STATEMENT OF SENATOR CARL LEVIN (D-Mich.)

BEFORE

THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

ON

THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

February 15, 2005

Today the Permanent Subcommittee on Investigations is conducting its second hearing on the United Nations Oil-for-Food program. Today's focus is on the process used by the U.N. to monitor Iraq's oil sales and to inspect imported goods imported by Iraq with the proceeds of those sales. U.N. employees, U.N. contractors, and U.N. member states all had roles to play in inspecting goods, monitoring oil sales, and enforcing U.N. sanctions. Their failures as well as their successes hold important lessons for future U.N. sanctions programs.

The U.N. recently released 58 audits reports on the Oil-for-food program that were prepared by the U.N.'s internal auditor, the Office of Internal Oversight Services. The public release of these reports set an important new precedent in U.N. auditing, opened the door to greater U.N. oversight at the U.N., and contributed to the culture of increased transparency and accountability that needs to take hold at the U.N. It is a positive omen.

The U.N audit reports show that the Office of Iraqi Programs lacked basic financial controls and exercised inadequate oversight of the Oil-for-Food program. The U.N.'s Independent Inquiry Committee—known as "the Volcker Committee"—also shows us that the U.N.'s auditing efforts themselves were inadequate. The Volcker report found, for example, that the audits of the Oil-for-Food program were understaffed and underfunded; the audits' scope was often too narrow; and the follow-up process to correct identified problems was flawed.

The Volcker report also presented disturbing evidence that the head of the U.N.'s Office of Iraqi Programs, Benon Sevan, may have personally profited from oil allocations made by Iraq. This evidence, as well as additional evidence to be presented today, builds upon the foundation in the Duelfer report addressing the receipt of Iraqi oil allocations and vouchers. In addition, the Volcker report identified problems with how the U.N. selected Saybolt, Lloyds Register, and BNP for key Oil-for-Food administrative contracts.

The Volcker Committee in its report noted that it was continuing to investigate the U.N.'s decision to award an inspection contract to Cotecna in 1998, to determine whether favoritism played a role. This Subcommittee is also examining that issue. Kojo Annan, a former Cotecna consultant, denies any improper conduct in the award of the contract. But while Kojo Annan has cooperated with the Subcommittee by voluntarily submitting to a lengthy interview, we have been unable to reach a judgment about the contract award due to a lack of Subcommittee access to U.N. documents and personnel. Questions about how the Cotecna contract was awarded remain unanswered.

The UN has responded to the Volcker report by expressing a determination to remedy identified deficiencies and strengthen its management, procurement, and auditing functions. The U.N.'s comments suggest that the UN staff has gotten the Volcker Committee's message and is willing to embark on real change. I hope so. To bolster public confidence, it is essential that the U.N. fully implement the Volcker Committee's recommendations.

A key concern about the Oil-for-Food program is the extent to which it was manipulated by Saddam Hussein to obtain illicit revenues for his regime. We know that some of Saddam Hussein's revenue from sales of oil came from the kickbacks he got from contractors involved in the Oil-for-Food program. But the bulk of his illicit oil sale revenues actually came from the money he received from unregulated sales of Iraqi oil, entirely outside of the Oil-for-Food program, primarily to Turkey, Jordan, and Syria. We and the rest of the world looked the other way from those sales even though they were prohibited by the U.N. sanctions regime.

The Volcker report states:

> "There can be no question that bribes and other abuses … provided many opportunities for illicit gains, often as part of a deliberate effort by Iraq to 'reward friends' or cultivate political influence. What is not clear is the extent to which those illicit financial gains benefited middlemen … and corrupt individual Iraqi officials rather than the Iraqi Regime. What does appear clear is that the major source of external financial resources to the Iraqi Regime resulted from sanctions violations outside the [Oil-for-Food] Programme's framework."

Using numbers provided by the Duelfer report, it appears that Saddam's abuse of the Oil-for-Food program provided about one-sixth of Iraq's total illicit income, while nearly three-quarters of his illicit income came from open oil sales which weren't supposed to take place because they were outside of the Oil-For-Food program. Those sales were primarily with Jordan, Syria, and Turkey. They occurred with our knowledge and acquiescence.

In fact, as we have dug through the historical record, we have found evidence suggesting that Iraq may have obtained even more illicit revenue from its oil trade with Turkey than previously estimated. The Duelfer report, for example, states that from 1991-1998, Iraq obtained at most $30 million per year from illegal oil sales, outside of the UN oil-for-food program, with its neighbors. However, the evidence now suggests that Iraq's illegal oil trade with Turkey alone during these years generated far more revenue for Saddam than that—perhaps hundreds of millions of dollars each year.

In July 1992, the U.S. Ambassador to the U.N. Edward Perkins and the Principal Deputy Secretary of State George Ward testified before the House Foreign Affairs Committee that the U.S. was "satisfied" with Turkey's compliance with the U.N. sanctions. But Congressman Lee Hamilton stated he had reports there were "1,500 trucks [with illicit goods] going into Iraq every day from Turkey. . . . I'm talking about 1,500 trucks. You're talking as if a knapsack is going across the border from time to time, carried on one person's back."

The press reported "big profits" were being made from Iraq's oil sales to Turkey in 1992. The New York Times also noted that "the Western allies and just about everybody else seem ready to avert their gaze from [this illegal smuggling]."

Three years later, the New York Times estimated that, in 1994, Iraq was illegally selling about 200,000 barrels of oil per day through Turkey, obtaining illicit revenue for Saddam Hussein totaling between $700 million and $800 million per year. The article quoted the Administration protesting that the illegal trade was at most half this amount, but that still means $300 to $400 million in a single year for Saddam.

The oil sales that we and the world tolerated were open and obvious, despite their being in violation of the UN sanctions we helped put in place. For example, in March 1998, the BBC posted this photograph, reporting that it had found "clear evidence that Iraq is breaking U.N. sanctions by exporting hundreds of millions of dollars worth of oil across its borders into the Gulf and Turkey. Huge convoys of trucks and many ships carry the fuel out of Iraq where it is sold on the black market."

In June 1998, the New York Times reported 50,000-60,000 barrels per day of oil and diesel fuel were being trucked from Iraq into Turkey, and Saddam's son Uday was personally in charge of these sales. An Administration official acknowledged the illegal trade, saying: "The tendency has been to turn a blind eye because the Turks are benefiting from it at a time when the Turks are complaining anyway about sanctions on Iraq."

In 2000, Turkey signed an official trade protocol with Iraq. In 2002, according to the Duelfer report, Iraq was selling "40,000 to 80,000 barrels of oil per day to Turkey using approximately 450 to 500 Turkish trucks." Duelfer estimated that, in 2002 alone, these oil sales generated about $330 million for Saddam.

It is clear that the whole world, including the United States, knew about Iraq's oil sales to Turkey, Jordan, and Syria. In the case of the United States, we not only knew about the oil sales, it actively stopped the United Nations' Iraq sanctions committee -- known as the 661 Committee -- from acting to stop these sales. Beginning in 1996, Turkey formally asked the United Nations, through the so-called 661 Committee, for permission to increase its oil trade with Iraq.

The United States expressly and repeatedly objected to the 661 Committee's consideration of Turkey's application instead of voting to turn it down. The U.S. could have voted to end the sales. Instead it stopped the U.N. from acting. The result was that illegal oil sales to Turkey continued unabated. As a result, hundreds of millions of dollars went into the pockets of Saddam Hussein.

Both the Clinton and Bush administrations demonstrated in other ways an awareness and implicit approval of Iraq's oil sales to Turkey and Jordan. Both administrations repeatedly sent to Congress waivers from U.S. laws prohibiting U.S. foreign aid to any country that violated UN sanctions on Iraq. Each year since 1994, Congress has prohibited foreign aid to any country violating UN sanctions on Iraq. But both the Clinton and Bush administrations repeatedly issued waivers for Turkey and Jordan. Oil sales by Iraq to Turkey and Jordan continued apace, in violation of U.N. sanctions apace, with our knowledge and implied consent.

The U.N. sanctions, despite all of the leakage, abuses, and looking the other way to violations, were stopping Saddam from re-arming Iraq. In testimony to Congress in 2001 about the sanctions, Secretary of State Colin Powell stated, "I think credit has to be given … for putting in place a [sanctions] regime that has kept him pretty much in check."

The sanctions were working sufficiently well that Saddam used every tactic at his disposal to circumvent and corrupt them. He was intent on undermining the UN sanctions regime precisely because they were working so well.

UN sanctions represent one of the few available non-military tools to control the behavior of threatening nations. Helping sanctions work more effectively is an important goal – and fixing responsibility when they are allowed to be circumvented or corrupted will hopefully prevent that from happening in the future.

I commend the Chairman for his determined efforts to achieve these goals through these hearings, and I commend our staffs for the way they have worked together in carrying out the investigation on which our hearings are based.

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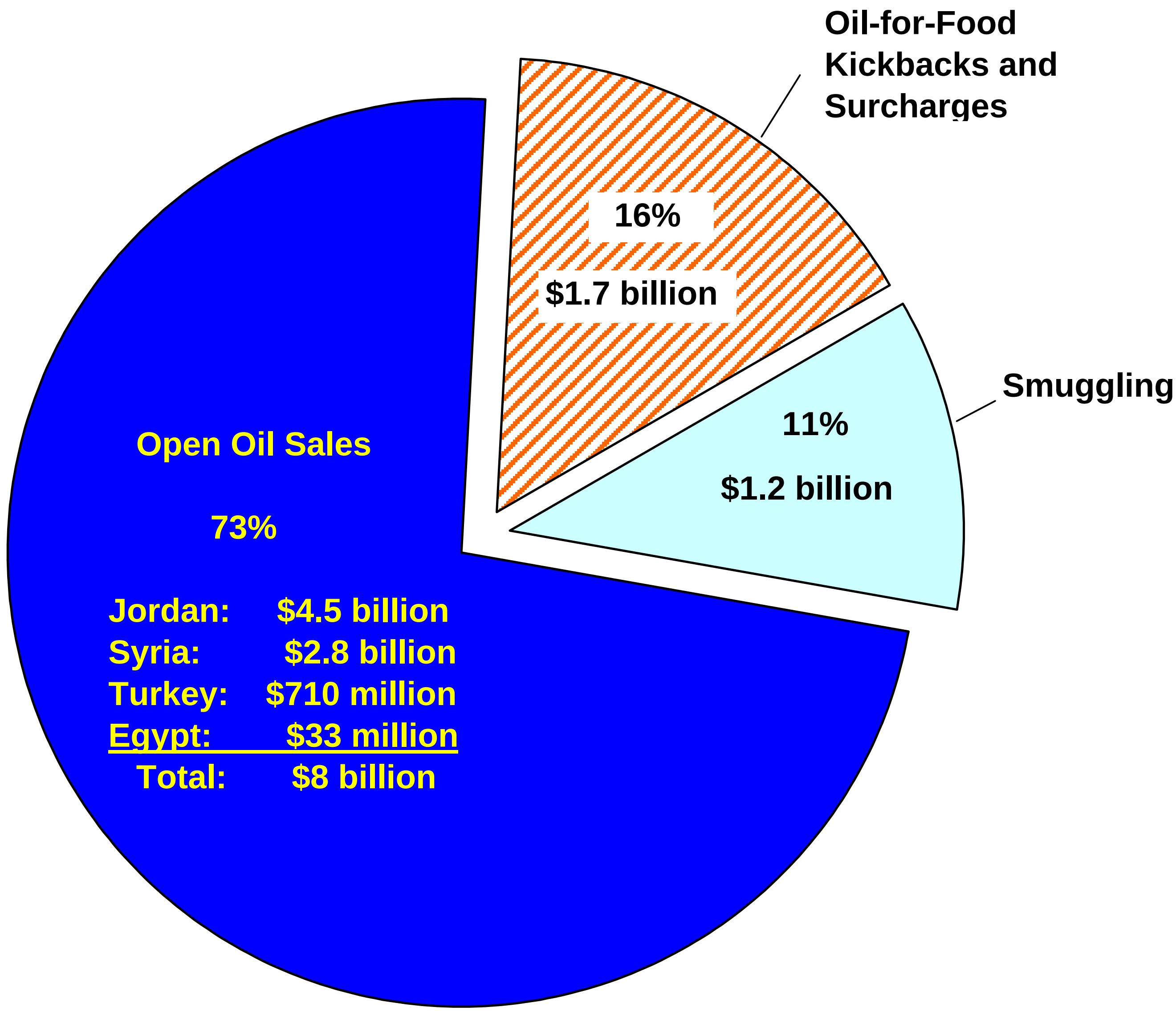
Illicit Iraqi Revenue
1991-2003



Data Source: ISG Report
Chart prepared by Minority Staff,
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Despatches

Iraq's illegal trade in oil


The UN is turning a blind eye to lorries smuggling oil out of Iraq

The BBC has found clear evidence that Iraq is breaking UN sanctions by exporting hundreds of millions of dollars worth of oil across its borders into the Gulf and Turkey. Huge convoys of trucks and many ships carry the fuel out of Iraq where it is sold on the black market.

The only oil Iraq is allowed to sell is through the oil-for-food programme, controlled by the UN. At the moment, this is limited to $2bn every six months, to buy food and medicine. The UN is prepared to increase that limit, but no account is being taken of the illegal trade which could be worth as much as a $1bn.

Our correspondent Paul Adams has managed to get to the town of Dohuk, on Iraq's northern border, and reports on Saddam's huge trade in smuggled oil.

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Historic day for East Timor

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The UN's Stafford Clary tells Paul Adams the Kurdish region could blossom (1' 05')

The mountains that dwarf the Kurdish town of Dohuk separate two worlds.

To the south, oil-rich Iraq, to the north, oil-thirsty Turkey.

[image: Pipeline oil is carefully monitored]

Pipeline oil is carefully monitored

Hard against the border, a tiny oil-metering station links these two worlds.

Iraqi crude passes this way bound for Turkey and beyond. This Iraqi oil flow is carefully monitored by the UN.

A short drive away, another kind of trade lumbers across the mountains.

The road is black with oil. Close to the border, makeshift truck-stops sell Iraqi oil products. The entire valley seems dedicated to smuggling. This is Iraq's other pipeline.

[image: The road is black with oil]

The road is black with oil

As many as 700 trucks come this way every day bound for Turkey, almost all of them are carrying fuel, most of it diesel.

Under the terms of the UN's oil-for-food programme, this is sanctions-busting. It's hardly a secret.

Some of the tankers carry several thousand litres of cheap fuel into Turkey at a time. It is obvious to anyone standing at the side of the road what is going on.

To get into Iraq, drivers hand over a tonne and a half of supplies to the Kurds who control the border.

Food for oil: intended as a short term measure

The rest travels south into Baghdad-controlled territory. It takes place under the noses of UN-hired inspectors who monitor the flow of humanitarian goods.

Shipments must be checked-off against a list drawn up by the UN. These inspectors have neither the mandate nor the numbers to conduct rigorous searches.

Contraband finds its way on to the streets of Dohuk. Smuggling between Iraq and Turkey is increasingly sophisticated. The Kurds act as the middlemen. No-one seems to mind.

The Kurds of Iraq need all the assistance they can get.

Smuggling probably helps to keep them alive. What the Iraqi government does with the profits of this operation can only be guessed at.

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