Oil for Food -- SFRC oversight
Status report
Prepared by the Majority staff
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Summary

The Senate Foreign Relations Committee has undertaken an inquiry into the Oil-for-Food program under the chairmanship of Senator Lugar. The first hearing was held on April 7. In its inquiry, the Committee found that a program intended to assist the Iraqi people provided opportunities for their oppressor to rob them of a significant portion of the resources that were meant by the international community to address their suffering.

The UN Oil-for-Food program was designed with the intention of ensuring that the humanitarian needs of the people of Iraq were met while the United Nations maintained economic sanctions against Iraq for its failure to comply with relevant UN Security Council resolutions. While the program provided significant relief to the Iraqi people, it also opened up opportunities for Saddam to skim billions of dollars for his own purposes. The situation occurred because support for the sanctions and their rigorous enforcement eroded among many UN member nations for financial, philosophical and other reasons. Also, the single-minded focus of the United States was on preventing Saddam from obtaining WMD, with the result that we were willing to overlook indications of certain sanctions irregularities as long as, at the end of the day, the sanctions survived.

History

The UN's Oil-for-Food program (OFF) was first offered by the Security Council to Saddam immediately after the first Gulf War as a method by which Iraqi oil could be sold to the world and humanitarian goods purchased with the proceeds, all while UN sanctions on Iraq remained. Hoping to manipulate the world's media and galvanize public opinion against the sanctions, Saddam refused the offer. For the next five years he willingly let his people starve while he and his cronies continued to live lavishly. Throughout, he claimed that Iraqi children were dying as a result of the US-driven UN sanctions.

The international community had united to condemn the invasion of Kuwait and to punish Iraq with sanctions in 1990. But, once Saddam was driven from Kuwait, many nations' willingness to uphold sanctions began to slip – especially among Iraq's neighbors Turkey, Jordan and Syria, who suffered substantial trade losses from the sanctions. Equally reluctant were China, France and Russia to whom Saddam had granted huge oil concessions that could not be pursued with sanctions in place. (In his testimony before the SFRC, US Ambassador to the UN, John Negroponte, in response to a question, said that China, France and Russia had indeed impeded US/UK attempts to tighten the sanctions.) Thus many of the most important players in maintaining UN sanctions – three of the five permanent members of the Security Council and three of Iraq's six neighbors – were working to lift sanctions virtually from the moment the fighting stopped. Equally significant was Saddam's ability to play to the G-77 audience by claiming that Iraq, as a sovereign and unoccupied country, was being victimized by the West.

Unfortunately, the West did little to counter Saddam's propaganda and by the mid-1990's was having a hard time holding together almost any support for continued sanctions against Iraq. And so, in 1995, the US, through the UN, again offered to let Saddam sell oil and purchase humanitarian goods with the proceeds; again, Saddam rejected the offer. Finally, in May 1996, Saddam agreed to allow the UN to establish OFF, though Iraqi oil did not actually begin to flow through legitimate channels until the end of the year. In order to prevent abuses, the volume of oil exported was monitored at the point the oil was "lifted" into either oil tankers or trucks, and goods brought into Iraq purchased with OFF proceeds were checked for quantity and type at the border.

When the OFF program began, Iraq's purchases of goods were limited to medicine, health supplies, foodstuffs, and materials and supplies for essential civilian needs. Over the life of the program, however, the Security Council took subsequent decisions to allow Iraq to purchase additional categories of goods. These expanded categories of goods included equipment to store, process, and transport food and medicine, and spare parts for Iraq's oil industry. These changes were made in response to charges pressed by Iraq and by its supporters on the Security Council that the OFF program was not doing enough to alleviate adverse consequences of the sanctions regime on the Iraqi civilian population. Such an expansion in the scope of allowed imports was justified on the grounds that there was no point in importing food or medicine that would only spoil due to improper handling. Moreover, it was argued, Iraq needed to invest in its oil sector if its people were to be fed.

Throughout this period, and continuing through 2003, Saddam smuggled oil to Jordan, Turkey, and Syria, evading the controls of the OFF program. According to the GAO, these illicit sales generated for Saddam as much as $5.6 billion.

How OFF Worked

The OFF program had procedures for reviewing contracts for the sale of oil and for the purchase of goods. Oil sales contracts were reviewed first by a group known as the Oil Overseers, former oil company executives with market experience.[1] Their task was to ensure that Iraq's asking price was not at variance with world market prices. All contracts both for the sale of oil and for the purchase of goods were reviewed by the UN's Office of the Iraq Program (OIP), which examined them for compliance with OFF program procedures.

Following this initial review of the contracts, each contract was reviewed by a committee created by the Security Council – known as the "661 Committee" named after the UN Security Council Resolution that established the Iraqi sanctions in 1990. All Security Council member states were represented on the "661 Committee," and any state could prevent approval of a contract it believed did not comply with the sanctions regime. The United States along with the United Kingdom delayed or prevented the approval of many contracts, and did so mostly in connection with contracts that included items that might have military applications. Iraq

[1] The Oil Overseers was originally composed of four members, one representative each from France, Norway, Russia and the United States. By the late 1990's, only France and Russia remained. China, which felt it had been denied a slot in breach of a previous understanding, refused to allow the US to replace its representative. This tension reflected underlying disagreements that grew worse over time and illustrates the difficulties of operating the program.

portrayed such U.S. contract holds as intended to cause suffering to the Iraqi people by denying them necessary humanitarian supplies, and the United States came under pressure to minimize its use of such holds. It is unclear whether the United States ever used its hold to deny a contract for reasons of price, quality or quantity.

Saddam exploited weaknesses in the OFF program to skim money both from contracts for the sale of oil and from contracts for the purchase of goods.

With respect to oil sales contracts, Saddam did so by manipulating the price at which oil was sold, in an effort to impose a surcharge on purchasers. Initially, Saddam rarely tried to over- or under-sell oil beyond a $0.20 per barrel figure. This eventually changed and he began to try to set the monthly price for oil at the beginning of the month (and hope the actual monthly average was lower), a tactic blocked by US and UK representatives in the “661 Committee.” The “661 Committee” had the final say once OIP and the Overseers had vetted the contracts. The US/UK were successful in imposing “retroactive pricing” to counter Saddam’s attempts to either demand a surcharge or under-sell oil and demand the difference as a kick-back.

With respect to contracts for the purchase of goods, Saddam demanded kickbacks from companies that supplied goods in exchange for granting them the opportunity to receive contracts from Iraq under the OFF program. Such kickbacks were paid outside OFF program controls, thus giving money to Saddam directly.

According to the GAO, Saddam generated as much as $4.1 billion from such abuses of the OFF program.

What Saddam did with this money is still in question. Clearly, some went to build palaces, some to purchase weapons on the black market, and some he used to bribe willing commercial partners and, possibly, UN officials and member nation officials and politicians. A similar attempt to buy influence using “oil vouchers,” which would then be redeemed for cash, has been alleged and at least one of those who is suspected of receiving such vouchers is the former head of the UN’s OIP.

The Paul Volcker Investigation

Following Senator Lugar’s strong insistence and U.S. Ambassador Negroponte’s advice, the UN Secretary General announced an official, independent investigation into the scandal. Subsequently, Senator Lugar encouraged Paul Volcker, former Chairman of the Federal Reserve Board, to accept the leadership of the investigatory commission. Yesterday, Senator Lugar and Mr. Volcker lunched together in DC to discuss plans for the investigation. Mr. Volcker hopes to have a full staff of 25-30 and has received an initial budget of four million dollars. Kofi Annan has instructed UN staff that all OFF documents are to be turned over to the Volcker Commission, and he has announced his intention that any UN official found to have profited illegally from OFF will have their immunity stripped for purposes of prosecution. The Commission hopes to issue interim reports during the process of its investigation, but, to date, the timing of those reports has not been officially determined. The investigation is expected to take at least one full year.