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Mr. Chairman, distinguished members of the Committee, I welcome the opportunity to appear before you to discuss the U.N. oil-for-food program and to answer your questions on various aspects of the management and execution of the program.

Mr. Chairman, let me start by discussing why the Iraq sanctions were imposed and why the Oil-for-Food Program was established. Four days after Iraq invaded Kuwait in 1990, the Security Council adopted Resolution 661, which imposed comprehensive trade and financial sanctions against the former Iraqi regime. The United States government supported this measure as part of a larger strategy to force Iraq to cease hostilities and to withdraw its forces from Kuwait.

At the end of the Gulf War in 1991, the Security Council adopted Resolution 687 that extended comprehensive sanctions on Iraq to ensure that Saddam Hussein complied with the major provisions of the ceasefire. By retaining the sanctions, the Council also sought to deny Iraq the capability of rearming or constituting its weapons of mass destruction and other military programs.

The sanctions were not anticipated to remain in place for more than a year or two before Saddam complied. We now know that Saddam chose not to comply. By 1995 in the wake of deteriorating humanitarian conditions in Iraq, many in the international community called for an end to the restrictions, reflecting concern that the impact of the sanctions was being borne primarily by the innocent Iraqi civilian population.

In April 1995 the Security Council adopted Resolution 986, establishing the Oil-for-Food Program to alleviate the serious humanitarian crisis while maintaining comprehensive restrictive measures to deny Saddam access to

items that he could use to again pose a threat to his neighbors in the region.

The sanctions committee that was established under Resolution 661 in 1991, the 661 Committee, monitored the implementation of the overall sanctions regime on Iraq, and after the adoption of Resolution 986, it also monitored the implementation of the Oil-for-Food Program.

The 661 Committee, like all sanctions committees, operated as a subsidiary body of the Security Council. Unlike the Council, decisions were made on a consensus basis requiring the agreement of all parties and members. In addition to providing general oversight of the Oil-for-Food Program and to monitoring member state compliance with the sanctions, the committee, through each of its members, was also responsible for reviewing humanitarian contracts, oil spare parts contracts and oil pricing submitted on a regular basis by Iraq to the U.N. for approval.

The U.S. delegation was an active participant in all such reviews. The efforts of the U.S. and the United Kingdom to counter or address non-compliance were often negated by other members' desires to ease sanctions on Iraq. The atmosphere in the committee, particularly as the program evolved during the late 1990s, became increasingly contentious.

The fundamental political disagreement between members over the Council's imposition of comprehensive sanctions was often exacerbated by the actions of certain key member states in advancing self-serving national economic objectives. In retrospect, although the consensus rule often stymied progress in the committee, that same consensus rule helped the U.S. achieve its objectives in a number of critical ways.

The imposition of a retroactive pricing mechanism and our ability to place holds on humanitarian contracts that contained potential dual-use items

were both made possible by the use of the consensus rule.

Judging the success or failure of the Iraq sanctions depends on the view of their objectives. Clearly they failed to force the regime of Saddam Hussein to comply with its international obligations. But they did succeed in limiting Iraqi efforts to rebuild their military capabilities after the Gulf War. As regards the Oil-for-Food Program, similar considerations apply. The major shortcomings of the program have been widely documented in recent months, but the Oil-for-Food Program did succeed in its humanitarian objective of ensuring that the Iraqi people were adequately fed, thus limiting the impact of sanctions on them.

Much of what the U.S. Government could and could not achieve with regard to monitoring the program and implementation of the sanctions was directly related to the political situation surrounding the contentious issue of Iraq in the Security Council and in the 661 Committee. U.S. efforts to keep the comprehensive sanctions regime in place repeatedly were challenged by Council members who complained about the humanitarian impact of sanctions on the Iraqi people, and whose national firms would derive economic benefit from the lifting of sanctions. Indeed, starting in the mid-'90s and continuing into 2001, these pressures to lift sanctions grew.

Violations with respect to the oil-for-food program manifested themselves in a whole pull-down menu of manipulative mechanisms in order to circumvent the sanctions, including surcharges, topping off, influence pedaling, product substitution, product diversion, phony service contracts, phantom spare parts, shell corporations, illusory performance bonds, hidden bank accounts and then plain old fashioned bribery and kick backs to the tune of several billion dollars.

Let me provide examples in two key areas: manipulation of oil pricing and kickbacks on the oil-for-food program.

The first regards oil flowing out of Iraq. The former Iraqi regime, through the State Oil Marketing Organization, proposed prices for various markets and grades of crude for review by the U.N. Oil Overseers, and for approval by the 661 Committee. The U.N. Oil Overseers and committee members verified that the purchase price of the petroleum and the petroleum products were reasonable in light of prevailing market conditions. Evidence that the Iraqis were attempting to impose excessive price premiums on oil exports to exploit differences between oil prices approved by the 661 Committee and subsequent fluctuations in global oil prices surfaced as early as the fall of 2000, when the UN oil overseers informed the 661 Committee of instances in which the GOI was requesting imposition of an additional fee on the sale of Iraqi crude.

My second example involves goods coming into Iraq. Again, there was a clear division of responsibility. While Iraqis retained the authority to contract with specific suppliers under the oil-for-food program, the 661 Committee was tasked with ensuring that the contracted goods were appropriate for export to Iraq under the conditions set out in Security Council Resolution 986. Once a contract was approved by the committee and the goods shipped, the U.N. inspections agent, Lloyds Register, and later Cotecna, were responsible for authenticating the arrival of these goods into Iraq. Separately, it was the responsibility of member states to prevent sanctioned goods from entering into Iraq.

Mr. Chairman, I offer these examples to illustrate exactly where responsibility lay. There were, in hindsight, substantial problems related to

all of these areas of responsibility. Some members did not take their international obligations seriously and either directly or indirectly facilitated sanctions-busting activities by the Saddam regime. The 661 Committee was mired in a political debate with regard to Iraq that often impeded it from taking action against violators of the embargo. And as the recent Volcker Independent Inquiry Committee reports indicate, there are serious charges that U.N. officials may have allowed Saddam to further undermine their system.

I stated earlier that the United States has made every effort to address violations within the 661 Committee, even though we were often impeded by other committee members.

In late 2000, U.N. Oil Overseers reported that Iraqis were attempting to impose excessive premiums on oil exports. The 661 Committee, led by the United States and the United Kingdom, agreed to a statement on December 15, 2000, making clear that additional fees above the selling price approved by the 661 Committee were not acceptable. Despite circulation of this message to all companies approved to lift Iraqi oil, evidence of the illicit surcharges continued during the spring of 2001. The United States, working in close coordination with the British delegation, raised the issue of excessive oil price premiums in a series of more than 40 formal and informal 661 Committee and Security Council meetings during that period.

After months of stalemate within the committee, the U.S. and British experts made creative use of the consensus rule governing decisions in the 661 Committee by withholding support until the end of the month on oil pricing proposals submitted at the beginning of the month by the Iraqis. This retroactive price analysis gave the U.S. and British experts the opportunity to

compare oil prices sought to the actual market price of similar crude oils to determine if SOMO's prices reflected fair market value -- a requirement under Resolution 986. Beginning in October 2001, the United States and United Kingdom regularly employed the retroactive pricing mechanism to evaluate SOMO's prices until the suspension of the oil-for-food program in 2003.

The retroactive oil pricing we imposed had the intended effect. By the spring of 2002, the U.N. Oil Overseers reported that the oil price variation from market levels had been reduced from as much as 50 cents per barrel to an accepted industry variation of 3 to 5 cents.

Separately, allegation of kickbacks to the oil-for-food program began to surface in late 2000. U.S. and British experts raised this issue with the 661 Committee experts and the Office of the Iraq Program's representatives in 2002 and early 2001 and formally submitted proposals to address this issue during a 661 Committee meeting in March 2001. However, no documentary evidence was available at the time to support these allegations.

Consequently, our proposals received no support. Committee members claimed that, absent evidence indicating that such kickbacks existed, no action could be taken.

Important measures taken to address this issue occurred after the fall of Saddam's regime, when the United States, through the Coalition Provisional Authority, was informed of the kickback scheme by Iraqi ministry representatives in Baghdad. With the fall of the Hussein regime in the spring of 2003, and with the subsequent authorities granted under U.N. Security Council Resolution 1483, CPA officials, in coordination with U.N.

officials and Iraqis, took steps to eliminate surcharges in the remaining oil-for-food contracts.

In addition to eliminating and countering surcharges and kickbacks, the United States also took initiatives to provide members of the 661 Committee and the Security Council with information and evidence of violations by the Saddam regime, during various briefings. The United States briefed Security Council members in 2000 on the various ways the Saddam regime was diverting funds to benefit Iraq's elite, including through the use of diverted funds to build and furnish Saddam's palaces. The U.S. again briefed Security Council ambassadors in the spring of 2002 on Saddam's noncompliance with U.N. Security Council resolutions, and Saddam's attempts to procure WMD- related materials.

In March of 2002, a U.S. interagency team briefed the 661 Committee on the regime's diversion of trucks. U.S. commanders of the Multilateral Interception Force, or MIF, in the Gulf also briefed the committee each year starting in 1996 on the MIF's activities in combating the illegal smuggling of Iraqi crude oil. MIF Commanders in 2001 and 2002 briefed the 661 Committee and highlighted the continued attempts by Saddam Hussein to circumvent sanctions by illegally exporting oil and illicitly importing materials into Iraq through the unauthorized use of ferry services from neighboring states.

The MIF operating in the Persian Gulf enjoyed success from 2000-2001 in significantly reducing the number of small vessels operating out of Shatt al-Arab that were smuggling Iraqi oil along Iran's southern coast. An equally noteworthy source of oil smuggling prior to the 2003 Iraq war was the illegal flow of oil through Iraq's pipeline with Syria, which restarted

operations in late November 2000. The United States, in coordination with the UK, repeatedly raised concerns over such blatant non-compliance, only to be told by Syrian representatives that the Iraq-Syria pipeline was “being tested,” but was not operational.

The oil-for-food program was a unique endeavor, and although it was essential to the Iraqi people, it was also manipulated by Saddam Hussein and his cronies to undermine the sanctions.

Mr. Chairman, thank you for this opportunity to appear before the committee, I now stand ready to answer whatever questions you and your fellow committee members may wish to pose.