

INDEPENDENT INQUIRY COMMITTEE
INTO
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

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PRESS RELEASE

**ILLICIT OIL-FOR-FOOD PROGRAMME PAYMENTS OF
NEARLY \$2 BILLION TO SADDAM HUSSEIN;
IIC URGES UN REFORM**

The Independent Inquiry Committee into the Oil-for-Food Programme today issues its last Report, documenting the extensive manipulation of the Oil-for-Food Programme by Saddam Hussein, whose regime diverted \$1.8 billion in illicit surcharges and kickbacks from the humanitarian purposes of the Programme. More than 2000 companies were involved in illicit payments.

Committee Chair Paul Volcker commented:

“By the year 2000, the imposition of kickbacks and surcharges by the Iraqi regime of Saddam Hussein brought about the emergence of front companies and international trading concerns prepared to engage in these illicit payments. This irrevocably changed the nature of the Programme. It was at this point that the

“gatekeepers” of the Programme, the Secretariat, the Security Council and UN contractors failed most grievously in their responsibilities to monitor the integrity of the Programme”

Originally conceived as a “temporary” program to bring food and medicines to the Iraqi populace, the Oil-for-Food Programme stretched to seven years with more than \$100 billion in transactions (over \$64 billion in oil sales and almost \$39 billion for food). Serious vulnerabilities in the Programme and its management were exploited by some within the United Nations and many outside it, including the Iraq regime, grievously damaging the reputation and credibility of the United Nations.

Last month, the Committee issued its comprehensive report on the management and oversight of the Programme by the United Nations and found both the United Nations Secretariat and the member states of the Security Council wanting. In three preceding reports and two briefing papers, the Committee has reported the results of its investigations on specific aspects of the Oil-for-Food Programme.

In the words of the Chair of the Committee, Hon Paul A. Volcker:

“The results of the Committee’s investigation into corrupt and illicit activity by many buyers of oil and sellers of humanitarian goods reinforce the Committee’s central conclusion of failures in UN oversight and management. The need for stronger executive leadership, thoroughgoing administrative reform, and more reliable controls and auditing within the UN is underscored.”

ILLICIT INCOME

The Report released today chronicles in detail the manipulation of the Programme by Saddam Hussein’s regime in Iraq and provides examples of oil buyers and humanitarian goods sellers many of whom paid, directly or indirectly, illicit oil surcharges or kickbacks on humanitarian goods contracts through a variety of devices. These case studies are the centerpieces of the Report.

There is also a careful analysis of the role of Banque Nationale de Paris S.A. (“BNP”), the bank selected to hold and service the escrow account to which all Programme proceeds were deposited and from which all suppliers were paid,

Companies and other individuals and entities which paid the illicit kickbacks came from some 66 member states, while those paying illicit surcharges on oil purchases came from, or were registered in, some 40 member states. A very substantial amount of data has been collected to support this area of the investigation, details of which, as noted at the end of this release can be found on the Committee’s website.

The Programme was just under three years old when the Iraqi regime began openly to demand illicit payments from its customers. The oil overseers passed their concerns in this regard to the Secretariat and to the Security Council, but little action was taken. BNP, which was in a position to have first hand knowledge, did not recognize a particular responsibility to adequately inform the UN. The Permanent Missions to the United Nations, which were responsible for approving their national companies to do business with the Programme, took no action. The decline resulted in about \$1.8 billion in illicit payments to the Iraqi regime in violation of UN sanctions and the Programme rules.

These serious failures of Programme administration should also be assessed from another perspective. Saddam Hussein’s regime derived far more revenues from smuggling oil *outside* the Programme than from its demands for surcharges and kickbacks from companies that contracted *within* the Programme. Thousands of vehicles and trucks carried smuggled goods across the Iraqi border with limited, if any, inspection or oversight by member states involved or the UN. UN inspectors were charged only with the inspection of oil and goods financed under the Programme and the Security Council failed officially to recognize the problem and authorize an effective response. The value of oil smuggled outside of the Programme is estimated by the Committee to be nearly USD 11 billion as opposed to an estimated USD 1.8 billion of illicit revenue from Saddam Hussein’s manipulation of transactions occurring under the Programme.

Oil Sales: The Initial Phases

Although the sale of crude oil was to be monitored and approved by the Security Council's sanctions committee (known as the "661 Committee"), the Iraqi Ministry of Oil and its marketing arm, the State Oil Marketing Organization ("SOMO"), were given significant leeway in choosing its customers and the amount of oil to be sold to each customer. Initially, SOMO contracted with oil companies without regard to the nationality of the owner or its corporate base.

An American, Oscar Wyatt, was the first person who agreed to purchase oil and arrange for a vessel to lift the oil through his company, Coastal Petroleum Company, based in the United States. Other established oil companies followed suit, including: A.S. Tupras (Turkey), Alfa Eco (Russia), BP (United Kingdom), Chevron Products Company (U.S.A.), Lukoil Petroleum Ltd. (Russia), Machinoimport (Russia), Repsol Petroleo S.A. (Spain), Shell (United Kingdom/Netherlands), SOCAP International (France), Total International Limited (France), and Zarubezhneft (Russia).

The Politicization of Oil Allocations

As early as Phase II of the Programme, the Government of Iraq began directing oil allocations to particular countries and individuals, clearly favoring countries "friendly to Iraq" and individuals perceived as being able to influence public opinion in favor of Iraq. As of Phase IV, Iraqi leaders decided to deny American, British, and Japanese companies direct oil allocations due to the opposition of these countries to the lifting of sanctions on Iraq. At the same time, Iraq leaders gave preferential treatment to France, Russia, and China because these countries were permanent members of the Security Council and perceived to be more favorable to lifting of the sanctions.

Imposition of Surcharges

In the early fall of 2000, the Government of Iraq ordered that surcharges be imposed on every barrel of oil sold under the Programme. The surcharge scheme, implemented by the Ministry of Oil and SOMO, lasted for over two years from the middle of the Phase VIII through the middle of Phase XII when it was effectively stopped with the advent of retroactive pricing,

The Phase IX Crisis

The imposition of mandatory surcharges in Phase IX of the Programme beginning in December 2000 created a crisis in the Iraqi oil industry, particularly after the surcharge was increased to \$0.50 per barrel. Established buyers refused to pay the higher surcharge. The Ministry of Oil and SOMO scrambled to find new customers willing to pay the surcharges. Oil sales increasingly took the form of contracts with front companies, backed financially and technically by several international trading companies willing to facilitate surcharge payments.

The Collection of Surcharges

The SOMO database maintained a running tally of surcharges collected—organized by beneficiary and by contracting company. The database reflected the amount of the surcharge paid, how it was paid, and the name of the individual or entity making the payment. Most surcharges were paid through deposits to designated SOMO bank accounts in Jordan and Lebanon or through cash payments made at Iraqi embassies abroad. With a few exceptions, the two banks used by SOMO to collect the surcharge amounts were Fransabank in Lebanon and Jordan National Bank (Ahli Bank) in Jordan.

Humanitarian Imports and Kickbacks

Iraq's largest source of illicit income from the Programme came from "kickbacks" paid by companies that it selected to receive contracts for humanitarian goods under the Programme. These payments to the Iraqi regime were disguised by various subterfuges and were not reported to the United Nations by Iraq or the participating contractors. As set forth in the Committee's recent Programme Management Report, available evidence indicates that Iraq derived more than \$1.5 billion of income from these kickbacks.

As with its selection of oil purchasers, political considerations influenced Iraq's selection of humanitarian vendors. The kickback policy began in mid-1999 from Iraq's effort to collect "costs" for transporting goods to inland destinations after their arrival by sea at the Persian Gulf port of Umm Qasr. Not only were these side payments unauthorized, but it

was an easy matter for Iraq to impose “inland transportation” fees that far exceeded its actual transportation costs.

By mid-2000, Iraq instituted yet a broader policy to impose generally a ten-percent kickback requirement on all humanitarian contractors in addition to the requirement for contractors to pay inland transport fees. Iraq dubbed its more general kickback requirement as an “after-sales-service” fee. After-sales-service fee provisions often were incorporated into contracts as a basis to inflate prices and permit contractors to recover from the United Nations escrow account amounts they had paid secretly to Iraq in the form of kickbacks.

Many companies, if not willing to go along openly with Iraq’s schemes, would make payments to third parties or agents without examining or admitting to the likely purpose of these payments. The Committee calculates that more than 2,200 companies worldwide paid kickbacks to Iraq in the form of inland transportation fees, after-sales-service fees, or both.

In addition, this Report examines the individual roles of twenty-three companies that participated in the payment of kickbacks on humanitarian contracts. The companies fall roughly into four groups: (1) *Iraqi front companies*; (2) *major foodstuff providers*; (3) *major trading companies*; and (4) *major industrial and manufacturing companies*.

Role of BNP

In 1996, the United Nations selected Banque Nationale de Paris S.A. (“BNP” or the “Bank”), a French banking corporation, to serve as the escrow bank to receive and disburse funds from transactions under the Programme.

The Bank’s tasks under the contract were threefold: (a) establishing and managing an escrow account to receive proceeds from the sale of Iraqi oil and to disburse amounts for Iraq’s purchase of humanitarian goods; (b) confirming letters of credit issued from banks

retained by companies buying oil from Iraq; and (c) issuing letters of credit (L/Cs) for the purchase of humanitarian goods

Over the course of the Programme, BNP confirmed L/Cs for the purchase of oil and maintained the account into which \$64.2 billion in oil proceeds was ultimately deposited. BNP—either directly or through one its affiliates—also issued letters of credit for all humanitarian purchases for the south and central governorates of Iraq and for approximately three-fourths of all L/Cs for oil transactions. These amounted to approximately \$34.5 billion.

BNP was not debarred from issuing such L/Cs in its contract with the UN. However, in its dual role and responsibilities, the duty of secrecy to a private contracting or financing party (claimed by BNP's Geneva affiliate), was potentially inimical to the interests of full disclosure to BNP's primary customer—the United Nations—of the true financial arrangements underlying transactions conducted under the Programme.

While some elements of the Bank's relations to the UN remain in dispute, BNP was clearly inhibited from disclosing fully the firsthand knowledge it acquired of the true nature of financial relationships that fostered the payment of illicit surcharges. The manner in which that potential conflict of interest was resolved by the Bank raises broad questions of fiduciary responsibility and the relevance of international efforts to deal with money-laundering and corporate corruption.

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Copies of the Committee's Report on Programme Manipulation, along with accompanying statistical tables, will be available on the Committee's website: <http://www.iic-offp.org>