NOS	5	17,515.30	87,576.50
340	IMPELLER KEY POS. NO. 76	NOS	20	457.60	9,152.00
341	3RD STAGE IMPELLER POS. NO. 77	NOS	5	24,581.70	122,908.50
342	ABUTMENT RING POS. NO. 78	NOS	20	258.50	5,170.00
343	2ND STAGE IMPELLER POS. NO. 84	NOS	5	24,581.70	122,908.50
344	RING SECTION WEAR RING POS. NO. 86	NOS	10	2,819.30	28,193.00
345	INTER STAGE IMPELLER EYE WEAR RING POS. NO. 87	NOS	10	1,944.80	19,448.00
346	INTER STAGE DIFFUSER POS. NO. 88	NOS	4	18,656.00	74,624.00
347	DIFFUSER WEAR RING POS. NO. 89	NOS	10	1,669.80	16,698.00
348	IMPELLER HUB WEAR RING POS. NO. 90	NOS	10	1,976.70	19,767.00
349	1ST STAGE IMPELLER POS. NO. 91	NOS	5	24,581.70	122,908.50
350	SUCTION GUID WEAR RING POS. NO. 92	NOS	10	3,245.00	32,450.00
351	1ST STAGE IMPELLER EYE WEAR RING POS. NO. 93	NOS	10	2,059.20	20,592.00
352	JOINT POS. NO. 94	NOS	10	1,663.20	16,632.00
353	' O ' RING POS. NO. 95	NOS	40	26.40	1,056.00
354	ANTI EXTRUSION RING POS. NO. 96	NOS	40	70.40	2,816.00
355	' O ' RING POS. NO. 101	NOS	50	26.40	1,320.00
356	JOURNAL BEARING D.E POS. NO. 107	NOS	14	1,652.20	23,130.80
357	OIL GUARD D.E INNER POS. NO. 106	NOS	20	2,080.10	41,602.00
358	OIL GUARD D.E OUTER POS. NO. 109	NOS	20	3,945.70	78,914.00
359	LUBRICATING OIL FILTER PART/NO. E14656/04MS-15M	NOS	50	976.80	48,840.00
360	FAN FOR AIR COOLER	NOS	16	683.10	10,929.60
	SPARE PARTS FOR GEAR BOX SECT. ARRANGEMENT : HSW 355 SI.G. DR.W. NO. : 37864/8/G/D .				
361	SET : HIGH SPEED THRUST BEARING PADS POS. NO. 9	SET	6	15,340.60	92,043.60
362	PINION SHAFT JOURNAL BEARING POS. NO. 12 & 13	NOS	6	9,491.90	56,951.40
363	PINION SHAFT JOURNAL BEARING POS. NO. 4 & 5	NOS	6	8,564.60	51,387.60
364	PINION SHAFT OIL CATCHER POS. NO. 2 & 3 ((MECHANICAL SEAL PARTS))	NOS	14	3,658.60	51,220.40
365	STATIONARY SEAL RING POS. NO. 1	NOS	24	1,762.20	42,292.80
366	STATIONARY SEAL RING PKG POS. NO. 2	NOS	24	82.50	1,980.00
367	STATIONARY SEAL RING PACKING CARRIER POS. NO. 2A	NOS	24	234.30	5,623.20
368	ROTARY SEAL RING POS. NO. 5	NOS	24	6,904.70	165,712.80
369	ROTARY SEAL PKG POS. NO. 6	NOS	24	82.50	1,980.00
370	ANTI-EXTRUSION CAP. POS. NO. 37	NOS	20	31.90	638.00
371	ANTI-EXTRUSION WASHER POS. NO. 37A	NOS	20	31.90	638.00
372	ANTI-EXTRUSION CAP. POS. NO. 37B	NOS	20	31.90	638.00
	TOTAL AMOUNT CIP BASRAH VIA UM QASSAR				2,440,640.40

URO (TWO MILLION FOUR HUNDRED FORTY THOUSAND SIX HUNDRED FORTY AND FORTY ONLY) .

.B : THIS P/O CONSISTS OF (SEVENTY THREE ITEMS) COMPRISING (NOS & SETS) AS SHOWN ABOVE .

A-K COPY 2

ASRT S. MOOSA
For DG OF S.O.C.

Amal.

August 1997 REVISED FORM

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

NOTIFICATION OR REQUEST TO SHIP GOODS TO IRAQ

(TO BE COMPLETED BY THE SECRETARIAT)

COMM No.	REGISTRATION DATE	DEADLINE FOR OBJECTIONS
11/01/02		
1030484	MAR 2 2 2002	

(TO BE COMPLETED BY PROSPECTIVE EXPORTING COUNTRY or INT'L ORG.)

1. MISSION OR INTERNATIONAL ORGANIZATION: PERMANENT MISSION OF THE UNITED ARAB EMIRATES TO THE UNITED NATIONS

CERTIFYING SIGNATURE AND OFFICIAL SEAL

2. DATE OF SUBMISSION: 07 January 2002

3. MISSION REFERENCE No.: 49/2002

4a. SECTOR/ ITEM CODE (SCR 986) / 4b. HS TARIFF CODE	5. GOODS TO BE SHIPPED (Name and/or description. Attach additional sheet if necessary)	6. QUANTITY IN NUMBERS	7. UNIT OF MEASUREMENT	8. VALUE PER ITEM	9. TOTAL VALUE	10. CURRENCY ISO CODE
1a)	See attached List					
b)						
2a)						
b)						
3a)						
b)						

11. EXPORTER Name and Address
WESCO
P.O. BOX. 11419, DUBAI
JEBEL ALI / U.A.E
TEL: 009714 8838581- FAX: 09714 8838595
E-MAIL : wesdxb@emirates.net.ae

12. ORIGIN of GOODS (if different from applicant State)
U.A.E

13. RECEIVING COMPANY / ORG Name and Address
ECONOMICS & FINANCE DEPARTMENT (EFD)
MINISTRY OF OIL
BAGHDAD, REPUBLIC OF IRAQ

14. SHIPPING ARRANGEMENTS:
a) Border Point or Port of Entry into Iraq
UM QASSER

14 b) Means of Transportation

14 c) Other information (e.g. route, major ports, etc.)

By Sea From U.A.E To UM QASSER Then By Trucks To Site

15. METHOD OF PAYMENT

☒ From the Iraq Account in accordance with SC resolution 986 (1995)
(Relevant documentation including contract(s) must be attached)

L/C

☐ By other arrangement (Provide as many details as possible)

16. ADDITIONAL INFORMATION: End-use and End-user
(Attach additional sheet if necessary)
End User: SOUTH OIL COMPANY (SOC) – BASRA - IRAQ

IMPORTANT NOTICE

1. Provide only one item per line in Box 5.
2. Sector/Item Codes (Box 4a) are mandatory, and are found in the Annexes to the Distribution Plan of SCR 986.
3. HS Tariff Codes (Box 4b), if used, must be 6 digit codes of the International Harmonised System of Tariff Nomenclature as determined by the Customs Co-Operation Council in Brussels, Belgium.
4. Information entered must match shipping documents presented to customs officials.
5. Incomplete, incorrect or illegible applications will be returned by the Committee's Secretariat for completion.

RECEIVED AT OIP
ON
DATE: JAN 0 9 2002

Permanent Subcommittee on Investigations
EXHIBIT #25

MISSION OR INTERNATIONAL ORGANIZATION: UAE
MISSION REFERENCE No.: 49/2002

ITEM No.	4a. SECTOR / ITEM CODE (SCR986)	4b. HS TARIFF CODE	5. GOODS TO BE SHIPPED (Name and/or description)	6. QUANTITY IN NUMBERS	7. UNIT OF MEASURE	8. VALUE PER ITEM	9. TOTAL VALUE	10. CURRENCY ISO CODE
339	08-10-02-01-0279	84139100	LAST STAGE RING SECTION POS. NO. 75	5	UNIT	17,515.30	87,576.50	EUR
340	08-10-02-01-0279	84139100	IMPELLER KEY POS. NO. 76	20	UNIT	457.60	9,152.00	EUR
341	08-10-02-01-0279	84139100	3RD STAGE IMPELLER POS. NO. 77	5	UNIT	24,581.70	122,908.50	EUR
342	08-10-02-01-0279	84139100	ABUTMENT RING POS. NO. 78	20	UNIT	258.50	5,170.00	EUR
343	08-10-02-01-0279	84139100	2ND STAGE IMPELLER POS. NO. 84	5	UNIT	24,581.70	122,908.50	EUR
344	08-10-02-01-0279	84139100	RING SECTION WEAR RING POS. NO. 86	10	UNIT	2,819.30	28,193.00	EUR
345	08-10-02-01-0279	84139100	INTER STAGE IMPELLER EYE WEAR RING POS.	10	UNIT	1,944.80	19,448.00	EUR
346	08-10-02-01-0279	84139100	INTER STAGE DIFFUSER POS. NO. 88	4	UNIT	18,656.00	74,624.00	EUR
347	08-10-02-01-0279	84139100	DIFFUSER WEAR RINGS POS. NO. 89	10	UNIT	1,669.80	16,698.00	EUR
348	08-10-02-01-0279	84139100	IMPELLER HUG WEAR RING POS. NO. 90	10	UNIT	1,976.70	19,767.00	EUR
349	08-10-02-01-0279	84139100	1ST STAGE IMPELLER POS. NO. 91	5	UNIT	24,581.70	122,908.50	EUR
350	08-10-02-01-0279	84139100	SUCTION GUID WEAR RING POS. NO. 92	10	UNIT	3,245.00	32,450.00	EUR
351	08-10-02-01-0279	84139100	1ST STAGE IMPELLER EYE WEAR RING POS. NO.	10	UNIT	2,059.20	20,592.00	EUR
352	08-10-02-01-0279	84139100	JOINTS POS. NO. 94	10	UNIT	1,663.20	16,632.00	EUR
353	08-10-02-01-0279	84139100	'O' RING POS. NO. 95	40	UNIT	26.40	1,056.00	EUR
354	08-10-02-01-0279	84139100	ANTI EXTRUSION RING POS. NO. 96	40	UNIT	70.40	2,816.00	EUR
355	08-10-02-01-0279	84139100	'O' RING POS. NO. 101	50	UNIT	26.40	1,320.00	EUR
356	08-10-02-01-0279	84139100	JOURNAL BEARING D.E. POS. NO. 107	14	UNIT	1,652.20	23,130.80	EUR
357	08-10-02-01-0279	84139100	OIL GUARD D.E. INNER POS. NO. 106	20	UNIT	2,080.10	41,602.00	EUR
358	08-10-02-01-0279	84139100	OIL GUARD D.E. OUTER POS. NO. 109	20	UNIT	3,945.70	78,914.00	EUR
359	08-10-02-01-0279	84139100	LUBRICATING OIL FILTER PART/NO. E14656/04MS-	50	UNIT	976.80	48,840.00	EUR
360	08-10-02-01-0279	84139100	FAN FOR AIR COOLER	16	UNIT	683.10	10,929.60	EUR

MISSION OR INTERNATIONAL ORGANIZATION: UAE
MISSION REFERENCE No.: 49/2002

ITEM No.	4a. SECTOR / ITEM CODE (SCR986)	4b. HS TARIFF CODE	5. GOODS TO BE SHIPPED (Name and/or description)	6. QUANTITY IN NUMBERS	7. UNIT OF MEASURE	8. VALUE PER ITEM	9. TOTAL VALUE	10. CURRENCY ISO CODE
361	08-10-02-01-0279	84839000	SET: HIGH SPEED THRUST BEARING PADS POS.	6	SET	15,340.60	92,043.60	EUR
362	08-10-02-01-0279	84839000	PINION SHAFT JOURNAL BEARING POS. NO. 12 & 13	6	UNIT	9,491.90	56,951.40	EUR
363	08-10-02-01-0279	84839000	PINION SHAFT JOURNAL BEARING POS. NO. 4 & 5	6	UNIT	8,564.60	51,387.60	EUR
364	08-10-02-01-0279	84839000	PINION SHAFT OIL CATCHER POS. NO. 2 & 3	14	UNIT	3,658.60	51,220.40	EUR
			(MECHANICAL SEAL PARTS)					
365	08-10-02-01-0279	84839000	STATIONARY SEAL RING POS. NO. 1	24	UNIT	1,762.20	42,292.80	EUR
366	08-10-02-01-0279	84839000	STATIONARY SEAL RING PKG POS. NO. 2	24	UNIT	82.50	1,980.00	EUR
367	08-10-02-01-0279	84839000	STATIONARY SEAL RING PACKING CARRIER POS.	24	UNIT	234.30	5,623.20	EUR
368	08-10-02-01-0279	84839000	ROTARY SEAL RING POS. NO. 5	24	UNIT	6,904.70	165,712.80	EUR
369	08-10-02-01-0279	84839000	ROTARY SEAL PKG POS. NO. 6	24	UNIT	82.50	1,980.00	EUR
370	08-10-02-01-0279	84839000	ANTI-EXTRUSION CAP. POS. NO. 37	20	UNIT	31.90	638.00	EUR
371	08-10-02-01-0279	84839000	ANTI-EXTRUSION WASHER POS. NO. 37A	20	UNIT	31.90	638.00	EUR
372	08-10-02-01-0279	84839000	ANTI-EXTRUSION CAP. POS. NO. 37B	20	UNIT	31.90	638.00	EUR

S/AC.25/2001/986/COMM. 1030484

REPORT CONCERNING REQUEST TO SHIP SPARE PARTS FOR THE OIL INDUSTRY TO IRAQ IN ACCORDANCE WITH RESOLUTIONS 986 (1995) & 1175 (1998)

MISSION: UNITED ARAB EMIRATES

EXPORTER: WESCO

RECEIVING COMPANY: ECONOMICS AND FINANCE DEPARTMENT (EFD)

GOODS: SPARE PARTS FOR PUMPS

.....

The application has been examined to determine its conformity with the provisions of paragraphs 18 and 25 of Security Council resolution 1284 (1999) and all related procedures and guidelines. In addition, the application has been examined in accordance with paragraphs 32 and 33 of the Procedures of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait in the discharge of its responsibilities as requested by paragraph 12 of Security Council resolution 986 (1995). Specifically, this application has been examined to establish whether the price and value are credible and whether the items to be exported are in compliance with the applicable list. Additionally, the application has been examined to determine whether all relevant details have been submitted with the application. Undertakings have also been sought to ensure the readiness of the independent inspection agents to observe the distribution of the goods and to establish the projected availability of funds in the Iraq account.

.....

SCR 1284 (1999): The application has been examined in accordance with paragraph 18 and 25 of Security Council resolution 1284 (1999) and the goods are not included in the list to which the export/import mechanism approved by Security Council resolution 1051 (1996) applies.

GOODS IN DISTRIBUTION PLAN: The goods are in the Distribution Plan list, which notes that they are related to maintenance and operations of water treatment and injection system of the South Oil Company in North and South Rumaila and Garma . They are authorised to be approved by the Panel of experts as defined in Security Council resolution 1284 (1999) paragraph 18, are listed under sector item code 08-10-02-01-0279 in the Distribution Plan list and are within the requested quantities.

PRICING: The item price and value have been examined as per paragraph 33 of S/1996/636 and appear within a reasonable and acceptable range.

COMMENTS: The contract application consists of spare parts for water injection main pumps.

The receiver of the goods indicates that they are spare parts for maintenance of pumps used in water treatment and water injection stations.

Clause 7 in the contract indicates that the supplier warrants the materials under this contract for defects arising from faulty design, material or workmanship for 3 months after successful commissioning or but with a maximum of 6 months from the date of receipt of the equipment on site.

The goods have been assessed for potential dual use application and there is no dual application.

The contract has been reviewed from an oilfield perspective and goods are spares for pumps commonly used for water treatment applications.

Permanent Subcommittee on Investigations
EXHIBIT #26

IMPORTANT INFORMATION FOR THE SUPPLIER:

The supplier should be aware that, if during the contractual period there becomes a need to change the description or quantity of some goods or to supply additional goods, these changes must be approved by the Committee prior to shipment. Therefore, the supplier will be responsible for the presentation of an amended application in conformity with the procedures as published in the UN website "information for the supplier" (*www.un.org/Depts/oip*). The same procedure must be applied if there is a need to supply warranty replacement goods for those found to be deficient or faulty.

The supplier should also note that any compensatory payments related to the settlement of claims relevant to shortages, damages and any other discrepancies, or post award discounts, must be remitted to the United Nations Iraq account. Non-compliance with this requirement violates relevant Security Council resolutions as well as procedures of the Committee established by resolution 661 (1990).

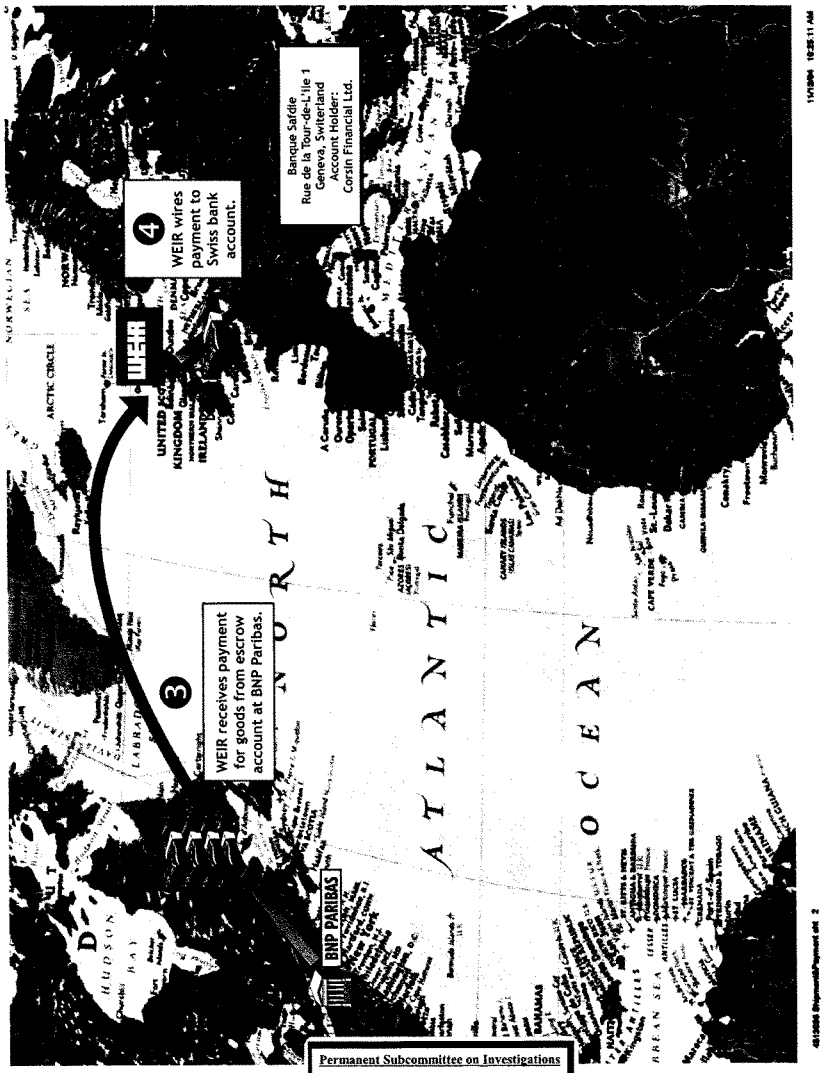
DATE SUBMITTED FOR OIP APPROVAL: 22/03/2002

Reporting Officer: Marco Mamone

Oil industry Expert:

Check Officer & Dual use Expert: Palani Raj Janardhan

Permanent Subcommittee on Investigations
EXHIBIT #27



Permanent Subcommittee on Investigations
EXHIBIT #28

COMM No. 1030484

FORMAT FOR AMENDMENTS
TO EXISTING CONTRACTS NEGOTIATED AND AGREED PURSUANT TO
SECURITY COUNCIL RESOLUTIONS 1472 (2003) and 1483 (2003)

WHEREAS, the Economics & Finance Department (EFD), Ministry of Oil, Baghdad, Republic of Iraq and WESCO (hereinafter the "Supplier") entered into a contract (Contract No: SOC/10/75), dated 8/12/2001, for the provision of Pumps & Spare Parts for Water Treatment & Water Injection Stations, (hereinafter the "Contract"), pursuant to the "Oil-For-Food" Programme (hereinafter the "Programme"), established under Security Council resolution 986 (1995) as amended, modified or supplemented from time to time;

WHEREAS, under the Charter of the United Nations, the Members of the United Nations agree to accept and carry out the decisions of the Security Council in accordance with the Charter, including those under Chapter VII of the Charter;

WHEREAS, on 28 March 2003, the Security Council, acting under Chapter VII of the Charter, adopted resolution 1472 (2003) in which it recognized that, in view of the exceptional circumstances prevailing currently in Iraq, on an interim and exceptional basis, technical and temporary adjustments should be made to the Programme so as to ensure the implementation of the approved funded and non-funded contracts concluded by the Government of Iraq for the humanitarian relief of the people of Iraq, including to meet the needs of refugees and internally displaced persons, in accordance with that resolution;

WHEREAS, the Security Council, in Operative Paragraph 4(d) of its resolution 1472 (2003), authorized the Secretary-General and representatives designated by him, inter alia, to negotiate and agree on necessary adjustments in the terms or conditions of these contracts and their respective letters of credit and to implement the measures referred to in paragraph 4 (a), (b) and (c), of that resolution norwithstanding distribution plans under the Programme;

WHEREAS, on 24 April 2003, the Security Council, acting under Chapter VII of the Charter, adopted resolution 1476 (2003), which extended the provisions of Operative Paragraph 4 of resolution 1472 (2003) until 3 June 2003;

WHEREAS, on 22 May 2003, the Security Council, acting under Chapter VII of the Charter, adopted resolution 1483 (2003), Operative Paragraph 16 of which, inter alia, authorized an extension of the Secretary-General's responsibilities under resolution 1472 (2003) for a further period of six months and required the termination of the Programme within such period;

WHEREAS, the Secretary-General has designated the United Nations Office for Project Services (hereinafter referred to as the "Authorized Representative") to be his representative pursuant to Security Council resolutions 1472 (2003) and 1483 (2003) in respect of the Contract.

NOW THEREFORE the Authorized Representative and the Supplier mutually agree as follows:

SECTION [1]. The Contract as hereby amended remains in full force and effect. Terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Contract.

Permanent Subcommittee on Investigations
EXHIBIT #29

COMM No. 1030484

SECTION [2]. The Supplier and the Authorized Representative, acting under express authority and on behalf of the Authority (as defined in Security Council resolution 1483 (2003)) agree that the original Contract value of EURO 2,440,640.40 is reduced by EURO 221,876.40 to remove the after sales service fee making the amended Contract total EURO 2,218.764.00 (Euro two million two hundred eighteen thousand seven hundred sixty four only) CIP South Oil Company, Basrah, Iraq.

SECTION [3]. Without prejudice to any penalties owed by Supplier prior to this amendment, Article 5 [Delivery Period] of the Contract shall be amended so that the goods will be shipped/loaded on board vessel/truck no more than 6 weeks after opening of the "L/C" (as such term is defined in Section [11] below) as required by Section [11] below. Penalties for late shipment after the period specified in this Section [3] shall be calculated in accordance with Article 5 [Delivery Period] of the Contract.

SECTION [4]. "Intentionally left blank."

SECTION [5]. "Intentionally left blank."

SECTION [6]. "Intentionally left blank."

SECTION [7]. "Intentionally left blank."

SECTION [8]. Article 11 of the Contract shall be amended by deleting the words "but will not be operative if the L/C is not opened within six months from the date of signature of this Contract".

SECTION [9]. "Intentionally left blank."

SECTION [10]. "Intentionally left blank."

SECTION [11]. In consequence of the amendments referred to above, the Supplier and the Authorized Representative have agreed that a letter of credit ("L/C") be issued by BNP-Paribas pursuant to the Contract and this amendment.

SECTION [12]. No Liability

The Supplier agrees that neither the United Nations, including the Authorized Representative, nor any of its officials, agents, servants or employees, shall have any liability of any nature or kind arising out of or relating to this Amendment.

Amaca

RP

COMM No. 1030484

SECTION [13]. Privileges and Immunities

Nothing in or relating to this Amendment and/or the Contract shall be deemed a waiver, express or implied, of any of the privileges and immunities of the United Nations, including the United Nations Office for Project Services.

IN WITNESS WHEREOF, the Parties have executed this Amendment on the dates hereinafter specified.

For the Supplier

(Signature)
Andrew MacLeod
General Sales Manager
WESCO

9 OCTOBER 2003

For the Authorized Representative

(Signature)
Rolf Sprauten
Portfolio Manager, UNOPS WAASB Division
United Nations Office for Project Services

8 October ~~September~~ 2003

AMENDMENT SUMMARY SHEET

SECTION 1
Comm No.: 1030484

SECTION 2
Supplier : WESCO Dubai

Supplier Address

Name	WESCO Dubai
Address	P.O. Box 11419
Address1	Dubai
Country Code	Jebel Ali
Area Code	United Arab Emirates
Telephone	+971-4-883 8581
Telefax	+971-4-883 8595
Email	wesdxb@emirates.net.ae
Web - Page	-

Primary Contact

Name	Andrew MacLeod
Position	General Sales Manager
Telephone	see above supplier address
Telefax	
Email	

Secondary Contact

Name	Gordon Wingate
Position	-
Telephone	see above supplier address
Telefax	
Email	

SECTION 3 Authentication site	END USER'S LOCATION OR SUCH OTHER LOCATION AS MAY BE DESIGNATED IN WRITING BY END USER TO SUPPLIER.

SECTION 4

After Sales Service Fee Calculation

X = Net Contract Value (value excluding "after sales service fee")

Y = Contract value including after sales service fee

Z = Percentage of "after sales service fee"

$$X = \frac{100 * Y}{100 + Z}$$

Currency	EURO
Z = Percentage of "after sales service fee"	10.00
Original Contract Value	2,440,640.40
less: Values Good Authenticated	–
Y = Contract value including after sales service fee	2,440,640.40
Compensation (in Contract currency)	–
X = Net Contract Value	2,218,764.00
Value of "After Sales Service Fee":	221,876.40
Net Contract Value incl. Compensation	2,218,764.00

SECTION 5

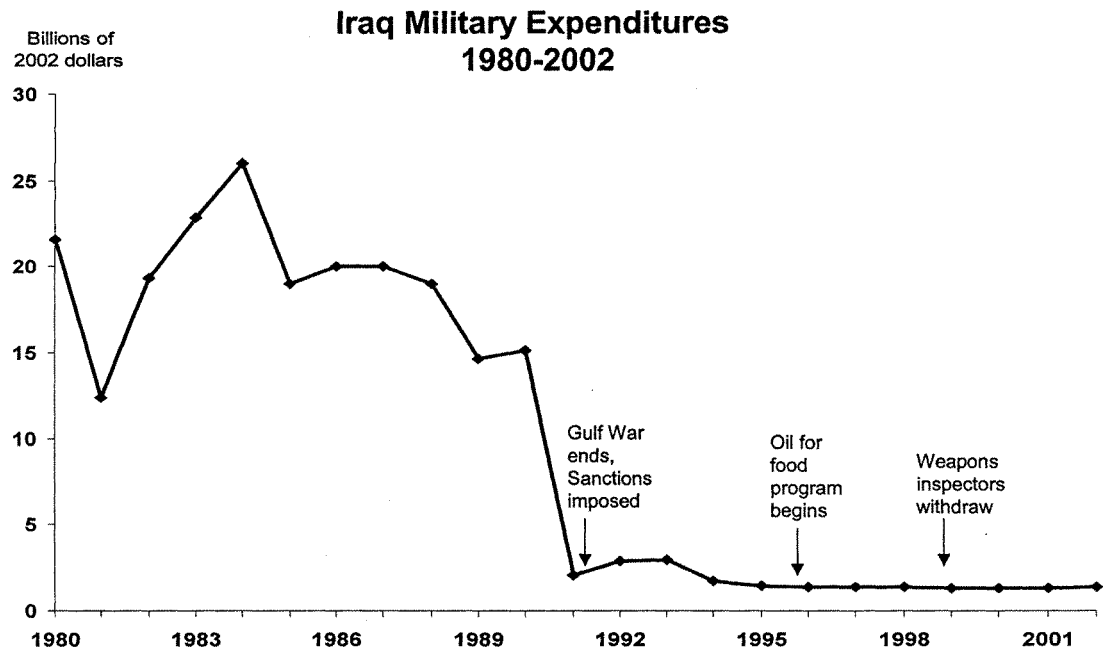
Comments (if any)

TOTAL KICKBACKS PAID BY WEIR TO CORSIN FINANCIAL LTD. (2001-2004)

U.N. Contract Number	Contract Value (Includes Kickback)	Date of Kickback to Corsin Financial Ltd.	Amount of Kickback (GBP)	Amount of Kickback (USD)
800972	£7,606,347	2001	£980,000	$1,818,978
800998	£196,328	2001	£39,327	$72,995
830470	€5,080,958	2002	£406,575	$754,644
830455	€182,178	2002	£14,558	$27,021
900946	€16,500,000	2003	£1,431,244	$2,656,532
930195	€767,408	2002	£61,669	$114,464
930196	€456,225	2002	£36,588	$67,911
930197	€118,796	2002	£9,534	$17,696
930219	€3,772,995	2002	£300,558	$557,866
1001460	€737,832	2003	£64,592	$119,889
1001462	€4,180,790	2003	£366,162	$679,633
1001461	€1,352,840	2003	£105,626	$196,052
1001412	€5,443,134	2003	£381,173	$707,495
1230248	€2,331,838	2004	£58,065	$107,774
1030484	€2,440,640	2004	£59,966	$111,303
		TOTALS	**£4,315,637**	**$8,010,253**

Permanent Subcommittee on Investigations
EXHIBIT #30

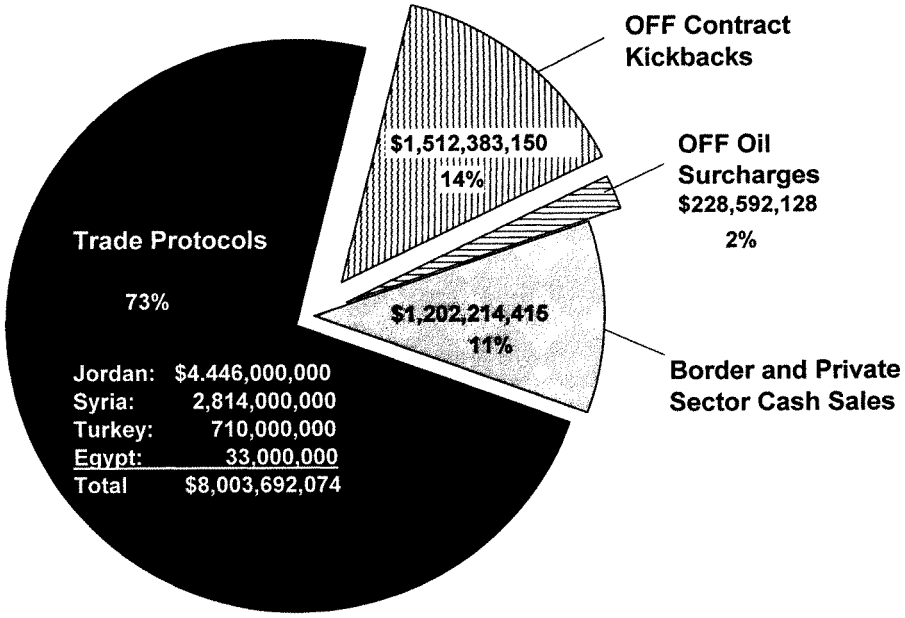
Permanent Subcommittee on Investigations
EXHIBIT #31



Source: Department of State, World Military Expenditures and Arms Transfers, (forthcoming preliminary data)
Chart format by GAO, prepared by PSI Minority Staff

Permanent Subcommittee on Investigations
EXHIBIT #32

Illicit Iraqi Revenue During Sanctions
1991 - 2003



Data source: Duelfer Report, Figure 17
Chart prepared by PSI Minority Staff

-13374-

United States Department of State

SD

Washington, D.C. 20520

DEC 28 1998

Dear Mr. Chairman:

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

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

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

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

Sincerely,

Barbara Larkin

Barbara Larkin
Assistant Secretary
Legislative Affairs

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

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

Permanent Subcommittee on Investigations
EXHIBIT #33

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

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

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

December 21, 1998
Date

Acting Secretary of State

UNCLASSIFIED

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

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

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

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

The waiver of the restrictions contained in section 535 is in the national interest and will allow provision of the planned $1.6 million in International Military and Education and Training (IMET), $150 million in Economic Support Funds (ESF) and $45 million in Foreign Military Financing (FMF). Provision of FY99 assistance supports Jordan's ongoing critically important contributions to the Middle East peace process, its efforts to undertake needed economic reforms, and its important role in buttressing the peace and security of the region.

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

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

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

UNCLASSIFIED

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

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

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

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

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

2237

United States Department of State

Washington, D.C. 20520

RECEIVED
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COMMITTEE ON
FOREIGN RELATIONS

Dear Mr. Chairman:

Orig: DS (Bell)

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

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

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

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

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

Permanent Subcommittee on Investigations
EXHIBIT #34

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

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

Sincerely,

Paul V. Kelly
Assistant Secretary
Legislative Affairs

Enclosures: As stated

UNCLASSIFIED

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

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

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

10 Oct 02
Date

Richard L. Armitage
Deputy Secretary of State

UNCLASSIFIED

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

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

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

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

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

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

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

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

UNCLASSIFIED

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

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

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

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

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

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

UNCLASSIFIED

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

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

UNITED NATIONS

S

Security Council

Distr.
GENERAL

S/1996/700
26 August 1996

ORIGINAL: ENGLISH

LETTER DATED 26 AUGUST 1996 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to transmit herewith the report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait. The present report, which was adopted by the Committee on 26 August 1996, is being submitted pursuant to the note by the President of the Security Council of 29 March 1995 (S/1995/234).

(Signed) Tono EITEL
Chairman
Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

96-10458 (E) 090996 100996

/..

Permanent Subcommittee on Investigations
EXHIBIT #35

including the international financial institutions and regional development banks, to review their programmes of assistance to the country in question, with a view to alleviating those hardships.

107. The President of the Security Council informed the Secretary-General of the above-mentioned recommendations of the Committee (S/22033 and S/22398) and requested him to implement the actions contained therein. Accordingly, the Secretary-General addressed, on 23 January and 9 April 1991, letters to all States and to the relevant bodies, organizations and agencies of the United Nations system, including the international financial institutions and the regional development banks, strongly supporting the recommendations of the Committee with regard to follow-up actions. In particular, the Secretary-General requested States and organizations concerned to provide him, on a regular basis, with information on action taken by them to alleviate the special economic problems of the affected States.

108. By a letter dated 22 March 1991 (S/22382), the representatives of the 20 States and Jordan submitted to the President of the Security Council a collective memorandum, in which they stated, inter alia, that: "The problems affecting these countries persist, and in certain respects have been aggravated, while the appeals launched pursuant to the recommendations of the Security Council Committee and addressed to all concerned by the Secretary-General have not evoked responses commensurate with the urgent needs of the affected countries."

109. Upon consideration of the collective memorandum, the Council issued a further appeal on 3 May 1991 to States, international financial institutions and United Nations bodies to respond positively and speedily to the recommendations of the Committee for assistance to countries that found themselves confronted with special economic problems and that have invoked Article 50.

110. As a further measure, at its 41st meeting, on 21 May 1991, the Committee considered a communication from Jordan informing the Committee that Jordan had resumed imports of oil and oil derivatives from Iraq in limited quantities absolutely essential for Jordan's internal needs and that such imports were being funded by drawing on Iraqi debts to Jordan. After extensive consultations conducted by the Chairman with members of the Committee, during which the unique position of Jordan with respect to Iraq was taken into account, the Committee decided to take note of Jordan's resumption of oil imports from Iraq, pending any arrangements that could be made for Jordan to obtain supplies of oil from other sources and on the understanding that such Iraqi oil exports were subject to the provisions of Security Council resolution 692 (1991).

VII. OBSERVATIONS AND RECOMMENDATIONS

111. The Committee attaches particular importance to close cooperation and interaction with Member States and would welcome a more frequent exchange of information with national authorities on all aspects of the sanctions regime in order to further enhance its effective implementation.

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Containing Iraq: Sanctions Worked

George A. Lopez and David Cortright

success disregarded

The Bush administration's primary justification for going to war against Iraq last year was the threat posed by Saddam Hussein's weapons of mass destruction (wmd) programs. But almost as soon as U.S. forces took Baghdad, it became clear that this fear was based on bad intelligence and faulty assumptions. Since then, the failure to find wmd in Iraq has caused a furor.

Sympathetic analysts argue that Washington had no way of knowing how serious the threat of Iraqi wmd was, so intelligence agencies provided the administration with a wide-ranging set of estimates. In the post-September 11 security environment, the argument goes, the Bush administration had little choice but to assume the worst. Critics charge that the White House inflated and manipulated weak, ambiguous intelligence to paint Iraq as an urgent threat and thus make an optional war seem necessary. A recent report by the Carnegie Endowment for International Peace, for example, found not only that the intelligence community had overestimated Iraqi chemical and biological weapons capabilities but also that administration officials "systematically misrepresented" the threat posed by Iraqi weapons.

Public debate has focused on the question of what went wrong with U.S. intelligence. Given the deteriorated state of Iraq's unconventional weapons programs and conventional military capabilities, this is only appropriate. But missing from the discussion is an equally important question: What went right with U.S. policy toward Iraq between 1990 and 2003? On the way to their misjudgments, it now appears, intelligence agencies and policymakers disregarded considerable evidence of the destruction and deterioration of Iraq's weapons programs, the result of a successful strategy of containment in place for a dozen years. They consistently ignored volumes of data about the impact of sanctions and inspections on Iraq's military strength.

The United Nations sanctions that began in August 1990 were the longest running, most comprehensive, and most controversial in the history of the world body. Most analysts argued prior to the Iraq war -- and, in many cases, continue to argue -- that sanctions were a failure. In reality, however, the system of containment that sanctions cemented did much to erode Iraqi military capabilities. Sanctions compelled Iraq to accept inspections and monitoring and won concessions from Baghdad on political issues such as

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the border dispute with Kuwait. They also drastically reduced the revenue available to Saddam, prevented the rebuilding of Iraqi defenses after the Persian Gulf War, and blocked the import of vital materials and technologies for producing wmd.

The unique synergy of sanctions and inspections thus eroded Iraq's weapons programs and constrained its military capabilities. The renewed un resolve demonstrated by the Security Council's approval of a "smart" sanctions package in May 2002 showed that the system could continue to contain and deter Saddam. Unfortunately, only when U.S. troops invaded in March 2003 did these successes become clear: the Iraqi military that confronted them had, in the previous twelve years, been decimated by the strategy of containment that the Bush administration had called a failure in order to justify war in the first place.

evidence of absence

Most coverage of the weapons inspections that began after the Gulf War focused on Baghdad's efforts to stall, evade, and obstruct un monitors. But despite Saddam's recalcitrance, the record now shows that the un disarmament program -- which Vice President Dick Cheney dubbed "the most intrusive system of arms control in history" -- decapitated Iraq's banned weapons programs and destroyed the infrastructure that would have allowed it to restart clandestine programs. From 1991 to 1998, the un Special Commission (unscom) identified and dismantled almost all of Iraq's prohibited weapons. In conjunction with the International Atomic Energy Agency (iaea), it conducted hundreds of inspection missions at weapons sites and documentation centers, systematically uncovering and eliminating Iraq's nuclear weapons program and most of its chemical, biological, and ballistic missile systems. After four months of further inspections from November 2002 until March 2003 -- which included 237 missions to 148 sites -- the un Monitoring, Verification, and Inspection Commission (unmovic) confirmed the depleted state of Iraq's capabilities.

Of course, the political assessments of these accomplishments were muted. In Washington during the 1990s, each new weapons report was taken as confirmation of Saddam's perfidy rather than as a measure of success. There was a lingering belief that behind each new discovery lay more hidden contraband. Especially after the terrorist attacks of September 11, 2001, the achievements of un disarmament were ignored, and Saddam's defiance was taken as confirmation that deadly stockpiles remained. Despite these suspicions, however, progress was being made. As former chief un weapons inspector Hans Blix wrote in his recent book, "the un and the world had succeeded in disarming Iraq without knowing it."

The greatest success of the un disarmament mission was in the nuclear realm. Iaea inspectors found an alarmingly extensive nuclear weapons program when they entered Iraq in 1991, and they set out to destroy all known facilities related to the nuclear program and to account for Iraq's entire inventory of nuclear fuel. In 1997, the iaea and unscom concluded that there were no "indications that any weapon-useable nuclear material remain[ed] in Iraq" or "evidence in Iraq of prohibited materials, equipment or activities." After four months of resumed inspections in 2002-3, iaea Director-General Mohamed ElBaradei confirmed that, according to all evidence, Iraq had no nuclear weapons and no program to redevelop them. He reported to the un Security Council in March 2003 that inspectors had found "no indication of resumed nuclear activities ... nor any indication of nuclear-related prohibited activities at any inspected sites." The iaea's report noted, "During the past four years, at the majority of Iraqi sites, industrial capacity has deteriorated substantially." (Inspectors also found documentation of the alleged Iraqi attempt to import uranium from Niger to be "not authentic" and rejected claims that Iraq had attempted "to import aluminum tubes for use in centrifuge enrichment.")

Un weapons inspectors also catalogued and destroyed Iraq's once-substantial ballistic missile capability. All but two of the 819 banned Scud missiles known to have existed in Iraq prior to 1990 were accounted

for. Although inspectors discovered that Iraq had failed to declare some dual-use equipment and attempted to import Russian ballistic-missile guidance systems, they found no evidence that Iraq had actually developed or flight-tested any prohibited missiles. Anthony Cordesman of the Center for Strategic and International Studies told the Senate Foreign Relations Committee in July 2002, "Iraq has not fired any Scud variants in nearly twelve years."

When un inspectors returned to Iraq in late 2002, they noted "a surge of activity in the missile technology field." Unmovic determined that the Al Samoud II missile exceeded the permitted range (150 kilometers) by 30 kilometers and discovered large chambers that could be used to produce missile rocket motors. But when unmovic officials demanded that the missiles and the chambers be destroyed, Baghdad yielded: eradication was underway when the U.S. invasion began.

Unscom achieved similar success eliminating Iraq's chemical and biological weapons programs. After the Gulf War, inspectors discovered stockpiles of chemical weapons. They disposed of 480,000 liters of live chemical agent and more than 3,000 tons of precursor chemicals. As a panel of Security Council experts reported, "the prime [chemical weapons] development and production complex in Iraq was dismantled and closed under unscom supervision and other identified facilities have been put under monitoring." Inspectors also supervised the destruction of Iraq's biological weapons program, especially after Saddam's son-in-law General Hussein Kamel defected and confirmed the large-scale production and weaponization of anthrax, botulinum toxin, and aflatoxin; in 1996, unscom demolished the main biological production facility at Al Hakam. When unmovic inspectors entered Iraq in 2002, they found no evidence of renewed chemical or biological weapons programs.

The considerable deterrent value of weapons monitoring also went unacknowledged by Washington. The presence in Iraq of more than 100 highly trained weapons inspectors equipped with the world's most advanced monitoring technology provided an unprecedented ability to discover any clandestine efforts by Baghdad to redevelop wmd. The Ongoing Monitoring and Verification (omv) system mandated by the Security Council in 1991, for example, installed an elaborate network of radiological and chemical sensors, cameras, ground-penetrating radar, and other detection systems, bolstered by aerial surveillance and no-notice visits to weapons facilities by inspectors. As Blix concluded in the aftermath of last year's war, "it is becoming clear that inspection and monitoring by the iaea, unmovic and its predecessor unscom, backed by military, political and economic pressure, had indeed worked for years, achieving Iraqi disarmament and deterring Saddam from rearming." And with the open-ended reauthorization of omv in 1999, there was solid un backing for continued monitoring.

Another benefit of un monitoring must be acknowledged: inspectors were a vital source of intelligence. After unscom inspectors left Iraq in December 1998, just before the start of the Operation Desert Fox bombing campaign, U.S. and un officials were left blind. Without inspectors on the ground and without the extensive data provided by omv monitoring instruments, they had no independent means of knowing the status of Saddam's weapons capabilities. Deprived of on-site reports and up-to-date information and forced to rely on testimony from Iraqi defectors, U.S. officials fell back on preexisting worst-case assumptions. The withdrawal of un inspectors thus set the stage for reliance on the military option in 2003: Washington officials became convinced that regime change was the only way to be sure that Saddam did not have banned weapons.

the sanctions saga

In the past several months, the previously unacknowledged success of un weapons monitoring and disarmament has become clear. But few analysts have gone a step further to identify the primary reason for this success: the un-enforced sanctions regime. Dismissed by hawks as weak and ineffective and reviled by the left for its humanitarian costs, the sanctions regime has had few defenders. The evidence

now shows, however, that sanctions forced Baghdad to comply with the inspections and disarmament process and prevented Iraqi rearmament by blocking critical imports. And although many critics of sanctions have asserted that the system was beginning to break down, the "smart" sanctions reform of 2001 and 2002 in fact laid the foundation for a technically feasible and politically sustainable long-term embargo that furthered U.S. strategic and political goals.

The story of the nearly thirteen years of un sanctions on Iraq is long and tortuous. For the first six years, comprehensive sanctions cut Iraq off from all world trade and shut down its oil exports, devastating its economy and society. Coupled with the damage caused by Gulf War bombing, sanctions helped spur a severe humanitarian crisis that resulted in hundreds of thousands of preventable deaths among children during the 1990s. When the oil-for-food program took effect in 1996 -- allowing Baghdad to sell oil and use the revenue, under un supervision, to purchase approved civilian goods -- the hardships of Iraqi civilians began to ease.

Sanctions were met with considerable skepticism from the start when they failed to force Iraq's withdrawal from Kuwait. Nor did they persuade Iraq to comply with the full range of demands in the cease-fire agreement after the Gulf War. Yet Washington viewed sanctions as a punitive instrument and refused to consider even a partial lifting of sanctions in exchange for partial Iraqi compliance. (That position contradicted Security Council Resolution 687, which stated that sanctions would be lifted once Iraq lived up to un disarmament obligations.) Meanwhile, Baghdad exploited the humanitarian crisis in Iraq to win international support for the lifting of sanctions.

But despite such political failings and the initial humanitarian cost, sanctions forced Baghdad to make significant concessions on disarmament. Most important was Iraq's acceptance of the omv system. In October 1991, as Baghdad's resistance to intrusive disarmament became evident, the Security Council approved Resolution 715 mandating continuous monitoring to prevent Iraqi rearmament. Saddam resisted initially, but he yielded in November 1993, resulting in the installation of monitoring equipment in 1994. The pressure of un sanctions was responsible for extracting this concession. In discussions of the resolution in 1992, Iraqi leaders told un officials that they wanted concrete assurances that sanctions would be lifted before Iraq would agree to accept the omv system: they hoped that accepting monitoring would bring them benefits from the Security Council. Russian and French diplomats and unscom Chairman Rolf Ekeus encouraged such reasoning, believing that the prospect of eased sanctions would entice Iraq to comply with monitoring. (When Iraq accepted Resolution 715 in 1991, Russia and France proposed a statement from the Security Council taking note of Iraqi compliance. The United States and the United Kingdom blocked the statement, refusing even to consider easing coercive pressure. Ekeus adjusted his message accordingly. He told the Iraqis that the lifting of sanctions would be an all-or-nothing proposition, depending on full compliance with every aspect of the disarmament mandate.)

Once the ongoing monitoring system was in place, sanctions continued to help force the regime to disarm. There were numerous disputes between un officials and the Iraqi government, ranging from David Kay's famous 1991 standoff with Iraqi officials in a Baghdad parking lot to the confrontations in 1998 that prompted unscom to withdraw. At several points, Ekeus had to cajole Iraqi leaders to end their obstructionism -- using the pressure of sanctions, and dangling the prospect that they might some day be lifted, to assure compliance. In 1995, for instance, Ekeus and his deputy, Charles Duelfer, threatened to prolong sanctions in order to get Iraqi officials to disclose past efforts to produce vx nerve gas. Without further revelations, they warned, the chances of Iraq's getting the sanctions lifted would be much reduced. In 1997, as Iraqi harassment of inspectors increased, unscom again used the threat of continuing sanctions to overcome resistance. In the face of Iraqi obstruction, the Security Council passed Resolution 1115 in June 1997, temporarily suspending the regular sanction reviews (thereby preventing any action to lift sanctions) and threatening additional unspecified measures unless the harassment of inspectors ceased.

Ekeus described the critical importance of sanctions to the disarmament process -- a "combined carrot-and-stick approach" -- in a 2000 interview: "Keeping the sanctions was the stick, and the carrot was that if Iraq cooperated with the elimination of its weapons of mass destruction, the Security Council would lift the sanctions. Sanctions were the backing for the inspections, and they were what sustained my operation almost for the whole time." And according to former unscom adviser Tim Trevan, Iraqi Foreign Minister Tariq Aziz told un inspectors that "the only reason Iraq was cooperating with unscom was that it wanted to be reintegrated into the international community. Chief among the benefits was the lifting of the economic sanctions."

destroying the war machine

In addition to driving the disarmament process, sanctions undermined Iraqi military capabilities and prevented rearmament by keeping Iraq's oil wealth and imports -- which could be used to produce wmd -- out of the hands of Saddam Hussein. Contrary to the Bush administration's assertion that Iraq was a "gathering" threat, the Iraqi military and weapons programs had, in fact, steadily eroded under the weight of sanctions.

Estimates of the total amount of oil revenue denied the Iraqi government range as high as $250 billion. For the first six years of sanctions, Iraq sold no oil except for a small allowance to Jordan. After the oil-for-food program began, oil sales generated, according to un figures, $64.2 billion in revenue. But the proceeds from these sales went straight into a un escrow account, not the Central Bank of Iraq. Sanctions also blocked foreign investment and oil development, which could have increased Iraq's oil output to as much as seven million barrels a day by the late 1990s (compared to a peak of around three million barrels a day prior to the Gulf War).

Of course, no sanctions regime can be 100 percent effective; smuggling and black marketeering inevitably develop. Baghdad labored mightily to evade sanctions, mounting elaborate oil-smuggling and kickback schemes to siphon hard currency out of the oil-for-food program. Investigations by the U.S. General Accounting Office (gao) and The Wall Street Journal put Iraq's illicit earnings at $1.5 billion to $2.5 billion a year. An updated gao report estimated that illegal Iraqi revenues from 1997 through 2002 amounted to $10.1 billion, about 15 percent of total oil-for-food revenues during that period.

Still, the sanctions worked remarkably well in Iraq -- far better than any past sanctions effort -- and only a fraction of total oil revenue ever reached the Iraqi government. The funds that Baghdad obtained illicitly were grossly insufficient to finance a large-scale military development program. The government had no other major source of income, in part thanks to the economic impact of sanctions. Revenues from smuggling and kickbacks went mostly toward maintaining Saddam's massive army and internal security apparatus (as well as to building palaces and paying bribes to political loyalists). As a result, almost no money was available for the development of nuclear, chemical, or biological weapons systems, however much Saddam might have wished to rebuild his arsenal. A regime that had previously spent lavishly on its war machine was thus denied the means to rebuild its war-ravaged military.

Indeed, U.S. government figures show a precipitous drop in Iraqi military spending and arms imports after 1990. State Department estimates suggest that spending levels plummeted from over $15 billion in 1989 to less than $1.4 billion a year through the 1990s. The estimated cumulative arms import deficit -- the amount that Iraq would have spent had it continued to import arms at the same pace as it did in the 1980s -- through 1998 was more than $47 billion, a deficit that Baghdad's various weapons-smuggling efforts and black-market schemes could hardly diminish. The Iraqi army thus found itself with, in the words of a 1998 report from the Center for Strategic and International Studies, "decaying, obsolete, or obsolescent major weapons."

The sanctions system also prevented the import of specific items that could be used for the development of long-range ballistic missiles and nuclear, chemical, and biological weapons. The United States especially, but other major powers as well, made a major investment in sanctions enforcement; the Security Council remained united in its resolve to deny Iraq the means to rebuild its weapons programs; and the dragnet was highly effective in denying Iraq the means to redevelop wmd. Led by Washington, intelligence, military, and police officials in many countries mounted a massive effort to block shipments of prohibited weapons to Iraq. State Department nonproliferation specialists vetted oil-for-food contracts to screen for possible weapons imports. The U.S. Navy established the Maritime Interception Force, a multinational operation that over a ten-year period searched more than 12,000 vessels in the northern Persian Gulf. Such measures led to a series of high-profile successes. In August 1995, for example, U.S. officials received a tip from Israeli intelligence about a delivery of 115 missile gyroscopes passing through Jordan to Iraq. The CIA immediately dispatched a team to Amman and intercepted the guidance equipment. A month later, unscom officials fished another shipment of gyroscopes from the bottom of the Tigris River, where Iraqi officials had dumped them. A combination of watchful external intelligence and inspectors on the ground prevented the guidance systems from ever being used.

Similarly, the specialized aluminum tubes that were a source of controversy in the prewar debate never reached Iraq. Regardless of whether they were to be used for uranium enrichment, as the administration claimed, or for conventional rockets, as un experts reported, the tubes were intercepted before arriving, according to the British government's September 2002 dossier. The dossier documented foiled Iraqi attempts to purchase vacuum tubes, a magnet production line, a large filament-winding machine, fluorine gas, and other items that could have nuclear weapons-related applications. As long as sanctions remained effective, the report found, "Iraq would not be able to produce a nuclear weapon." It also noted that "sanctions and the earlier work of the inspectors had caused significant problems for Iraqi missile development," by preventing Iraq from buying potential ingredients of rocket fuel such as magnesium powder and ammonium chloride.

Ironically, rather than bolstering the case for sanctions, the interdiction of prohibited items was often seen as a sign of their failure. Those skeptical of sanctions focused on Iraq's attempts to smuggle material in the first place, not on their having been thwarted. Inflated intelligence assumptions mistook Iraq's nefarious intentions for real capabilities, even in the face of evidence showing how deteriorated the latter were. In reality, sanctions had left Saddam's once-vaunted war machine in a state of utter disrepair.

a stronger net

In the run-up to war last year, some in Washington acknowledged the impact of inspections and sanctions but believed that sanctions would soon collapse. Kenneth Pollack reiterated this argument in a January 2004 article in The Atlantic Monthly, insisting that war was necessary because "containment would not have lasted much longer" and Saddam "would eventually have reconstituted his wmd programs." Support for sanctions did indeed begin to unravel in the late 1990s. But beginning in 2001, the Bush administration launched a major diplomatic initiative that succeeded in reforming sanctions and restoring international resolve behind a more focused embargo on weapons and weapons-related imports.

One major reason for this renewed consensus was the creation of a new "smart" sanctions regime. The goal of "smart" sanctions was to focus the system more narrowly, blocking weapons and military supplies without preventing civilian trade. This would enable the rehabilitation of Iraq's economy without allowing rearmament or a military build-up by Saddam. Secretary of State Colin Powell

launched a concerted diplomatic effort to build support for reformulating sanctions, and, in the negotiations over the proposed plan, agreed to release holds that the United States had placed on oil-for-food contracts, enabling civilian trade contracts to flow to Russia, China, and France. Restrictions on civilian imports were lifted while a strict arms embargo remained in place, and a new system was created for monitoring potential dual-use items. As the purpose of sanctions narrowed to preventing weapons imports without blocking civilian trade, international support for them increased considerably: "smart" sanctions removed the controversial humanitarian issue from the debate, focusing coercive pressure in a way that everyone could agree on. The divisions within the Security Council that had surfaced in the late 1990s gave way to a new consensus in 2002. The pieces were in place for a long-term military containment system. The new sanctions resolution restored political consensus in the Security Council and created an arms-denial system that could have been sustained indefinitely.

In the months prior to the invasion, as Bush administration officials threatened military action and dismissed sanctions as useless, additional suggestions were offered to strengthen the sanctions system. Morton Halperin, former director of policy planning at the State Department, recommended a "containment plus" policy during July 2002 testimony before the Senate Foreign Relations Committee. The goal of such a system, Halperin said, "would be to tighten the economic embargo of material that would assist Iraq in its weapons of mass destruction and other military programs as well as reducing Iraq's receipt of hard currency outside the un sanctions regime."

Additional measures could have further refined and strengthened the sanctions regime. These could have included provisions to establish sanctions assistance missions and install detection devices on Iraq's borders to monitor the flow of goods across major commercial crossings; to eliminate kickbacks by preventing unscrupulous firms from marketing Iraqi oil and mandating public audits of all Iraqi oil purchases; and to control or shut down the reopened Syria-Iraq pipeline. This last option, especially, was an obvious, feasible step that would have immediately reduced the flow of hard currency to Baghdad. The other measures would have taken more time and diplomatic capital, but the United States had enormous leverage, precisely because it threatened military attack, and it could have used its clout to tighten the noose. Syria and other neighboring states, for example, could have been persuaded to cooperate in containing Iraq in exchange for improved diplomatic relations with Washington. This would have solidified long-term containment and laid the foundation for improved political relations in the region. As with other nonmilitary options for achieving U.S. aims, however, such proposals to enhance containment were cast aside and ignored.

The adoption of "smart" sanctions in Iraq was a diplomatic triumph for the Bush administration. It was followed a few months later by Iraq's acceptance of renewed inspections and Security Council approval of a tougher monitoring regime in Resolution 1441. Indeed, the Bush administration spent its first two years methodically and effectively rebuilding an international consensus behind containment. By the fall of 2002, it had constructed the core elements of an effective long-term containment system -- only to discard this achievement in favor of war.

demonstration effect

The Iraq case demonstrates that intelligence estimates that fail to take into account the success of past actions imperil future policy. As Washington begins sensitive dialogues with Iran, Libya, Syria, and North Korea about preventing the proliferation of wmd, this message -- specifically as it relates to sanctions and diplomatic pressure -- could not be more relevant.

The case of Libya shows that sanctions can indeed influence regime behavior in the long term. Muammar al-Qaddafi was once as much an outlaw as Saddam Hussein. But over time, and under the weight of international sanctions, Libya accepted international norms, ended its support of terrorism, and

gave up its clandestine efforts to acquire or build wmd. President Bush and other supporters of the war in Iraq have attributed Libya's dramatic turnaround to what Representative Tom Lantos (D-Calif.) termed the "pedagogic value" of the war. But in reality, Libya's reversal began years before. Un sanctions during the 1990s brought about the negotiations that convinced Libya to turn over suspected terrorists for trial in The Hague. The State Department's 1996 report on global terrorism stated, "Terrorism by Libya has been sharply reduced by un sanctions." Subsequent discussions with Tripoli led to cooperation in the campaign against terror and, most recently, to Libya's full disclosure of prohibited nuclear weapons programs and cooperation in disassembling them.

Senior officials from both the Clinton and the current Bush administrations have confirmed that progress with Libya dated back to the 1990s. Flynt Leverett, senior director for Middle Eastern affairs at the National Security Council in 2003, wrote that the Iraq war "was not the driving force behind Libya's move. ... Libya was willing to deal because of credible diplomatic representations ... that doing so was critical to achieving their strategic and domestic goals." Seif al-Islam al-Qaddafi, influential son of and heir apparent to Qaddafi, told Le Monde that the U.S.-Libyan dialogue began years ago and had nothing to do with the attack on Iraq. Of course, sanctions were not the only factor in Libya's transformation. But the desire to be reintegrated into the world economy was a powerful incentive for reform.

Having failed to understand how sanctions and inspections worked in Iraq, the United States risks repeating its mistake in the future. The crisis of intelligence that pundits and politicians should be considering is not why so many officials overestimated what was wrong in Iraq; it is why they ignored so much readily available evidence of what was right about existing policies. By disregarding the success of inspections and sanctions, Washington discarded an effective system of containment and deterrence and, on the basis of faulty intelligence and wrong assumptions, launched a preventive war in its place.[para.]

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BYLINE: By **David Rieff; David Rieff** is the author, most recently, of "A Bed for the Night: Humanitarianism in Crisis."

BODY:

As the war in Iraq recedes, the challenges of occupying and rebuilding the country seem to grow more daunting with every passing day. It is becoming clear, though, that Iraq's devastation is not primarily the result of American bombing during the war or of the looting that followed it, but of the economic crisis that befell the country before the first shot was fired. There is still little consensus about what happened in Iraq during the years before the war or who is to blame. But the quest for answers has reawakened a fierce and bitter controversy over Iraq policy in the 1990's.

For officials in Washington and London and for American administrators now in Iraq, that country's postwar woes are essentially the legacy of Saddam Hussein's tyrannical, cruel and corrupt rule. As L. Paul Bremer III, the civilian administrator of postwar Iraq, recently said of Hussein, "While his people were starving -- literally, in many cases, starving -- while he was killing tens of thousands of people, Saddam and his cronies were taking money, stealing it, really, from the Iraqi people."

But others argue that the fundamental reason Iraq is in such terrible shape is not Hussein's brutality but rather the comprehensive regime of economic sanctions that the United Nations Security Council imposed on Iraq for almost 13 years, sharply restricting all foreign trade. It was these sanctions, they claim, that brought this once rich country to its knees.

For many people, the sanctions on Iraq were one of the decade's great crimes, as appalling as Bosnia or Rwanda. Anger at the United States and Britain, the two principal architects of the policy, often ran white hot. Denis J. Halliday, the United Nations humanitarian coordinator in Iraq for part of the sanctions era, expressed a widely held belief when he said in 1998: "We are in the process of destroying an entire society. It is as simple and terrifying as that." Even today, Clinton-era American officials ranging from Madeleine K. Albright, the former secretary of state, and James P. Rubin, State Department spokesman under Albright, to Nancy E. Soderberg, then with the National Security Council, speak with anger and bitterness over the fervor of the anti-sanctions camp. As Soderberg put it to me, "I could not give a speech anywhere in the U.S. without someone getting up and accusing me of being responsible for the deaths of 500,000 Iraqi children."

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The end of the war has at last made it possible to find out what the effects of sanctions on Iraq really were. American officials from the administrations of George Bush Sr. and Bill Clinton are now willing to speak candidly about the human costs of sanctions, and Iraqis are also able to speak far more openly than they were before Saddam Hussein's ouster.

Many of the diplomats who constructed and administered the sanctions policy still defend them steadfastly. Richard Holbrooke, who served as ambassador to the United Nations under President Clinton, says: "The concept of sanctions is not just still valid; it's necessary. What else fills in the gap between pounding your breast and indulging in empty rhetoric and going to war besides economic sanctions?"

Albright insists that sanctions cannot be ruled out in the future when formulating policy, whether in Washington or at the Security Council, for dealing with such tyrannies as North Korea, Zimbabwe or Myanmar, formerly Burma.

And James Rubin asks: "What should we have done, just lift sanctions and hope for the best? I believed then and believe now that that was just too risky, given Saddam Hussein's past, his repeated attempts to invade his neighbors, his treatment of his own people and the weapons we knew he was developing."

According to Rubin, sanctions were the sole available choice that did not imply allowing Saddam Hussein to do what he pleased in the region. And officials of the first President Bush's administration, hardly known for endorsing many of the policies later formulated by Clinton's foreign-policy team, broadly agree. "What we were trying to do by putting sanctions in was to prevent Hussein from threatening the region," recalled Gen. Brent Scowcroft, the national security adviser for the first President Bush. "They worked in the sense that he was never able to rebuild his conventional army. When this war started, the Iraqi Army had no more than one-third of the strength it had possessed at the beginning of the first gulf war. But imagine that there had been no sanctions. Is it reasonable to suppose that the weakened Iraqi Army we just faced would have been so weak? I doubt it."

These observations do not answer the question of whether any policy, no matter how strategically sound, is worth the deaths of 500,000 Iraqi children -- a figure that originated in a Unicef report on infant mortality in sanctions-era Iraq and became the rallying cry of anti-sanctions campaigners. And the argument against sanctions on Iraq went beyond even this single, horrifying statistic. Sanctions, their opponents insist, transformed a country that in the 1980's was the envy of the developing world in terms of investments in health, education and physical infrastructure into a place where everyone (except the half-million or so members of Saddam Hussein's Baath Party and their families and cronies) was dependent on United Nations food aid, where infant mortality rates had skyrocketed, educational outcomes had collapsed and diseases that had disappeared were reappearing, sometimes at epidemic levels.

American officials may quarrel with the numbers, but there is little doubt that at least several hundred thousand children who could reasonably have been expected to live died before their fifth birthdays. The damage, according to those who fought against sanctions, was terrible, medieval. It was, in the literal sense, unconscionable, since those who died had not themselves developed weapons of mass destruction or invaded Kuwait. Rather, they were the cannon fodder for Hussein's war and the victims of his repression.

Madeleine Albright was widely excoriated in 1996 for telling a television interviewer who asked her about the deaths of Iraqi children caused by sanctions, "This is a very hard choice, but the price, we think the price is worth it."

She says now that she regrets the comment -- "It was a genuinely stupid thing to say" -- and in a recent interview seemed still to be struggling with the moral and strategic questions that underlie the sanctions debate. For Albright, the comprehensive regime of sanctions imposed on Iraq represented at best a tragic choice between unhappy alternatives -- a search for the lesser evil.

As Albright put it to me, "I wish people understood that these are not black and white choices; the choices are really hard." Sanctions like the ones that were imposed on Iraq, she said, "are a blunt instrument. That's their tragedy. What was so terrible for me was that I did see the faces of the people who were suffering -- even if I thought then and think now that the sufferings of the Iraqi people were Saddam's doing, not ours. There's a terrible price you pay. A terrible price."

The actual history of American sanctions on Iraq is fairly straightforward. On Aug. 2, 1990, in response to Iraq's invasion and annexation of Kuwait, the United Nations Security Council passed Resolution 661, imposing comprehensive multilateral international sanctions on Iraq and freezing all its foreign assets. Iraq was no longer free to import anything not expressly permitted by the United Nations, and companies were forbidden from doing business with Iraq, with very limited exceptions. Before the conflict started, Iraq had imported roughly 70 percent of its food, medicine and chemicals for agriculture. Although its oil reserves, and hence its wealth, were virtually limitless, it was nonetheless a country that without international trade could not feed itself or sustain the modern developed society it was becoming.

On Feb. 28, 1991, Iraq, defeated on the battlefield, capitulated to American-led forces. The sanctions remained in place. On Aug. 27, 1992, the United Nations declared "no fly" zones over the Shiite areas of southern Iraq and the Kurdish areas of the country's north, adding physical containment of Hussein's military to the program of sanctions. This created a policy that several Clinton administration officials would later describe to me as "keeping Saddam in his box."

By early 1993, opposition to sanctions was growing, especially in the Arab world, and so was dissension within the United Nations. Albright, then Washington's newly appointed ambassador to the United Nations, recalls that when she arrived in New York to take up her post in February 1993, there was confusion about sanctions policy. As she put it: "No one had thought they would be in place for so long, but then, no one had really thought Saddam Hussein would still be there either. The intelligence was that he'd be gone fairly soon."

Albright's instructions from the White House were to hold "very firm" on sanctions. But she soon made a trip to the Middle East that, while it had been undertaken largely to persuade Middle Eastern leaders that they should support a continuation of sanctions policy, also caused her to somewhat modify her view about what the effects of sanctions were on the ground in Iraq.

"I went to various Arab capitals with photographs we'd declassified that showed how much money Saddam Hussein was spending on his palaces," she told me recently. "The Arab leaders were amazed. They hadn't known any of this. But in turn they told me about how much the Iraqi people were suffering under sanctions. They also talked about the anger over sanctions that was building in the Arab 'street.' Of course, this protest was affecting them, too. But I was appalled by what they told me, not just worried about the political consequences. And it was when I returned to the U.N. that I began to try to mitigate the humanitarian consequences of the sanctions. That's when the idea of 'food for oil' was born."

The premise of the oil-for-food program, which was administered by the United Nations, was that Saddam Hussein would be allowed to sell a certain amount of oil. With the proceeds, Hussein's government would be permitted to buy essential humanitarian supplies, including food, medicine and materials needed to keep Iraq's crumbling infrastructure running. A humanitarian coordinator would

oversee things in the country, making sure that the materials being imported were used for their stated purposes. The program sought to bar the Iraqi government from obtaining any materials that could be used for military purposes, and as Albright points out, that was problematic: items like chlorine or chemical fertilizer can be used to make poison gas or explosives even if their ostensible use is in water purification or agriculture. "Even shoes can be considered 'dual use' items," Albright told me, "since it all depends on whether they are going to the general population or to the military."

In New York, decisions on what Iraq would be permitted to import and what it would be barred from obtaining were made in a special United Nations sanctions body, the so-called 661 Committee, named after the Security Council resolution that had imposed sanctions in the first place. Outside the United Nations, pressure to do something to ease the plight of the Iraqi people was mounting. As David M. Malone, a former Canadian ambassador to the United Nations who now runs the International Peace Academy, recalls it, the modifications to the system of Iraq sanctions were the result of "huge publicity and international pressure." First Halliday and then his successor, Hans von Sponeck, resigned the post of United Nations humanitarian coordinator for Iraq in order to protest the sanctions.

But although the Security Council agreed to the oil-for-food program in April 1995, Saddam Hussein at first refused to participate, holding out for a total lifting of sanctions. It seems to have been during this period, when Hussein was trying to wait out the United Nations and the Americans and the British were trying to bring the Baghdad regime to its knees through sanctions, that the worst human suffering in Iraq took place. It was only in December 1996 that Hussein accepted the oil-for-food program, and only in 1997 that it became effective in alleviating some, though not all, of the torments of the Iraqi people.

At the same time, the French and the Russians were pushing hard within the Security Council either for a ratcheting down or an outright lifting of sanctions. Nancy Soderberg states flatly that the French and the Russians allowed their eagernessto develop business deals with Iraq to affect their work on the 661 Committee. "The French and Russians wanted to make money," she told me. "By the time of the second gulf war, the Russians had $40 billion in prospective deals with Saddam Hussein's regime." (As for the French, as the International Peace Academy's David Malone puts it, "Paris never offered an effective alternative to sanctions, simply grandstanding on humanitarian questions while doing business with Iraq.")

Meanwhile, at the General Assembly, governments of a majority of the countries in the developing world were actively denouncing sanctions as wantonly brutal -- as a policy that in effect punished the Iraqi people in the cruelest possible manner without weakening Saddam Hussein's grip on power in the slightest.

In Washington, there was a growing sense that sanctions were a trap from which the United States was unable to extricate itself. Lee Feinstein, who was a senior State Department official during the Clinton administration and who was involved with Iraq policy, told me somewhat despairingly that the decision to continue with sanctions was as much as anything the result of there having been no other options that were politically feasible.

"We had a hostile Congress that would have leapt down our throats had we drastically loosened the sanctions," he said. "We had the French at the U.N. pushing for an outright lifting of sanctions. And we had Saddam Hussein, who was a real threat."

That is the way sanctions looked from the United States and Europe. But it was difficult, during the debate in the 1990's, to know what the Iraqi people really thought. This is no longer true. The Iraq I traveled to in May was full of dissonant voices and contradictory opinions. People were no longer afraid to speak their minds. And yet what I found was an almost universal opposition to sanctions -- a stern,

unshakable conviction that the 1990's were a human and economic catastrophe for the Iraqi people and that sanctions were at the heart of the disaster.

Khaled Afra, a young physics student I met shortly after I arrived in Baghdad, phrased it this way: "Saddam was a criminal, the biggest. But sanctions were also criminal. There was a huge amount of victims due to illness. You see, sanctions really killed our dreams -- not my personal dreams only, but those of my Iraqi people, all of us."

You can still see the effects of sanctions everywhere in Baghdad. It's not only in the degradation of the infrastructure of daily life; it's also in the remnants of the food-rationing program that Hussein's government instituted to deal with sanctions.

In every neighborhood of every Iraqi city and town, there are a number of small stores, approximately one for every 50 or 60 families, that warehoused the monthly government ration of food staples on which most Iraqis depended for their physical survival. Essential items like flour, sugar, rice, cooking oil, lentils and beans were distributed to these "agencies" -- the term English-speaking Iraqis customarily use to describe them -- by Saddam Hussein's Ministry of Trade. (The stores are still in use today because the American occupation authorities have not been able to devise a better way to get cheap food staples to the general population.) The shops tend to be small and, even by the standards of a place that is as decayed and dilapidated as contemporary Iraq, far shabbier than the shops that surround them. They are the front line of what sanctions actually wrought in Iraq.

"I do not make money from selling these things to my neighbors," a merchant named Salman Moussa told me as we stood in front of his agency in the Baghdad neighborhood of Al Mansour. "Basically, I am doing a public service." After a long pause, he finally added: "Like a fireman. Since the prices are so low -- a few American dollars each month for all the food -- merchants like me only make a little profit."

Most Iraqis and most outside observers agree that food was the area in which Saddam Hussein's government coped best with sanctions. Kenny Gluck, a seasoned American relief worker who is now the operations director for the Dutch section of Doctors Without Borders, remarked to me recently, "You can't say too many bad things about Saddam Hussein, but give the devil his due: on the food issue, he responded very capably."

The food success buttresses the case of those who always claimed that the toll exacted on the Iraqi people through sanctions was all the fault of Saddam Hussein. He could have provided Iraqis what they needed all along, they say. But instead of doing so, he chose to devote his country's resources to building palaces for himself and for his family and functionaries, mosques to please the disaffected believers among his citizens and weapons with which to menace his neighbors and the world. To a limited extent, anyway, many Iraqis seem to agree with this analysis.

"Saddam could do many things to the people," a former Iraqi Army officer named Raed Mohammed told me, "but while he could kill them, he could not afford to starve them. So yes, he made sure the Ministry of Trade organized things correctly. As a result, the rationing was popular. It helped the regime maintain its legitimacy. Most people thought, 'Saddam is feeding us while the Americans are trying to starve us to death.'"

Indeed, Hussein's government was so proud of its accomplishment that in front of the Ministry of Trade headquarters, there was a huge mural of Saddam Hussein showing the tyrant holding up a ration book -- his "gift" to the Iraqi people. (The mural was later defaced by looters.) And there were other, unanticipated, advantages that accrued to the regime from the rationing system. Every Iraqi head of household had to have such a ration book, issued by the Ministry of Trade, which named every

immediate family member and listed the precise quantities of foodstuffs to which the bearer was entitled. Every food agent had a computerized list from the Ministry of Trade of the people he was supposed to supply with these staples.

What this meant in practice was that the regime could maintain a database on every Iraqi citizen and constantly update it, without recourse to the security services or even a network of paid informants. It was a secret policeman's dream -- and it was all provided, however inadvertently, by the sanctions the United States and Britain had conceived as a way of limiting Saddam Hussein's power.

"First we got used to the idea that the government provided food," a young Iraqi journalism student named Aziz told me. (He preferred that I not know his last name.) "Then we started to see the government as the provider of absolutely everything. For Saddam, it was great. The more he controlled distribution, the more effective the Iraqi police state became. After all, practically the worst thing you could do was to lose your ration card."

In many ways, Saddam Hussein became a master at manipulating the sanctions system to his own ends. Under the rubric of the oil-for-food program, the United Nations allowed the Iraqis themselves to publish their list of humanitarian requirements and then to select the foreign companies with which it wished to do business. This provision meant that the Iraqi government was able to set up a well-orchestrated system of kickback schemes in which a contract would be signed at far more than the cost of fulfilling it, with the difference deposited secretly by the selected contractors in Iraqi government-controlled accounts all over the world. As a result, Saddam Hussein and the Baath elite got rich off the sanctions, and a great many international businessmen, notably in the Arab world, in France and in Russia, made handsome profits as well.

"The Syrians, the Jordanians, the Turks -- they all had their own deals," Nancy Soderberg recalls.

Meanwhile, Saddam Hussein used the pretext of the sanctions to wage a propaganda war -- one that even many American officials would later concede he probably won. Not only did Hussein use the sanctions to rationalize to Iraqis every shortage they were enduring, but he also proved himself a kind of genius at exaggerating and exploiting the effects of sanctions that were already tragic enough when reported truthfully. To rally his population, and probably also in a bid to win support from Western sympathizers and the international media, Saddam Hussein orchestrated a kind of traffic in suffering -- all meant for the television cameras.

One doctor I spoke to who spent several years in a hospital in the provincial city of Baquba, about 25 miles north of Baghdad, told me that the hospital staff had instructions, whenever a child died, to keep the corpse in the morgue rather than burying it immediately as mandated by Islamic custom. "When a sufficient number of bodies accumulated," he explained, "the authorities would stage a mass funeral, railing against the sanctions, even though as often as not there was no connection between a particular child's death and the sanctions."

I asked the doctor how a child's parents could possibly have agreed to such a deception.

"This was not a country in which one disagreed," he replied. "And in any case, they got 50 kilos of rice and 50 kilos of flour. Or else they were paid, you know, like the families of the freedom fighters in Palestine."

I inquired whether there had been other manipulations of the system to make things seem worse than they had really been.

"Of course," he replied, as if it were the most obvious thing in the world. "It happened all the time. For example, we would get a shipment from the Ministry of Health of vaccines provided by the World Health Organization. But then we would be instructed not to use them until they had reached or even exceeded their sell-by date. Then the television cameras would come, and we would be told to lie and tell the public how the U.N. made ordinary Iraqis suffer. You have to understand: this was a system where everyone knew what was expected of them. Most of the time, we didn't even have to be told what to do."

This media campaign was extremely effective. If anything, it was more influential in the West, mobilizing public opinion against sanctions, than it was within Iraq. What began as a campaign of left-wing fringe activists, like Ramsey Clark and the British member of Parliament George Galloway, soon became the dominant opinion. In the late 1990's, United Nations Secretary General Kofi Annan was privately emphasizing to American and British officials his own moral qualms about the humanitarian effects of Iraq sanctions. As another senior Clinton administration official put it to me: "I still think sanctions were the right policy. But there is no question that in terms of public opinion, as the 90's wore on we were increasingly on the defensive in the sanctions debate."

In Iraq itself, the experience of the doctor in Baquba was anything but unique. Dr. Mohammed al-Alwan, the head of the department of surgery at Baghdad's leading teaching hospital and one of the most prominent physicians in Iraq, told me very much the same thing. "Yes," he said, "the sanctions played a great role in the destruction of our health services and in health care generally. The shortages were extraordinary, particularly with regard to cancer patients, but even descending to such ordinary items as urinary catheters and chest tubes. I don't know what you Americans intended by these sanctions, but I do know that catastrophic effects were intended by Saddam Hussein's regime. The government wanted to say, 'Look, the Iraqi people are suffering so terribly.' But in reality, there were more than enough drugs for 'special' people."

As al-Alwan saw it, Iraq had been subjected to two sets of sanctions, those of the United Nations and those of Saddam Hussein himself. Voices outside Iraq echoed this perspective. Hans von Sponeck, the United Nations coordinator for humanitarian assistance in Iraq who resigned in protest in 2000, remarked bitterly to me in an e-mail message, "Local repression and international sanctions became brothers-in-arms in their quest to punish the Iraqi people for something they had not done."

And the reform of sanctions embodied in the oil-for-food process only partly alleviated the Iraqi people's sufferings. Although Saddam Hussein clearly exaggerated the effects of the sanctions, the 661 Committee was so hampered by American worries over Iraqi imports of dual-use materials, as well as by the patent corruption of the process, that it soon became something of a laughingstock -- to everyone, that is, except the Iraqi people whose fate was so largely in its hands.

Most Iraqis I met knew all too well that the European, Middle Eastern and Asian private companies that the United Nations used as contractors to provide Iraqis with medical supplies routinely bought from third- and fourth-tier suppliers in India, Pakistan and Indonesia. They know how many contractors got rich off Iraq's predicament. In pharmacies all over the towns and cities of Iraq, it is commonplace to see medicines stamped with the World Health Organization logo along with the phrase "Not for Commercial Sale." These drugs were intended for hospitals. Instead, they were routinely sold to private pharmacists by the Ministry of Health, which was startlingly corrupt even by the standards of Saddam Hussein's Iraq.

Under the highly regulated market that sanctions engendered, only the state was in a position to make traders rich by circumventing sanctions or by using them in ways their architects had never intended.

"Everyone traded here," the scion of an important Arab business family told me, asking that I conceal

his identity. "Gulfis, Saudis, Egyptians, Russians, Chinese -- they all made money out of Iraq and out of sanctions. The poor U.N. didn't have a clue about what was going on. They were just idiots. It was a bazaar. Every contract was marked up by 10 percent. But Saddam controlled it all, and until the war started, he, not the Americans, was the big winner."

He hardly needed to add who the big loser had been.

The reality of sanctions is very likely the one adduced by Lee Feinstein of the Clinton-era State Department. For implicit in his description of why the Clinton administration acted as it did is the sense that sanctions were less a policy than a stopgap -- one that was a tragedy for the Iraqi people but that also turned into a trap for the United States. Soderberg says that the controversy over sanctions allowed Saddam Hussein to transform the debate from one about his compliance with United Nations resolutions to one about the lifting of the sanctions. As a means of containing Hussein, she says, sanctions were successful, but they were a "deteriorating" policy.

And yet as new rogue states emerge and new international crises flare up, the appeal of sanctions remains. They are relatively cheap and virtually cost-free for those who impose them -- though they can be terribly costly for those upon whom they are imposed. Symbolically, they can be highly resonant and emotive. "See, we're doing something about Saddam, or Fidel, or Kim Jong Il," policy makers can say to the public and to themselves. The problem is that there is little or no evidence that sanctions do real damage to regimes that are willing to allow their people to suffer and die. In his mad dotage, despite the fact that he is rapturously out of touch with the thinking of ordinary Cubans, Fidel Castro is as strong as ever. The same was true of Saddam Hussein, who was firmly in control in Iraq when the second gulf war began; sanctions palpably failed to dislodge his government and in fact strengthened him politically.

One may disagree with the policies the present administration has followed with regard to Iraq -- policies that have led to a brilliantly successful war and a staggeringly inept postwar occupation. But to its credit, at least it had a policy, one partly based on the understanding that Iraq sanctions may have contained Hussein, but they had failed at weakening his grip on his country. Brent Scowcroft is right that without the sanctions the American victory in the second gulf war might very well not have been as smooth. The embargo does seem to have achieved the goal subsequently advanced for it as a rationale; that is, to keep Hussein "in his box" and to prevent him from developing weapons of mass destruction. (Of course, the absence of weapons of mass destruction bolsters the case for sanctions but vitiates the stated case for the war itself.)

And yet had sanctions really succeeded, presumably there would have been no need for the war at all. Not that every Iraqi I met preferred sanctions to war. To the contrary, some even insisted that given the choice between being subjected to open-ended sanctions and the bloody resolution of an American invasion, they would opt for the latter. "I detest the Americans and want them to leave Iraq now, immediately," one Shiite notable told me. "But they got rid of Saddam, and now they have lifted the sanctions. That's good. Otherwise, who knows how long this slow death by water torture, which the sanctions were for us, would have gone on?"

James Rubin, the former State Department spokesman who largely rejects the notion that sanctions had such terrible human costs (at least once the oil-for-food program was up and running), argues that before Sept. 11 turned the parameters of American foreign policy inside out, war was not an option in Iraq. Given that fact, he says, the Clinton administration's choice was between giving Saddam a free hand or trying to limit what he could do through a sanctions regime. Rubin believes that American policy makers faced with rogue regimes have just three basic options -- doing nothing, using military force and imposing sanctions -- and so he remains convinced that for all their drawbacks, sanctions will have a future.

"For those who cannot countenance the use of military force, sanctions will always be an option," Rubin says. "Those who believe, as many of America's critics in the world do, that war is no longer a legitimate means in the modern world except in self-defense or with U.N. Security Council authorization will have to turn to sanctions as the ultimate method of coercion in international relations."

He points to the fact that in the run-up to the second gulf war, many of the same countries and campaign groups that had pushed hardest for the lifting of sanctions began to insist that sanctions and containment should be given time to work. "After spending 1995 to 2000 criticizing Iraq sanctions, the Germans and French fell in love with containment," Rubin observes sardonically. "They wanted better, more extensive containment. They were ready to rethink their opposition to sanctions."

We did not see the end of radical evil with the demise of Saddam Hussein. One has only to think of Robert Mugabe, Kim Jong Il or Charles Taylor to recognize that. Sooner or later, powerful states confronted by such a figure are almost certain to turn to sanctions as part of what Albright calls the diplomatic "tool box." In fact, the United States now has sanctions in place against about a dozen countries, including North Korea, Cuba, Zimbabwe, Syria and Libya. Just this month, Congress imposed a new array of economic sanctions against Myanmar after the military government in that country detained the opposition leader Aung San Suu Kyi.

Some policy makers believe, in my view overly optimistically, that sanctions as now conceived are actually far less destructive and far more sensitively calibrated than they were 8 or 10 years ago. There is talk now in diplomatic circles of "smart sanctions," "targeted sanctions" and carefully balanced combinations of sanctions for noncompliance and rewards for compliance.

And there is always the example of apartheid South Africa -- the one instance where comprehensive, multilateral sanctions do appear to have succeeded in producing "regime change." To anti-sanctions campaigners, however, the South African case is the exception that proves the rule, rather than serving as a model for future confrontations with unsavory regimes. In South Africa, they point out, the humanitarian costs were low (South Africa was nowhere near so dependent on imported staples), and there was an effective and viable opposition in the African National Congress.

Even advocates of sanctions are convinced that the approach that helped bring about the end of apartheid has to be radically rethought for the 21st century -- and that, they say, is exactly what is happening now. The blunt instrument that was applied to Iraq is in the process of being reformed. "We were learning as we went in Iraq," Nancy Soderberg told me. "We're still learning."

In all likelihood, it will be a costly lesson, for there is this terrible conundrum at the heart of every sanctions policy: while sanctions imply rationality -- the knowledge on both sides that the pressure being applied can be lessened by compliance -- tyrants like Hussein and Mugabe are often fundamentally irrational. And so my own sense is that sanctions, even the "smartest" sanctions, will continue to exact an appalling human toll.

There may indeed be no way around them. But in that case, we should be clear about what we are really saying, which is that there is no way around the ruined lives and the dead bodies strewn across the ruins of broken societies either. Ultimately, as hard as some officials like Albright tried to mitigate the worst effects of Iraq sanctions through oil-for-food and other reforms, opting for them meant choosing American security over Iraqi mass suffering. If tragedy, as the German philosopher Hegel said, is the conflict of two rights, then sanctions are truly a tragedy.

URL: http://www.nytimes.com

GRAPHIC: Photos: A boy weighing rations at a distribution center near Baghdad earlier this year, before the war. More than a decade of U.N.-imposed sanctions hit most Iraqis hard, but Saddam Hussein eventually set up an efficient food-distribution system. (Yannis Kontos/Polaris); Iraqis submitting ration cards at a Baghdad pharmacy in 1999. The rationing system functioned as a computerized surveillance network for Hussein's secret police. (Murad Sezer/Associated Press); Hussein waged a propaganda war against sanctions by orchestrating events, like this one at an Iraqi school, that blamed medical-supply shortages for the deaths of Iraqi children. (Thomas Dworzak/Magnum Photos)

LOAD-DATE: July 27, 2003

RESPONSES TO SUPPLEMENTAL QUESTIONS FOR THE RECORD
for
JUAN CARLOS ZARATE
Assistant Secretary
Office for Terrorist Financing and Financial Crimes
U.S. Department of the Treasury

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON THE
UNITED NATIONS OIL-FOR-FOOD PROGRAM
November 15, 2004

1. **Please provide all information that the Department of Treasury has regarding the bank account in the name of Corsin Financial Limited at Banque Safdie in Geneva, Switzerland.**

   The Treasury Department did not locate information concerning this account in its investigations of Hussein-related front companies, and thus has no information responsive to this request.

2. **Please provide specific information of any illicit funds that Saddam obtained through the U.N. Oil-For-Food Program or in violation of U.N. sanctions and that are being used to fuel the insurgency or any other terrorist activities. (The response to this question can be in the form of a classified briefing if necessary.)**

   Though it is possible that Saddam Hussein's assets could be used to support terrorist activity or the insurgency, the Treasury Department does not possess specific information relating to the use of OFF-related proceeds to fund the Iraqi insurgency or terrorism. Even so, there is always the potential that assets that have been stolen from the Iraqi people are now being used to destabilize Iraq and spread terror. This is why we have engaged in a comprehensive effort to find, freeze, and repatriate Iraqi assets outside of Iraq. The Treasury Department has designated specific entities, such as al Wasel and Babel, as being Hussein controlled "front" companies that likewise participated in the OFF Program. To date, the United States has submitted the names of 232 Iraqi-related entities and individuals, comprised of 191 parastatals (quasi-government entities), 30 individuals, and 11 front companies, to the United Nations, with the request that they be listed under UNSCR 1483 by the 1518 Committee. To date, the UN 1518 Committee has adopted 228 of these submitted names, including 191 parastatals, 27 individuals, and 10 front companies.

Permanent Subcommittee on Investigations
EXHIBIT #38a

3. **Please identify any legislative actions that would assist the Department of the Treasury in its ongoing efforts to recover illicit funds obtained by Saddam or Iraq through the U.N. Oil-For-Food program or in violation of U. N. sanctions.**

   The Treasury Department is in the process of reviewing a number of potential legislative actions and may be in a position to propose some items to Congress soon.

4. **You testified before the Subcommittee that the Department of the Treasury is working with the Iraqi and Syrian governments to obtain detailed information on the approximately $600 - $800 million in funds withdrawn from Iraqi trade and cash account or accounts at the Commercial Bank of Syria.**

   a. **Please provide a detailed briefing to Subcommittee staff about those Commercial Bank of Syria accounts and withdrawals, and copies of all documentation in the possession or control of the Department related to them.**

      We would be happy to provide Subcommittee staff with a detailed, classified briefing about Commercial Bank of Syria accounts and withdrawals relating to Iraqi assets. Copies of the documentation requested by Question 4 could be provided in a classified setting.

   b. **Please describe what steps are being taken to improve Syrian cooperation with United States efforts to obtain detailed information regarding those accounts and withdrawals.**

      We continue to press the Syrian government to take necessary steps to address the USG's concerns regarding a range of issues related to terrorist financing, money laundering, and support for the Iraqi insurgency. Based on these concerns, last May, pursuant to Section 311 of the USA PATRIOT Act, Treasury designated the Commercial Bank of Syria (CBS) as a "primary money laundering concern" and issued a notice of proposed rulemaking, proposing to impose a Section 311 Special Measure that would cut the bank off from the U.S. financial system. In response to this action, Syria invited U.S. financial experts to Damascus to discuss the issues underlying the 311 designation and proposed Special Measure. We requested access to detailed account information regarding specified CBS accounts and withdrawals, including those referenced above (4a), as well as CBS accounts relating to terrorist financing. In September, Treasury led an interagency delegation to Damascus to examine the specific documents related to the suspect accounts, as well as to discuss the return of Iraqi assets and review Syria's anti-money laundering and terrorist finance controls. During the Damascus meetings, Syria either provided the requested documents, or furnished formal statements that they did not exist. Based on our examination of the documents provided, we submitted follow-up requests for additional documents, and are continuing to do so

as our examination unfolds. We continue to demand action by the Syrian government on these issues.

On January 25, 2005, Treasury took action against an individual to help stem cash flows to the Iraqi insurgency and al Qaida. Sulayman Khalid Darwish, who is located in Syria, was designated under Executive Order 13224 for providing financial and material support to the al-Zarqawi Network and al Qaida. We are working to help ensure that further terrorist financing stops emanating from Syrian soil.

For more information about US-Syrian relations, we recommend you contact the State Department.

5. **Under OFAC's responsibility of administering the U.N. Oil-for-Food regulations, did OFAC identify any discrepancies with any U.N. Oil-for-Food contracts? If so, for each discrepancy, please identify the relevant contract, the nature of the identified discrepancy, and whether that discrepancy was reported to the U.N. 661 Committee.**

   Sanctions against Iraq, including the Oil-for-Food program, were implemented under the Iraqi Sanctions Regulations, 31 C.F.R. Part 575 (the "Regulations"). OFAC was responsible for ensuring that US persons interested in participating in the OFF program were in compliance with the Regulations, including the guidelines for specific license applications contained in sections 575.523, 575.524, and 575.525 of the Regulations. As part of the licensing determination process, OFAC consulted with the Department of State for foreign policy guidance. The UN 661 Committee was responsible for examining individual contracts, including the details of price and value, as described in the Procedures to be Employed by the Security Council Committee Established by Resolution 661 (1990) Concerning the Situation Between Iraq and Kuwait in the Discharge of its Responsibility as Required by Paragraph 12 of Security Council Resolution 986 (1995).

6. **With respect to Iraqi bank accounts in Jordan, please provide as much information as possible on the following bank accounts, including providing copies of all related documents in the possession or control of the Department:**

   a. **Account number 500320/02 at the Jordan National Bank on Queen Noor Street in Amman. The contact person at the Jordan National Bank for that account has been identified as Mrs. Nozat. Please identify: (1) who opened the account, including any know-your-customer information about that person; (2) who was authorized to withdraw funds from the account; (3) each person or entity who deposited funds into the account, including relevant account numbers from the originating bank and other identifying information; and (4) each date on which funds were deposited or withdrawn from the account, and the amount and nature of each such transaction.**

Please see the FinCEN document attached for related information, including suspicious activity report details. This document is meant only for the use of this Committee, and is not meant for dissemination of any kind without permission from FinCEN. This document is being provided under regulations issues under the Bank Secrecy Act (BSA), which authorize the Secretary of the Treasury to provide BSA reports to the Congress for a criminal, tax, or regulatory purpose. The BSA prohibits government officers from disclosing information in a suspicious activity report, or even whether such a report has been filed, other than as necessary to fulfill official duties. Accordingly, the information in this document must not be disclosed to the public, nor should the document be disseminated further without the prior authorization of FinCEN. We request that you do not make copies of this document, that you store it in a secure place, that you limit access to the information only to those staffers and Members with a need to know, and that you maintain a log of all those individuals given access to this document.

b. **Account number 8872 at the Jordan Branch of Rafidian Bank opened in the name of the Central Bank of Iraq. Please confirm, as stated in a Treasury interview of a former CBI official, whether this account held kickback amounts that had been demanded by the former Iraqi regime from companies providing goods or services under the Oil-for-Food program. In addition,please identify: (1) each person or entity who deposited funds into the account, including relevant account numbers from the originating bank and other identifying information; and (2) each date on which funds were deposited or withdrawn from the account, and the amount and nature of each such transaction.**

Please see 6 a.

7. **In a hearing before the House International Relations Committee on November 17, 2004, it was alleged that the Iraqi Ambassador to Jordan made payments to the families of Palestinian suicide bombers, using funds from Rafidain Bank accounts in Amman which included kickbacks paid by companies under the Oil-for-Food program.**

a. **What evidence does Treasury have to support theallegations that the Iraqi Ambassador to Jordan made paymentsto the families of Palestinian suicide bombers?**

The Treasury Department does not have evidence secured through its investigations relating to this question.

b. **What evidence does Treasury have to support the allegations that these payments used funds from accounts at the Rafidian Bank in Arnman?**

The Treasury Department does not have evidence secured through its investigations relating to this question.

c. **What evidence does Treasury have to support any other aspect of these alleged transactions?**

As stated above, the Treasury Department does not have evidence secured through its investigations relating to this question.

8. **Please provide all information that the Department of Treasury has regarding whether any illicit funds that Saddam obtained through the U.N. Oil-For-Food Program or in violation of U. N. sanctions were transferred or deposited into the Al-Madina Bank in Beirut, Lebanon, including copies of all related documents in the possession or control of the Department.**

The Treasury Department has identified what we believe to be one Iraqi-related account at this bank, but we do not possess transactional information for the account, and thus cannot assess if OFF Program funds transited it.