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Chairman

Permanent Subcommittee on Investigations

Hearing On

THE UNITED NATION'S MANAGEMENT AND OVERSIGHT OF THE OIL-FOR-FOOD PROGRAM

February 15, 2004

Good morning and welcome. This is the second in a series of hearings that the Permanent Subcommittee on Investigations will hold to address the abuses of the UN Oil for Food Program.

That noble Program was established by the U.N. to ease the suffering of the Iraqi people, who were languishing under Saddam's iron-fisted rule and because of the economic sanctions imposed on Iraq by the U.N. after the Persian Gulf War. While sanctions were designed to speed the removal of Saddam Hussein from power or at least render him impotent, the OFF Program was designed to support the Iraqi people with food and other humanitarian aid under the watchful eye of the U.N. Instead, Saddam manipulated the program to generate billions of dollars in illegal revenue.

At our first hearing in November, we detailed the methods used by Saddam to abuse the OFF Program. The Hussein regime bought influence and favors by granting oil allocations to its friends and allies, and made money on the deal by demanding surcharge payments on the actual oil sales. As Secretary of State Condoleeza Rice testified at her confirmation hearing, Saddam Hussein was "playing the international community like a violin."

On contracts for humanitarian goods, Hussein demanded suppliers inflate their contracts and pay the difference into secret regime accounts. Those ill-gotten gains may be funding the insurgency in Iraq against our troops and our allies. All of this misconduct occurred under the supposedly vigilant eye of the U.N.

The weaknesses in the OFF Program raise serious questions about the U.N.'s ability to enforce sanctions and administer a humanitarian aid program in the future. American taxpayers pay close to 22 percent of the U.N.'s operating costs. They need assurances that their tax dollars are well spent, especially in light of the fact that sanctions will likely be imposed upon rogue nations in the future. I believe the credibility of the UN to monitor any future sanctions programs hangs in the balance unless the corruption and mismanagement in Oil for Food is identified and rooted out.

Our hearing today focuses on U.N. oversight of the Program in the hopes of revealing whether mismanagement by the U.N. aided or abetted Saddam's abuses of the Program. Despite multiple entreaties by the Subcommittee, and public statements of cooperation, the U.N. has not permitted the Subcommittee access to relevant U.N. documents or personnel, with the sole exception of the public release of 58 internal audit reports last month. Given the U.N.'s intransigence, our inquiry is limited to information that we have uncovered from other sources.

While the U.N. publicly asserts that it is cooperating with congressional investigations, in practice, this committee hearing continues to be frustrated by the U.N.'s refusal to make witnesses and documents made available. On June 1st and November 9th, Senator Levin and I requested that the U.N. provide documents and make U.N. personnel available for interviews. To date, neither the documents nor the key U.N. players involved in the scandal have been provided to the Subcommittee. It is often said of government that sunshine is the best antiseptic. The U.N. should move towards greater transparency.

Just a few days ago, the Independent Inquiry Committee, headed by Paul Volcker, released its Interim Report. In that Report, the Committee revealed a significant amount of evidence exposing serious problems in the U.N.'s management of the OFF Program. It is clear that the Volcker committee arrived at these findings after diligent investigation. I applaud their efforts and hope that they will continue their work.

Some of the committee's most important findings addressed the actions of the head of the OFF Program, a senior U.N. official named Benon Sevan. Mr. Sevan was the head of the United Nations office that oversaw the Oil for Food Program. Mr. Sevan, according to Mr. Volcker's report, solicited lucrative allocations of Iraqi crude oil for an acquaintance, an Egyptian oil trader named Fakhry Abdelnoor. Mr. Abdelnoor owned an oil-trading company called African Middle East Petroleum or "AMEP" for short. According to Mr. Volcker's report, Sevan requested that the Hussein regime grant AMEP the right to buy oil under the Oil for Food Program. The Volcker panel determined that Sevan's solicitations on behalf of African Middle East created a "grave and continuing conflict of interest, were ethically improper, and seriously undermined the integrity of the United Nations."

While I agree with Mr. Volcker's conclusions that Mr. Sevan's actions amounted to grave misconduct, I believe the evidence goes further than just a "conflict of interest." As a former prosecutor, I believe that our clear and direct evidence establishes probable cause that Benon Sevan broke the law. I arrive at this conclusion not only from the evidence that Mr. Volcker presented in his report, but also from documents obtained by this Subcommittee that Mr. Volcker did not use. Our evidence includes documents created by the Iraqi State Oil Marketing Organization, commonly called "SOMO," which controlled the export of Iraqi crude oil under the Oil for Food Program. These documents provide further evidence that Benon Sevan received oil allocations from the Hussein regime. Each Iraqi oil allocation is worth hundreds of thousands of dollars. As a result, if Sevan was granted of oil allocations, it is reasonable to infer that Sevan received a substantial amount of money.

So, the question becomes: did Benon Sevan personally receive oil allocations from the Hussein regime? A review of the evidence will suggest that the answer to that question is "Yes."

The first document we will analyze is a chart created by SOMO after the fall of Saddam Hussein, which we have labeled Exhibit 1. Written in Arabic, this chart is entitled "Estimate of Financial Proceeds Achieved by a Sample of People Benefiting from the Crude Oil Allocations." The chart states that it "explains the estimates achieved by some individuals and other parties as a result of obtaining oil allocations from the former regime." The chart lists the "Allocated Party," which identifies the person that received the precious oil allocations. Next to the Allocated Party appears "Total Crude Oil Lifted," which indicates the amount of oil exported in connection with those allocations. Lastly, we see an "Estimate of Financial Proceeds for All Lifted Quantities," in which SOMO estimated the amount of money that the selected allocation recipients earned through selling their high-priced oil allocations.

I'll direct your attention to the last entry on the chart, which indicates that one of the selected "Allocated Parties" was "Benon Sevan." Next to Sevan's name, the chart indicates that 9.3 million barrels of oil was lifted in connection with Mr. Sevan's allocations. The last column next to Mr. Sevan's name estimates that Mr. Sevan made $1.2 million from oil allocations under the Oil for Food Program. It is worth emphasizing that this chart makes no reference to Fakhry Abdelnoor or his company African Middle East Petroleum. Therefore, this document makes a strong case that Benon Sevan received many oil allocations under the OFF Program and made a significant amount of money from those allocations.

Exhibit 2 is another SOMO chart illustrating that Benon Sevan received oil allocations. Like the previous exhibit, this chart was created after the fall of the Hussein regime. It identifies every person, official or company that received an oil allocation in the 4th Phase of the Oil for Food Program. Those people are listed under the heading "Allocated Party." In the next column, the chart identifies the company that purchased the allocation from the Allocated Party, listed as "Contractual Company." The last two columns indicate the amount of oil allocated and the amount ultimately exported.

In the highlighted section of the chart, we see contract number M-4-60, which lists the "Allocated Party" as "Mr. Benon Sevan – the United Nations." Moving to the next column, we see that African Middle East is listed as the "Contractual Company," meaning that it was the party that bought the oil allocated to Benon Sevan. It is important to emphasize that this document clearly suggests that Benon Sevan was granted this allocation, and that African Middle East was simply buying the oil set aside for Mr. Sevan.

Exhibit 3 indicates that Sevan was granted allocations in at least 6 other phases. For the sake of brevity, I will not walk through every chart one-by-one. But suffice it to say that each of the other charts clearly identifies the "Allocated Party" – that is, the party receiving the allocation – as Benon Sevan.

The exhibits we have seen so far were written after the fall of the Hussein regime. Exhibit 4, however, presents documents that were created by SOMO during the life of the Program. The excerpt on the upper left of the exhibit is a handwritten chart that shows oil allocations for Phase 6 of the Oil for Food Program. The principal column headers indicate "Country," which relates to the country of the oil purchaser, "Allocations for Phase 5," "Allocations for Phase 6," and the "Proposed Allocations following Phase 6." Under the header "Country," we see Panama, which is the country of incorporation for African Middle East. Underneath the country, we see "Regular Requests" and "Special Requests." The meaning of those headings remains unclear and the Subcommittee is attempting to determine precisely what those headings mean. The key, however, is below those words. There appears the name "Mr. Sevan." Next to Mr. Sevan's name, under the heading allocations for Phase 6, we see "2 million barrels." Thus, this document confirms that the oil lifted in Phase 6 by the AMEP, the Panamanian company, was allocated to Benon Sevan. In addition, this chart indicates that SOMO proposed allocating 1.5 million barrels of oil to Mr. Sevan for Phase 7.

The document on the lower half of the exhibit is the same type of chart, but it deals with Phases 6 and 7. The key is the lower part of the table, in which Mr. Sevan's name is prominently displayed. This excerpt indicates that Mr. Sevan was allocated 2 million barrels in Phase 6, 1.5 million barrels in Phase 7, and was poised to receive another 1.5 million barrels after Phase 7.

The final document on this exhibit appears on the right-hand side of the chart. That document is yet another chart created by SOMO during the Hussein regime. The date on the chart appears to be July 12, 1999, which fell in Phase 7 of the Program. Under the header "Quantity allocated and expected to be allocated," we see "Mr. Sevan" yet again. The chart indicates that Sevan was allocated or expected to be allocated 2 million barrels from Kirkuk, a region in the northern part of Iraq. Although we are releasing just three charts from the Hussein regime, the Subcommittee has additional documents written by the Hussein regime that are similar to these exhibits, indicating that Benon Sevan received oil allocations under the Oil for Food Program.

Previously, some have questioned whether Mr. Sevan himself received oil allocations. The documents we have presented here today are considerable evidence that the answer is an unmitigated "Yes" – that Sevan did in fact receive oil allocations from the Hussein regime.

This evidence begs the question: how did the fact that the head of the OFF Program received lucrative oil allocations from Iraq affect the Oil for Food Program? How did the receipt of oil allocations affect Mr. Sevan's decision-making? There have been recent press reports that Mr. Sevan blocked an audit by the U.N.'s auditors into his own office – was that a result of his oil allocations? In April 1998, which is roughly the same time Mr. Sevan received his first oil allocation, he instructed the U.N.'s oil inspectors to delete information concerning Iraq's smuggling activities in a report to the U.N. Security Council. He later instructed those inspectors to not be "detectives" with respect to Iraqi oil smuggling. Did Mr. Sevan turn a blind eye because of the oil allocations? The Iraqis believed Mr. Sevan would assist their efforts with respect to the import of spare parts for oil machinery as a result of the oil allocations. Did those allocations affect his support for the spare parts importation? All of these questions and many, many others remain unanswered.

As a result, I believe that Mr. Sevan's misconduct goes well beyond a mere conflict of interest – instead, these documents, when combined with the evidence presented in the Volcker report, certainly establish probable cause that Mr. Sevan's actions rose to the level of criminal liability. Accordingly, I call upon Secretary-General Kofi Annan to strip Mr. Sevan of his diplomatic immunity so that he will be available for judicial process and can be called to testify before this Subcommittee about the evidence we have gathered.

Over the course of our bi-partisan investigation, this Subcommittee has uncovered evidence of even more corruption in the U.N. Oil for Food apparatus. In particular, we have found disturbing evidence that one of the U.N. oil monitors – the individuals hired by the U.N. to inspect the oil exports from Iraq under the OFF Program – took a bribe. In doing so, the inspector helped Saddam generate 9 million dollars in under-the-table cash.

Our evidence establishes the following facts:

- The bribed oil inspector was a Portuguese man named Armando Carlos Oliveira. We matched up Iraqi documents to Mr. Oliveira's passport and other documents to confirm his identity.
- According to Iraqi documents, Mr. Oliveira participated in the falsification of shipping papers related to two oil purchases by a French company called IBEX Energy. We have accumulated significant evidence proving that Mr. Oliveira was at the oil terminal for both illegal loadings.
- With the help of the falsified documents, the two shipments took a total of 500,000 barrels of oil – worth 9 million dollars – in excess of what was approved by the U.N. Iraqi documents indicate that Saddam Hussein personally ordered the falsification of the documents.
- Iraqi documents also indicate that Mr. Oliveira had agreed to falsify the documents in exchange for 2% of the value of the smuggled oil. In the end, however, Mr. Oliveira received far less than that – only $105,819.

- Internal SOMO accounting spreadsheets indicate that $105,819 was paid to "Saybolt" for "added value." The $105,819 was spread over two payments – one was for $86,119 in September 2001 and the other for $19,700 in March 2002.
- The entry on the spreadsheet for the $19,700 payment in March 2002 to Saybolt complements with a handwritten note to the Iraqi Minister of Oil, which reveals that Mr. Oliveira received $19,700 in March 2002. That note indicates that the $19,700 payment was in cash at the Ministry of Oil in Baghdad on March 4, 2002.
- Mr. Oliveira was scheduled to be in Baghdad on that very day.
- On March 5, 2002 – the day after the hand-off of the $19,700 payment – the Minister of Oil wrote a letter to the Central Bank of Iraq requesting approval for Mr. Oliveira to leave the country with $19,700 in cash.
- Mr. Oliveira left Iraq at some point between March 5 and March 7, and was scheduled to fly from Jordan to Germany.
- On March 11, 2002, days after his return to Portugal after picking up the $19,700 in Baghdad, Mr. Oliveira deposited exactly 5,000 dollars in cash into his account in Portugal.

We have released the evidence that the Subcommittee has uncovered related to these facts, and we invite you to review those documents.

In addition, we will hear testimony describing role of Cotecna, the U.N. independent inspection agent for humanitarian goods imported into Iraq under the Oil for Food Program. Cotecna was charged with authenticating the arrival of goods into Iraq upon which the United Nations would authorize payment of those goods from the escrow account at BNP Paribas. This escrow account was funded by the U.N. approved oil sales by Iraq under the Program.

Looking into the role of Cotecna is important because the Saddam Hussein was able to receive kickbacks on humanitarian goods sold under the Program. For example, as raised in our earlier hearing, the Weir Group paid $8 million dollars in kickbacks to a Swiss account under the Oil for Food Program. In addition, using substandard goods was another form of kickbacks known to have occurred under the Program, where lesser quality goods were shipped into Iraq allowing for the former regime and the complicit supplier to pocket the price difference between the lesser quality goods and the higher quality goods specified under the goods contract. It is essential to understand if Cotecna's duties were to verify the price, or quality of the goods coming into Iraq or merely just verify the arrival of humanitarian goods into Iraq. I will note that the U.N. Secretary-General and the Office of Iraq Program were responsible for overseeing the price, quality, and quantity of goods coming into Iraq as well as responsible for overseeing Cotecna's operations and duties.

I am also looking forward to hearing testimony from a former employee of the United Nations Office of Iraq Program. The Office of Iraq Program would review humanitarian contracts between the former regime and suppliers around the world. It is important to determine whether this review would identify price inflated contracts that could be used for kickbacks as well as fraudulent contracts. It is also important to understand any political, administrative, or local conditions in Iraq that affected or influenced the Office of Iraq Program's management and oversight of the Oil for Food Program. I am particularly concerned with the procurement of agency goods, goods procured by various U.N. agencies for the Northern Kurdish Regions. There have been widespread reports from the Kurdish regions that they did not receive all of the goods they were entitled to, which was supposed to be 13 percent of all the humanitarian aid under the Program.

Another serious allegation that has been hanging over the U.N. concerns Secretary-General Kofi Annan and his son, Kojo. The allegation involves improprieties in the U.N.'s award of a multi-million dollar contract to a Swiss company called Cotecna Inspection during a time when Kojo Annan was employed by Cotecna as a paid consultant. Our concerns are heightened due to the fact that the Volcker Commission's recently released interim report revealed major improprieties in the U.N.'s award of contracts in 1996 to Saybolt and Lloyd's, and revealed the direct intervention of then Secretary-General Boutros Boutros-Ghali in the selection of BNP Paribas. To date, the Subcommittee has reviewed thousands of documents produced by Cotecna and has interviewed a half-dozen current and former Cotecna officers and employees, including Kojo Annan himself.

Our investigation on these allegations has revealed a disturbing pattern of information gaps and memory lapses. For example, despite Cotecna's assertions to the contrary, we have learned that Kojo Annan's activities were not strictly limited to Nigeria and Ghana and that he lobbied many other countries while in New York during the 1998 session of the U.N. General Assembly. Particularly troubling is a report written by Mr. Annan relating to some kind of network that he was setting up in New York City. [Display EXHIBIT 18] In his report, dated September 14, 1998, Kojo Annan stated the following:

> "As discussed with you on Sunday, PM and myself put in place a 'machinery' which will be centered in New York that will facilitate the continuation of contacts established and assist in developing new contacts for the future. This 'machinery', due to its global nature and its longevity, is as important overall as any other contacts made."

Subcommittee staff interviewed Kojo Annan this past Friday, but he could not recall to what he was referring when he described a "machinery" that he had put into place, why it was "centered in New York," why it was of a "global nature," or how the "machinery" might "ultimately prove to be very beneficial for Cotecna's long-term marketing strategy." In short, Mr. Annan cannot recall what his own words meant. This memory lapse is troubling. Subcommittee staff also interviewed Cotecna's officers about this report, but they too could shed no light on Mr. Annan's statements. Our suspicions are further raised due to the fact that there is no report regarding Mr. Annan's activities while in New York during the U.N. General Assembly. Memory lapses combined with an absence of trip reports is not only troubling, it strains credulity.

The Subcommittee has invited Mr. Annan to appear today to address these matters further and to afford him an opportunity to explain his statements, but he has declined.

Our second panel will address the 58 UN audits of the OFF program. I can say at the outset that I find a great many red flags in these audits. The gross mismanagement of almost every aspect of the Oil-for-Food Program is simply inexcusable and wasted over $690 million.

Every organization has its shortcomings, but I cannot recall any organization where the scope of its problems encompassed every basic management skill needed to ensure an effective program. The Office of Internal Oversight Services' audits identified problems with budget planning and execution, coordination, strategic planning, communication, procurement, inventory control, cash management, accounting for assets, documenting and/or justifying expenditures, information technology and human resource management. This represents the complete panoply of required management skills.

In our third panel, we will hear testimony from the Honorable Patrick F. Kennedy, U.S. Ambassador to the United Nations for Management and Reform at the U.S. Mission to the United Nations. Ambassador Kennedy will address a variety of issues pertaining to the management and oversight of the UN Oil for Food Program including the pervasive oil smuggling that occurred under the program.

In our November 15, 2004 hearing Subcommittee majority staff estimated that the magnitude of fraud perpetrated by Saddam Hussein in contravention of UN sanctions from 1991 to 2003 was over $21.3 billion, of which $13.6 billion (64%) was the result of Iraqi oil smuggling. The Subcommittee believes that the Oil for Food Program provided Saddam an enhanced opportunity to circumvent sanctions and amass a greater amount of illicit funds. This was particularly the case with oil smuggling.

The export of Iraqi oil under the UN Iraq Sanctions Program was strictly forbidden. It is clear that from the onset of sanctions in 1991, members of the United Nations Security Council were aware of Iraqi oil being exported through the protocols in contravention of the sanctions. Security Council members in the 661 Sanctions Committee "took note" of Iraqi oil being exported to Jordan under the protocols and did not respond to Turkey's request. The U.S. and the UK tried unsuccessfully in the Security Council to tighten controls on oil smuggling. Russia, a veto-holding permanent member of the Security consistently blocked such initiatives. However, other Security Council members did not initiate any other significant action to prevent the flow of Iraqi oil to Jordan and Turkey, nor did they provide financial relief to countries like Jordan and Turkey who were adversely affected by Iraq Sanctions and had petitioned the Security Council for relief. I look forward to discussing these issues related to smuggling with Ambassador Kennedy and I suspect so will Senator Levin.