

**THE UNITED NATIONS' MANAGEMENT AND
OVERSIGHT OF THE OIL-FOR-FOOD PROGRAM**

HEARING

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON

HOMELAND SECURITY AND

GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

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FEBRUARY 15, 2005
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CONTENTS

Opening statement:	Page
Senator Coleman	1
Senator Levin	9
Senator Collins	
2	
Senator Domenici	14
Prepared statement:	
Senator Pryor	67

WITNESSES

TUESDAY, FEBRUARY 15, 2005

Robert M. Massey, Chief Executive Officer, Cotecna Inspection S.A., Geneva, Switzerland	16
André E. Pruniaux, former Senior Vice President, Africa and Middle East Division, Cotecna Inspection S.A., Geneva, Switzerland	18
Arthur Ventham, former Inspector for Cotecna Inspection S.A., Western Australia	20
Vernon P. Kulyk, former Deputy Chief Customs Expert, United Nations Office of the Iraq Program (OIP), Dar es Salaam, Tanzania	22
John Denson, General Counsel, Saybolt Group, Houston, Texas	24
Milan Radenovic, Contract Manager, Cotecna Inspection S.A.	41
Joseph A. Christoff, Director, International Affairs and Trade, Government Accountability Office, Washington, DC	45
Stafford Clarry, former Humanitarian Affairs Advisor, United Nations Oil-for-Food Program, Syracuse, New York	47
Hon. Patrick F. Kennedy, Ambassador to the United Nations for Management and Reform, United States Mission to the United Nations, New York, New York	54

ALPHABETICAL LIST OF WITNESSES

Christoff, Joseph A.:	
Testimony	45
Prepared statement	147
Clarry, Stafford:	
Testimony	47
Prepared statement with attachments	165
Denson, John:	
Testimony	24
Prepared statement	139
Kennedy, Hon. Patrick F.:	
Testimony	54
Prepared statement	188
Kulyk, Vernon P.:	
Testimony	22
Prepared statement	127
Massey, Robert M.:	
Testimony	16
Prepared statement with attachments	168
Pruniaux, André E.:	
Testimony	18
Prepared statement with attachments	188
Radenovic, Milan:	
Testimony	41

IV

	Page
Ventham, Arthur:	
Testimony	20
Prepared statement	110

EXHIBITS

1. Iraqi Memo Estimating Sevan's Profits at \$1.2 Million	202
2. Benon Sevan's Oil Allocations for Phase IV	204
3. Sevan's Oil Allocations for Phases V, VII, VIII, X, XI and XII	206
4. Iraqi Chart Indicating Allocations to Benon Sevan in Phases VI & VII	216
5. State Oil Marketing Organization (Baghdad, Iraq) Invoices for Iraqi Crude Oil sold to IBEX Energy France, dated June and September 2001. .	220
6. Iraqi Memo Describing The Bribe of a U.N. Oil Inspector	222
7. Letter Of Iraqi Oil Minister Ordering Payment Of Bribe To U.N. Oil Inspector	225
8. Iraqi Accounting Spreadsheet Showing Bribe Payments To U.N. Oil Inspector	227
9. Letter From Iraqi Oil Minister Describing Bribe Of U.N. Oil Inspector	228
10. Copy of Portuguese Passport of Armando Carlos Costa Oliveira, Number F-504464, issued July 4, 2000, and related documents	231
11. Documents establish that Armando Carlos Costa Oliveira was an oil inspector for Saybolt in Iraq	241
12. Documents establishing that Armando Carlos Costa Oliveira was a U.N. oil inspector at the unauthorized loading in Mina Al Bakr in May 2001	249
13. Documents establishing that Armando Carlos Costa Oliveira was a U.N. oil inspector at the unauthorized loading in Mina al Bakr in August 2001	261
14. Saybolt email, dated February 23, 2002, informing the Iraqi government and the U.N. that Oliveira would travel from Basra to Baghdad on March 3, 2002, from Baghdad to Amman on March 5, 2002	270
15. Saybolt email, dated January 24, 2002, discussing the travel schedules of various employees. Notably, Oliveira is listed to leave from Amman, Jordan to Frankfurt on March 7, 2002	272
16. Oliveira's Bank Statement (March 2002)	273
17. Deposit slip reflecting cash deposit into Oliveira's account in March 2002 .	274
18. Cotecna Fax from Kojo Annan to Robert Massey, dated September 14, 1998, regarding <i>Non Aligned Movement (NAM) Summit, Durban-South Africa</i>	275
19. Cotecna Fax from Kojo Annan to Robert Massey, dated October 26, 1998, regarding <i>Outstanding Consultancy Expenses</i>	276
20. Cotecna correspondence from André Pruniaux to Neville Brunnetta, dated December 4, 1995, regarding Kojo Annan joining Cotecna. (One copy produced to the Permanent Subcommittee on Investigations on August 28, 2004, from the Cotecna files located in Geneva, Switzerland; second copy produced to the Permanent Subcommittee on Investigations on December 22, 2004, from the Cotecna files located in Lagos, Nigeria.)	277
21. Cotecna Memorandum from Michael Wilson to Elie Massey, Robert Massey, André Pruniaux, et al., dated December 4, 1998, regarding <i>Mission To The UN-Iraq Oil for Food Programme—1-2 December 1998</i>	278
22. Cotecna Fax from Kojo Annan to Elie Massey, dated August 28, 1998, regarding <i>Consultative Status for IFIA with the United Nations</i>	279
23. Cotecna document prepared for Kojo Annan titled <i>1998 Meeting of the UN General Assembly</i>	280
24. Cotecna Fax from Michael Wilson to Kojo Annan, dated August 28, 1998, regarding <i>Ghana, Current Situation</i>	281

	Page
25. Cotecna Letter from Elie Massey to Joseph Connor, U.N. Under Secretary-General for Management, and Kofi Annan, U.N. Secretary-General, dated October 6, 1998, regarding <i>Possible Additional Funding</i>	282
26. Resume of Kojo Annan	283
27. Cotecna meeting minutes, dated December 23 [1998], regarding the Oil-for-Food Program and the role of Independent Inspectors	284
28. Cotecna Memo, dated February 18, 1999, regarding <i>UMMQASR Situation</i>	286
29. Cotecna faxes, dated February 1999, regarding lab analysis—“ <i>fit for human consumption</i> ”	288
30. Cotecna email, dated April 1999, regarding <i>G3 06—medical samples—waiting in fr</i> (procedures—no testing)	291
31. Cotecna email, dated June 1999, regarding <i>G3 06 Sampling—medical samples—new</i> (concerns with quality)	292
32. a. Cotecna fax to UN O.I.P.–N.Y., dated March 1999, regarding <i>Claims From Iraqi Receivers</i>	293
b. Cotecna fax to Cotecna UMM QASR, dated March 1999, regarding <i>Claims From Iraqi Receivers</i>	297
c. Cotecna fax to Cotecna UMM QASR, dated June 1999, regarding <i>Delays In Authentications</i>	302
33. Cotecna <i>Notes from meeting with Cotecna 23–25 March 1999</i> , regarding Jonas Larsen’s Mission Report and Cotecna’s concerns with level of inspections	204
34. Cotecna email, dated April 1999, regarding <i>G2 07 Larsen 01—answer to report—10</i>	308
35. Cotecna fax to UN O.I.P.–New York, dated April 1999, regarding <i>Response to J. Larsen’s Mission Report</i>	316
36. Cotecna fax, dated March 1999, regarding <i>Confidential: J. Larson’s Report. Mission Report</i> [prepared by Jonas Larsen, Customs Officer]— <i>The purpose of the visit was to evaluate the services provided by Cotecna, the new Independent Inspection Agents and to attend the monthly meeting between UNOHCI and Cotecna</i>	322
37. United Nations Office of the Iraq Programme (OIP) fax to Cotecna, dated April 25, 1999, regarding <i>Outstanding matters (. . . would first however like to address the question that continues to be the cause of the majority of correspondence between Cotecna and the UN, that is the question of quantity and quality inspections and Cotecna’s liability arising there from.)</i>	328
38. United Nations Office of the Iraq Programme (OIP) fax to Cotecna, dated May 1999, regarding <i>Letter from Mr Sevan to the Permanent Mission of Iraq (. . . letter . . . from Benon Sevan . . . in regards to quality inspection of goods arriving to Iraq.)</i>	331
39. Cotecna fax, dated May 1999, regarding <i>Sites’ Sampling Methods</i>	334
40. Cotecna fax, dated June 1999, regarding <i>Report On A Visit to UMM QASR, May 1999</i>	344
41. Cotecna email from UN OIP, dated March 2000, regarding <i>Authentications of missing cargos</i>	363
42. Cotecna email from UN OIP, dated November 2000, regarding <i>Continued—Umm Qasr inspection procedures</i>	367
43. Cotecna email, dated January 2001, regarding <i>Craig Airey’s fax on containers leaving the port without inspection</i> (SOMO is intentionally creating delays.)	369
44. Cotecna email, dated April 2001, regarding <i>Greenlight to reduce backlog in Umm Qasr</i>	371
45. Cotecna email, dated July 2002, regarding <i>Visit of UNOHCI Deputy Humanitarian Coordinator (questions . . . related to smuggling of cargo.)</i>	372

VI

	Page
46. Cotecna letter of recommendation on Cotecna employee Arthur William Ventham, dated September 24, 2003	374
47. Cotecna email and Arthur Ventham resignation memo, dated September 29, 2003	375
48. Oil-for-Food Contract between the Ministry of Irrigation, Baghdad, Iraq [Government of Iraq] & Shanghai Machinery, Imp & Exp (Group) Corp., Ltd, China, dated November 12, 1998, with related documents	378
49. <i>Summary of the UN Oil-for-Food Program Audits Conducted by the Office of Internal Oversight Services</i> , prepared by the Permanent Subcommittee on Investigations Majority Staff	412
50. <i>Financial Losses Resulting from Waste, Abuse or Mismanagement Identified by OIOS Audits</i> , prepared by the Permanent Subcommittee on Investigations Majority Staff	423
51. <i>Illicit Iraqi Revenue 1991–2003</i> , chart prepared by the Permanent Subcommittee on Investigations Minority Staff	426
52. BBC News, March 25, 1998, <i>Despatches, Iraq’s illegal trade in oil</i>	427
53. Documents relating to exports from Kohr al-Amaya, Iraq	429
54. <i>Iraq Military Expenditures 1980–2002</i> , chart prepared by the Permanent Subcommittee on Investigations Minority Staff	434
55. Supplemental Submission of Arthur Ventham	435
56. Letter of Personal Reference—Arthur Ventham, dated January 14, 2005 ..	440
57. Responses to supplemental questions for the record for Joseph A. Christoff, Government Accountability Office	441

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

TUESDAY, FEBRUARY 15, 2005

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:31 a.m., in room 342, Dirksen Senate Office Building, Hon. Norm Coleman, Chairman of the Subcommittee, presiding.

Present: Senators Coleman, Collins, Stevens, Domenici, Warner, Levin, Carper, and Pryor.

Staff Present: Raymond V. Shepherd, III, Staff Director; Mary D. Robertson, Chief Clerk; Joseph V. Kennedy, Chief Counsel; Leland Erickson, Counsel; Mark Greenblatt, Counsel; Steven Groves, Counsel; Jay Jennings, Investigator; Katherine Russell, Detailee (FBI); Phillip Thomas, Detailee (GAO); Gregory Coats, Detailee (IRS); Jeffrey James, Detailee (IRS); Richard Fahy, Detailee (ICE); Mike Williams, Intern; Erin Brannigan, Intern; Elise J. Bean, Staff Director/Chief Counsel to the Minority; Dan Berkovitz, Counsel to the Minority; Laura Stuber, Counsel to the Minority; and Merrill Springer, Intern.

OPENING STATEMENT OF CHAIRMAN COLEMAN

Senator COLEMAN. This hearing of the Permanent Subcommittee on Investigations will be called to order. 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 U.N. Oil-for-Food Program.

That noble program was established by the United Nations 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 United Nations 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 Oil-for-Food Program was designed to support the Iraqi people with food and other humanitarian aid under the watchful eye of the United Nations. Instead, Saddam Hussein manipulated the program to generate billions of dollars in illegal revenue.

At our first hearing in November, we detailed the methods used by Saddam Hussein to abuse the Oil-for-Food 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 Condoleezza Rice testified at her confirmation hearing, Saddam Hussein was “playing the international community like a violin.”

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

The weaknesses in the Oil-for-Food 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 assurance 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 United Nations 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 hope of revealing whether mismanagement by the United Nations aided or abetted Saddam’s abuses of the program. Despite multiple entreaties by the Subcommittee and public statements of cooperation, the United Nations 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 it is cooperating with Congressional investigations, in fact, this Subcommittee continues to be frustrated by the United Nations’ refusal to make witnesses and documents available. On June 1 and November 9, 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 governments that sunshine is the best antiseptic. The United Nations 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 United Nations’ management of the Oil-for-Food Program. It is clear that the Volcker Committee arrived at these findings after diligent investigation. I applaud their efforts and hope they will continue their work.

Some of the committee’s most important findings addressed the actions of the head of the Oil-for-Food Program, a senior U.N. official named Benon Sevan. Mr. Sevan was the head of the U.N.’s 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 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 documents obtained by this Subcommittee that Mr. Volcker did not use, 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 oil allocations, it is reasonable to infer that Sevan received a substantial amount of money from them.

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

The first document we will analyze is created by SOMO after the fall of Saddam Hussein, which we have labeled Exhibit 1.¹ 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 clearly 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 in All Phases," which indicates the amount of oil lifted in connection with those allocations. Last, 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 allocations.

I will 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 Oil-for-Food Program and made a significant amount of money from those allocations.

Exhibit 2 is another SOMO chart illustrating that Benon Sevan received allocations.² Like the previous chart, this exhibit was cre-

¹ See Exhibit No. 1 appears in the Appendix on page 202.

² See Exhibit No. 2 appears in the Appendix on page 204.

ated after the fall of the Hussein regime. It identifies every person, official, or company that received an oil allocation in the fourth 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 the "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-04-60, which lists the allocated party as Mr. Benon Sevan, the United Nations. Moving to the next column, we see that African Middle East Panamanian Company 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 the 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 six other phases.¹ 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, but Exhibit 4,² 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 Six of the Oil-for-Food Program. The principal column headers indicate "Country," which relates to the country of the oil purchaser, "Allocations of for the Period Phase (5)," "Allocations of Phase (6)," and the "Proposed Allocations for the Period Following Phase (6)." Under the header "Country," we see Panama, which is the country of incorporation for Africa Middle East. Under the country, we see "Regular Requests" and "Special Requests." The meaning of these 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 oil lifted in Phase Six 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 Seven.

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

¹ See Exhibit No. 3 appears in the Appendix on page 206.

² See Exhibit No. 4 appears in the Appendix on page 216.

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 four 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 Oil-for-Food Program receive lucrative oil allocations from Iraq affect the Oil-for-Food Program? How did the receipt of oil allocations affect Mr. Sevan's decisionmaking? There have been recent press reports that Mr. Sevan blocked an audit by the U.N. 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 U.N. oil inspectors to delete information concerning Iraqi smuggling activities in a report to the U.N. Security Council. He later instructed those inspectors not to 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 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 bipartisan 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 United Nations to inspect the oil exports from Iraq under the Oil-for-Food Program, took a bribe. In doing so, the inspector helped Saddam Hussein generate \$9 million in under-the-table cash.

Other evidence establishes the following facts. The bribed oil inspector was a Portuguese man named Armando Carlos Oliveira. We have matched up Iraqi documents to Mr. Oliveira's passport and other documents to confirm his identity. According to the documents, Mr. Oliveira participated in the falsification of shipping pa-

pers related to two 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 in excess of what was approved by the United Nations. Iraqi documents indicated 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 percent 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 was a handwritten note to the Iraqi Minister of Oil, which reveals that Mr. Oliveira received \$19,700 in March 2002. The note indicates that the \$19,700 payment was in cash at the Ministry of Oil in Baghdad on March 4, 2002.

We have further documentation to indicate Mr. Oliveira's presence in Baghdad. We have letters written from the Minister of Oil to the Central Bank requesting approval. We have documentation when Mr. Oliveira left Iraq, and that on his return from Portugal, he deposited \$5,000 into a cash account in Portugal within days after returning.

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

In addition, we will hear testimony describing the 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 U.N. approved oil sales by Iraq under the program.

Looking into the role of Cotecna is important because 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 in kickbacks to a Swiss account under the Oil-for-Food Program. In addition, using substandard goods was another form of kickback 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 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 to just verify the arrival of humanitarian goods into Iraq. I will note that the U.N. Secretary-General and the Office of the Iraq Program were responsible for overseeing the price, quality, and quantity of goods coming into Iraq, and were responsible for overseeing Cotecna's operations and duties.

I am also looking forward to hearing testimony from a former employee of the U.N.'s Office of the Iraq Program. The Office of the 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.

I have a number of concerns about the procurement of goods, particularly as they regard the Northern Kurdish regions. There have been widespread reports from the Kurdish regions that they did not receive all the goods they were entitled to, which was supposed to be 13 percent of all humanitarian goods under the program.

Another serious allegation that has been hanging over the United Nations concerns Secretary-General Kofi Annan and his son, Kojo. This allegation involves improprieties in the U.N.'s award of a multi-million-dollar contract to a Swiss company called Cotecna Inspection during the 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 of 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 he was setting up in New York City, and I think if we have Exhibit 18,¹ we could display that.

In his report dated September 14, 1998, Kojo Annan stated the following: "As we discussed with you on Sunday, PM and myself put in place a 'machinery' which will be centred 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 what he was referring to when he described a machinery that he had put into place, why it was centered in New York, or why it was of a global nature, or how the machinery might ultimately prove to be 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 fur-

¹See Exhibit No. 18 appears in the Appendix on page 275.

ther 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, and I would note that we have substantial documentation of other reports by Mr. Annan when he was doing other activities at other times. Memory lapses combined with an absence of trip reports is not only troubling, it strains credibility.

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

Our second panel will address the 58 U.N. audits of the Oil-for-Food 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 resources management. This represents the complete panoply of required management skills.

In our third panel, we will hear testimony from the Hon. 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 U.N. 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 U.N. sanctions from 1991 to 2003 was over \$21.3 billion, of which \$13.6 billion, 64 percent, was a result of the Iraqi oil smuggling. The Subcommittee believes that the Oil-for-Food Program provided Saddam Hussein with 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 U.N. Iraq sanctions program was strictly forbidden. It is clear that from the onset of sanctions in 1991, members of the U.N. 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 United States and the United Kingdom tried unsuccessfully in the Security Council to tighten controls on oil smuggling. Russia, a veto-holding permanent member of the Security Council, 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 Iraqi 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.

I know that was a very long statement. We have a lot of information and this is just the second in a series of hearings, so I thank my Subcommittee Members for their patience as I walked through that and appreciate their presence today.

I turn to my distinguished Ranking Member, Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Mr. Chairman, thank you for holding these hearings, and for your leadership. As you mentioned, 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 United Nations to monitor Iraq's oil sales and inspect goods imported by Iraq with the proceeds from 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 audit reports on the Oil-for-Food Program that were prepared by the U.N.'s internal auditor, the Office of Internal Oversight Services. The release of these reports set an important new precedent in U.N. auditing, opened the door to greater U.N. oversight, and contributed to the culture of increased transparency and accountability that needs to take hold at the United Nations. It is a positive omen.

The U.N. audit reports show that the Office of the Iraq Program lacked basic financial controls and exercised inadequate oversight of the Oil-for-Food Program. The U.N.'s Independent Inquiry Committee, also known as the Volcker Committee, also shows 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 audit's 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 the Iraq Program, Benon Sevan, may have personally profited from oil allocations made by Iraq, and the Chairman in his statement a moment ago outlined significant additional evidence which supports allegations of wrongdoing by Benon Sevan.

In addition, the Volcker Report identified problems with how the U.N. selected Saybolt, Lloyd's Register and BNP for key Oil-for-Food contracts. The Volcker 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, as our Chairman has outlined, is examining that issue at great length and that will be a subject of the discussion today.

Kojo Annan denies any wrongdoing. Kojo Annan has cooperated with the Subcommittee by voluntarily submitting to an interview, but we have been unable to reach a judgment about the contract award due primarily to the Subcommittee's lack of access to rel-

evant documents and personnel at the United Nations. For that reason, questions remain unanswered about how the Cotecna contract was awarded and about Kojo Annan's activities.

The United Nations 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 U.N. 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 United Nations 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 kickbacks that he got from contractors involved in the Oil-for-Food Program. But the bulk of his illicit oil sale revenue, as the Chairman has just pointed out, actually came from the money he received from unregulated sales of Iraqi oil entirely outside of the Oil-for-Food Program to Turkey, Jordan, and Syria. That is sometimes called oil smuggling, but these are the open sales of Iraqi oil to those three countries. We in the world looked the other way from those sales, even though they were prohibited by the U.N.'s sanctions regime.

The Volcker Report states, "There can be no question that bribes and other abuses provided many opportunities for illicit gain, 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 corrupted individual Iraqi officials rather than the Iraqi regime.

What does appear clear is that the major source of external financial resources for the Iraqi regime resulted from sanctions violations outside the Oil-for-Food Program's framework, and that is shown on the chart which is up here now showing that,¹ in our computations, about 73 percent of the money which went to Saddam Hussein from oil sales came through those open oil sales primarily to those three countries, principally to Jordan, but also to Syria and Turkey. That was the open oil sales, the dark blue. I think the Chairman's estimated percentage was about 67 percent as I remember, but that is the same oil sales that he referred to as oil smuggling and that I refer to as open oil sales.

Using numbers provided by the Duelfer Report, it appears that Saddam Hussein's abuse of the Oil-for-Food Program provided about one-sixth of Iraq's total illicit income, while nearly three-quarters of this illicit income came from those open oil sales which weren't supposed to take place because they were outside of the Oil-for-Food Program. They occurred with the knowledge and acquiescence of the world community, including the United States.

As a matter of fact, as we have dug into the historical record, we 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 to 1998, Iraq obtained at most \$30 million per year from illegal oil

¹See Exhibit No. 51 appears in the Appendix on page 426.

sales outside of the U.N. 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 Hussein than that, perhaps hundreds of millions of dollars each year.

These were openly made sales. The press reported big profits were being made from Iraq's oil sales to Turkey in 1992. The *New York Times* report 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 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 oil sales that we in the world tolerated were open and obvious, despite their being in violation of the U.N. sanctions that we helped put in place. For example, in March 1998, the BBC posted a photograph purporting 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.¹ Huge convoys of trucks and many ships carry the fuel out of Iraq, where it is sold on the black market," and that is a copy of that BBC news report showing those lines of trucks going into Turkey.

The Administration acknowledged the illegal trade in a quote in the *New York Times* of June 1998, saying that, "the tendency has been to turn a blind eye because the Turks are benefiting from it at a time when they are complaining anyway about sanctions on Iraq." 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, we actively stopped the U.N. Iraq Sanctions Committee, known as the 661 Committee, from acting to stop those sales. Beginning in 1996, Turkey formally asked the United Nations through the 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 simply turn it down. The United States could have voted to end the sales. Instead, it stopped the United Nations from acting. The result was that illegal oil sales to Turkey continued unabated. Hundreds of millions of dollars went into the pockets of Saddam Hussein as a result.

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 U.N. sanctions on Iraq. Each year since 1994, Congress has prohibited foreign aid to any country violating U.N. sanctions on Iraq. 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 with our knowledge and implied consent.

Now, the U.N. sanctions, despite all the leakage, abuses, and looking the other way to violations, were stopping Saddam Hussein

¹See Exhibit No. 52 appears in the Appendix on page 427.

from rearming Iraq. In testimony to Congress in 2001 about the sanctions, Secretary of State Colin Powell said the following, "I think credit has to be given for putting in place a sanctions regime that has kept him pretty much in check."

As a matter of fact, the sanctions were working sufficiently well that Saddam Hussein used every tactic at his disposal to circumvent and to corrupt them. He was intent on undermining the U.N. sanctions regime precisely because they were working so well. U.N. 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 those 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. Thank you, Mr. Chairman.

Senator COLEMAN. Thank you, Senator Levin.

We are pleased to have with us the Chairman of the full Homeland Security and Government Affairs Committee, Senator Collins.

OPENING STATEMENT OF CHAIRMAN COLLINS

Chairman COLLINS. Thank you, Mr. Chairman. I know that everyone is very eager to hear from the witnesses today, so I would ask unanimous consent that my full statement be entered into the record and I am just going to make a very few comments.

Senator COLEMAN. Without objection.

Chairman COLLINS. First, let me commend you for leading this much-needed investigation into the U.N. Oil-for-Food Program. This is a matter of extraordinary complexity and of great importance.

The Subcommittee's first hearing last November established that Saddam Hussein systematically looted the Oil-for-Food Program and turned what should have been one of the greatest humanitarian aid programs in history into one of history's greatest frauds. We know that Saddam Hussein used some of his illicit proceeds to buy international support for his regime and to undermine numerous U.N. resolutions. We know that some of the proceeds were used to buy the weapons that Saddam Hussein needed to remain in power. Some of these weapons are now being used by terrorists against our troops and against the Iraqi people.

The question before the Subcommittee now is how was Saddam Hussein able to do this. The interim report of the Volcker Commission provides part of the answer. Indeed, its findings confirm some of our worst suspicions. In the critical components of the Oil-for-Food contracting, the inspections of oil exports, the inspections of humanitarian imports, and the banking arrangements, the report finds that political considerations, favoritism, and expediency seems to take precedence over integrity, transparency, and accountability.

In the area of internal program audits, the words used by the Volcker Commission—inadequate, erroneous, and unsatisfactory—are, if anything, an understatement as the Subcommittee's own investigation demonstrates. The clear lack of anything resembling

diligent oversight for a program worth some \$64 billion is, to use another word, unconscionable.

As the Chairman has outlined, the Subcommittee's own investigators have uncovered very disturbing information suggesting improprieties and possible fraud at many levels of the Oil-for-Food Program. This investigation, as well as the investigations by five House Subcommittees, has been hampered considerably by the U.N.'s reluctance to cooperate fully. I believe that we have only explored what appears to be an iceberg. We have only explored the tip of it. As we go deeper, this lack of full cooperation will become increasingly unacceptable.

Accountability is vital for all institutions. This is especially true for public institutions. It is clear that something went terribly wrong with the Oil-for-Food Program, and those responsible must be held accountable.

Again, Mr. Chairman, thank you for your leadership.

Senator COLEMAN. Thank you, Chairman Collins.

[The prepared opening statement of Senator Collins follows:]

PREPARED OPENING STATEMENT OF SENATOR COLLINS

Thank you, Senator Coleman. I commend you for leading this much-needed investigation of the United Nations' Oil-for-Food Program. This is a matter of extraordinary complexity, and of great importance.

The Subcommittee's first hearing on this program last November laid a solid foundation for the work ahead. As a result of our inquiry and others, we know that Saddam Hussein systematically looted the Oil-for-Food program and turned what should have been one of the greatest humanitarian-aid programs in history into one of history's greatest frauds. We know that Saddam Hussein used some of his illicit proceeds to buy international support for his regime, and to undermine the numerous U.N. resolutions demanding compliance with the Gulf War cease-fire agreement.

We know that some proceeds were used to buy the weapons the brutal dictator needed to remain in power. We also know that some of those weapons—the ammunition and rocket-propelled grenades—now are being used by terrorists against our troops and against the Iraqi people.

The question before us now is, how was Saddam Hussein able to do this? The interim report of the Volcker Commission provides part of the answer. It reviews the way this program was set up and operated. Its findings confirm some of our worst suspicions.

In the awarding of contracts to get the program under way, the interim report finds that the U.N. not only failed to follow generally accepted practices, but also failed to follow its own internal policies. In the critical components of Oil-for-Food contracting—the inspections of oil exports, the inspections of humanitarian imports, and the banking arrangements—the report finds that political considerations, favoritism, and expediency seemed to have taken precedence over integrity, transparency, and accountability.

In the area of internal program audits, the words used by the Volcker Commission—inadequate, erroneous, and unsatisfactory—are, if anything, understatement. The clear lack of anything resembling diligent oversight for a program worth some \$64 billion is, to use another word, unconscionable.

It is only in the area of administrative expenditures that the findings are merely disturbing. The report noted that payments were made for expenditures that were not sufficiently documented or explained. In addition, given the widespread allegations of fraud and corruption in this program, the decision to reduce administrative expenditures by shortchanging internal inspections and audits is a glaring example of being penny-wise and pound-foolish.

Finally, we come to the findings regarding Benon Sevan, the former Executive Director of the U.N.'s Office of the Iraq Program, the so-called "ambassador" of the Oil-for-Food Program. The Commission's finding that Mr. Sevan engaged in, "a grave and continuing conflict of interest" regarding extremely lucrative oil allocations speaks for itself. Mr. Sevan's explanation for his unexplained wealth—a gift from an elderly aunt on a modest pension—fails anyone's straight-face test.

As the Chairman has outlined, this Subcommittee's own investigators have uncovered very disturbing information suggesting improprieties at many levels of the Oil-

for-Food program. This investigation, as well as the investigations by five House committees, has been hampered considerably by the U.N.'s reluctance to cooperate fully. These investigations so far have only explored the tip of what appears to be an iceberg. As they go deeper, this lack of full cooperation will become increasingly unacceptable.

Accountability is vital for all institutions. This is especially true for public institutions. It is clear that something went terribly wrong with the way the Oil-for-Food program was set up and administered, and those responsible must be held accountable. I look forward to the evidence the PSI investigators have uncovered and will be presenting today.

Chairman COLEMAN. Senator Domenici.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. Mr. Chairman, first, I want to say to you that I have been here a long time, longer than many people believe I should have been, but frankly, I have not seen a new Senator take an issue of this magnitude and do the kind of job you have done with it. I have no doubt that many people were skeptical of your first comments with reference to what was going on, but I believe before we are finished that you will prove that you were right and that you found something that is terribly important to what has gone on in the Middle East.

From my standpoint, I always wondered how Saddam Hussein could remain so strong when sanctions indicated to the world that he was depleted of resources that would permit him to remain such a strong power with reference to military might and control over his people. The sanctions were intended to diminish his power, but it seems like something else was happening. I think we might find out when we are finished with these hearings that this is what happened, this is where he got his support. If that is the case, I believe the U.S. Congress has uncovered something that is truly important to our country as we look at what we have tried to do. We have been misled. We have been put upon, without any question, by those who have done this in a very serious way.

And last and almost more important, and we don't know the extent of this, but I am very suspicious of countries that seemed to be questioning resolutions that would have led to a conclusion that we should intervene in Iraq. Somehow it seems certain countries decided not to continue down that line, and the question is, were they affected by the transactions that occurred here, directly or indirectly? Were they biased because of the monetary receipts that were coming in to either them or their friends, friends of that government?

I think you have talked about that and around that, and I don't know that we have proof yet, but I think these hearings will at least put on the table that something else was happening that might have had an impact on why countries didn't support us with votes in the United Nations when the time came to finally decide enough was enough in Iraq. I hope you understand what I am saying, and I hope the people understand what I am saying.

I don't want to openly accuse these countries, but it seems to me very close to a logical conclusion that there was some impact and it might have come from the resources that were siphoned into those countries or people close to the leadership in those countries. If that is the case, and it may very well be so, then these hearings will have proven something far beyond what you started out talk-

ing about and far beyond what our people in America were thinking when these U.N. votes were occurring.

I thank you for your diligence and I hope we can conclude with facts that you were right from the beginning and that this is a terrible set of actions on the part of the United Nations. If so, something has to happen. Thank you, Mr. Chairman.

Senator COLEMAN. Thank you, Senator Domenici.

I would like to welcome our first panel of witnesses for today's important hearing. This morning, we will hear from Robert Massey, the Chief Executive Officer for Cotecna Inspection; André Pruniaux, a former Senior Vice President of the Africa and Middle East Division for Cotecna Inspection; Arthur Ventham, a former Inspector for Cotecna; Vernon Kulyk, a former Customs Officer for the United Nations Office of the Iraq Program; and finally, John Denson, the General Counsel for Saybolt Corporation.

I welcome all of you to today's hearing and look forward to hearing your views on the United Nations' handling of the Oil-for-Food Program as well as discussing the role of Saybolt and Cotecna as independent inspectors for the Oil-for-Food Program. Cotecna was the independent inspecting agent for the humanitarian goods imported into Iraq under the program. Saybolt Group was the independent inspection agent for Iraqi oil exports under the program. I think it is important to understand how you carried out your duties and whether these duties were consistent and appropriate with the purpose of the Oil-for-Food Program and U.N. sanctions.

I want to take this opportunity to thank all of you for coming such a long distance to be at this hearing. It is important that you are with us this morning and we do appreciate your being here.

Before we begin, pursuant to Rule 6, all witnesses who testify before the Subcommittee are required to be sworn. At this time, I would ask you to please stand and raise your right hand.

Do you swear that the testimony you are about to give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. MASSEY. I do.

Mr. PRUNIAUX. I do.

Mr. VENTHAM. I do.

Mr. KULYK. I do.

Mr. DENSON. I do.

Senator COLEMAN. We will be using a timing system today. Please be aware that approximately one minute before the red light comes on, you will see the lights change from green to yellow. It will give you an opportunity to conclude your remarks. Your written testimony will be printed in the record in its entirety. We ask that you limit your oral testimony to no more than 5 minutes.

Mr. Massey, we will have you go first, followed by Mr. Pruniaux, Mr. Ventham, Mr. Kulyk, and we will end up with Mr. Denson. After we have heard all the testimony, we will turn to questions. Mr. Massey, you may proceed.

TESTIMONY OF ROBERT M. MASSEY,¹ CHIEF EXECUTIVE OFFICER, COTECNA INSPECTION S.A., GENEVA, SWITZERLAND

Mr. MASSEY. Thank you, Mr. Chairman. Mr. Chairman and distinguished Members, good morning. My name is Robert Massey. From 1993 to the present, I have been the CEO for Cotecna Inspection S.A. in Geneva, Switzerland. Cotecna served as independent inspection agent for humanitarian goods entering Iraq in the U.N. Oil-for-Food Program between 1999 and 2003. Thank you for this opportunity to address the Subcommittee.

You have received my written statement. Therefore, my prepared oral statement will make only four points.

First, Cotecna was selected fairly on objective grounds, including price, responsiveness to the RFP, and expertise.

Second, we performed our limited and technical role professionally under extraordinarily difficult circumstances.

Third, we had no role whatsoever in the financial aspect of the program.

Finally, the employment of Kojo Annan was in connection with the company's substantial work in West Africa exclusively and had absolutely no relationship to Cotecna's selection for the Oil-for-Food Program.

I will elaborate on these four points in no particular order.

Between 1992 and 1996, the inspection mission in the U.N. humanitarian programs for Iraq changed, becoming much more limited. In 1992, Cotecna was competitively selected in the first international call for tender for a U.N. program to monitor Iraq's purchase of humanitarian goods. The company's 1992 draft contract would have provided for Cotecna to perform price verification, pre-shipment inspection, and post-landing inspection. The 1992 program was never implemented, however, because the United Nations and Iraq did not reach agreement.

In 1996, Cotecna participated in a new U.N. call for tender, this time merely for the authentication of goods. Authentication, a service unique to the U.N. program, compares the shipping documents accompanying the goods and the goods themselves against U.N. documents and database, confirming the goods actually arrived. Authentication was developed by the United Nations as one of the several steps in the process for paying suppliers under the Oil-for-Food Program.

Cotecna did not begin to authenticate shipments in 1996 because the United Nations awarded the contract to another company. This leads me to my next point. Cotecna's limited technical role under the 1998 contract did not place us in a position to detect illegal payments by suppliers.

I can best explain our role by specifying what we did and did not do. Cotecna was contracted to, and did, compare the U.N. documents and database with the shipping documents accompanying all Oil-for-Food goods crossing the Iraqi borders at specified locations, did visually check 100 percent of these goods and more closely examined a 10 percent random subset, and did test whether 100 percent of foodstuff was fit for human consumption.

¹The prepared statement of Mr. Massey with attachments appears in the Appendix on page 168.

Cotecna was not contracted to, and did not, verify that foodstuff shipped was of the grade contracted, did not assess the value of the goods, did not interdict prohibited goods outside the program, did not perform any task with respect to goods not voluntarily presented, and did not select the goods imported, establish their specifications, choose suppliers, negotiate or verify prices, designate sales intermediaries, establish sales commissions, or handle funds for the payment of goods.

Your invitation asks me to describe my or my company's knowledge, if any, of illegal payments by suppliers to either U.N., Cotecna, or Iraq officials. My company and I have no knowledge of any such payments to anyone. We as inspectors with a limited and technical role were in no position to have such knowledge.

My third main point is that Cotecna performed its job well and fully in accordance with its mandates. My colleague André Pruniaux will explain this point in more detail. Let me make only two related observations.

First, while limited and technical, Cotecna's mission was difficult and sometimes ambiguous. There were, for example, ambiguities concerning how and whether Cotecna was to test the quality of foodstuffs and how extensive Cotecna's physical inspection for all goods should be. Largely, our role was clarified over time through communications with UNOIP people, although formal contract amendments did not always follow.

After 1998, Cotecna asked the United Nations to expand the company's scope of work to include services supporting price verification. The United Nations declined because it saw itself as solely responsible for this task.

My final point is that the United Nations properly awarded Cotecna its contract. Before I discuss the 1998 U.N. procurement, let me say that Kofi Annan played no role in helping Cotecna obtain the U.N. contract. A detailed timeline provided with my written statement places his work for us in its proper African context. His employment with us had nothing to do with Iraq and everything to do with West Africa.

Cotecna hired him in late 1995 to work in Lagos, Nigeria, on Cotecna's government pre-shipment inspection contract there. He resigned in December 1997, some months after the Nigerian administration terminated Cotecna's contract. Because of his marketing skills in Nigeria and Ghana, Cotecna subsequently hired him to work under a 10-month consultancy agreement, which included a non-compete clause. In January 1999, after completion of this consultancy agreement, we negotiated a new and enforceable non-competition agreement providing compensation, as required under Swiss law.

There was a clear business rationale for these arrangements. In 1999 and 2000, Cotecna was pursuing inspection contracts in Nigeria and Ghana and did not want Kofi Annan available to the competition. As reflected in the provided timeline, the intense competitive environment in Nigeria and Ghana continues until this day.

Cotecna was awarded a U.N. contract in 1998 based on our proposal, which offered the lowest cost and highest technical expertise, as well as experience working in harsh conditions. Along with the handful of other inspection companies worldwide, Cotecna learned

of the U.N.'s October 9, 1998, RFP per standard procurement procedures. Cotecna had in the past been awarded U.N. contracts, had been selected for the unimplemented 1992 program, and had been invited to bid on the new Oil-for-Food Program in 1996.

Mr. Chairman, under the unusual and restrictive conditions I have described, Cotecna fully met its obligation to the United Nations. I am proud of Cotecna's performance in this program.

From the outset, Cotecna has cooperated fully with this Subcommittee's investigation.

This concludes my prepared statements and I would gladly answer any questions.

Senator COLEMAN. Thank you, Mr. Massey. Mr. Pruniaux.

TESTIMONY OF ANDRÉ E. PRUNIAUX,¹ FORMER SENIOR VICE PRESIDENT, AFRICA AND MIDDLE EAST DIVISION, COTECNA INSPECTION S.A., GENEVA, SWITZERLAND

Mr. PRUNIAUX. Mr. Chairman and distinguished Members of the Subcommittee, thank you for inviting me to speak today. My name is André Pruniaux. I served as Senior Vice President of Cotecna Inspection S.A. between 1998 and 2004. As such, I managed Cotecna's operations in Africa and the Middle East, including its work as independent inspection agent for humanitarian goods in the U.N. Oil-for-Food Program.

Today, I will describe, first, our negotiation of the 1998 Oil-for-Food Program contract with the United Nations, then how we performed our duties, then our working relationship with the UNOIP.

We worked on this program from early 1999 to late 2004, so there is a great deal of information for me to cover in a short time. Everything I describe today is detailed in my written testimony and the extensive records that Cotecna has produced to investigators.

Cotecna received the Oil-for-Food tender in late 1998. We found that the tender was broadly worded and did not provide detailed technical and process specifications. We found the lack of detail surprising, as the program had already been in operation for 2 years.

Although not mentioned in the tender, the United Nations imposed Cotecna the use of their existing Lotus Notes system during the negotiations. We had proposed using our in-house IT and communication system and had fixed the contract price on this assumption. At the time, we did not know that much about Lotus Notes, but our IT team understood that communication costs would be higher and the system less efficient. To accommodate their Lotus Notes requirement, the United Nations agreed to a price increase even before finalization of the original contract.

When we arrived on the ground in Iraq, the conditions were worse than anticipated. The inspection sites had recently been evacuated and were in disarray. There was a huge backlog of documents to be processed. We had only 1 month's lead time from contract award to implementation. No standard operating procedures

¹The prepared statement of Mr. Pruniaux with attachments appears in the Appendix on page 88.

existed when we assumed responsibility, although procedures unique to the Oil-for-Food Program were demanded of us.

An example of the initially vague scope of work concerns the testing of foodstuffs to ensure only that they were fit for human consumption. This is not a recognized concept within our industry. We had to work out what the United Nations wanted by making suggestions that they would accept or reject until we knew exactly what they intended our mandate to be. These clarifications were not documented in formal contract amendments, but were agreed ad hoc and then reflected in the standard operating procedures we developed for the program and which were approved by the United Nations

If there was any doubt about whether or not we should authenticate a shipment because the paperwork was incomplete or a shipment arrived at the wrong crossing, we would consult with the United Nations in New York and get their decision. These frequent consultations resolved many of our mandate's ambiguities. However, it still seems to have left room for confusion amongst outside observers, such as the U.N. auditors, as to our performance as well as to the scope of our work.

We also found that in reality, the U.N. Lotus Notes system was cumbersome and unsuited for the authentication purpose. Replicating data between our servers in Iraq and the U.N.'s servers in New York often took days and the system often crashed. Then we would start the data replication process over, causing us to expend many more man hours. The Lotus Notes system was controlled by the United Nations and was the only way supplier contract information was electronically transmitted to us.

The system's shortcomings greatly impacted upon the workload of inspectors, who had to work long hours, often through the night. For example, the system meant that we had manually to fax often 2,000 or more authentication sheets from Iraq through to New York each night.

Due to the design of the system, the audit trail was manual. It could take hours to track a single delivery. Think of this in terms of over 30,000-plus contracts, some of which involved several thousand individual deliveries.

As you can see, the program presented significant challenges. I will now explain how we worked with the UNOIP staff to overcome these challenges.

Cotecna developed standard operating procedures for every aspect of the mandate. We established a three-level internal oversight and audit process. These were carried out by a team leader at each site, the contract manager in Amman, and our head office in Geneva. The contract manager position was introduced by Cotecna at our own cost to ensure efficiency and compliance. We also would hire technical experts as required, for example, customs specialists and financial auditors. The contract manager would be in daily contact with inspectors on the ground and would also conduct detailed field audits at each site on average every 2 months. I would also personally conduct my own on-site reviews twice a year, and there were semi-annual management meetings in Amman and Baghdad which the UNOIP staff would attend when possible.

We communicated with the UNOIP daily, providing them with detailed reports as to the precise level of authentication activity at each site. We also provided reports on the pending authentications. The UNOIP regularly visited and audited our sites, and I would visit New York two or three times a year for working sessions with the UNOIP.

In conclusion, Cotecna met the terms of its mandate in full. In order to develop the best service possible, we insisted on 100 percent visual inspection of all imports. We also put in place a contract manager and we hired up to 30 surplus inspectors to allow for strenuous shift demands and sufficient rest and recuperation for our inspectors in Iraq. We took these steps at our own expense. We developed clear SOPs that the United Nations approved.

Mr. Chairman, I am confident that Cotecna met and exceeded its obligations under the U.N. mandate and we did so under very difficult circumstances.

This concludes my prepared statement and I would be happy to answer any questions.

Senator COLEMAN. Thank you very much, Mr. Pruniaux. Mr. Ventham.

**TESTIMONY OF ARTHUR VENTHAM,¹ FORMER INSPECTOR FOR
COTECNA INSPECTION, S.A., WESTERN AUSTRALIA**

Mr. VENTHAM. Mr. Chairman and Members of the Subcommittee, my name is Arthur Ventham and I am here at your request to testify about my experiences as an inspector with Cotecna Inspections S.A., the independent inspection and authentication contractor for the Oil-for-Food Program.

Before I begin my testimony, I want to thank you and the Subcommittee for giving me the opportunity to travel to your Nation's capital to provide assistance to your investigation into the United Nations Oil-for-Food Program and I hope my testimony assists with your endeavors.

I would like to iterate that my intent is not to denigrate my fellow inspectors employed by Cotecna Inspections but to provide the insight into what occurred on the ground in Iraq at the sites that I spent time at, namely Ar'Ar, Al-Waleed, Um Qasir, and Zakho, and Iskenderun in Turkey.

The period that I spent with Cotecna in Iraq, Turkey, and Jordan was an experience I would not have missed. I went to Iraq to try and do something for the people of that country as well as assisting an organization that I had a lot of time for, namely the United Nations. Before answering the Subcommittee's questions, let me give you a brief description of my background and role at Cotecna.

From 1977 to 1994, I was employed in various capacities with the Australian Customs Service. During my 18 years there, I served in senior positions including their Training Officer, Customs Commercial Systems and Investigations Section; Senior Operations Officer, Investigations and Compliance Section; Duty Manager, Compliance and Passenger Processing Section; and Senior Investigator, Inland Revenue Section.

¹The prepared statement of Mr. Ventham appears in the Appendix on page 110.

From 1994 to 1995, I was contracted as a Manager, Tariff and Trade Section of Coopers and Lybrand, which is one of the big four accounting firms in Australia.

From 1995 to 1998, I was employed in private industry as the Managing Director, Business and Development, Tariff and Trade Section of ArMar Holdings International, an international boutique consulting agency, and as the Chief Executive Officer of Business Development of Power Management Australasia, a specializing accounting, CPA, and business consulting agency for major projects both onshore and offshore Australia.

In 1998, I returned to the public service as a contract employee for the West Australia State Government, where I worked until December 2002, when I was hired as an inspector for Cotecna. Upon terminating my employment with Cotecna, I returned to public service work for the State of West Australia, where I work at the present time.

As for my employment with Cotecna, I landed the job through a former colleague with the Australian Customs Service who had himself worked for Cotecna as an inspector in Iraq. He suggested that I apply for the inspector position, which I did. I was subsequently hired. I actually departed Australia on December 20, 2002, for service in Iraq. I served as an inspector at the Ar'Ar inspection station on the Saudi Arabian border until the end of January 2004.

In mid-January, I volunteered to visit the Al-Waleed inspection station on the Syrian border for the purpose of observing and learning the inspection process so that I could prepare a standard operating procedure for the Ar'Ar site at the request of the team leader. After approximately 1 week at Al-Waleed, I returned to Ar'Ar, where I learned that I was being transferred to Um Qasir inspection station near the Kuwait border and the Persian Gulf.

I remained at Um Qasir as an inspector until March 17, when we were evacuated to Jordan due to hostilities associated with Operation Iraqi Freedom. I remained in Jordan until April 7, when I was transferred to Iskenderun, Turkey, as an inspector.

While at Iskenderun, I rotated through a satellite site in Mersin, Turkey, and also visited other inspection sites in the area on an as-needed basis. Eventually, I was promoted to the position of Administrative Deputy Team Leader, which meant that I was responsible for administration, accounts, and other activities associated with the Mersin site.

In late June, I accepted an opportunity to become the Site Leader of the Zakho inspection station on the Turkish border—

Senator COLEMAN. Mr. Ventham, if I may, rather than going through your history of assignments, can you focus on your observations to help the Subcommittee?

Mr. VENTHAM. Prior to being accepted as an inspector, my understanding of the Oil-for-Food Program was somewhat limited and I was of the opinion that all goods entering Iraq were subject to the same strict inspection services to ensure that no unlawful or inappropriate goods, such as military, chemicals, or other potential dangerous goods were brought into the country illegally. From the procedures and processes I witnessed as an inspector, this did not appear to be the case, as we were only interested in those goods that complied with U.N. SCR 986 sanctions.

As an ex-military officer and business consultant, I am aware of and have been trained in logistics, security, and service delivery. The activities that I undertook while employed with Cotecna was contrary to everything that I have been taught, be that through the university, the military, or customs. As a professional customs manager and business consultant, I was somewhat surprised at how Cotecna operated when dealing with a major U.N. activity such as the Oil-for-Food Program.

To my dismay, I found that the inspections being performed by Cotecna, inspections which I found to be inadequate were, in fact, appropriate based on the instructions provided to them by the OIP U.N. I could not allow myself to continue to be part of such an inspection program or to be associated with a company who conducted the inspection business in that manner.

While I am disappointed that I was unable to work with the United Nations to achieve a desired outcome, I am not sorry to have left Cotecna when I did, as I believe that the way they operated was contrary to best practice.

I am now available to answer your questions.

Senator COLEMAN. We will enter your full statement into the record, Mr. Ventham. Thank you very much. Mr. Kulyk.

TESTIMONY OF VERNON P. KULYK,¹ FORMER DEPUTY CHIEF CUSTOMS EXPERT, UNITED NATIONS OFFICE OF THE IRAQ PROGRAM, DAR ES SALAAM, TANZANIA

Mr. KULYK. Good morning, Mr. Chairman, Ranking Member Levin, and Subcommittee Members. Thank you for this opportunity to testify before this inquiry into matters concerning the Office of the Oil-for-Food Program, United Nations.

In July 1998, I joined the United Nations Office of the Iraq Program, UNOIP, as a customs expert. Eventually, I became the Deputy Chief Customs Expert and my responsibilities included reviewing contracts for humanitarian aid to be shipped into Iraq under the program as well as monitoring the performance of the independent inspection contractors in the program.

I am a Canadian citizen, and prior to my arrival at the United Nations Office of the Iraq Program, I had in excess of 30 years of experience as a customs officer with the Government of Canada and I also had substantial experience enforcing sanctions in a sanctions environment, working in the Balkans in 1993 and 1994.

This Subcommittee's invitation requested that I address several topics in my prepared remarks. However, in my opening statement, I will focus on the humanitarian goods contract review and approval process.

There were two main categories of contracts that the UNOIP was responsible for reviewing under the program, contracts for humanitarian goods and contracts for agency goods. For the purpose of explanation, humanitarian goods were sometimes referred to as the 53 percent account because 53 percent of the revenues from the sale of Iraqi oil were used to purchase these goods. Likewise, the agency goods were sometimes called the 13 percent account, because 13 percent of the oil revenues went to their purchase.

¹The prepared statement of Mr. Kulyk appears in the Appendix on page 127.

The government of Iraq was permitted to contract directly for the purchase of humanitarian goods with suppliers. Agency goods, on the other hand, were purchased directly by the United Nations agencies for use in the three northern governates because it was felt that the government of Iraq could not be trusted to deliver humanitarian goods to that region.

I will first discuss the contract review and approval process for humanitarian goods, which had several distinct steps which I believe demonstrate a reasonably comprehensive review process.

First, at the beginning of each phase of the program, the Program Management Division, or PMD, of the UNOIP was responsible for creating a list of goods that could be purchased, and this was called the distribution plan, which in essence essentially was a large shopping list.

Second, the government of Iraq negotiated directly with suppliers for the purchase of the goods that were included in the distribution plan.

Third, the supporting mission of the supplier would submit the contract to the United Nations, because suppliers were not allowed to submit their contracts directly to UNOIP.

Fourth, customs experts at the UNOIP's Contracts Processing Monitoring Division, or CPMD, as it is referred to, where I worked, reviewed the contracts presented by the missions on a first come, first served basis.

It is important to note that the review process is not simply a paper exercise. We reviewed the contracts for completeness, box by box, line by line, and clause by clause to assess the following criteria: One, whether the goods being purchased fell into a category of goods on the distribution plan; two, whether the goods being purchased were appropriate and/or suitable for the approved purpose in the sector; three, whether the goods were reasonably priced under the circumstances; and four, whether contracts included prohibited clauses that were outside of the scope of the program, such as preferred payment clauses or performance guarantees or commissions, if you may wish.

To assess the reasonableness of prices, we attempted to obtain the transactional value of the goods by various methods. These methods included cross-checking the prices on similar goods from different phases of the program, checking catalogs of different suppliers for price comparisons, researching price information available on the Internet, and contacting suppliers via the permanent missions. It should be noted that customs experts were not allowed to meet with suppliers without mission representatives being present to reduce potential offers or bribes or other financial incentives that suppliers may extend.

Following this thorough review of the application and the contract, the customs officer compiled his or her findings in an officer's comment or report, which included the expert's assessment of whether the contract price was reasonable, slightly high, or excessive.

Fifth, the Chief Customs Expert or the Deputy Chief Customs Expert conducted another supervisory level of compliance review of each written contract report. Thus, while I was serving as the Dep-

uty Chief Customs Expert, I reviewed most of the contracts and written contract reports compiled by customs experts.

Finally, the 661 Committee reviewed each contract and each report, including whether the contract complied with the relevant U.N. resolutions, in particular Resolution 986, and the 661 Committee had the option of approving the contract, denying the contract, or putting the contract on hold pending clarification.

Agency goods, or 13 percent account goods, had a slightly different contract review and approval process and it is important for the members of the panel to note that while the authentication of agency goods was not a trigger to payment for suppliers, it was facilitative to the extent of gathering statistics and to some degree of reconciliation of the arrival of agency goods. It was not a trigger to payment.

I worked with a group of highly qualified and committed customs experts in the Contracts Processing Management Division, who I believe were dedicated to doing their best to report overpricing and suspected fraud to the 661 Committee. To my knowledge, the 661 Committee was fully aware of all suspected overpricing and fraud detected and reported.

In conclusion, the stated goal of the program was to get the humanitarian goods to the Iraqi people who were suffering as a result of the U.N. sanctions while ensuring that the government of Iraq did not manipulate the program to rearm its military. I believe the program was successful in achieving its goal in spite of the limitations placed on it.

Mr. Chairman, I am now happy to answer any questions you may have.

Senator COLEMAN. Thank you, Mr. Kulyk. Mr. Denson.

TESTIMONY OF JOHN DENSON,¹ GENERAL COUNSEL, SAYBOLT GROUP, HOUSTON, TEXAS

Mr. DENSON. Chairman Coleman, Ranking Member Levin, distinguished Members of the Subcommittee, thank you for the opportunity to testify before you today. My name is John Denson. I am General Counsel of Saybolt. You have asked me to speak today about the activity of Saybolt in its capacity as independent inspection agent for the United Nations during the Oil-for-Food Program.

I would like to make a personal observation, if I might, and that is that Saybolt had both the blessing and the curse of playing a very pivotal role in one of the most politically charged international programs in history. We ourselves are not political, and that may be one of the reasons we were chosen for that role. We welcome the opportunity to uncover the truth about what went right and what went wrong in this program, and for that reason, we have worked very closely with your Subcommittee and with all the official investigators to bring things out into the open and have them clearly understood by everybody that needs to learn from and look at this program.

Going back to my prepared oral testimony. I have submitted a detailed written statement, so I will keep my oral comments brief, focusing on only a few key points which I hope will help the Sub-

¹The prepared statement of Mr. Denson appears in the Appendix on page 139.

committee evaluate the information it has received regarding Saybolt, including almost 300,000 pages we have already provided to the Subcommittee during the last several months.

I would like to take a moment to put our performance and our duties as a U.N. contractor in Iraq in some context. Over 7 years of the Oil-for-Food Program, Saybolt inspected some 2,700 loadings at two inspection points designated by the United Nations, the Ceyhan, Turkey, and the Mina Al-Bakr, Iraq, loading terminals. Saybolt also monitored the flow of oil through the pipeline connecting Iraq to the Ceyhan port, in addition to inspecting some oil industry equipment imports and coordinating three expert studies on the Iraqi oil industry for the United Nations.

The United Nations extended our contract every 6 months between 1996 and 2000, and in 2000, the United Nations renewed our contract, which was further extended through the end of the program in 2003. These extensions and renewals are a reflection of the quality of work we did under very difficult circumstances.

On the subject of the selection of Saybolt to be a contractor for the United Nations, I would like to emphasize one point. The manner in which the United Nations conducted this process, which is described further in my written testimony, elicited some criticism in the interim report produced earlier this month by the U.N. Independent Inquiry Committee, also known as the Volcker Commission. In particular, the interim report found that the United Nations did not adhere to some of its internal rules in conducting that process.

However true that finding may be, it is not a finding about Saybolt. Saybolt was not made aware of any such rules. Further, the rules are not even made publicly available, as far as we know. The only guideline that the United Nations made known to Saybolt at the time is that it reserved the right to conduct the procurement process in whatever manner it deemed to be in the best interest of the United Nations.

In order to compete in the bidding process, Saybolt therefore had to tailor its efforts to the concerns expressed by U.N. officials, such as the need for a lower price, and to make the various bids an apples-to-apples comparison rather than the apples-to-oranges comparison it started out being. In the end, as detailed in my written testimony, we are confident that Saybolt was the most qualified bidder and that we offered the most competitive price.

At Saybolt, we are proud of our performance under the U.N. contract. Although living and working conditions were extremely tough and the Iraqi infrastructure was also found wanting in critical ways, Saybolt inspectors carried out their duties with a very high level of dedication and professionalism. Saybolt always worked in close coordination with the United Nations and always responded promptly to difficulties it encountered in the field.

I won't take up the Subcommittee's time with an exhaustive list of the challenges we face in Iraq. Suffice it to say that Iraq under the Hussein regime was not very welcoming to foreign contractors.

One operational challenge does bear mention here because it has been periodically discussed at hearings on the program, the lack of functioning metering equipment in Mina Al-Bakr. This, like some of the other issues we will discuss today, reflects some of the inher-

ent flaws in how the program was structured to operate. Although Saybolt alerted the United Nations to this problem from the onset of the program, and to some extent even before the program started, Iraq did not undertake to put into place functioning meters at the Mina Al-Bakr platform. As a result, Saybolt could not measure the flow of oil into individual tankers. Instead, Saybolt had to rely on an alternate method of measurement. This method, while compliant with commercial standards, was not as foolproof as a meter or as accurate as a meter would be.

This lack of proper metering equipment was also a contributing factor in the 2001 topping-off incidents involving the oil tanker Essex. As noted in my written testimony, Saybolt immediately investigated this problem and we detailed our findings to the 661 Committee. Our investigation found no evidence at the time to suggest that the company knew of these two topping-off incidents before they happened. The available evidence indicates that the Essex loaded additional oil, approximately 230,000 barrels each of the two times, after the Saybolt inspectors had already certified the loading amount and left the vessel to return to the living quarters.

Saybolt immediately instituted several additional safeguards to prevent any recurrence of this. Under the new procedures, our inspectors stayed on board ships until their departure. If their departure was delayed, Saybolt placed numbered, sealed caps on the vessel loading valves, which we again inspected prior to departure to make sure they had not been removed. These additional measures were effective and we are aware of no further incidence of topping off.

Furthermore, Saybolt prepared a report for the U.N.'s 611 Committee to analyze the likelihood that there were prior incidents of topping off. This report concluded that it was extremely unlikely that there were other incidents of topping off.

As you may know, documents obtained from Iraq last year have led to an allegation that Iraq tried to bribe one of the Saybolt inspectors on the platform in connection with the Essex loadings. I have personally overseen our recent investigation into that allegation. We have sought to gather evidence on a global scale and are in the process of evaluating the evidence we have been able to obtain.

In addition, I have cooperated with this Subcommittee and have kept it fully informed of everything that we have been able to do on this investigation and we look forward to continuing to do so. I understand that the Subcommittee has obtained additional documents from Iraq relating to this allegation and that these documents will be placed in the record today. Saybolt will review these documents very carefully. Saybolt does not take allegations of bribery of company employees lightly. If there is any credible evidence to support the allegation, Saybolt will take appropriate disciplinary action.

The other point of clarification should be made as it relates to the scope of our duties as a U.N. inspector. As I have mentioned, our inspectors worked at two locations, the Ceyhan-Zakho pipeline between Iraq and Turkey, and the Mina Al-Bakr loading platform in Southern Iraq. Saybolt's mandate was not to inspect all of Iraq oil exports, nor was it to act as a police force. We were not tasked

with monitoring exports of oil by Iraq from all locations other than the two I just mentioned. Nonetheless, when we became aware of instances of exports outside of the Oil-for-Food Program, we alerted authorities.

For example, in November 2000, Saybolt informed the United Nations of rumors that the pipeline to Syria had been put into operation. In March 2001, Saybolt informed the United Nations of information indicating that there was smuggling into Turkey via tankers, avoiding the Iraq-Turkey pipeline at which our inspectors were stationed. In addition, we informed both the United Nations and the MIF about illegal loadings that we understood were taking place at Khor Al Amaya, a terminal about ten kilometers to the north of Mina Al-Bakr.

Finally, I would like to clarify how our contract with the United Nations for inspecting oil exports was priced. As you know, last month, the IIC released an audit report on the management of the Saybolt inspection contract. In its annex to the briefing paper, the IIC summarized certain conclusions from that report. What the IIC did not mention or take into account was that the U.N. Office of Iraq Program, the OIP, and Saybolt had informed the auditors that several of their conclusions were based on a misunderstanding of the nature of Saybolt's contract with the United Nations.

Specifically, auditors in the U.N. office had misunderstood the contract as a cost-plus contract rather than a fixed-price contract. In fact, the price of the contract was fixed on a per man, per day rate. In negotiating this rate, Saybolt assumed——

Senator COLEMAN. Mr. Denson, could you sum up? You are about 4 minutes over, and I am trying to let you say everything you need to say——

Mr. DENSON. Sorry.

Senator COLEMAN [continuing]. But if you can please sum up, and we will submit that statement for the record.

Mr. DENSON. All right. We have produced to the Subcommittee documents regarding the audit and the correspondence following the audit and we would encourage their release as other things are being put in the public record.

Let me close by saying that Saybolt has been in close contact with the Subcommittee staff through this investigation, has worked hard to be responsive to all requests by the Subcommittee, and we will continue to do so. I hope the Subcommittee has found the information Saybolt has provided useful, and again, I thank you for the opportunity to testify and I would be happy to respond to any questions you may have.

Senator COLEMAN. Thank you, Mr. Denson.

I would note, we are going to do 8-minute rounds of questions to start, and I would presume we are going to have more than one round.

I would note that Saybolt has been very cooperative with the Subcommittee and we do appreciate that.

You indicated that you informed the United Nations in November 2000 about the pipeline into Syria. Do you know if any action was taken on that issue?

Mr. DENSON. As far as we know, no action was taken.

Senator COLEMAN. And you also informed the United Nations in March 2001 about the smuggling into Turkey. Do you know if any action was taken on that?

Mr. DENSON. As far as we know, no action was taken.

Senator COLEMAN. Do you know whether Mr. Sevan's office ever inspected your oil monitoring activities in Iraq?

Mr. DENSON. You mean other than the audits, Senator?

Senator COLEMAN. Yes.

Mr. DENSON. Mr. Sevan's office, I don't think, physically inspected our operations in Iraq.

Senator COLEMAN. Let me just, for the record, in my opening statement, we talked about an Armando Carlos Oliveira, who our records indicate was a Saybolt employee in Iraq under the Oil-for-Food Program. Can you confirm that he was, in fact, a Saybolt employee?

Mr. DENSON. He was, in fact, a Saybolt employee.

Senator COLEMAN. One other issue for now, Mr. Denson. In Charles Duelfer's report, the name Saybolt appears as a recipient of an oil allocation Phase 12, though it says no oil was ever lifted. Would you confirm under oath that Saybolt never requested or received any allocation of Iraqi crude oil?

Mr. DENSON. Absolutely. Saybolt did not request and did not receive an oil allocation and we have no idea how our name ended up on that list.

Senator COLEMAN. I wonder if we could put Exhibit 52,¹ Senator Levin's exhibit, actually, it is the picture, it is right back there. I would ask Mr. Ventham, since you were on the ground, just looking at the picture of trucks that were lined up, is that a site that you are familiar with?

Mr. VENTHAM. Yes.

Senator COLEMAN. Now just to make it clear, you were focused on what we call 986 goods?

Mr. VENTHAM. That is correct, yes.

Senator COLEMAN. Can you explain the difference between 986 goods and other goods?

Mr. VENTHAM. Well, basically, we were only told to inspect goods that complied with the U.N. Security Council Resolution 986. Anything else, we weren't interested in talking about.

Senator COLEMAN. So if someone had papers but the papers weren't relating to 986, those trucks would just go through?

Mr. VENTHAM. As far as I was concerned, yes.

Senator COLEMAN. And we are talking about—could you give me an estimate of the number of trucks that passed through Al-Waleed border station during the week you spent there prior to Operation Iraqi Freedom?

Mr. VENTHAM. I saw approximately 400 to 500 trucks, I think it was.

Senator COLEMAN. And how many of those trucks were 986 trucks that you inspected?

Mr. VENTHAM. I inspected three.

Senator COLEMAN. Three?

Mr. VENTHAM. Three.

¹See Exhibit No. 52 appears in the Appendix on page 427.

Senator COLEMAN. Thank you. I wonder if we can turn to Mr. Massey. I want to focus a little bit on Kojo Annan and the filing of reports. We interviewed one of your former employees, Michael Wilson. I think, in fact, he is currently one of your consultants. Do you know Mr. Wilson?

Mr. MASSEY. Yes.

Senator COLEMAN. At least he indicated to us it was standard practice for Cotecna employees to write trip reports detailing what was accomplished on a particular trip, is that correct?

Mr. MASSEY. This is correct.

Senator COLEMAN. We were not supplied with any trip report for the time, apparently there were 15 days that Mr. Annan was in New York for the General Assembly. Do we have Exhibit 19?¹ I believe on that exhibit, he is submitting a request for consultancy expenses, 15 days in New York, for work for the General Assembly and various meetings relating to other special projects. Do you have any trip report for those 15 days?

Mr. MASSEY. We haven't found any trip report. We looked into our files. We also looked into the archives in Lagos, where he was residing at that time, to see whether there was any trip report. We haven't found any.

Senator COLEMAN. So in spite of the fact that you have a practice and procedure that calls for trip reports, for this, for what he is being reimbursed for for 15 days in New York, the General Assembly, you have no documentation of what he did during that period of time?

Mr. MASSEY. No, and it may very well be that he hasn't written any trip reports. What may have happened is that soon after the General Assembly meeting, which was attended by himself and Mr. Pierre Mouselli, we met again, he and I, in Washington, early October, I think, on the occasion of the IMF World Bank annual meeting. Maybe we have discussed his meetings that he had had during the General Assembly. So that may explain why we haven't found any original reports. This is the only explanation that we can come up with to explain the lack of reports in our archives.

Senator COLEMAN. Mr. Pruniaux, I believe the Subcommittee requested Exhibit 20.² Can you put Exhibit 20 up there, please? Exhibit 20 is a letter from you, Mr. Pruniaux, dated December 4. The original one was produced on August 28 to the Subcommittee, and in that, I believe, there are actually two documents. We have an original document received August 20, and then as we were going through our investigation, we asked for some other documents, and the document refers to, "I refer to our telephone conversation of Friday, 1 December 1995. Attached is Mr. Annan's CV."

We also then got another copy of that document with a series of papers just a little while ago, on December 22, 2004. It appears that the original document that was sent to us in August, there is information that is redacted. In other words, what we got in our first request in August there is apparently no reference to the "P.S." that is apparently in the original document. It was supplied

¹ See Exhibit No. 19 appears in the Appendix on page 276.

² See Exhibit No. 20 appears in the Appendix on page 277.

to us in December of this year. As a "(P.S.: Attached is also copy of a recent article in newsweek on Kojo's father, Kofi Annan)."

Can you explain to me why the document that was originally sent to the Subcommittee in August had that information redacted?

Mr. PRUNIAUX. No. I recognize my own document, the one I produced on the 4th of December 1995, and the other one which comes from the files in Lagos.

Senator COLEMAN. Do you recall whether the—I am trying to understand why a document that was submitted to this Subcommittee in August has information that was apparently redacted from what was the original. The original document made specific reference to Secretary-General Annan.

Mr. PRUNIAUX. Yes. There is no evidence that it was redacted again, but I can recognize the writing of Mr. Bunnetta, who was the Chief Liaison Officer in Lagos at that time.

Senator COLEMAN. I am deeply concerned, Mr. Pruniaux, that the documents that we received in August apparently had information that was removed. Can you shed any light on how that was removed or why it was removed or why that reference was not seen on the copy that was presented to this Subcommittee?

Mr. PRUNIAUX. It was not removed.

Senator COLEMAN. Well, apparently it was removed. I mean, the documents that we got on August 28 do not have that reference, and I am just trying to understand how that occurred, who would have been responsible, who might have taken that action. You have no information?

And I turn to Mr. Massey about this. There are no public references. When you were negotiating working with the United Nations, talking to the United Nations about the contract on December 28, was there any discussion with U.N. officials about the fact that the Secretary-General's son had a relationship with Cotecna?

Mr. MASSEY. Never, ever. Absolutely, 100 percent affirmative. We never mentioned the fact that Mr. Annan, Kojo Annan, worked for us at that time.

Senator COLEMAN. If we can go to Exhibit 21?¹ Exhibit 21 is a memorandum from Michael Wilson, again, who worked for Cotecna and is presently a consultant, and I believe Exhibit 21, Mr. Wilson's memo indicates that in December 1998, Cotecna believed it had to win the approval of Benon Sevan, Kofi Annan, and the 661 Committee. Can you tell me, were there any efforts made to approach either Mr. Sevan or Mr. Annan about the Cotecna contract?

Mr. MASSEY. Never.

Senator COLEMAN. In the Wilson memo, I believe it talks about Cotecna had the active backing of the Swiss mission as well as there was quiet lobbying within diplomatic circles in New York. Can you explain what quiet lobbying was done within diplomatic circles in New York?

Mr. MASSEY. That was an initiative that Mr. Wilson took and I was not informed of the details of the people he met, but he reported to us that he had met several people that could have a say or could be—could help us in promoting the name and the project that we were presenting.

¹See Exhibit No. 21 appears in the Appendix on page 278.

Senator COLEMAN. Exhibit 18,² just one more series of questions for you, Mr. Massey. This is a memo from Kojo Annan to yourself, and in that memo, and I discussed it in my opening statement, it says, "As discussed with you 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. For certain reasons, PM was integral to creating the aforementioned structure." Can you tell me what this machinery was?

Mr. MASSEY. I am sorry to say, but this is a bit of a mystery to us, also. I remember that Kojo tried to elaborate on a system that he could develop in New York to have access to different ambassadors of different countries where we had a specific interest in promoting our abilities, mainly African countries.

I think there is also another aspect that needs to be taken into consideration. We are in September here in 1998 and we are 6 or 7 months down the line with this consultancy agreement. Kojo had gone already to the NAM Summit, the Non-Aligned Movement Summit, and very little achievement, very little results, had come out of his different missions and visits. But the main project had given him to really focus on was the Nigerian project, which has been and still is one of the most important projects for Cotecna.

Senator COLEMAN. Now, this is December 1998. This is a few months before Cotecna gets the contract for the Oil-for-Food Program. That was in December 1998—

Mr. MASSEY. Yes, but this has nothing to do with the U.N. Oil-for-Food Program. I am trying to explain to you what is this machinery about and the way he put it to us. I think in August 1998, the Nigerian administration changed because the then-president died. So suddenly, you find a new Nigerian administration. We had lost a contract a year before in Nigeria. For us, it was an opportunity to reopen doors with the newly formed or caretaker government in Nigeria, the Nigerian administration.

The fact that you see the letters mention PM, this PM stands for Pierre Mouselli, who is the Lebanese origin, but based in Nigeria and Lagos, I think. They were introduced and I won't say they were close friends, but a business relation to Kojo Annan. I had agreed for Kojo to work together with Pierre Mouselli to try to establish a relation with the newly-formed government.

Now, Kojo, I think, reading this document, is trying to convince me that he has a good idea on how to penetrate the different governments through the ambassadors or through the missions in New York thanks to his relations and so on and so forth. This is what I perceived when reading this document.

Senator COLEMAN. I know my time is up and I am going to turn to my Ranking Member, Senator Levin. The memo does talk about global nature?

Mr. MASSEY. Yes, global nature in the sense of having different approaches to different contracts and countries. But just to finish my statement, Kojo was a very young man at that time. He was

²See Exhibit No. 18 appears in the Appendix on page 275.

trying to prove himself. We were disputing—I was disputing him, the type of fees he was charging us with and he was trying to prove to me that he was, if not already yet now, soon to become efficient in trying to reach out to contacts and make his effort efficient.

Senator COLEMAN. How old is he at this time?

Mr. MASSEY. Maybe late 20's—28, 27, something like that.

Senator COLEMAN. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman.

Just on the questions, some additional questions related to Kofi Annan. When did you hire him?

Mr. MASSEY. OK. When looking at the file, what we saw is, I think—I will turn to André Pruniaux because he was the one to really hire and he has a better memory than I do.

Mr. PRUNIAUX. Yes. Kofi was graduated in the U.K. and he approached our company in London. He was looking for training in 1995 and it was—the first person in Geneva who heard of him was my colleague who was in charge of the London office. When he saw the background of the gentleman and that he was African, he spoke several languages, he immediately turned to me and said, “André, are you interested?” and I said, “Why not. Let him come to Geneva.” I have always been looking for young Africans who could take over the positions of chiefs of our offices in Africa.

He came to Geneva. I interviewed him. He spoke English, French, and a couple of local languages. I said, let us not hire him for a junior position in London just for summer. Let us train him, and this we did. Sometimes that irritated even the General Manager of the British company.

He got 2 months training, after which he was sent to Nigeria at the end of the year because he had the capacity and the background to be of assistance in Lagos.

Senator LEVIN. And he was hired in 1995?

Mr. PRUNIAUX. Ninety-five, yes.

Senator LEVIN. And was his father the Secretary-General at that time?

Mr. PRUNIAUX. No.

Senator LEVIN. Now, I think that Cotecna bid on a contract in 1998, and I want to just make clear that I think I heard your answer to the Chairman's question, but I want to make sure that I am clear on this. Did anyone at Cotecna talk to Kofi Annan about that contract during the negotiations of that contract?

Mr. PRUNIAUX. Never.

Mr. MASSEY. Never.

Senator LEVIN. Not just you, but as far as you know, nobody at Cotecna?

Mr. PRUNIAUX. Nobody.

Mr. MASSEY. Nobody.

Senator LEVIN. Did the Secretary-General have any role, as far as you know, in the selection of a company to authenticate the goods that were going into Iraq?

Mr. MASSEY. I don't believe so, no.

Senator LEVIN. Exhibit 18¹ is the memo that the Chairman referred to as the memo from Kofi Annan to you, Mr. Massey, and

¹See Exhibit No. 18 appears in the Appendix on page 275.

you have referred to it already, but is this where he is giving you a country-by-country breakdown of, what, his efforts on behalf of the company?

Mr. MASSEY. Correct.

Senator LEVIN. So he made efforts in Mozambique, Tanzania, Uganda, Malawi, Zimbabwe. Is that the entire document, or is that page—

Mr. MASSEY. It is the second page, I think.

Senator LEVIN. This is the only page?

Mr. MASSEY. No. There is a second page, I believe.

Senator LEVIN. There is an additional page, as far as you know? So there may be additional countries?

Mr. MASSEY. Yes, I think—

Senator LEVIN. He was working on behalf of the company?

Mr. MASSEY. No. What happened is that when—OK. The main goal of—the main objective of Kojo Annan during this consultancy agreement with us in 1998 was to get us back in Nigeria. That was the very first top priority, I think.

Senator LEVIN. All right.

Mr. MASSEY. The second job was to also help us in strengthening our presence in Ghana, because as you know, Kojo Annan is a dual national, Ghanaian and Nigerian. But we also used this young man to represent the company in different seminars and meetings, and this is an example of one of the meetings he had attended in Durban and the Non-Aligned Movement Summit.

Senator LEVIN. So that was not his primary responsibility. Nigeria was the main effort—

Mr. MASSEY. Absolutely.

Senator LEVIN [continuing.] But there were additional things—

Mr. MASSEY. But what he would do during that few days he would spend there would just be to go from one mission to the other mission and trying to introduce himself and present the company and so on and so forth, and this is a report—

Senator LEVIN. I understand. Thank you.

Mr. Denson, the employee of Saybolt that has been referred to already, is it Mr. Oliveira, is that his name?

Mr. DENSON. Yes, sir.

Senator LEVIN. Does he still work for Saybolt?

Mr. DENSON. He does, pending completion of our investigation, which is ongoing, and with the information that the Subcommittee has now made public, we will revisit his situation at that time.

Senator LEVIN. Now, that information of the Subcommittee, you have that information? Has that been given to you before today, or—

Mr. DENSON. We have seen—

Senator LEVIN. You have seen that before today?

Mr. DENSON. We have seen bits and pieces of it, but this is the first time we have had this type of access to it.

Senator LEVIN. And so you are saying that you are going to get back to the Subcommittee based on what is in those documents that you have seen the full documents for the first time today?

Mr. DENSON. Absolutely. We, in fact, have already talked to the Subcommittee staff about how closely we can cooperate in conducting the rest of our investigation—

Senator LEVIN. The Chairman has made reference to your cooperation and it is appreciated, I know, by all of us as well as by our staffs. It has been very good on your behalf, and I think the same thing is true, may I say, for our other witnesses here today. Mr. Chairman, I perhaps shouldn't say that. That would be up to you to make an assessment on, but I think our witnesses have all cooperated with us and the staff today.

Is there any other instance that you know of besides this one where there is any allegation of a bribe brought to your attention?

Mr. DENSON. In connection with the Oil-for-Food Program?

Senator LEVIN. Yes.

Mr. DENSON. No, sir.

Senator LEVIN. So this is the only one that you know of so far?

Mr. DENSON. That is correct.

Senator LEVIN. OK. Mr. Pruniaux, I would like to talk to you, or someone who I think is maybe with you today, if you are unable to answer these questions about the trucks, and I wonder if we could get the pictures of those trucks up there again.¹ These are oil trucks. These are oil trucks which are taking Iraqi oil to Turkey outside of the Oil-for-Food Program. All oil that was supposed to be sold was supposed to be sold inside the Oil-for-Food Program so the proceeds would go to buy humanitarian goods for the Iraqi people. But at least with three countries, and probably four, all the countries closed their eyes, including us, to massive sales of oil by Saddam Hussein to Turkey, to Jordan, to Syria, and slight sales to Egypt.

Did you personally see those lines of oil trucks leaving Iraq for Turkey?

Mr. PRUNIAUX. Oh, yes. I came to Iraq for the first time in early January 1999, just before the start of our contract, and to enter into Iraq, you had to go through Amman and get the visas from the Iraqi embassy in Amman, and then you had to drive all the way. There was only one way for inspectors, other persons, to enter Iraq. It was to drive from Amman to Baghdad or other places.

Senator LEVIN. I just want to, because of the time limits, I just want to ask you, did you personally see these lines of trucks—

Mr. PRUNIAUX. Oh, yes.

Senator LEVIN [continuing.] Leaving Iraq for Turkey outside of the Oil-for-Food Program?

Mr. PRUNIAUX. Absolutely.

Senator LEVIN. It was common knowledge. Now, my last question. Mr. Kulyk, you made an assessment, I believe, in your testimony that in your judgment, the Oil-for-Food Program worked well and I would like to ask you to amplify that statement.

Mr. KULYK. I think it is important—

Senator LEVIN. In spite of all the difficulties and so forth, why did you reach that conclusion?

Mr. KULYK. Of course, Senator Levin. I think it is important to bring our thinking back to the fact that the Oil-for-Food Program was a humanitarian effort. It was not intended to be nor was it viewed, in my opinion as someone who had worked in a sanctions environment, as a sanctions mission. It was in no way an effort to

¹See Exhibit No. 52 appears in the Appendix on page 427.

control the movement of goods outside of the 986 program. So authentication is not sanctions monitoring. I think that needs to be said.

So within that context, whether or not the Oil-for-Food Program met its goals and objectives, I think it did. The goals and objectives were to provide humanitarian relief, and on my visits to Iraq—I made three such visits—I did see improvements in terms of quality of life, improvements in the availability of goods, improvements in terms of food and nutrition, and also improvements in two different industries, whether it was the electrical sector or the oil sector. These did happen.

There were introductions through the 986 program of these goods into Iraq and that was essentially the mandate of the 986 program, not to control sanctions. None of the independent inspection agencies, whether it was Lloyd's or Cotecna, were tasked or responsible or authorized to monitor sanctions. We were aware of it. I saw it personally myself from my visits as well, and it was reported as asides and in mission reports to the 661 Committee.

Senator LEVIN. All right. On that line of questioning—

Senator DOMENICI. Senator Levin, could I just ask a question?

Senator LEVIN. Of course.

Senator DOMENICI. What does it mean to monitor sanctions?

Mr. KULYK. That is a good question. Perhaps the best way I can answer that is to give you a little bit of an idea of what I did in the Balkans as a sanctions monitor.

Senator DOMENICI. Thank you. I just wanted the Chairman not to charge this against Senator Levin's time.

Senator LEVIN. I am over my time.

Senator COLEMAN. You may answer the question.

Senator DOMENICI. Mr. Chairman, thank you.

Senator LEVIN. Thank you, Senator Domenici.

Mr. KULYK. In my experience in my role, and I will speak about my time in the Balkans during the early years, 1993 and 1994, as a sanctions monitor, there were resolutions in place that indicated that sanctions were to be imposed upon Serbia and the former Yugoslavian Republic, and in those missions, actually, customs officers participated and had a presence at the border, customs officers who looked at the passage of goods across the borders with a reference to what was considered to be acceptable as humanitarian relief. And when we saw things which were not considered to be within the humanitarian scope of the relief crossing the border, those occurrences were identified and reported to the United Nations as a sanction.

No such monitoring took place in respect of the Oil-for-Food Program. Oil-for-Food was a humanitarian effort. It was not a sanctions enforcement regime.

Senator COLEMAN. Senator Levin.

Senator LEVIN. Thank you. You made reference in your prepared testimony to Cotecna's, "demonstrated outstanding performance." You also said that Cotecna had been a very dependable contractor under difficult circumstances and often did more than they were contractually obligated upon request from you, or your office.

Mr. KULYK. Yes, sir.

Senator LEVIN. Is that correct? Is that your testimony?

Mr. KULYK. Yes, it is.

Senator LEVIN. Thank you, Mr. Chairman.

Senator COLEMAN. Senator Domenici.

Senator DOMENICI. Mr. Chairman, I just have one line of questioning. I am interested in finding out from the two of you as consultants what your job did and didn't include. As I understand it, the authority that you had did not permit you or charge you with determining if there was any price manipulation that was occurring, is that correct?

Mr. PRUNIAUX. Absolutely.

Senator DOMENICI. So we have a consulting firm that on the surface is supposed to determine that the transactions were honest and the pricing and all other things were above board and were visible. That was your job. But as to manipulation, you were not given that authority.

Mr. PRUNIAUX. With due respect, it is not exactly like that that I would phrase the—

Senator DOMENICI. Phrase it as you would like.

Mr. PRUNIAUX. OK. In 1996, the Security Council decided that the price verification—the verification of price would be done by UNOIP.

Senator DOMENICI. By who?

Mr. PRUNIAUX. By UNOIP, by the United Nations itself.

Senator DOMENICI. Yes.

Mr. PRUNIAUX. This is what Mr. Kulyk explained. And it was not the duty of the independent inspectors, who had been hired for other things, to look into the valuation of the goods presented to them.

Senator DOMENICI. So as I understand it, there were similar consulting agreements in the region that had the authority to determine whether or not there was price manipulation. I understand that is correct. In fact, wasn't the first proposal submitted, didn't it include as part of a task the authority to determine price manipulation?

Mr. PRUNIAUX. The very first proposal you mentioned referred to 1992. At that time, the tender, the technical—the scope of work covered by the tender clearly indicated pre-shipment inspection and price verification, but that proposal and that contract that Cotecna was selected, but the contract was never signed, as explained before.

Senator DOMENICI. I understand.

Mr. PRUNIAUX. By 1996, the scope of the contract was of—the tender was totally different. As I said, the United Nations decided to keep for itself at the UNOIP level the price verification but to select independent inspectors, independent meaning also that these inspectors would not be permitted to do commercial inspections. A commercial inspection is an inspection that a supplier and an importer would agree on so that before shipment, the quality of the goods or the quality of the goods would be clearly specified and that upon arrival, there would be discrepancies, commercial discrepancies, then the receiver would act against the supplier. That was—that is a commercial inspection. And we, as independent inspectors, we were strictly forbidden from entering into this.

Senator DOMENICI. But the United Nations decided that you wouldn't do it but somebody else would?

Mr. PRUNIAUX. Well, you have to realize that for the contracts, the Iraqis were sovereign. They could select—as long as the goods were in the—were acceptable—

Senator DOMENICI. I understand.

Mr. PRUNIAUX [continuing.] They could select whatever supplier they wanted in any acceptable country. It was—we recommended very often, and I know UNOIP also at the highest level repeatedly told the Iraqi authorities that in order to reduce the amount of disputes on commercial grounds, they should appoint professional inspection companies to inspect before shipment and possibly match the inspections upon arrival of the goods in Iraq.

Senator DOMENICI. So if you repeatedly suggested that to them, that indicates that—

Mr. PRUNIAUX. The Iraqis did not.

Senator DOMENICI [continuing.] The Iraqis did not do that.

Mr. PRUNIAUX. No.

Senator DOMENICI. So there is a vacuum as to who would do that, or if it was done at all.

Mr. PRUNIAUX. Yes. That was more a commercial dispute, as I said, than—

Senator DOMENICI. Couldn't that be, if—I am not suggesting that you know it was, but wouldn't that be an easy way, if somebody intended, wouldn't that be an easy way to arrive at conclusions that would lead to some manipulation for the benefit of a people or institution that were not intended to benefit? It could happen, couldn't it?

Mr. PRUNIAUX. Manipulations might not be the right word. In my opinion—

Senator DOMENICI. Well, why did you suggest that it should be done? What was the reason?

Mr. PRUNIAUX. Because this is normal practice when you do—

Senator DOMENICI. Why is it the normal practice? It isn't the normal practice just to do it—

Mr. PRUNIAUX. Well, you have to pay for that. Maybe the Iraqis did not want to pay for the commercial inspections by another inspection company.

Senator DOMENICI. But are they useless?

Mr. PRUNIAUX. No, they are not useless, but it is the privilege of the importer to decide to appoint or not to appoint.

Senator DOMENICI. I understand.

Mr. PRUNIAUX. I believe that—they did that on a lot of shipments, but on certain shipments, they did not do that. I am talking of the Iraqis. That would give them some leverage on the suppliers, you see, from—but maybe not manipulations of prices, but just to put some pressure on them to get some incentives upon arrival of the goods in Iraq. You claim that you have a commercial dispute, whether it is true or not is to be confirmed, and you put pressure on the supplier.

Senator DOMENICI. Thank you, Mr. Chairman.

Senator COLEMAN. Thank you. We are going to do a 5-minute follow-up round, and I have a lot more questions, but we have other panels.

First, to Mr. Massey and Mr. Pruniaux, you have indicated in response to Senator Levin's questions that the Secretary-General did not have any role in selecting the Cotecna contract?

Mr. PRUNIAUX. Yes.

Senator COLEMAN. If I refer you to Exhibit 21, which is Michael Wilson's memorandum to Cotecna, this is dated December 4, 1998.¹ This is shortly before you were awarded the contract, and I note that Mr. Massey and Mr. Pruniaux are both individuals who received a copy of this. In that memo on the "next stages," the very end, Mr. Wilson says, "The current contract with Lloyd's ends in December 1998. The OIP would make its recommendations to the Procurement Division within days to enable them to present it to the U.N. Contracts Committee after approval has been obtained from B. Sevan and the SG." I take it SG relates to the Secretary-General?

Mr. MASSEY. This is his own statement, but I don't think that that was the case. I think the contract was being negotiated with the Procurement Division and we don't know exactly at which level the contract was being eventually awarded, but we have never imagined that the contract would have gone as high as the SG office itself.

Senator COLEMAN. My concern is, first of all, this memo was sent to you. Did you receive it?

Mr. MASSEY. Right. Yes.

Senator COLEMAN. And did you ever correct Mr. Wilson in saying the Secretary-General has no role in this?

Mr. PRUNIAUX. But Mr. Chairman, with due respect, the way I read it—maybe I misunderstood your question. It does not say that he has got to talk to the Secretary-General. He is just explaining the machinery for contract approval at the level of the United Nations. In fact, this is wrong. I believe that the Secretary-General has no word to say in the awarding of such a contract. It goes to the Contract Committee.

Senator COLEMAN. But Mr. Wilson was under the impression that the Secretary-General had an approval role, is that correct?

Mr. PRUNIAUX. Yes, which is not true.

Senator COLEMAN. But he was under the impression, and he sent this to you.

Mr. MASSEY. This is what he wrote, right.

Senator COLEMAN. Let me also ask you, and my concern is that you have a 23-year-old kid—that is, I believe, how old Kojo was—in 1998. He is submitting to you in October 1998, submitting outstanding consultancy expenses 2 months before you get the contract. He is getting \$500 a day.

Mr. MASSEY. Right.

Senator COLEMAN. He spends 15 days at the General Assembly, of which you have no reports of what he talked about, nothing in writing.

Mr. MASSEY. We haven't found any report, no.

Senator COLEMAN. And yet at this point in time, you are negotiating a contract with the United Nations of which your own consultant says it needs the approval of "B. Sevan" and Secretary-Gen-

¹See Exhibit No. 21 appears in the Appendix on page 278.

eral, and you are saying that you never mentioned his employment to anybody in the United Nations.

Mr. MASSEY. Absolutely true.

Mr. PRUNIAUX. But he was 28 in 1998.

Senator COLEMAN. I will check the record on that. I will stand corrected if that is the case.

Mr. Kulyk, by the way, and I appreciate your kind words about Cotecna, do you work for Cotecna right now?

Mr. KULYK. Yes, I do. That is mentioned in my tendered written statement.

Senator COLEMAN. I just want to clarify that for the record. You are presently employed by Cotecna?

Mr. KULYK. Yes, I am.

Senator COLEMAN. Did you have any concerns about member states putting pressure on inspectors at the time you were working for the OIP Program?

Mr. KULYK. Concerns or experiences? I think I witnessed some experiences.

Senator COLEMAN. Could we get Exhibit 48?¹ One of them involved a Chinese contract for diesel dredges worth about \$12 million? Can you look at Exhibit 48. Does this look like the Chinese contract you were dealing with, and can you tell me the events and circumstances surrounding it?

Mr. KULYK. Mr. Chairman, it appears to be familiar to me.

Senator COLEMAN. Were you reviewing this contract?

Mr. KULYK. Initially, I did. If this is the one that, in fact, turns out to be the one, I did have some impact in terms of reviewing the contract.

Senator COLEMAN. Now, did you get a fax stating that—that appeared on your desk—the contract was fraudulent, was for used road graders and various people getting kickbacks?

Mr. KULYK. Yes, I recall that.

Senator COLEMAN. And can you tell us what happened with that fax and the circumstances surrounding it?

Mr. KULYK. I can tell you the circumstances at the time. I don't know where the fax is. It does not appear to be in this package. But in essence, Mr. Chairman, the circumstances were that this contract appeared on my desk. It was early in the contract review phase. There was nothing initially unusual about it. At some point in time, perhaps a couple of days later, an anonymous fax came through relating specifically to this contract. My recollection is that it was sufficiently specific to draw attention to the fact that it was this particular contract.

It's been 4 years since I have left OIP, so I am working from memory. My recollection is that there were allegations with respect to the fact that the road graders were, in fact, not new, they were used and refurbished, and also my recollection is that there were suggestions that the contract was, in fact, I guess we can call it put up. It was a false contract with false valuations and that there would be, upon payment, that the proceeds from this contract would be shared amongst a number of different parties.

¹See Exhibit No. 48 appears in the Appendix on page 378.

When that fax came to my desk, I took it to my Chief Customs Expert, Jeremy Owen. We discussed it in the office amongst a number of the customs officers. I think at that time we were about five or six customs officers. It was early in the program. I think it was late 1998. My recollection is that this contract was resubmitted in 1999 because it was not proceeded with in 1998.

The discussion essentially was that, well, we should take a look at the pricing issues very closely and see what we could dig up. The fax was in itself simply an anonymous fax, and as a point of law, it had certain weight as evidence, but was not necessarily true. But it did raise sufficient concerns that we should have special scrutiny on this.

The circumstances were that after this discussion, I went back to my office and I left the contract on my desk, went outside to have a cigarette, came back, and the contract was gone, disappeared from my desk. I looked for it, came back after lunch, and it had reappeared. Being a customs officer, I wanted to know where it was during the time it was missing. I went around and I polled each of the fax machines in the office and I found a corresponding fax to the Chinese mission for the same number of pages that were in the fax. I went back with this information to the Chief Customs Expert, Mr. Owen, who eventually confronted the Chinese customs officer that was working in the program who admitted that he had faxed it to the Chinese mission. His explanation was that he didn't want his mission to be involved in any illegal activity.

Senator COLEMAN. Do you know if any disciplinary action was taken against the individual that was involved?

Mr. KULYK. No, not really.

Senator COLEMAN. Not really? You don't know whether it was taken or you just don't—

Mr. KULYK. Well, I know his duties changed, Mr. Chairman. I don't know whether it was the result of any disciplinary action, but I know his duties changed at some point in time to essentially only reviewing agency contracts.

Senator COLEMAN. And also, just two other follow-up questions. A Russian customs officer—

Mr. KULYK. I think it is fair, Mr. Chairman, to say that every customs officer in the program had some contact with their missions. This was not in itself unusual. However, it was on some occasions, and the Russian customs officer who I knew quite well at one point in time complained that he had been receiving pressure from his mission. I think it is fair to say that many of the missions considered what we were working in as more than a humanitarian program, I think they considered it as a commercial opportunity. So it was a very commercial atmosphere. So, the emphasis was on pushing contracts.

Senator COLEMAN. Mr. Ventham, just to clarify the testimony regarding Exhibit 52, that picture may actually have been of oil trucks going out, but your testimony is focused on trucks coming into Iraq, is that correct?

Mr. VENTHAM. That is correct, yes.

Senator COLEMAN. And so during the week you were there, how many trucks did you see coming into Iraq, bringing goods in?

Mr. VENTHAM. About 400 or 500.

Senator COLEMAN. And I presume they weren't bringing oil.

Mr. VENTHAM. No, no different—

Senator COLEMAN. And you inspected how many of those?

Mr. VENTHAM. I inspected three.

Senator COLEMAN. Three. And do you have an idea what was in those trucks?

Mr. VENTHAM. They were fire trucks. Nothing was in them. They were actually fire trucks themselves.

Senator COLEMAN. Bringing trucks in. What about the other hundreds of fire trucks?

Mr. VENTHAM. Fire engines.

Senator COLEMAN. Fire engines. And the other hundreds of trucks, do you have an idea what they were carrying?

Mr. VENTHAM. Some were carrying different pieces of wood, piping, machinery components, and agricultural equipment.

Senator COLEMAN. But because they didn't have documents relating to the specific program that Cotecna was responsible for, they simply went into Iraq?

Mr. VENTHAM. Well, yes, but there were other shifts working at the same time. They may have been processed through those but I didn't see them.

Senator COLEMAN. Mr. Pruniaux, do you want to add anything to that?

Mr. PRUNIAUX. I would be pleased to introduce the contract manager who worked for us 5 years in Iraq and he was based in Amman. Before that, he was the Team Leader in Trebil, to explain in practical words what happened at the border when the trucks would arrive and those which would come to Cotecna to be authenticated.

Senator COLEMAN. We need the witness to be sworn.

Please raise your right hand. Do you swear the testimony you will give before the Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. RADENOVIC. I do.

Senator COLEMAN. Would you please identify yourself?

**TESTIMONY OF MILAN RADENOVIC, CONTRACT MANAGER,
COTECNA INSPECTION S.A.**

Mr. RADENOVIC. Mr. Chairman, Ranking Member, distinguished Members of the Subcommittee, my name is Milan Radenovic. I served most of my time as contract manager, initially in Geneva and then in Amman.

In the very beginning of the program, I was hired by Lloyd's Register and served for 6 months in Iraq and then was continued with Cotecna once the contract was awarded to Cotecna Inspection.

In regards to the cargo passing through the land borders, I can say that Iraqi authorities, Iraqi government exercised its complete sovereignty on the borders in terms of customs. To my knowledge, there were no other international presence or customs enforcement on the borders apart from our mandate, which is absolutely away from any customs enforcement or any anti-smuggling reporting mandate.

So on every border crossing—talking about the land borders, we had virtually two streams of traffic. One stream of traffic is traffic

going straight to Iraq, and only trucks which are voluntarily presented to Cotecna team in order that the authentication will be condition, triggering payments later on, would stop for the inspection at Cotecna office. The proof is that it very often happened that some of the truck drivers, especially those who are either new in the trucking route, would simply continue in a normal flow towards Iraq and then by Iraqi customs would be instructed to divert and to come to the parking lot of Cotecna and to present their cargo and documents for inspection.

It means that I leave to your assessment even the qualification of the smuggling concept. It was a daylight, normal traffic into Iraq, so whoever wanted to—whatever cargo is subject to authentication by Cotecna has to stop by Cotecna premises. Otherwise, it would easily, normally come to Iraq.

What I normally noticed and what was concern for our inspectors traveling to and from Iraq is the frequency of traffic of the oil tankers. Whatever arrangement might be, either bilateral government or whatever, but anyway, as I was always concerned about the security of people on the road, they normally, very often, they had to overtake or to be careful driving behind the trucks, especially on the route between Amman and Iraqi border. However, in Iraq, the truck, the oil trucks, the tankers were directed and they were usually driving on the former dual carriage way, which was parallel to the highway Trebil, it means the Jordanian border—Baghdad.

We completely focused on our mandate on the inspection of cargo pertaining to 986 program. It means maybe 53, later 59, or 13 percent. So any other observation or remark on other traffic would be outside the mandate or entirely at the internal interest of individual over there, but absolutely there were no mandate and there were no requirement to report anything else apart from outlined system of reporting, it means authentication and either electronic or faxing means of confirming the arrival of cargo in Iraq.

Senator COLEMAN. Senator Levin.

Senator LEVIN. I just have one other question of Mr. Kulyk. You said that you had a favorable impression, or you have a favorable impression of Cotecna. And you work for Cotecna now. You also said in your testimony that others, I guess of your colleagues at the U.N. office, also had a favorable impression of Cotecna at that time, is that correct?

Mr. KULYK. Yes, I did. I think it is important, first of all, and let me state something for the record. I have been asked to come and testify in my capacity as the former Deputy Chief Customs Expert in the Iraq Program. It is a matter of record in my statement that I currently do work for Cotecna. I left the Office of the Iraq Program in March 1998. I have never had any input into any RFPs, was not involved in any decisionmaking process. And when I joined Cotecna, I joined in the capacity of liaison officer in Tanzania. There had been discussion and a decision was taken by Cotecna management that I not be involved in any activities related to their contract with the Office of the Iraq Program to avoid any perceived or real conflict of interest.

So in my capacity here, I am a former law enforcement officer. I am someone that believes in testifying and testifying truthfully

under oath. So it is for you to decide whether or not my comments or observations bear any weight.

But I think it is a general impression, sir—

Senator LEVIN. That was my question.

Mr. KULYK [continuing.] That Cotecna's services—and I would be saying the same thing if I was working for SGS or Bureau Veritas—it was a general impression that Cotecna, as a service provider, was extremely responsive, and the Office of the Iraq Program, whenever they saw a deficiency or needed something done, they never had to fight for it.

An example is, of course, the agency goods, and I don't want to belabor that point, but at some point in time there was a decision made that Cotecna, they wanted Cotecna to assist in authenticating the arrival of agency goods, which I have explained were never subject to—it wasn't a prerequisite for payment. And Cotecna, it was outside the scope of their contract and they did it.

Senator LEVIN. Thank you, Mr. Chairman.

Senator COLEMAN. Thank you. Just one, if I can, a quick follow-up. Were you aware of Cotecna's concerns about staff shortages that were presented to OIP?

Mr. KULYK. I don't know if there were specific concerns with respect to staff shortages. I think there were times early on in the process where there may not have been a very clear indication as to the expectations that the United Nations had with respect to Cotecna's role and responsibilities and their activities. I think it is fair to say, Mr. Chairman, that Cotecna was approaching this authentication process from a point of commercial inspection, and as the program evolved, it became clear that their activities were not going to be consistent with a commercial level of inspection.

Senator COLEMAN. Just to clarify, and I think it is Exhibit 35.¹ I am not sure who wrote that, but maybe Mr. Pruniaux or Mr. Massey could, but Cotecna did raise concerns to the United Nations saying that our site "staffing does not allow to fulfill our contractual responsibilities, and we further believe that these have not been comprehensively fulfilled in the past, either." So you raised these to the United Nations.

Mr. PRUNIAUX. Yes, we did.

Senator COLEMAN. And did the United Nations increase your staffing? Did they—particularly, by the way, at Um Qasir, did they respond to the concerns there?

Mr. PRUNIAUX. Not during the first phase. For the other phases, it was a commercial move to get more money from the UN-OIP. However, the opinion was that we could handle with the staff that had been allocated by contract.

Senator COLEMAN. Nothing further.

Senator LEVIN. Thank you.

Senator COLEMAN. Thank you. This panel is excused. Thank you, gentlemen, very much. Very appreciative. Thanks.

Mr. MASSEY. Mr. Chairman.

Senator COLEMAN. Mr. Massey.

Mr. MASSEY. Mr. Chairman, if you would allow me, I would like to make a comment and a request. My company has been working

¹See Exhibit No. 35 appears in the Appendix on page 316.

with this Subcommittee in a fully cooperative basis since early July last year when our counsel first met with you. We have gone to extreme effort and expense to provide you with every document you have asked for and to facilitate interviews with any and all individuals you have asked to interview, regardless of where we had to bring them from around the world. Again, we have been nothing but cooperative.

Last week, our counsel met with your Staff Director and investigators and were told that this is a professional proceeding. We were told that there would be no surprises, and yet here we sit with this surprise witness, a disgruntled former employee who quit after he was demoted and was refused a raise.

Mr. Chairman, in further supporting the fact finding objective of this Subcommittee and in light of the decision not to share the details of Mr. Ventham's absurd and unsubstantiated testimony, I would respectfully request the opportunity to supplement my written statement with a response to his assertions as well as the previously undisclosed document you showed with two versions.

Senator COLEMAN. Mr. Massey, the record will remain open and I would love to have a further explanation from you as to why this Subcommittee received documents that are apparently different from the original documents, and I would love to have further explanation from you as to whether, in fact, there are written documentation regarding Kojo Annan's participation and work at the United Nations during the 14 days in question. The record will remain open and we certainly appreciate that.

And let me say, we do appreciate your cooperation, but this Subcommittee has concerns and this Chairman has concerns. And so certainly if you have anything additional to add, it will be made part of the record.

Mr. MASSEY. Thank you.

Senator COLEMAN. Thank you. This panel is excused.

I would now like to welcome our second panel of witnesses. It is my pleasure to welcome Joseph A. Christoff, the Director of the International Affairs and Trade Team of the Government Accountability Office, GAO; and Stafford Clarry, a former Humanitarian Affairs Advisor for the United Nations Oil-for-Food Program.

I would ask if Dileep Nair is in the Subcommittee hearing room today. Noting that he is not here, I would like to note that we invited U.N. Under-Secretary-General for Internal Oversight Services Dileep Nair to testify at this hearing. I am saddened that the United Nations did not see fit to allow Mr. Nair to appear today, despite assurances from the United Nations that it would cooperate closely with our investigation.

Our research indicates that U.N. witnesses have appeared at no less than 64 Congressional hearings in the past, including an appearance before this Subcommittee in 1996. We informed the United Nations that we would waive the Subcommittee's customary practice of swearing in our witnesses in order to secure the testimony of Mr. Nair, but that does not seem to have made a difference.

I regret that we will not be afforded the opportunity to discuss the audits with Mr. Nair and share his insights. Further, I am

deeply troubled when representations of cooperation result in empty witness chairs.

Mr. Christoff and Mr. Clarry, I welcome you to today's hearing and look forward to your views on the U.N.'s management and oversight of the Oil-for-Food Program and on the audits of that program.

Before we begin, pursuant to Rule 6, all witnesses before the Subcommittee are required to be sworn in. Will you please raise your right hand.

Do you swear the testimony that you are about to give before this Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. CHRISTOFF. I do.

Mr. CLARRY. I do.

Senator COLEMAN. Thank you, gentlemen, very much.

We have a timing system here that I think we are going to try to use in this panel. When the amber light goes on, turns from green to amber, you have a minute to sum up. Then when the red light goes on, your testimony should end. We will submit your written statements for the record.

We will start with Mr. Christoff, who will go first, followed by Mr. Clarry, and then after we have heard all the testimony, we will proceed with questions. Mr. Christoff.

TESTIMONY OF JOSEPH A. CHRISTOFF,¹ DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. CHRISTOFF. Mr. Chairman, Members of the Subcommittee, Senator Levin, thank you. Thank you for inviting GAO to this important hearing.

In January, the Volcker Commission released 58 internal audits of the Oil-for-Food Program and I am here today to present our analysis of these audits, which were completed by the U.N.'s Office of Internal Oversight Services. First, I just wanted to begin with a brief history about OIOS.

Before OIOS was established, the United States and other member nations criticized the United Nations for not having an internal audit function. In 1993, the U.S. proposed an Inspector General position within the United Nations and withheld funds until that office was established. In 1994, the General Assembly created OIOS to conduct audits, investigations, and inspections of U.N. programs and funds. Its 124 professional staff have access to all U.N. records and documents.

During the Oil-for-Food Program, OIOS generally provided its reports only to the heads of the agencies it audited. Accordingly, member states were not aware of ongoing problems with the program and these problems included flaws in the procurement of contracts, weak safeguards over financial and fixed assets, and poor planning and coordination among U.N. agencies. The audit reports focused on projects in Northern Iraq, the U.N. Compensation Commission, and the inspection contracts, and I would like to highlight some of their key findings.

¹The prepared statement of Mr. Christoff appears in the Appendix on page 147.

In the North, nine U.N. agencies implemented the Oil-for-Food Program. With almost \$5 billion, they built houses, schools, health clinics, and power stations. The auditors found numerous problems with coordination, planning, procurement, and asset management in the 26 reports they completed. For example, an audit in 2000 found that the U.N. Habitat program had no asset inventory system. As a result, materials worth \$1.6 million were still on hand at the end of a construction project. In November 2002, OIOS reported that a \$38 million procurement of equipment was not based on a needs assessment. As a result, 51 generators were unused for nearly 2 years.

OIOS also completed 19 audits of the U.N. Compensation Commission. The Commission was established to pay for losses resulting from Iraq's invasion of Kuwait. As of December 2004, the Commission had resolved nearly 2.6 million claims and paid out almost \$19 billion. In its audits, OIOS identified duplicate payments, insufficient evidence to support losses, and inconsistent methods for computing the claims. Overall, OIOS documented overpayments of more than \$500 million in claims. In response, the Commission reduced claims by \$3.3 million and the Commission also challenged the auditors' authority to review the claims.

OIOS also completed audits of contracts the United Nations let for the inspection of commodity imports and oil exports. A July 1999 audit found problems with the U.N.'s oversight of the Lloyd's contract. Lloyd's was contracted to verify the quantity and quality of goods imported into Iraq. However, the United Nations certified the Lloyd's payments without any on-site verification or inspection of the contractors' services. A July 2002 audit found problems with the U.N.'s management of Saybolt's contract. The company was contracted to oversee the export of oil from Iraq. The auditors found that the United Nations paid \$1 million more than necessary for equipment already included in the contract. And finally, an April 2003 report found that the United Nations had increased Cotecna's contract by \$356,000 4 days after the contract was signed. The amendment included costs for communications equipment and operations that the auditors asserted were already in the contract.

Now, let me turn to what the audits did not cover. OIOS did not examine certain headquarters functions, particularly the oversight of the contracts for Central and Southern Iraq that accounted for almost \$40 billion in Oil-for-Food proceeds. The Iraqi government used these funds to purchase humanitarian goods and collect illicit commissions. The Volcker Commission contends that the auditors would have uncovered these illicit commissions if they had reviewed the contracts for humanitarian goods.

However, the Commission also noted several reasons why OIOS did not audit these contracts. First, OIOS did not believe it had the authority to review the contracts because the Sanctions Committee approved them. Second, the head of the Office of the Iraq Program steered the auditors toward programs in the field rather than headquarters. Third, the auditors' independence was limited because they relied on funds from the audited agency to conduct their reviews. And finally, U.N. management prevented the auditors from reporting their results directly to the Security Council.

Mr. Chairman, that concludes my statement and I am prepared to answer any of your questions.

Senator COLEMAN. Thank you very much, Mr. Christoff. Mr. Clarry.

TESTIMONY OF STAFFORD CLARRY,¹ FORMER HUMANITARIAN AFFAIRS ADVISOR, UNITED NATIONS OIL-FOR-FOOD PROGRAM, SYRACUSE, NEW YORK

Mr. CLARRY. Thank you, Mr. Chairman, Senator Levin. Thank you for inviting me. I am honored to be here.

I have been in Iraq since 1991. I was a U.N. liaison officer with Operation Provide Comfort and the Kurdish refugee situation, and then I followed the refugees back into Iraq and was based in Baghdad, but I served most of my time in the Kurdistan region. I will use the term "Kurdistan region" because Northern Iraq includes more than the current Kurdistan region that is separately administered by the Kurdistan regional government. That is my bias and that is my focus.

I am here to help you understand the workings of the program, to the extent of my experience and knowledge on the ground in Kurdistan. I have been there throughout the 1990's. I am still there. I will go back next week or the week after.

There is tremendous experience there and tremendous lessons that have not been learned. Our experience with the Oil-for-Food Program. I am going to try to just focus on what is in my prepared remarks and that is the 13 percent account. I think any of us would like to know how much money do we have in our personal account? How much has been spent, and how much is left over?

After 7 years of the Oil-for-Food Program, which concluded over a year ago, we still do not know, and that is part of my campaign and part of my mission, is that we should know and why don't we know. I suggest to you that one way of going about investigating this, this is just an additional contribution, is that you have two sets of transactions, earnings and expenditures.

I would suggest taking each of the earning transactions and look at what you received, what the program received, and what the market prices were available at that time, because the undercharges are losses. Similarly, look at expenditures and each transaction and compare it to the market prices at that time and you will see overcharges. Those are losses. But who suffered those losses? Those losses were suffered by the Iraqi people. But who caused the losses?

This is what I believe this investigation and other investigations have to get to, because once it is determined how much those losses are and who is responsible for those losses, then someone should pay, and it is that pinch of penalty and compensation which may drive improvement in the way the United Nations goes about its business, because many of us have been involved with the United Nations over many, many years. I have only been a direct employee with the United Nations in Iraq. We are very proud to work with the United Nations, but we are unsatisfied with the way the U.N.

¹The prepared statement of Mr. Clarry with attachments appears in the Appendix on page 165.

functions and goes about its business and it is about time that this be cured.

The Oil-for-Food Program probably offers the last grant opportunity to do that because it is just so massive that it is the whole U.N. system pretty much except UNOOSA. UNOOSA is the U.N. Office of Outer Space Affairs. There is a U.N. office for everything.

But you have the Security Council directly involved in this program. You have the U.N. Secretariat. You have nine U.N. agencies. You have many governments. We can almost say everyone is culpable.

The audits are part of that process of examining what went wrong. The next step is to assign responsibility. Now, looking at the 13 percent account, which is my bias and my focus, I think it is—let me just interject here, but I think it is important that there be conflict and competition amongst the investigations, because already one thing I missed earlier, and I just happened to see last night, is that the ICC interim report states that \$6.1 billion was spent from the 13 percent account. I just heard \$5 billion. My calculations from December 2002 is \$4 billion.

We need some conflict and competition amongst the investigations in order to get at the final figure, because once we get those, then we can determine what the losses are, who is to pay, and how were those losses incurred, and what needs to be done to prevent those losses occurring in the future.

In my written testimony, I gave you various points of departure. I have had contact with virtually, let me say, all entities with the exception of Cotecna. I had contact with their predecessor, Lloyd's Register. I have had contact with pretty much all the U.N. agencies, with New York, with Baghdad, and with the local authorities. Thank you very much.

Senator COLEMAN. Thank you very much, Mr. Clarry.

We will do 8-minute rounds of questions here.

Mr. Christoff, I believe in your testimony, you indicated that had the headquarters functions been examined, oversight of contracts with Central and Southern Iraq accounting for 59 percent, almost \$40 billion of Oil-for-Food proceeds, is it your sense that the kickbacks and other things could have been uncovered if those activities had been audited?

Mr. CHRISTOFF. I think the one area that I would have thought that the auditors could have covered was looking at the roles and responsibilities of the Office of the Iraq Program. I have heard over the past couple years that we have looked into this program an unclear understanding of what they were tasked to do. They were tasked with looking at the price and value of the contracts. I am still unclear, even after listening today to the previous panels, how they went about looking at the contracts for the price reasonableness of the contracts. If the auditors would have at least placed some focus on the roles and responsibilities in Mr. Sevan's shop, maybe we would have had some early attention about the contracts.

Senator COLEMAN. In your testimony, your written testimony, you indicated OIP management steered the OIOS toward program activities in Iraq rather than headquarters functions where OIP reviewed the humanitarian contracts. In your oral testimony, you

were more specific. You indicated that the head of the OIP steered the audit function away from the headquarters functions, is that correct?

Mr. CHRISTOFF. Correct. In fact, that is the Volcker Commission's finding, as well.

Senator COLEMAN. And we are talking about Benon Sevan?

Mr. CHRISTOFF. Correct.

Senator COLEMAN. Could you give me an overall assessment, then, of the—I mean, the audits deal with a lot of minutiae, a lot of minutiae, but the overall body of audit work, what kind of picture does that paint of U.N. management of Oil-for-Food and other programs in Iraq?

Mr. CHRISTOFF. I think it does two things. First, it sheds some light on some of the programs that haven't gotten much attention, the 13 percent account that Mr. Clarry refers to, the 25 percent of the money that went to this U.N. Compensation Commission. But it also shows that there really was a lack of a basic foundation of financial asset management, procurement management, that you really need in any type of a program. And if you don't have that foundation, then it can lead to fraud, waste, and abuse.

Senator COLEMAN. What role does Benon Sevan have, then, in the oversight and management of these kinds of programs, be it the Oil-for-Food, the compensation, things that were going on in Iraq?

Mr. CHRISTOFF. The Office of the Iraq Program had a critical role. In fact, some of the concerns that the auditors mentioned was the fact that there was lack of on-site kinds of oversight occurring within Iraq itself. It was oversight that was occurring from New York rather than on the field.

Senator COLEMAN. Mr. Clarry, we didn't get at this in your oral testimony, but I think your written testimony talks about it. Can you talk to me a little bit about any problems with quality of goods that were delivered into Northern Iraq under the 13 percent program, medicines out of date, food not fit for human consumption, as described in the audits?

Mr. CLARRY. Mr. Chairman, there were always chronic complaints about the quality of food and medicines. These were supplied by the Baghdad regime. I would like to interject here that 40 percent of the 13 percent account, 40 percent of that account was actually under the control of the Saddam Hussein regime, not under control of the U.N. agencies procuring goods and services for the North.

There were some expired medicines. There were some medicines that were thought to be defective. There were always chronic shortages of the medicines, even though there were substantial funds available. There was \$340 million allocated during the first 11 phases, of which by August 2002 only \$100 million had been supplied, and there were shortages. The Kurdistan regional government had to go out, use their own funds on occasion to procure urgent and important medical supplies.

Food, many local people would not use the vegetable oil, for instance. It may be a matter of taste. It was all certified fit for human consumption. But certainly with the amount of funds available, and if you could command the best market prices in the

world, you could serve steak and eggs for breakfast every single day of the year to everybody. There was plenty of funds available, and some of the food money was, let me say, wasted. Just look at how many people in the world could eat 20 kilograms, 20 pounds of wheat flour a month, but that was the program.

Senator COLEMAN. Were you aware of any kickback schemes in humanitarian goods when you were there?

Mr. CLARRY. It was just felt, because the contracts were negotiated in Baghdad or by the U.N. agencies themselves. We were plugged into the system after that. So in Northern Iraq or in the Kurdistan region, we were unaware of any specifics regarding kickbacks.

Senator COLEMAN. Mr. Christoff, the draft report on the activities of OIOS said it is OIOS's view that the overall management of the Oil-for-Food Program was not fully satisfactory. It certainly got an assessment from one of the witnesses earlier that they seemed to be satisfied with the work of Cotecna and the inspectors. Can you reflect on what the audits showed regarding Lloyd's, Cotecna, and the other folks responsible for overseeing the program?

Mr. CHRISTOFF. Yes. The audits that OIOS performed placed a lot of emphasis on the lack of oversight on the part of the United Nations and the Office of the Iraq Program. For Cotecna, for example, they questioned an amendment to that contract occurring 4 days after the contract was signed that increased that contract price by \$356,000. So a lot of the thrust of those internal audit reports placed a picture on the extent to which any oversight was being conducted on the part of the Office of the Iraq Program.

Senator COLEMAN. What kind of response did you see within the United Nations to the audit reports?

Mr. CHRISTOFF. It varied. I think if you look at some of the audits that were done on the U.N. programs in the north, you found that the audited agencies appeared to be receptive to the recommendations. However, in some of the audits, a few follow-up audits that were conducted, OIOS often found that even though the agencies agreed to implement the recommendations, they didn't do it. You look at the audits of the U.N. Compensation Commission, the U.N. Compensation Commission responded to the auditors by challenging their legal authority.

Senator COLEMAN. What responsibility does the top management have to kind of pull everyone together to respond to audits in an appropriate fashion?

Mr. CHRISTOFF. Well, it is imperative. You can't have change implemented unless you have buy-in by top management.

Senator COLEMAN. And is there any sense that there was buy-in by top management in terms of managing this program well, responding to audits, keeping things clean?

Mr. CHRISTOFF. Again, I think it varied by the different programs. You had the auditors constantly being challenged. I think there was probably a lot of wasted time debating the merits of what the auditors found and not fixing the problems.

Senator COLEMAN. Senator Levin.

Senator LEVIN. Thank you. Mr. Christoff, in 2002, the GAO issued a report called "U.N. Confronts Significant Challenges in

Implementing Sanctions Against Iraq,” and I think you are familiar with that report, and may have contributed to it at the time.

Mr. CHRISTOFF. Yes, sir.

Senator LEVIN. Now, we introduced a chart from that report at the last hearing. This is the chart that we put up.¹ The GAO found in 2002 that, “Sanctions may have constrained Iraq’s purchases of conventional weapons. There is no indication that Iraq has purchased large-scale weapons systems such as aircraft, ships, or armor.”

As I understand your conclusion, it was primarily because of U.N.’s control of Iraq’s oil revenues that, “Iraq’s military expenditures have dropped dramatically.” Is that what that chart shows?

Mr. CHRISTOFF. That is correct.

Senator LEVIN. That was after the imposition of the U.N. program that the military expenditures of Iraq dropped significantly, and that was in—what year is that? I can’t read it from here.

Mr. CHRISTOFF. It begins with when the sanctions were implemented in 1991.

Senator LEVIN. And then it shows, after that massive drop in 1991, it shows a level spending at a very much lower level—

Mr. CHRISTOFF. Correct.

Senator LEVIN [continuing.] Right through your report in 2002, is that correct?

Mr. CHRISTOFF. Yes, that is correct.

Senator LEVIN. The Duelfer Report found in 2004 that the U.N. sanctions stopped Saddam Hussein from rearming Iraq with either large-scale conventional weapons or weapons of mass destruction. Is that a fair reading, also, of your report?

Mr. CHRISTOFF. I think what we found in our report was that the sanctions were effective in limiting some of the major arms shipments that had been going to Iraq prior to the sanctions.

Senator LEVIN. You said also in your 2002 report that one of the challenges in implementing the sanctions was the “illicit revenue outside of U.N. control obtained from oil sales through neighboring states.” Your report noted that most recent U.N. resolutions did not address those oil sales to the neighboring states and that the omission was a significant challenge to the enforcement of the sanctions. Is that correct?

Mr. CHRISTOFF. That is correct.

Senator LEVIN. Did the U.S. Government take action to address the oil trade from Iraq to those neighboring states following your report?

Mr. CHRISTOFF. Following the report?

Senator LEVIN. Yes.

Mr. CHRISTOFF. I don’t know following the report. I know during the sanctions program, the United States did bring information to the Security Council about neighboring nations that were violating the sanctions.

Senator LEVIN. And did they take action to stop those sales?

Mr. CHRISTOFF. We know that the United Nations, “took note of the smuggling that was occurring to Jordan,” but we don’t know what additional actions, if anything, were undertaken.

¹See Exhibit No. 54 appears in the Appendix on page 434.

Senator LEVIN. So other than that, as far as you know, other than bringing it to the attention of the Security Council, the Security Council taking note of the sales, it did nothing beyond that?

Mr. CHRISTOFF. Not to my knowledge.

Senator LEVIN. And subsequent to your report?

Mr. CHRISTOFF. I do recall at least in public statements that former Secretary of State Colin Powell noted that he was putting pressure on the Syrians to stop the oil pipeline that was being constructed and then the oil shipments that were going through Syria, as well.

Senator LEVIN. And any reference to putting pressure on the Turks or the Jordanians?

Mr. CHRISTOFF. No.

Senator LEVIN. Mr. Clarry, are you now a consultant for—what do you do now?

Mr. CLARRY. I am a consultant to the Kurdistan regional government.

Senator LEVIN. And the claims that you say that they have, and this is, as you put it, your bias and your focus to try to get those claims resolved, they relate to money which you believe—or goods which should have been delivered to that region, is that correct?

Mr. CLARRY. Yes, a little bit of the goods, and mostly the remaining unspent funds, yes.

Senator LEVIN. And were some of those unspent funds delivered to the region?

Mr. CLARRY. Yes.

Senator LEVIN. It was in cash?

Mr. CLARRY. Cash.

Senator LEVIN. Do you know about how much that was?

Mr. CLARRY. About \$2 billion.

Senator LEVIN. Two billion?

Mr. CLARRY. Yes.

Senator LEVIN. And when was that?

Mr. CLARRY. Last June.

Senator LEVIN. Is that included in your figures?

Mr. CLARRY. Yes, I do mention it in a written statement. We are looking for the other three.

Senator LEVIN. So that is included in your bottom line—

Mr. CLARRY. Yes.

Senator LEVIN [continuing.] As to what you believe is still owing?

Mr. CLARRY. Yes.

Senator LEVIN. Thank you. Thank you, Mr. Chairman.

Senator COLEMAN. Mr. Christoff, have you had a chance to review the Duelfer Report?

Mr. CHRISTOFF. I have read it, yes.

Senator COLEMAN. As I recall, the Iraq Survey Group, they indicated that the Iraqi Military Industrialization Committee budget grew substantially post-implementation of Oil-for-Food. Do you recall that?

Mr. CHRISTOFF. From the Duelfer Committee report? Yes.

Senator COLEMAN. I think the figures were—I am trying to get a copy of the report—that their budget grew from about \$7.8 million per year to \$500 million per year by 2003, and as I recall Duelfer's testimony before this Subcommittee, he indicated that, in

fact, as a result of the Oil-for-Food Program, that Saddam Hussein was able to get around the sanctions and to rearm himself. Do you recall that in the Duelfer Report and is that inconsistent with the chart that we just saw?

Mr. CHRISTOFF. The information that we presented in our report in 2001 was information that was provided to us by the State Department in terms of what the arms sales were and what they were back in 1980 going through 2001.

Senator COLEMAN. So the Duelfer Report, the information that the Iraq Survey Group provided, was certainly more recent information and more thorough information—

Mr. CHRISTOFF. It is more recent, definitely.

Senator COLEMAN. And, in fact, I believe that Mr. Duelfer indicated that the Iraqi military budget actually grew a hundred-fold under the Oil-for-Food Program.

Senator LEVIN. Was that consistent with your report, that their budget for equipment grew a hundred-fold under the program?

Mr. CHRISTOFF. No. In 2001, when we completed our report, we were basing the information on what we had received from the State Department—it is not there—but which showed that the high peak of armament sales that had occurred before sanctions were imposed declined as a result of the sanctions.

Senator LEVIN. Thank you.

Senator COLEMAN. I just want to follow up. At the time of that report, 2001, were you aware of the kickbacks, the extent of the fraud under the Oil-for-Food Program?

Mr. CHRISTOFF. Yes.

Senator COLEMAN. Nothing further.

Senator LEVIN. I am all set. Thanks.

Senator COLEMAN. This panel is excused. Thank you very much.

I would now like to welcome our final witness, the Hon. Patrick F. Kennedy, the Ambassador to the United Nations for Management and Reform at the U.S. Mission to the United Nations.

Ambassador Kennedy, I appreciate your appearance at today's hearing and look forward to your views on U.N.'s management and oversight of the Oil-for-Food Program, U.S. awareness of fraud and abuse in the program, including oil smuggling, and U.S. actions to prevent use of the program by the regime of Saddam Hussein.

Before we begin, pursuant to Rule 6, all witnesses before this Subcommittee are required to be sworn in. Will you please raise your right hand.

Do you swear the testimony you are about to give before the Subcommittee is the truth, the whole truth, and nothing but the truth, so help you, God?

Ambassador KENNEDY. I do, sir.

Senator COLEMAN. Thank you very much.

I think you know the system here, Ambassador. When the light turns from green to amber, if you can conclude. We will have your written statement submitted in its entirety for the record. Ambassador Kennedy, you may proceed.

**TESTIMONY OF HON. PATRICK F. KENNEDY,¹ AMBASSADOR TO
THE UNITED NATIONS FOR MANAGEMENT AND REFORM,
UNITED STATES MISSION TO THE UNITED NATIONS, NEW
YORK, NEW YORK**

Ambassador KENNEDY. Thank you very much, Mr. Chairman. Mr. Chairman, distinguished Members of the Subcommittee, 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, I want to reiterate three points regarding the context in which the Oil-for-Food Program was established and implemented. First, I want to emphasize that the United States was fighting an often uphill battle. The very establishment of the program was the result of arduous negotiations among 15 Security Council members, some of whom were arguing for the complete lifting of sanctions. As a result of this political context, the ability of the United States and the United Kingdom to take measures to counter or address noncompliance during the life of the program was often countered by other members' desires to, in fact, ease sanctions on Iraq.

Second, sanctions have always been an imperfect tool, but given the United States's national goal of restricting Saddam's ability to obtain new materials of war, sanctions offered an important and viable approach short of the use of force to achieve this objective.

Third, the United States made decisions and took actions relating to the Oil-for-Food Program and the comprehensive sanctions on Iraq also to achieve overarching national security goals within the larger political and economic context of the region.

Mr. Chairman, given this general context, I would like to attempt to outline some of the issues relating to the responsibility for implementing the program and for sanctions in general.

The Oil-for-Food Program was established to address the serious humanitarian crisis that Saddam Hussein had inflicted on the Iraqi civilian population while concurrently maintaining strict enforcement of sanctions on items that Saddam Hussein could use to rearm or reconstitute his weapons of mass destruction or other military programs.

We believe the system the Security Council devised by and large met these two specific objectives. The Oil-for-Food Program did have measurable success in meeting the day-to-day needs of Iraqi civilians. The daily caloric intake of Iraqi citizens increased and health standards in the country improved. And as Mr. Duelfer testified before this Subcommittee on November 15 last year, "U.N. sanctions curbed Saddam's ability to import weapons, technology, and expertise into Iraq."

Investigations over the past year have uncovered significant sanctions-busting activity that arose both from Saddam Hussein's manipulation of the program and from his and others' abuse of the sanction regime for financial gain.

In the end, the Oil-for-Food Program reflected three factors: A collective international desire to assist and improve the lives of Iraq's civilian population; a desire by the United States and others

¹The prepared statement of Ambassador Kennedy appears in the Appendix on page 188.

to prevent Saddam Hussein from acquiring materials of war and from posing a renewed regional and international threat; and a decision by some companies, member states, and individuals to pursue their own financial interests at the expense of the international community.

Mr. Chairman, this final point about actors who colluded with Saddam Hussein in breaching sanctions and violating the rules of the Oil-for-Food Program leads me to the issue of responsibility.

The United Nations, first and foremost, is a collective body comprised of its 191 members. A fundamental principle inherent in the U.N. charter is that all member states will uphold decisions taken by the Security Council. The effectiveness of the sanctions regime against Iraq and the integrity of the Oil-for-Food Program depended completely on the ability and willingness of member states to implement and enforce the sanctions. In this regard, member states held the primary responsibility for ensuring that their national companies and their citizens complied with states' international obligations.

Through the Treasury Department, the United States, for instance, took measures to establish a vetting process for U.S. companies seeking to do business in Iraq. We also implemented a comprehensive process to review the contracts for humanitarian goods going to Iraq in order to ensure that dual-use items were not being supplied to Iraq through the Oil-for-Food Program.

In addition to the responsibilities of member states, the Security Council also established a subsidiary body of the Council, the 661 Committee, to monitor the sanctions on Iraq, and once it was established—the Oil-for-Food Program—the 661 Committee discussed issues related to violation of the sanctions between 1990 and 2003 and issues related to the Oil-for-Food Program between 1995 and 2003. Action, however, could only be taken to address those issues if there were political will and a consensus of all the members of the committee to do so. Although the United States and the United Kingdom repeatedly raised concerns within this context and often offered solutions to mitigate abuses, consensus in the 661 Committee continually proved elusive as we faced opposition from one or more members of the committee.

The Security Council also authorized the Secretary-General and the U.N. Secretariat, under Security Council Resolution 986 in 1995 and subsequent resolutions, to implement and monitor the Oil-for-Food Program. The Office of the Iraq Program staff was hired to devise a system whereby oil revenues from the program could be used to pay for humanitarian supplies for Iraq. To be clear, Mr. Chairman, the Secretariat, OIP, and the U.N. agencies were given the authority and they had the power to implement the program only within the mandate given to them by the Security Council. They were not empowered to monitor or enforce implementation by member states of the overall sanctions on Iraq or act as a border patrol.

To make the division of responsibilities clear, Mr. Chairman, let me offer two examples. 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 Com-

mittee. The U.N. Oil Overseers and 661 Committee members verified that the purchase price of the petroleum and the petroleum products were reasonable in light of prevailing market conditions.

The U.N. contracted monitoring group, Saybolt, provided on-site inspection agents who keep 661 Committee members informed of the amount of petroleum exported from Iraq. Saybolt inspectors also monitored the arrival of oil industry spares under the Oil-for-Food Program. A U.N. escrow account administered by Banque Nationale de Paris received payments for such liftings. Oil flowing out of Iraq through other means—smuggling, trade protocols, and the voucher system—was outside the mandate of the U.N. Secretariat. Member states were responsible for monitoring these activities.

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 at 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 661 Committee and the goods shipped, the U.N. inspection agent, Lloyd's 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. These were, in hindsight, substantial problems related to all these areas of responsibility. Some members did not take their international obligations seriously and either directly or indirectly facilitated sanction-busting activities by the Saddam Hussein 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. As the recent Volcker Independent Inquiry Committee Report indicates, there were serious charges that U.N. officials may have allowed Saddam Hussein 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.

Violations with respect to the Oil-for-Food Program manifested themselves in two key areas, manipulation of oil pricing and kick-backs on the Oil-for-Food Program.

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 661 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 the 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 three to five cents.

Separately, allegations 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 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 Hussein regime during various briefings. The United States briefed Security Council members in 2000 on the various ways the Saddam Hussein 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's 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 2002, a U.S. interagency team briefed the 661 Committee on the regime's diversion of trucks. The U.S. commanders of the Multilateral Interception Force 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.

Mr. Chairman, I know that an issue of concern to this Subcommittee is our relationship with Jordan and Turkey with respect

to the imports of oil from Iraq during the Oil-for-Food period and why we felt the need to treat these nations differently.

Beginning in 1991 and extending through 2003, the annual Foreign Operations Appropriation Act contained restrictions on U.S. assistance to any country not in compliance with U.N. Security Council resolutions against Iraq. In 2002, the Foreign Operations Appropriation Act, as carried forward in the 2002 Supplemental, for example, enacted such legislation as Section 531. The restrictions under 531 and its predecessors could be waived if the President determined and certified to the Congress that providing assistance was in the national interest.

In the case of Jordan, as we explained to then-Senate Foreign Relations Committee Chairman Biden in a letter dated October 2, 2002, the restriction had been waived each year since its enactment in 1991 by three successive Administrations.

Jordan was and remains a critical partner with the United States in bringing stability and a lasting peace to the Middle East. By ensuring that Jordan was not strangled by a lack of critical resource, the Jordanian government was able to pursue policies of critical importance to U.S. national security in the region. The Jordanians made clear to us that their trade would not aid Saddam's weapons procurement programs. We understood that they were sending manufactured products to Iraq in exchange for oil. The U.S. determination and certification were solely in recognition of Jordan's lack of economically viable alternatives. The U.N. Sanctions Committee, with U.S. support, took note of Jordan's imports of Iraqi oil and its lack of economic alternatives.

As we also explained in the October 2002 letter, similar consideration was given to Turkey, a close ally of the United States, a NATO partner, and host of Operation Northern Watch. Turkey cooperated closely with the U.S. nonproliferation efforts against Saddam's regime. Our approach was to encourage Turkey to bring its trade with Iraq into conformity with the U.N. Security Council resolutions.

Turkey claimed that its cumulative losses from the Gulf War and ensuing sanctions against Iraq amounted to about \$35 billion, and throughout the 1990's pushed for ways to expand its trade with Iraq. From 1991 to the start of Operation Iraqi Freedom, the United States worked with Turkey to discourage trade out of the U.N. sanctions regime. For instance, the United States did not support a Turkish request for relief from sanctions under Article 50 of the U.N. Charter. In addition, the United States sought to ensure that the U.N. Security Council resolutions did not legitimize trade with Iraq outside the Oil-for-Food Program.

Senator COLEMAN. Ambassador Kennedy, if you could sum up.

Ambassador KENNEDY. Yes, sir.

Senator COLEMAN. I am sure Senator Levin will follow up on some of these issues.

Ambassador KENNEDY. Yes, sir. The last issue I would like to address is the accusations of impropriety, mismanagement, or abuse by U.N. personnel, contractors, or agencies. The recently released U.N. Office of Internal Oversight Services audits and the Independent Inquiry Committee interim report paint a very disappointing and disturbing picture.

The lack of transparency on the part of the United Nations with regard to OIOS has long been a particular concern. The United States mission has continually sought access to OIOS reports. These were initially denied, as access was deemed outside of the General Assembly rules. Our staff worked tirelessly since last summer to get these particular OFF reports released, both from the Secretary and the Volcker Commission, which both denied.

Therefore, last fall, the United States put forward language for inclusion in General Assembly resolutions that required that the United Nations make all OIOS audit reports available to U.N. member states on their request. The General Assembly adopted this U.S. initiative during the evening of December 23. Within an hour, the United States formally requested copies of the OIOS reports covering the Oil-for-Food Program. Two weeks later, these audits were made available, thanks to our efforts, and these are the reports that your staff has reviewed.

Mr. Chairman, I convey this information to you because we at the United States mission take our responsibility to make the United Nations a more transparent body very seriously and we intend to continue this initiative in order to ensure adequate follow-up of auditors' recommendations.

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. We will go forward, Mr. Chairman, and take the lessons we have learned from this experience very seriously and apply them to all future U.N. endeavors.

I now stand ready to answer any questions the Subcommittee might have.

Senator COLEMAN. Thank you, Ambassador Kennedy. I appreciate that very extensive statement.

I also want to say I appreciate the efforts to get us access to the—in the end, I think it was the 58 internal audits. I know we had been promised them at some later time, but it wasn't until the resolution that you discussed was passed that caused us to get them when we did, so I want to thank you for those efforts.

In the Duelfer Report, the Iraqi Survey Group noted, and I am going to quote here, and I will have the portion submitted to the record, "Although Saddam had reluctantly accepted the U.N. Oil-for-Food Program by 1996, he soon recognized its economic value and additional opportunities for further manipulation and influence of the UNSC," U.N. Security Council, "Iraq 661 Sanctions Committee member states. Therefore, he resigned himself to the continuation of U.N. sanctions, understanding that they would become a paper tiger, regardless of continued U.S. resolve to maintain them." The report goes on then to detail the significant increases in military funding. It goes on to detail individuals with connections to member states receiving vouchers which then were actually bribes.

My question to you is at what point in time were folks in our delegation aware of vouchers being handed out to folks with influence in member states? At what point in time were our folks aware that kickbacks that have been detailed before this Subcommittee by the Weir Group? I am trying to get a sense of what the thinking was

as this stuff is going on and the massive way in which it was happening. Were we simply blind at the time it was happening, or were we aware but unable to do anything?

Ambassador KENNEDY. Mr. Chairman, if I can divide your question into three parts, no one became aware of the voucher program until after the fall of Baghdad. The voucher program was kept very secret by Saddam Hussein. He ran, as you are well aware, sir, an extremely brutal regime and he was able to keep secrets.

However, we were certainly aware, and became aware in 2000, of his efforts to subvert the activities, both through the first—the premium pricing on oil and then by kickbacks and we moved to counter this. It was, in fact, a chess game, sir. Saddam Hussein was always on the lookout for a way to get around the sanctions, and as information came to our attention, the United States, and always allied with the United Kingdom, were looking for ways to combat that.

The example I laid out in my opening statement about how once we discovered, because the U.N. Oil Overseers reported to us his attempts to put premiums on sales, we moved in the committee. We met resistance from other nations in the committee, something we faced at all times. And then we employed the consensus mechanism, as I said, in a reverse way to end the sanctions.

So 2001, 2002, we began to hear a variety of rumors and we then moved to take whatever steps we could to counter them.

Senator COLEMAN. And specifically, you talked about the retroactive pricing. That is the issue described where Saddam Hussein could manipulate price, but once you instituted this retroactive pricing mechanism, that took away his ability to do that.

Ambassador KENNEDY. It took it away, yes, sir.

Senator COLEMAN. Who was resisting—first of all, how long did it take, from the time we first became aware of this and wanted to change the policy, to actually change the policy?

Ambassador KENNEDY. I think it took somewhere around 6 to 9 months. We met resistance within the committee. Other members of the committee were always saying, bring us proof positive, and we said, we don't need proof positive. The rumor on the street is sufficient that we must pursue this in order to maintain the integrity of the sanctions system. Other nations resisted.

Senator COLEMAN. Which other members of the 661 Committee were most resistant to changing the retroactive pricing mechanism?

Ambassador KENNEDY. We received inquiries and challenges to our efforts from the Russians, from the Chinese, from the French, from the Syrians, from others, because the composition of the 661 Committee was the permanent five plus others as they changed.

Senator COLEMAN. Was there ever any concern raised about the value of Oil-for-Food contracts going to these specific member nations and somehow that relating to the measure of their resistance?

Ambassador KENNEDY. No, sir. I mean, obviously, there may have been colleagues who had speculated on that, but if you go back to the beginning of the program, in 1995, the sanctions had been in place on Iraq for 5 years. Because of Saddam's total lack of care for his own people, his people were simply starving. Child mortality was up. Maternal mortality was up. And the public per-

ception in the world was not that Saddam Hussein was causing this but that the sanctions regime was causing it.

The U.S. national goal was to maintain those sanctions, and therefore, we were looking for a way to keep the sanction regime in place but overcome this public perception that the sanctions were causing great harm to the Iraqi people. Therefore, as we worked to implement the Oil-for-Food Program to work it out, that was our dilemma.

Our primary goal was to maintain the sanctions. If we could not have a solid wall, then we wanted a screen, and we needed to construct a screen that was as tight as possible within the context. But when we negotiated, the ability to write contracts had to be left to Saddam Hussein. That was the only way to get the program implemented.

Senator COLEMAN. Wasn't there concern that by giving him that ability, that you were giving him the power to manipulate, which obviously he ultimately did?

Ambassador KENNEDY. It was anticipated, yes, that Saddam Hussein would do anything he could to manipulate the program. We tried to put in means to counter the manipulation, to limit the manipulation, but at the same time, faced with Saddam Hussein manipulating something versus the loss of sanctions as they dissipated, that other countries in the world did not implement the sanctions as aggressively as we felt the United Nations required, the U.N. Security Council resolutions required them to, we did not want the sanctions to fritter away.

Senator COLEMAN. You talked a number of times about the responsibility of "member states" to do certain kinds of enforcement. Can you explain what you meant by that?

Ambassador KENNEDY. Yes, sir. A resolution passed by the U.N. Security Council is, under international law, binding on all member states. So if sanctions are put by the United Nations on Xanadu or Iraq, it is the responsibility of all other 190 members of the United Nations to enforce those sanctions. They are required to bar the movement of goods, to only ship goods into Iraq under the program.

But the enforcement mechanism is the court of world public opinion. There is no sanctions mechanism absent going back to the Security Council for another resolution to attempt to take military action against a violator.

Senator COLEMAN. But in this case, where you have an incredibly wide pattern of abuse of contracts, kickbacks, manipulation of contracts, oil smuggling, topping off, a whole range of things, it is difficult for me sitting here to understand how we somehow would not be aware all this is going on when it is going on.

Ambassador KENNEDY. As I said, sir, we became aware in 2002 of his attempts to manipulate oil pricing, and then as we tamped that down, he moved to kickbacks, moving from one activity to—we were aware of it and we constantly moved to counter it. As I said earlier, Mr. Chairman, I am not here to tell you that sanctions are a perfect tool, but sanctions are a tool. They were a tool that were available to us, and as Mr. Duelfer says several times in his report, they did have an effect on limiting Saddam Hussein's ability to acquire materials.

There are other examples in his statement, in his report, I would say, where he talks about the Iraqis, for example, attempting to purchase aluminum powder by setting up massive front companies, and a year later, he never was able to obtain that aluminum powder, which is one of the components of building weapons.

So sanctions were having an effect. A perfect effect, absolutely not. But the United States felt it was very important to maintain that screen in place for the value of keeping out as much as was possible.

Senator COLEMAN. Thank you, Ambassador. Senator Levin.

Senator LEVIN. The way Secretary Powell put it was, I think, credit has to be given for putting in place a sanctions regime that has kept Saddam Hussein pretty much in check. Is that what you basically are saying?

Ambassador KENNEDY. Yes, sir.

Senator LEVIN. And you stick to that?

Ambassador KENNEDY. Yes, sir.

Senator LEVIN. Even knowing of the abuses that we have heard of, do you still stick to that conclusion?

Ambassador KENNEDY. Sir, the program, Senator, was certainly not perfect, but it kept Saddam Hussein basically in check, as the Secretary said.

Senator LEVIN. If we could put that chart up,¹ that revenue that was going to Iraq, you made reference to what we didn't know until 2002. That is what we didn't know. That is only a quarter of the money that he was getting for oil sales that he shouldn't have gotten if the Oil-for-Food Program was working and applied to everybody, including Turkey and Jordan, because what we did know was that big segment of that pie, which is 73 percent of the revenue that he got, and that was all outside of the U.N. Oil-for-Food Program. Are you familiar with that?

Ambassador KENNEDY. Yes, sir.

Senator LEVIN. Does that look like about the right proportions?

Ambassador KENNEDY. Yes—

Senator LEVIN. That was the Duelfer—

Ambassador KENNEDY. Yes, sir. I think those numbers are good numbers.

Senator LEVIN. So what we did know in terms of what he was doing outside of the program was that he got a huge amount of revenue from oil sales to our allies, at least in the case of Turkey, Jordan, and Egypt. Obviously, Syria is not an ally, but in terms of the major recipient, which was Jordan, we knew that he was selling that oil outside of the program, in other words, in ways that the U.N. resolution did not contemplate, did not provide for.

Now, the question is, we decided basically not to object. We could say rhetorically we didn't agree. We could tell Jordan, as we did, that we were aware—we took note at the United Nations of these sales to Jordan, and that was about it.

We took note, I guess, that Turkey—we didn't even take note. We didn't even let their application for approval of that direct sale to be considered by the United Nations. We prevented that from coming to U.N. consideration for reasons which are not clear to me,

¹See Exhibit No. 51 appears in the Appendix on page 426.

but probably because they may have been vetoed, would be my guess.

Essentially, looking at this honestly, is it not accurate to say that the majority of that illicit revenue that Duelfer identified, about three-quarters of the illicit revenue went to Iraq with our implicit knowledge? Is that fair to say? We knew about it?

Ambassador KENNEDY. Yes, sir, we were aware of it.

Senator LEVIN. And for these strategic reasons you gave or these national—what you call national security reasons, we decided that we were going to basically allow that to continue without trying to stop it, is that fair?

Ambassador KENNEDY. In the case of Jordan and Turkey, not in the case of—

Senator LEVIN. Obviously.

Ambassador KENNEDY [continuing.] Not in the case of Syria. And in the case of Jordan, for example, we worked with the Jordanians to constantly emphasize to them that this should be a barter arrangement.

Senator LEVIN. Right.

Ambassador KENNEDY. The receipt of oil and its swapping for material that would be acceptable under the sanctions regime writ large. We urged the same with Turkey.

Senator LEVIN. We urged them to do that, is that correct? We urged them to barter?

Ambassador KENNEDY. We urged the—yes, sir. We urged them to barter.

Senator LEVIN. We don't know whether they got cash or not, do we?

Ambassador KENNEDY. No, sir, we do not.

Senator LEVIN. All right.

Ambassador KENNEDY. We do not.

Senator LEVIN. So when we talk about the Oil-for-Food Program and the efforts to get around the Oil-for-Food Program and the sanctions regime which he made, without any doubt, he would use any tactic he possibly could to get around the sanctions, and one of the ways he did it was with kickbacks and with surcharges and with what is called smuggling up there. The major way he got around that sanction program was through sales of his oil to countries, to neighboring countries which were not stopped by the international community, and at least in the case of Jordan and Syria, we acquiesced in and did not attempt to stop. Is that a fair summary?

Ambassador KENNEDY. With one, if I might apologize, a correction. You said Syria—

Senator LEVIN. Did I say Turkey?

Ambassador KENNEDY. No, sir.

Senator LEVIN. Let me correct that, obviously. In the case of Jordan and Turkey, we knew those sales were taking place and we acquiesced in them. Is that a fair summary?

Ambassador KENNEDY. We notified the Congress every year—

Senator LEVIN. And notified us.

Ambassador KENNEDY [continuing.] Under the exception of the Foreign Assistance Act that Jordan and Turkey were—actions were in violation of the sanctions regime, yes, sir.

Senator LEVIN. You notified us. As a matter of fact, you notified us, because under our law, aid to those two allies, Jordan and Turkey, could not take place unless you notified Congress and waived the restrictions of the law, is that correct?

Ambassador KENNEDY. Yes, sir, that is under the Foreign Assistance Act.

Senator LEVIN. Because I do think it is important that when we assess responsibility, that we also look at our own actions and decide—we can look retrospectively and decide they were the right actions, by the way. As far as I am concerned, I didn't object to them at the time and I think that there was good cause to do what we did.

But it is not good enough to point the finger at other countries such as Russia, France, and so forth for stopping things at the 661 Committee. They did it for their strategic reasons. We looked the other way when it came to putting money into Saddam's pocket for oil sales outside of the sanctions program that we had approved and worked so hard to get in place. We did it for what we considered to be good reasons, and may have been good reasons, by the way. They may have been good reasons. I am not arguing with that. But we looked the other way when large amounts of money, three-quarters of the illicit revenue, was going to Saddam Hussein under those direct sales and we ought to acknowledge it.

That is my only argument here with your testimony, it is important that we acknowledge it and we be straightforward about what the implications of that were. Jordan was an ally. Turkey is an ally. They had economic problems, and so we acquiesced in, we didn't try to stop those direct sales from a bitter enemy of ours, in violation of a sanctions program that we had helped put in place.

Ambassador KENNEDY. What I would say, Senator, is I would not use the phrase "look the other way," because we constantly engaged with the Jordanians—

Senator LEVIN. Did we try to stop it? Let us be honest.

Ambassador KENNEDY. We engaged with them to mitigate it to the maximum extent possible and to encourage them to use barter so that the exchange would not be any materials of war.

Senator LEVIN. And as you testified, we don't know that they engaged in barter. They may have just paid in cash to Iraq. We don't know whether they did or not.

Ambassador KENNEDY. I would have to get back to you for that for the record, sir.

INFORMATION PROVIDED FOR THE RECORD

Official Jordanian representations to the U.S. Government indicate that no cash was provided to Iraq under the protocol arrangement, although the Duelfer Report quotes several Iraqi sources as indicating that a small amount of the trade was in cash. We understand the arrangement between the two countries was to have been one of straight barter, with nothing from the Jordanian government to have been paid directly to the Government of Iraq. Rather, the Government of Jordan was to have paid into a clearing account at the Central Bank of Jordan an amount equal to the price of oil that Iraq was shipping to Jordan. Jordanian companies, under contract to Iraqi government ministries, exported goods to Iraq and were to have drawn down the price of the goods they exported from the clearing account at the Central Bank of Jordan.

Senator LEVIN. All right. And when I say looked the other way, we did not try to stop it.

Ambassador KENNEDY. As we notified, sir, we—

Senator LEVIN. As you notified Congress. I said “we.”

Ambassador KENNEDY. I am not shifting the—

Senator LEVIN. No.

Ambassador KENNEDY. I am just saying, this was a public position taken by three successive Administrations—

Senator LEVIN. Absolutely.

Ambassador KENNEDY [continuing.] That the U.S. national interest was best served by taking this action.

Senator LEVIN. I couldn't agree with you more. When I said “we,” I mean America. I am not pointing at this Administration. I am saying, we as a country, decided, this Administration, the previous Administration. We, the Congress, that got the notice decided that all that money or equipment, whatever it was, and we didn't know, would be going to Saddam Hussein, a bitter enemy of ours, in violation of a program that we fought to put in place for reasons that this country thought were good and sufficient. That is all I am saying, and we ought to be honest about it.

One other question and then I am done. You didn't react to that, but I assume you would agree we ought to be straightforward in acknowledging that was the facts, is that fair enough? Were those facts that I stated an accurate summary of the facts?

Ambassador KENNEDY. The sales—the trade was going on and we were aware of it, yes, sir.

Senator LEVIN. OK, final question. About 10 days ago, Ambassador, we asked the State Department for two dozen documents, roughly, which is a very specific number and they all were identified, I believe, by specific Bates numbers. This morning, after the hearing began, we got about half of those documents. What was the holdup in getting us those documents, and second, can we get the other dozen?

Ambassador KENNEDY. We had some trouble locating the documents because of their age and my staff in New York personally put in a great deal of time. We were able to locate them by searching our files. The other half are so old that we have been unable to locate them in our active files and we have an all points search out for them, including consulting with the U.N. central archives in order to obtain them. As soon as we obtain them, sir, they will be immediately delivered.

Senator LEVIN. I appreciate that, and Mr. Chairman, I would ask that we make part of the record a number of documents which I will ask the Ambassador to comment on for the record relative to some ship deliveries to specific ports which apparently were—this is of Iraqi oil to Jordanian ports, or for Jordan, which apparently were escorted by American ships. There have been a number of press reports on those deliveries and I would ask that we make part of the record at this time a number of documents which we have received by subpoena in the record.¹

Senator COLEMAN. Without objection.

Senator LEVIN. Thank you. Thank you, Mr. Chairman.

¹See Exhibit No. 53 appears in the Appendix on page 429.

Senator COLEMAN. Thank you, Senator Levin. Thank you, Ambassador Kennedy.

I will leave the record open for 10 days to accommodate both the requests of the individuals from Cotecna and the records that Senator Levin has asked for.

We will continue with these hearings, the issue of why were certain actions taken by member states, whether it was strategic reasons or whether it was because of bribery or influence or issues that still have to be reviewed further. I reiterate my concern about the need for greater cooperation from the United Nations and for the United Nations to make available certain witnesses and documents to this Subcommittee, to Members of Congress, so that these investigations may proceed.

With that, this hearing is now adjourned.

[Whereupon, at 1:02 p.m., the Subcommittee was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF SENATOR PRYOR

Senator Coleman, I'd first like to thank you for your leadership on this subcommittee. Today's hearing, the second into the management of the Iraqi Oil-For-Food Program, is important in furthering our understanding of both the failures of the program but also how the program worked. In November, we heard testimony regarding how Saddam Hussein abused the Oil-For-Food Program. As I noted during that first hearing on November 15, the U.N. sanctions against Iraq will likely not be the last time the international community attempts sanctions against a country; it is therefore important that we understand the ways in which there were breakdowns in the Iraq sanctions and the Oil-For-Food Program. In much the same vein, I look forward to today's testimony regarding the United Nations' management and oversight of the Iraqi Oil-For-Food Program.

There is not doubt that there are many lessons to be learned from the Oil-For-Food Program. I am deeply concerned to hear of troubles this subcommittee has had in its attempts to gain access to some records and personnel at the United Nations in New York, and I would urge Secretary General Kofi Annan to cooperate with the U.S. Government and this Congressional Committee as it attempts to piece together the truth about the Oil-For-Food Program. It is in the best interest of the international community, all of us, that we know exactly where Oil-For-Food Program and United Nations policies went awry because we all have an interest in seeing that future sanctions and humanitarian programs are successful.

I thank today's witnesses for taking the time to be here today as this Subcommittee attempts to provide a clearer picture of the shortcomings of the Oil-For-Food Program, and I look forward to their testimony. Again, Chairman Coleman, thank you for your important leadership.

Statement by Robert Massey
to the United States Senate
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
February 15, 2005

Mr. Chairman and distinguished Members of the Subcommittee, good morning. My name is Robert Massey. From 1993 to the present, I have been the CEO for Cotecna Inspection S.A. in Geneva, Switzerland. Cotecna served as independent inspection agents for humanitarian goods in the United Nations' Oil-for-Food Program ("UN-OFFP") between February 1, 1999 and November 21, 2003. In that role, Cotecna enabled greatly needed humanitarian goods to reach the Iraqi people when Iraq was under UN trade sanctions. Thank you for this opportunity to address the Subcommittee today and thereby establish for the public record the realities, first, that Cotecna was properly awarded its UN contract, and second, that Cotecna performed its job well and fully in accordance with its mandate .

I will discuss three subjects:

- (1) the big picture context, which limited the scope of work defined in the UN's October 9, 1998 Request for Proposals ("RFP"), Cotecna's 1998 proposal and the UN contract awarded to us as a result;
- (2) the ways in which Cotecna's limited technical role prevented it from knowing personally about any illegal payments, to either UN or Iraqi officials, by suppliers of goods under the OFFP; and
- (3) Cotecna's employment of Kojo Annan, the duties he performed and the fact that he had no role in the procurement of the 1998 UN-OFFP contract.

I will focus on the "big picture," while my colleague André Pruniaux will address operational details and contract performance.

By my testimony today, I will seek to promote a fuller understanding of our limited and technical role as inspectors at the Iraqi borders. It was Cotecna's role confirm the arrival of humanitarian goods under Security Council Resolution 986. This confirmation (known as "authentication") was one of the necessary steps in the process for payment of suppliers. Cotecna did have the power to do its job in the OFFP as designed by the UN, and Cotecna did perform its job well—extraordinarily well, under difficult conditions. It was not our job to verify prices or assess quality as we do in other contexts around the world and as we would have done under a predecessor program in 1992. Also, we did not inspect all goods entering Iraq but only 986 goods voluntarily presented for authentication.

I. BIG PICTURE EVOLUTION OF THE OFFP BETWEEN 1992 AND 1998

To understand the evolution of the program, it is important to bear in mind three years: 1992, 1996 and 1998.

A. 1992

In 1992, Cotecna participated in and won, through a competitive bidding process administered by the United Nations Development Program (“UNDP”), the first international call for tender for a UN program to monitor the purchase of humanitarian goods by the Government of Iraq.¹ The 1992 program, which preceded the creation of the OFFP, would have been implemented under the UN sanctions program existing at that time. The company’s 1992 draft contract, a copy of which is attached to my statement as Appendix B, would have provided for Cotecna to perform three tasks:

- (1) price verification,
- (2) pre-shipment inspection and
- (3) post-landing inspection.²

As embodied in the 1992 draft contract, Cotecna offered to provide “*price verification*.” Under our proposal, the “price verification” would have confirmed whether or not the price of a humanitarian good corresponded within reasonable limits with the export price levels generally prevailing in the country of supply, or where applicable, the world market. The proposed “*pre-shipment inspection*” would have involved physical inspection of the goods in the country of supply in respect to quantity, quality and labeling. “*Post-landing inspection*” would also have entailed physical inspection of the goods but would have occurred upon arrival at entry point into Iraq; that is, post-landing inspection would have confirmed whether the goods conformed to the quantity, quality and labeling as found during the pre-shipment inspection. These are the functions that Cotecna believed were necessary to best perform its inspection functions at the Iraqi borders.

All three services resembled those that Cotecna performed under contracts in many different countries around the world. These were typical services. The 1992 contract and inspection program, however, were never implemented, because the UN and the Iraqi government did not reach agreement.

¹ See Appendix A: June 4, 1992 letter to Elie Massey from Daan Everts, UNDP, informing Cotecna of its selection “to perform price verification and inspection services” under the UN program proposed at that time, and related May 18, 1992 letter to Elie Massey from Jorge Claro, UNDP Senior Project Coordinator [SA016479-81].

² See Appendix B: 1992 Draft Contract, SA016412-17.

⁴ See Appendix C: “Cotecna’s Authentication Services in Iraq: Partial Glossary.”

B. 1996

In 1996, therefore, Cotecna participated in a new UN international call for tender—this one administered not by the UNDP but by the newly created Office of the Iraq Program (“OIP”), for the authentication of goods imported into Iraq. What is “*authentication*”? Again, there has been misunderstanding among commentators over this term. Authentication is not a customs or inspection term or function. In fact, it appears as though the UN created the term and the mission specifically for purposes of the OFFP.

Specifically, “authentication” entailed a comparison of the appropriate documentation, such as bills of lading, other shipping documents or cargo manifests, and the approval letters issued by the UN against humanitarian supplies, and parts and equipments for the petroleum industry, actually arriving in Iraq. It also entailed a physical visual inspection of the goods crossing the border. Attached as Appendix C to my statement is a partial glossary explaining Cotecna’s “authentication” services in Iraq by means of such “inspection” terminology as “quality” inspection and “quantity” inspection.⁴ The inspectors were to add their authenticated confirmation of arrival to trigger the process for payment of the supplier.

Cotecna did not begin to authenticate OFFP shipments in 1996, however, because the UN rejected all bids and entered into direct negotiations with a single inspection company. This result naturally disappointed Cotecna, and my father, in his capacity as chairman, wrote to the UN to inquire about the bidding process. The UN did not respond to this letter. Importantly, the 1996 contract had reduced the scope of work contemplated by the UN in 1992, when the independent inspection agents would have played a more robust role, providing price verification and inspection in the exporting country as well as in Iraq. By contrast, the independent inspection agents in 1996 were to provide only “authentication.”

C. 1998

In 1998, Cotecna again participated in a UN international call for re-tender and this time was selected, in December 1998, through a competitive bidding process. The UN’s 1998 RFP designed the inspectors’ mission, again, as authentication rather than price verification, pre-shipment inspection and post-landing inspection. Like the role defined in 1996, Cotecna’s “authenticating” role was limited, technical and unique, devised by the UN specifically for the program. Despite our further suggestions to expand the scope of our work, there were no changes in the scope of our mission.

I can best explain our role by spelling out exactly what Cotecna did and did not do. Fulfilling its contract as part of the overall OFFP sanctions regime, which also provided humanitarian goods to the Iraqi people, Cotecna did:

- (1) compare with the UN database the accompanying documents for the 986 goods crossing the Iraqi borders at specified locations, upon voluntary presentation by the transporters;

- (2) physically visually inspect 100% of these goods (and more intrusively examine a 10% random selection) to verify what they were; and
- (3) by means of laboratory testing, assess whether 100% of foodstuff was “fit for human consumption” (a term again coined by the UN specifically for the program).

Cotecna did not:

- (4) verify that the foodstuff shipped was of the grade contracted;
- (5) assess the value of goods shipped;
- (6) interdict prohibited goods outside of the OFFP;
- (7) perform any task with respect to goods not voluntarily presented to Cotecna by transporters (including at times 13% account goods—i.e., UN Agency Goods); or
- (8) select the goods to be imported, establish their specifications, select suppliers, negotiate the prices to be paid, designate any sales intermediaries, establish sales commissions, verify prices between suppliers and the Government of Iraq or handle funds for the payment of goods.

My colleague, André Pruniaux, will speak in more detail about the performance of Cotecna’s role authenticating humanitarian goods and the difficulties surrounding it.

II. LIMITED, TECHNICAL ROLE

The second main topic of my testimony concerns the ways in which Cotecna’s limited technical role prevented it from knowing personally about any illegal payments, to either UN or Iraqi officials, by suppliers of goods under the OFFP.

A. Ambiguities in Cotecna’s Mission

Before I proceed, allow me to highlight three ambiguities in Cotecna’s complex mission—to explain certain confusions that have plagued public perception of Cotecna’s duties and performance.

First, Cotecna’s inspectors were to verify that the humanitarian goods matched their description, and at the same time to evaluate foodstuff as being “fit for human consumption.” Cotecna analyzed the foodstuff for radioactivity, heavy metals, microbes and pesticides.

However, inspectors were not to verify that foodstuff was of the grade contracted—for example, “Grade A.” Again, the “fit for human consumption” assessment was developed for and specific to the OFFP.

Second, while the UN’s 1998 RFP and contract were vague as to Cotecna’s mandate in inspecting goods, Cotecna insisted in visually inspecting 100% of shipments that it authenticated, using random detailed examination of up to 10% of the goods in each shipment. Cotecna also laboratory-tested all foodstuffs for fitness for human consumption in its laboratories in Jordan and Turkey.

Third, in support of the overall OFFP “objective,” the 1998 contract has Cotecna provide services, equipment and materials enabling an unnamed party to verify and confirm that the “value” of the goods met the requirements of the 661 Committee.⁶ The same contract’s description of Cotecna’s “scope of work,” however, does not provide for Cotecna itself to determine the goods’ “value.”⁷ Indeed, as stated in the Independent Inquiry Committee’s (“IIC”) February 3, 2005 Interim Report, the OIP-NY, not Cotecna, was responsible for “key elements of the oil and humanitarian contracts, including price and quality of goods,” as well as “fairness of price and end-user suitability” (pp. 32 and 189).

Given these three examples of ambiguities, and there were others, the role that Cotecna inherited had design flaws.

B. Efforts to Expand or at least Clarify Cotecna’s Role

While “authentication” was thus not mere rubber stamping, Cotecna after 1998 proposed to UNOIP to expand Cotecna’s scope of work, both to fill perceived gaps in the system and to let Cotecna pursue the business opportunity presented to provide more extensive services. Cotecna did not propose expansion in response to the UN’s 1998 RFP, because deviation from the UN’s specifications would likely disqualify Cotecna from being considered. Instead, after contract performance was already underway, Cotecna proposed to broaden the scope of work at least twice to include, among other things, price verification and more thorough inspection techniques. First, André Pruniaux orally made the proposal to Mr. Farid Zarif to assist UNOIP in price verification during a general meeting with UNOIP staff in New York sometime in 2001. Second, in early 2002 André Pruniaux presented Cotecna’s scanner activities (specifically, presenting a CD-ROM of Cotecna’s operations in Ghana and Senegal), highlighting the use of such a machine for container shipping, especially at the port of Umm Qasr and in Trebil.

It is my understanding that the UNOIP declined because UNOIP saw itself as responsible for assessing contract value. Thus, it did not see the necessity for Cotecna to perform price verification. Additionally, UNOIP believed that any price analysis by the independent inspection agents would risk embroiling them in commercial disputes between suppliers and the Iraqi government.

⁶ See Contract PD/CON/324/98, Art. 3, SA006503.

⁷ See Contract PD/CON/324/98, Art. 4.3, SA006504.

Even if we accept the OFFP's design at face value, though, the UN drafted the 1998 contract imprecisely. To overcome the 1998 contract's drafting problems, numerous communications made between UNOIP and Cotecna, but never formalized by contract amendments, established Cotecna's limited, technical role. To name just a few ways in which communications between UNOIP and Cotecna clarified our OFFP obligations, I would highlight agreements whereby UNOIP: compensated Cotecna for having to use Lotus Notes instead of a more appropriate (Cotecna's own) information technology system; dropped the mobile laboratory contractual obligation; elected not to have Cotecna provide a "Chemist" in Iraq; allowed temporary man-day shortages during a transitional phase; adjusted inspector shifts at certain sites to correspond with border opening times and the times that Iraq officials were available to receive goods; first prevented Cotecna from authenticating goods at Umm Qasr until the receiver had removed them from the port, then later allowed authentication of goods immediately upon inspection, thereby resolving the problem of authentication delays; and ordered Cotecna to authenticate "retroactively" certain "stranded goods" that Cotecna never visually inspected but that were in transit when Cotecna was instructed to evacuate the camps following the coalition forces' intervention in 2003. Cotecna has, from the beginning of this investigation, provided documentation substantiating such points.

C. Cotecna's Inability to Detect Illegal Payments by Suppliers

Mr. Chairman and distinguished Members, your kind invitation to testify asks me to describe my personal knowledge, or my company's knowledge, if any, of illegal payments by suppliers to either UN, Cotecna or Iraqi officials. Let me state unequivocally: I and my company have no knowledge of any such payments to anyone. As I have elaborated in my testimony, we as inspectors with a limited and technical role were not in a position to have such knowledge.

III. EMPLOYMENT OF KOJO ANNAN

The third and final portion of my testimony today addresses our employment of Kojo Annan, his duties and the fact that he played no role whatsoever in helping Cotecna obtain the UN contract. Indeed, Kojo Annan's work for Cotecna had nothing to do with the OFFP. He worked on African business exclusively. I would ask you, therefore, to view our relationship with Kojo Annan in its correct and African context.

A. The Nigerian Business Context

In order to better understand Kojo Annan's work at Cotecna, we are providing a timeline captioned "Business Environment in Nigeria and Ghana," which places his work in its proper context—West Africa.⁸ I would highlight the following events, in particular.

⁸ See Appendix D: "Business Environment in Nigeria and Ghana."

Cotecna won its first government pre-shipment inspection contract with Nigeria in 1984. The Nigeria business has since then been either the most important contract or one of the most important contracts for us. Cotecna hired Kojo Annan in 1995 to work in Lagos, Nigeria on pre-shipment inspection and, later, as a junior liaison officer, on African business development. In April 1997, the Nigerian administration terminated Cotecna's contract. As a result, Cotecna significantly downsized its Nigerian operations in Lagos, where Kojo Annan was employed. Since there was no position for Kojo Annan in Lagos, we offered him another position in Niamey, Niger. Kojo Annan declined this offer and resigned from Cotecna in December 1997 to pursue other interests.

Because of his value in marketing in Nigeria and Ghana, Cotecna offered Kojo Annan a ten-month consultancy agreement in March 1998. He accepted. In that capacity, he covered a Non-Aligned Movement ("NAM") meeting in Durban, South Africa in late summer 1998. He also was in New York during the UN General Assembly meeting in the fall of 1998 to develop Cotecna's relationships with the African leaders likely to attend the activities at these meetings. I can assure you that in his capacity as a consultant to Cotecna, Kojo Annan covered these meetings not to market the UN itself but to pursue contacts with African delegates and their associates attending these events.

Around the same time, in October 1998, I sought to limit the activities of Kojo Annan pursuant to his consultancy agreement. Because I did not consider continuing the existing remuneration structure to be cost effective, I allowed Kojo Annan's consultancy agreement with Cotecna to expire by its own terms at the end of 1998.

On January 11, 1999, Cotecna sought to extend and make enforceable the non-compete clause of Kojo Annan's consultancy agreement in order to prevent him from offering his business contacts and any proprietary business information to competitors at a time when Cotecna was actively pursuing important inspection contracts in both Nigeria and Ghana. To enforce the non-compete clause under Swiss law, Cotecna was advised that it had to pay reasonable compensation to Kojo Annan. Cotecna did not regain the Nigeria pre-shipment inspection contract until June 1999. Cotecna also concluded a Destination Inspection contract with the Government of Ghana in 1999. From 2000 until present, Cotecna has been engaged in negotiations also to provide Nigeria with Destination Inspection services requiring a substantial investment for new technologies. This highlights why Kojo Annan's non-compete agreement continued to be important.

Cotecna has previously produced, for this Subcommittee, documents maintained by Cotecna in Geneva Switzerland and Lagos, Nigeria, in connection with work performed for Cotecna by Kojo Annan. Kojo Annan was not involved in Cotecna business outside of Africa.

B. Timing of the UN's 1998 RFP

There has been press speculation about the timing of the UN's RFP in 1998 and Cotecna's relationship with Kojo Annan and the question as to whether this relationship

influenced the OFFP tender process. This could not have been the case, as Kojo's work for Cotecna was restricted to Africa-related projects alone.

As one of the few qualified inspection companies worldwide, Cotecna learned of the UN's October 9, 1998 RFP as per standard procurement procedures. Further, Cotecna had in the past won UN projects, was an approved vendor, had won the 1992 bid and had been invited to bid again in 1996. In 1998, the UN faxed the RFP to various inspection companies, including Cotecna, which received the RFP through its Reston, Virginia office (since closed). The RFP was then forwarded to Cotecna in Geneva for the preparation of the bid by the most appropriate team, which did not include Kojo Annan. Before this time, no one from the UN had specifically informed Cotecna that the contract would be up for tender, although as part of general business development and the previous requests for tender, we retained an interest in the project and inquired periodically about the possibility of bidding for subsequent phases.

During contract negotiations, neither I nor any other Cotecna employee mentioned to anyone at the UN that Cotecna had employed Kojo Annan. Mr. Annan's employment in Nigeria did not relate to contract negotiations for technical services outside of the African market. Moreover, mentioning Mr. Annan seemed irrelevant.

Finally, I note a paradox: Some people might fault Cotecna for having *not* mentioned Kojo Annan's employment during the RFP process. If Cotecna *had* mentioned Kojo Annan's employment, however, the same people would probably condemn us for that. Meanwhile, to suggest that Cotecna should have either fired Kojo Annan or not bid on the UN's 1998 RFP would perpetrate an injustice on him or on the 4,000 other employees who depended on the company's survival.

To the best of our knowledge, Cotecna was awarded the contract in 1998 on the basis of our proposal, which offered the most cost-effective solution, technical expertise and experience in harsh working conditions.

IV. CONCLUSION

In conclusion:

- (1) the inspection mission in the UN humanitarian programs for Iraq changed between 1992 and 1998;
- (2) Cotecna's limited technical role would not place it in a position to detect illegal payments; and
- (3) Cotecna's employment of Kojo Annan had nothing to do with Iraq and everything to do with West Africa.

Thank you for this opportunity to shed light on these important subjects.

Appendix A

1992 11:45 212.985 6854

UNDP/OPS

United Nations
Development Programme
Office for Project Services



World Development

Facsimile Feb 1992
RH

Attachment Not

No. of Pages 1
To Fax No. 4122-786-3920

Date 11 February 1992
OPS FAX Misc/008/92

TO: Cotecna Inspection S.A.
Geneva, Switzerland
FAX 4122-786-3920

ATTN: MR. E.G. Massey, Chairman

SUBJECT: Contract for Price Verification and Inspection Services -
- IRQ/91/R31

I have the pleasure to inform you that UNDP/OPS has now completed the evaluation and selection process for an inspection agent to perform price verification and inspection services under the United Nations' scheme for monitoring the purchases of humanitarian needs by the government of Iraq, and that the proposal from Cotecna Inspection S.A. has been selected.

UNDP/OPS is now awaiting the green light from the United Nations in order to proceed with the activities. However, in view of the need for readiness for the start-up of operations, I would appreciate your contacting Mr. Jorge Claro of this office soonest. UNDP/OPS would like to finalize the detailed aspects of the services, and in particular, the communications network and information requirements, so that they may be incorporated into the contract documents.

I look forward to our successful collaboration in this endeavor.

Sincerely yours,

for
Dean Everts
Assistant Administrator
and Director, UNDP/OPS

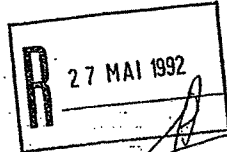
SA016479

Programa de las Naciones Unidas
para el Desarrollo

Desarrollo Mundial

Oficina de Servicios para Proyectos

UNDP



18 May 1992

(Attachment No. 2)

Dear Mr. Massey,

Subject: Draft Contract for Inspection Services

With reference to our discussions on the above subject, I am pleased to send you herewith a revised draft of the contract which OPS would sign with Cotecna for price verification and inspection services relating to the procurement of humanitarian goods by Iraq.

Although in this version of the contract we have included many of the paragraphs of your initial draft, please have your staff review the various steps in the inspection process and make sure that the technical language is correct. As you can appreciate, we have tried to accommodate your draft while still staying within the framework and language of the Security Council resolutions.

We still must obtain final clearance from the United Nations Office for Legal Affairs, so there might be some modifications later on. I am confident, however, that the basic structure and provisions would not change much. Of course, certain fine points will have to be added once we have confirmation that the Iraqi authorities accept the resolutions and any modifications are made in agreement with the UN.

I have addressed a question to Mr. Matz in Reston concerning the possibility of post-landing inspections taking place at storage or distribution sites inside Iraq rather than at entry points. Of course, this, too, would be spelled out clearly in the contract should this become the final modus operandi.



Mr. E.G. Massey
Chairman
COTECNA INSPECTION, S.A.
Case 244
1211 Geneva, Switzerland



220 East 42nd Street, 14th Floor • New York, NY 10017 • Teléfono: (212) 906-6500 • Dirección Cablegráfica: UNOPSNEWYORK
FAX: Directorado (212) 906-6501; Compras (212) 906-6502 • TELEX: 662293 OPS UNDP; 645485 OPS UNDP; 824608 OPS UNDP


SA016480



Office for Project Services

Kindly let me have your comments on this document at your earliest convenience so that we may continue with the process. A copy of this letter and attachments are being sent to Mr. Joe Matz.

Yours sincerely,


Jorge Claro
Senior Project Coordinator
BOL/88/003

SA016481

Appendix B

draft of 15 May

AGREEMENT made on the ____ day of _____, 1992 between the United Nations Development Programme, Office for Project Services (hereinafter "UNDP/OPS"), located at 220 East 42nd Street, New York, New York, USA and Cotecna Inspection S.A., a corporation incorporated in Geneva, Switzerland, with an address at 58, rue de la Terrassière, Case Postale 244, 1211 Geneva 6, Switzerland (hereinafter "Cotecna").

WHEREAS,

- (i) The United Nations Security Council has passed certain resolutions to permit the Government of Iraq to import humanitarian needs in an otherwise embargo situation;
- (ii) The Government of Iraq has accepted those resolutions and has agreed to a scheme to implement the purchase of such humanitarian needs;
- (iii) UNDP/OPS is assisting the United Nations by overseeing the external monitoring of purchases of humanitarian needs by the Government of Iraq;
- (iv) UNDP/OPS is in need of the services of an inspection firm to undertake price verification and inspection services as part of the external monitoring; and
- (v) Cotecna is ready and willing to undertake price verification services, as well as pre-shipment and post-landing inspections, as specified below of any and all goods purchased by Iraq in accordance with the Security Council resolutions,

NOW THEREFORE IT IS HEREBY mutually agreed as follows:

Contract Documents

1. The overall Agreement between the parties ("the Contract") consists of the following documents ("the Contract Documents") which, in case of any contractual inconsistency between the provisions, shall prevail in the following order:

- a. This agreement;
- b. UNDP General Terms and Conditions (Annex A);
- c. UNCITRAL Arbitration Rules (Annex B);
- d. The UNDP/OPS Request for Proposals, December 17, 1991 (Annex C); and
- e. Cotecna's Technical and Price Proposal, dated January 14, 1992 (Annex D).

2. This Contract embodies the entire understanding of the parties regarding the subject matter hereof. All prior representations and agreements, whether written or oral, have been merged into and replaced by this Contract.

3. No modification of, or change in, this Contract, or waiver of any of its provisions, or additional contractual relationship with Cotecna shall be valid and enforceable unless such modification, change, waiver or additional relationship be agreed upon in writing by the authorized officials of both parties.

Responsibilities of Cotecna

Item and Price Verification

4. On the basis of a written request from UNDP/OPS with supporting documents such as the Purchase Order contract or information from the supplier as to the details of the order, whether or not in the form of a pro-forma invoice, Cotecna shall undertake a verification of all items being purchased by Iraq to ensure that they are contained on the list of approved goods authorized by the United Nations Security Council.

5. If Cotecna finds that the items are contained on the list of approved goods, then price verification shall be performed. If the items are found to not be on the approved list, Cotecna shall so notify UNDP/OPS.

6. Cotecna shall carry out a price verification of the items in the country of supply, taking into account the country of origin. The price verification shall be conducted according to the guidelines stipulated in the I.F.I.A. Code of Practice.

7. In countries where the price comparison is subject to legal restrictions it is understood that this service shall be performed within the framework of existing laws of those countries but any such limitation shall be reported by Cotecna to UNDP/OPS.

8. Upon completion of item and price verification, Cotecna shall issue to UNDP/OPS a Prevailing Price Report, indicating whether or not the price corresponds within reasonable limits with the export price levels generally prevailing in the country of supply, or, where applicable, the world market.

Pre-Shipment Inspection Services

9. Upon written request from UNDP/OPS, Cotecna shall carry out physical inspections of the goods in the country of supply at the site or location agreed upon between Cotecna and the Supplier/Exporter, having due regard to the exporter's need for economy and expeditious movement of goods. More specifically, goods may be inspected at points of production, storage or shipment. Cotecna shall be given at least five (5) working days notice of availability of the goods to commence any physical inspection.

10. Cotecna shall carry out the physical inspections in respect of quality, quantity and labelling of goods to be imported into Iraq and shall satisfy itself that the goods to be supplied:

(a) Conform in respect of quality and quantity specifications with all the terms of the contracts agreed between Iraq and the supplier/exporter;

(b) Conform, in the case of goods where no standards have been established in the contract or country of supply, with reputable international standards or national standards to be chosen at the sole discretion of Cotecna;

(c) Conform in respect of United Nations Security Council labelling requirements.

11. The Pre-shipment inspections shall be performed in accordance with recognized international standards for such inspections.

12. Following pre-shipment inspection, Cotecna shall take measures to deter substitution of inspected goods, including sealing of shipments where practical.

13. Upon satisfactory completion of pre-shipment inspection, which also includes a review of the exporter's duly signed and stamped shipping documents, Cotecna shall issue a Clean Report of Findings to UNDP/OPS.

14. In the event that any irregularity, defect, or discrepancy beyond reasonable limits is detected during inspection, Cotecna shall first undertake to resolve the problem with the supplier/exporter. If the problem cannot be resolved, Cotecna shall issue a Report of Findings which details the irregularity, defect or discrepancy.

Post-Landing Inspections

15. Cotecna shall carry out an inspection of goods upon arrival at entry points to Iraq and shall satisfy itself that the goods conform to the quantity, quality and labelling as found during the pre-shipment inspection.

16. The inspection shall involve a quantity inspection by weight or by count, as well as a quality inspection including visual inspection, sampling, and, if required, analysis.

17. Cotecna shall verify that all goods are properly labelled, in accordance with United Nations Security Council resolutions.

18. Upon satisfactory completion of the post-landing inspection, Cotecna shall issue a Clean Report of Findings to UNDP/OPS.

19. In the event that any irregularity or discrepancy beyond normal commercial practice or beyond reasonable limits is found, Cotecna will so inform UNDP/OPS in lieu of issuing a Clean Report of Findings.

Information System

20. Cotecna shall develop at its expense the necessary software to monitor all requests for price verification and inspection services and provide UNDP/OPS with access to the system for information exchange purposes.

21. In addition, the information system should be able to extract progress reports which shall be issued on a <period> basis, detailing by category of goods, a listing of the orders placed and their status, any irregularities, dates of shipment, arrival, and any other relevant information which may be required by the United Nations Security Council.

22. Cotecna shall arrange for regular courier service for the timely dispatch of documentation between Cotecna and UNDP/OPS.

Reports

23. In addition to the progress reports indicated in paragraph 20, above, Cotecna shall issue other ad hoc reports, as may be required by UNDP/OPS, as well as a final report upon completion of the services under this contract.

Personnel

24. Cotecna shall provide the following personnel who will manage its activities throughout the period of the Contract:

- (a) (Name) (Location)
- (b)
- (c)

Cotecna shall not change the management team without prior agreement of UNDP/OPS.

Privileges and Immunities

25. The provisions of paragraph 7 of Security Council Resolution 712 (1991) which relate to privileges and immunities shall apply to all persons, natural or juridical, including agents, contractors and their personnel, performing services under this Contract.

Non-Performance

26. In the event that UNDP/OPS determines that Cotecna is unable to perform or execute any single inspection request, UNDP/OPS reserves the right to instruct an alternative (standby) inspection agency to execute such inspection. UNDP/OPS will advise Cotecna in writing of the action so taken, stating the nature of the inspection, the items to be inspected, the

place and dates for the inspection, and the name of the standby inspection agency appointed to execute the inspection.

Other Responsibilities of Cotecna

27. (a) In carrying out its obligations under this Contract, Cotecna shall exercise due care and diligence, and bring to bear upon each transaction professional skill, expertise and relevant experience.

(b) In any event where a third party has undertaken a Pre-Shipment inspection on behalf of Cotecna or at the request of Cotecna, then Cotecna shall be liable in respect of all the material findings, advice or opinion rendered by such party within the terms and limits of this Contract except as qualified below. In this regard, "third party" shall include any firm or corporation directly or indirectly associated with Cotecna, regardless of whether it is a holding company, subsidiary company or other company.

(c) The liability of Cotecna for proven gross negligence under paragraphs (a) and (b) shall be limited to three (3) times the fees payable on the FOB value of the consignment and such liability shall not prejudice the importer's rights or actions against suppliers under the commercial agreement. In conducting price verification, Cotecna may rely on information it obtains from third parties, including sources located in the country of origin or supply. Cotecna shall not be liable for the inaccuracy of any information it obtains from third parties, unless it should have known, by acting with due care and diligence, that the information was inaccurate.

(d) Proven gross negligence on the part of Cotecna shall be considered a material breach of this Contract, and, notwithstanding any financial liability attributable to Cotecna, UNDP/OPS may terminate this Contract.

Responsibilities of UNDP/OPS

28. UNDP/OPS will provide Cotecna all Security Council resolutions and decisions which shall be pertinent to the services to be provided.

29. UNDP/OPS will provide the lists of goods which have been approved by the Security Council for purchase by Iraq.

30. UNDP/OPS will provide Cotecna on a monthly basis the official United Nations rates of exchange which shall be used to determine the US Dollar value of all purchase orders issued by Iraq.

Fees and Terms of Payment

31. In consideration of the services rendered by Cotecna, UNDP/OPS agrees to pay Cotecna as follows:

(a) For Price Verification Services, as described in paragraphs 4 to 8, above, a fee equivalent to ___% of the FOB value of the proposed goods to be imported.

(b) For Pre-shipment Inspection Services, as described in paragraphs 9 to 14, above, a fee equivalent to ___% of the FOB value of imports covered by each Cotecna Report of Findings.

(c) For Post-Landing Inspection Services, as described in paragraphs 15 to 19, above, a fee equivalent to ___% of the FOB value of the imports covered by each Cotecna Report of Findings.

(d) For each shipment there will be a minimum fee of US\$___

32. (a) All fees due to Cotecna shall be paid monthly, on a net 30 days basis, upon receipt by UNDP/OPS of an invoice indicating the total number of Reports of Findings issued during the billing period and the total value of the Reports of Finding.

(b) Invoicing by Cotecna shall be in U.S. Dollars, using the official United Nations rate of exchange prevailing on the date of each Report of Findings.

Period of Contract

33. This Contract shall be effective upon signature by both parties and shall continue, unless terminated by either party in accordance with the termination provisions contained in this Contract, until such time as the monitoring scheme concludes.

Termination of Contract

34. In addition to the termination provisions set forth in paragraph ___ of the UNDP General Terms and Conditions (Annex A), UNDP/OPS reserves the right to terminate this Contract in accordance with decisions by the Government of Iraq or United Nations Security Council decisions and resolutions which may affect the nature and scope of the UN monitoring operations. UNDP/OPS also reserves the right to terminate the Contract without prejudice for any material breach by Cotecna.

Appendix C

COTECNA'S AUTHENTICATION SERVICES IN IRAQ

PARTIAL GLOSSARY

To support documentary controls (for authentication), Cotecna provided the following "inspection" services:

- Quality Inspection

Only for foodstuffs, we took "samples" (see SOPs) for laboratory analysis to verify that the imported goods were "fit" for human consumption only. Criteria were jointly designed by Cotecna and UNOIP.

Note: We performed no quality inspection on medicines; however, we did some sampling. Sampling of medicines was discontinued in 2000 at UNOIP's request; in any event, we never tested medicines.

- Quantity Inspection

We performed physical visual inspection on all imports (containers, bulk, general cargo, holds or hatches on the vessels, etc.)

For bulk cargo (mostly foodstuffs), we relied on local equipment (weighbridges, forklifts, etc.), since the Iraqis had refused to let us bring or install our own equipment.

We performed detailed examinations of up to 10% (in number), sometimes more, depending on the goods. We would break the seals, open the trucks, enter the containers, count packages/items, identify markings, check dimensions, open some packages, take photos, take samples, etc.

Note: Special procedures applied to oil spare parts. These were inspected by Saybolt at end use sites.

Appendix D

COTECNA

19 January 2005

BUSINESS ENVIRONMENT IN NIGERIA AND GHANA

1974	Cotecna established to perform private commercial inspections
1984	Cotecna bids on its first Pre-Shipment inspection ("PSI") with the Government of Nigeria
Sept. 1984	Cotecna wins Nigerian PSI contract
1988	Cotecna signs its second PSI contract with Kenya
Early 1994	SGS buys majority shares of Cotecna
July 1995	Kojo Annan's CV presented to Cotecna
Sept. 1995	Cotecna confirms that Kojo Annan would begin PSI training in its UK offices on Oct. 9, 1995
Dec. 1995	Employment contract as Junior Liaison officer in Lagos Nigeria with Kojo Annan executed for 3-6 months with possible extensions. Duties to include the operations and development of the activities of Cotecna's Lagos Liaison office. Responsible for day to day operations, reporting to the Chief Liaison Officer and Liaison Officer
Jan. 15, 1997	Kojo Annan promoted from Junior Liaison officer to Assistant Liaison Officer in Lagos
Feb. 1997	Effective March 10, 1997, Kojo Annan to assume the position of Assistant Manager Marketing in Lagos for the Nigerian PSI contract
April 1997	Nigerian Government directs Cotecna to stop its activities in the frame of the Nigeria PSI contract
April-Aug 1997	Cotecna phases out its PSI operations in Nigeria
Oct 1997	Massey family buys back 100% of Cotecna from SGS
Late 1997	Cotecna seeks to build bridges with Nigerian Government to regain PSI business
Dec. 1997	Kojo Annan submits his resignation as employee effective Dec. 31, 1997
Dec. 18 1997	Letter from Cotecna confirming Kojo Annan's contract terminated effective Feb. 28, 1998

COTECNA

19 January 2005

March 1998	Consultancy Agreement with Kojo Annan, effective for 10 months
December 1998 / January 1999	End of Kojo Annan consultancy agreement. Kojo Annan signs a non-compete agreement
June 1999	Cotecna resumes its Nigeria PSI contract
1999	Cotecna introduces X-ray scanners and Destination Inspection ("DI") Program in Ghana
2001	Nigeria copies Ghana DI program
May 9, 2001	Nigerian issues RFP for Provision, Installation and Operation Management of X-Ray Scanning Equipment and Risk Management for Nigerian Customs
July 5, 2001	Cotecna's bid to Nigerian Government presented
June 2002	Cotecna's second bid to Nigerian Government
Jan. 2003	Cotecna's third bid to Nigerian Government
Feb. 25, 2003	Nigeria awards Cotecna contract for Provision, Installation and Operation, Management of X-Ray Scanning Equipment and Risk Management for Nigerian Customs
June 26, 2003	Agreement between Federal Republic of Nigeria and Cotecna signed
March 2004	Last payment to Kojo Annan under non-compete
July 30, 2004	Cotecna officially informed of a new RFP issued by the Nigerian government within the framework of the existing contract in order to allow additional companies to operate
Sept. 29, 2004	Cotecna's preliminary response to the Request for Proposals (RFP), making recommendations with continued operation with additional operators
Present	Awaiting decision from Federal Republic of Nigeria to decide on additional operators.

Statement by André Pruniaux
to the United States Senate
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
February 15, 2005

Mr. Chairman and distinguished Members of the Subcommittee, thank you for inviting me to speak today. My name is André Pruniaux. I served as Senior Vice President of Cotecna Inspection S.A. between 1998 and 2004. As such, I managed Cotecna's operations in Africa and the Middle East, including its work as independent inspection agent for humanitarian goods in the United Nations' Oil-for-Food Program ("UN-OFFP").

Today, I will discuss three subjects:

- (1) the negotiation and execution of the December 31, 1998 contract between the UN and Cotecna;
- (2) Cotecna's implementation and performance of the contract; and
- (3) internal (Cotecna) and external (UN) monitoring and oversight of Cotecna's performance, with a particular focus on how, during the authentication process itself, daily interaction between Cotecna and the Office of the Iraq Program ("UNOIP") responded to circumstances presented at the border sites.

In addressing these three subjects, I will concur with all that Mr. Robert Massey has said but hope to add more details substantiating his statement that Cotecna did its job well and fully in accordance with its mandate.

I. Negotiation and Execution of Cotecna's December 31, 1998 Contract

To begin with the negotiation and execution of Cotecna's December 31, 1998 contract, I would make two main points, in addition to Mr. Robert Massey's "big-picture" observation that the scope of our work was, by virtue of the program's design, ultimately misconceived: first, that a vaguely worded RFP complicated Cotecna's early contract negotiations; and second, that miscommunication between separate UN units—specifically the UNOIP, the Procurement Division ("PD") and the Office of Legal Affairs ("OLA")—made contract amendments sometimes occur sporadically, by oral agreement or ad hoc written communication, rather than by formal documentation, and created long delays in the decision-making process on the ground. Both the vague RFP and the failure to formalize the UN's evolving instructions to Cotecna caused at times a disconnect between the formal contract language and our contractual

obligations (e.g., there were no clear definitions in the formal contract for such terms as “Fit for Human Consumption” and “Authentication”).

A. Contract Negotiations as Complicated by a Vague RFP

First, the UN worded its 1998 RFP very broadly [*see* the UN’s October 9, 1998 RFP, SA012845-63]. For example, the RFP did not impose on bidders any information technology system or specific telecommunications obligations. For this reason, and because the 1998 RFP also set forth an unusually short initial contract duration of only six months, Cotecna based its original 1998 bid (\$499 per inspector per day) on Cotecna’s own proposed information technology systems and telecommunication facilities.

In December 1998, however, the United Nations revealed, for the first time, a specific requirement for the contractor to use Lotus Notes instead of Cotecna’s own systems, which we had developed over a number of years for a variety of inspection projects and tended to customize depending on project demands. We would be pleased to provide the Subcommittee with details of the type of technology that our original bid anticipated if this would be helpful. Because Lotus Notes would involve large, previously unforeseen operating expenditures (for example, telecommunication costs) associated with the time-consuming replication requirement that the Lotus Notes systems demand, Cotecna and the UN’s PD on December 24, 1998 agreed that the UN would pay Cotecna additional compensation to address the Lotus Notes issue. This agreement became Amendment 1, which Cotecna did not sign until 29 March 29, 1999 and the PD until April 21, 1999 [Amendment 1 to PD/CON/324/98, SA006344-49; notes and e-mails regarding Amendment 1 and related Dec. 1998 negotiations appear in SA012792-809, SA012819-25, SA012921-24, SA012932 and SA012934-62].

Cotecna thus did not learn about the Lotus Notes requirement until December 1998, when Cotecna visited New York three times. Two of those visits took place after the UN had shortlisted the company for consideration. During the first visit, which Mr. Robert Massey led, Cotecna had presented its proposal. During the second and third, led by Mr. Elie Massey and me, respectively, negotiations sought to clarify the limited, technical role in more detail and to address the unexpected imposition of Lotus Notes (with related cost and communication implications).

From the outset Cotecna would have preferred for the original RFP to have set out a more detailed scope of work—especially as, in hindsight, the UN was requesting non-standard services, as contrasted with traditional Pre-Shipment Inspection and Destination Inspection, in a harsh and unstable operating environment. Furthermore, the UN insisted that tenders be submitted on a fixed per man day pricing basis, which was also to accommodate significant up-front capital expenditure. As such Cotecna assumed very significant risks. Indeed, the vagueness of the UN’s 1998 RFP in the context of a program which had been in operation for two years was not standard business practice. It is therefore surprising in retrospect that the UN did not provide a more detailed and comprehensive specification as regards information technology and communications requirements, physical infrastructure, existing and required, as

well as Standard Operating Procedures (“SOPs”). This specification would also have ensured that the UN analyzed tenders on the basis of a common understanding and even playing field.

B. Fragmented UN Approach

Second, separate UN offices handled contract negotiation (PD), operational issues (UNOIP) and legal services (OLA). These three UN departments did not necessarily agree or communicate with each other. As a result, UN decisions routinely “amending” Cotecna’s obligations, after our performance began on February 1, 1999, did not always cement themselves in formal written amendments. Like the ambiguities in Cotecna’s mission, about which Mr. Robert Massey has already spoken, this institutional fragmentation can explain some of confusions that have swirled around public perceptions of Cotecna’s duties and performance. One should not misconstrue as non-performance by Cotecna the UN departments’ failures to communicate with each other and record operational adjustments. In no material instance did Cotecna act without the instruction and agreement of the UN, to which our contract obliged us to report exclusively in all aspects of our duties.

II. Implementation and Performance of Cotecna’s Contract

My second subject for today’s testimony concerns implementation of the contract and performance of Cotecna’s contractual obligations.

A. Implementation

With regard to implementation, I would highlight five initial hurdles that Cotecna overcame:

- (1) handover issues;
- (2) generally harsh conditions;
- (3) a continual need to clarify contractual obligations;
- (4) differing views about how best to perform the job without compromise;
and
- (5) limitations of the Lotus Notes database.

First, regarding handover issues: Upon winning the contract, Cotecna received no existing operational documentation from Lloyd’s or the UN, including SOPs. Those OFFP records that Cotecna did inherit were in disarray. Nor did Cotecna receive information regarding the performance of Lloyd’s. We now know, for example, based on an OIOS audit report that the Independent Inquiry Committee (“IIC”) into the UN-OFFP posted on its website January 10,

2005, that the UN did audit the performance of Lloyd's [see AP98/17/5]. Despite this prior audit, Cotecna did not gain, in any meaningful or coordinated way, the benefit of the trial and error of the preceding two years of work as carried out by Lloyd's and the UNOIP.

Second, regarding generally harsh conditions: I have already publicly testified, in another forum, that the general working and living conditions for Cotecna inspectors were harsh, and the environment hostile [see André Pruniaux's October 5, 2004 testimony before the U.S. House of Representatives, Subcommittee on National Security, Emerging Threats and International Relations, Committee on Government Reform].

Once on the ground Cotecna found conditions to be worse than the company had foreseen or the RFP had made clear. In part these severe conditions arose because the 1998 bombing had caused Lloyd's to evacuate the sites at short notice, leaving them vulnerable to decay through lack of maintenance. Furthermore, the senior Lloyd's inspectors and team leaders were almost all British and were precluded from returning to the sites by the Iraqi authorities, acting in response to the UK's involvement in the abovementioned bombings. As such, it is fair to say that there was a "brain drain" as certain sites were understaffed or staffed with inexperienced, recently hired Lloyd's inspectors. This situation persisted for approximately three months. The consequences included a significant loss of know-how and a backlog of data to be processed.

Finally, Lloyd's had developed a parallel IT system (SAMDS—a relational database in Microsoft Access 97) for tracking OFFP trade, which Lloyd's used due to the difficulties associated with the Lotus Notes System. When Lloyd's lost the contract, Lloyd's removed this system and the data contained in it from the sites. These factors hindered a smooth handover from taking place.

Accordingly, at significant financial cost, Cotecna needed to reestablish the requisite infrastructure. Please note, we signed the contract on December 31, 1998 and started work on site on February 1, 1999. Problems resulting from the short lead time were exacerbated by the delays in obtaining visas for new inspectors, which resulted in initial staffing shortages. Similar and often worse delays were associated with obtaining import permissions for critical equipment (V-Sats and radios). Cotecna also absorbed high insurance costs (to the extent that insurance was available), costly security measures, and tremendous telecommunications service and equipment expenses.

Many other harsh conditions that Cotecna faced had non-financial implications but led to significant procedural hurdles. In particular we had to navigate relations—via the UN's Office of the Humanitarian Coordinator for Iraq ("UNOHCI")—with Iraqi authorities, port officials, and Iraq's Ministry of Trade ("MOT"), in order to process visas, requests for dismissal, etc. We also needed to maintain a positive working relationship with the UN Iraq-Kuwait Observation Mission ("UNIKOM"), for help during accidents and evacuations, and with Kurdish authorities (as well as with the Jordanian and Turkish officials). Particular logistical challenges resulted from direct pressure by Iraqis and travel restrictions when inspectors rotated between sites—all of which rotations needed to take into account that entry visas were available only in Amman and the travel permits, which were required if inspectors needed to move between sites, were issued only in Baghdad.

Third, regarding a need for continuing clarification of contractual obligations: Mr. Robert Massey has already described the imprecision of such non-standard procedures and terminology as “authentication” and “fit for human consumption.” In the absence of an established threshold or procedures, Cotecna took great pains to develop standards from scratch. Mr. Robert Massey has likewise described Cotecna’s recognition that the OFFP’s design had limitations (with respect to Cotecna’s function, an absence of price verification at point of import, etc.). UN resistance, however, prevented Cotecna from changing the system. Twice we offered price verification services but were turned down by the UN on both occasions.

Fourth, regarding differing views about how best to perform the job: What Cotecna’s contract required (when this was clear) did not always match what Cotecna believed its mandated duties to be. For example, in early 1999 Jonas Larsen of the UN once urged Cotecna to use risk assessment, an approach that would have had Cotecna visually inspect not 100% of OFFP goods, as we did, but only those goods deemed “high-risk.” But risk assessment did not suit a sanctions regime. Risk assessment works only when information exists to determine which shipments contain high-risk goods. More to the point, risk assessment is typically used as part of a customs function, where the aim is to ensure the accurate collection of duties—i.e., mitigating a fiscal risk—and where post-entry audit is possible. Risk assessment does not suit a system partly intended to restrict the importation of dual-use items—i.e., mitigating weapons of mass destruction risks. We note, in passing, that one of the arguments apparently used against Bureau Veritas—a French inspection company that Lloyd’s had beat out during the 1996 tender, was that Veritas had proposed risk analysis, which did not conform to the 1996 RFP [see February 3, 2005 IIC Interim Report, p. 99]. Furthermore, Cotecna and the UN sometimes disagreed over the scope of work and level of Cotecna’s authority. Typically, when working with governments, Cotecna acts in conjunction with customs officials. That is, there is a governmental enforcement entity. Here no enforcement function was present, because Iraqi customs had no interest in enforcing a UN sanctions program. Exacerbating the problem, staffing levels rigidly set by the UN at each site sometimes clashed with the needs that the reality on the ground demanded, whereby certain sites, most notably Umm Qasr, experienced greater traffic than others.

Fifth, regarding limitations of the Lotus Notes database: Without going into technical details, which I have particularized in Appendix A to my written statement,¹ let me summarize by saying that the UN imposed a system that was fundamentally unsuited to the task at hand.

Lotus Notes is primarily a document management and e-mail system. Indeed IBM, the current owner, does not recommend Lotus Notes as a database tool. Clearly a task that involved the authentication of hundreds of thousands of shipments (and the data associated with them) requires a system that can efficiently analyze, communicate and track large volumes of information and most of all easily link relevant data sets. The Lotus Notes system that the UN imposed on us could not do this. For example:

¹ See Appendix A, “Oil For Food Lotus Notes Database Appendix,” including a diagram of the Lotus Notes system that the UN imposed, contrasted with a system that would have linked key pieces of information and provided a more satisfactory audit trail. This document has been prepared by Cotecna’s legal and technical team.

- (1) Replication, the means by which the UNOIP New York and Cotecna Iraq synchronized OFFP information via Lotus Notes, took place over telephone lines and often took days to be complete—even crashing at times. This had very significant cost implications and also compromised data and left data gaps.
- (2) The Lotus Notes system did not link key pieces of information to each other. Most importantly, the Lotus Database itself did not integrate the actual authentication information. This recordation Cotecna did on paper, transmitted via fax or sent by e-mail. As such we often had to fax up to 2,000-3,000 pages per night and needed to develop on the ground reports for our own purposes when, for example, individual contracts involved multiple shipments. Some contracts involved thousands of individual shipments over lengthy periods of time.
- (3) As a result of the above, the Lotus Notes system did not provide an automated audit trail. It was only possible to generate an audit trail of sorts by a lengthy and largely manual process. This weakness of Lotus Notes, of course, makes monitoring performance and reporting almost impossible.

It is also worth noting that the UN did not have the requisite experienced Lotus Notes administrator until 2000, at which point the UN recruited a competent expert.

Furthermore, the UN throughout insisted that it retain complete control over the data entry and the structure of the database. Indeed, the data entry that Cotecna undertook was very limited and restricted to shipment inspection forms. Any corrections or amendments noted by Cotecna would be passed on to the UNOIP via fax or e-mail, and then corrections would be made by the UNOIP directly and passed back to Cotecna further to a successful replication.

B. Performance

With regard to our performance of the contract, I would stress the efforts Cotecna made to do the best job possible given our narrow mandate and the challenges presented by the realities of implementation and the tools the UN gave us.

The recently released 2003 OIOS Audit Report made 25 recommendations, some of which have been interpreted as criticizing Cotecna's performance. We attach, as Appendix B, a detailed response to all 25 recommendations contained in the Audit Report. Please, let no one say that Cotecna has failed to address the Audit Report. We have addressed it.

Instead of going through our appended written responses one by one, I will here make only four general observations. First, the Audit Report's recommendations sometimes fail to grasp the larger context that Mr. Robert Massey and I have described today: Cotecna's limited, technical role, our unsuccessful efforts to assist in price verification, the limited design of our

mission, the vague RFP, the failure of certain operational adjustments to record themselves as formal contract amendments, and so on. In short, the Audit Report sometimes misunderstands the OFFP itself. Second, the Audit Report's recommendations sometimes arise from misinterpretation of our contractual obligations. This misinterpretation is, however, understandable—as I have said—given not only the contract's imprecision but also the program's evolution from 1998 to 2003. Third, the Audit Report does not as often describe inadequate performance by Cotecna as inadequate contract drafting or monitoring by the UN. When, for example, the Audit Report complains that the UN at first failed to realize a two percent discount on the contract price because it did not pay Cotecna's invoices within 15 days, the Report is not raising any concern whatsoever over Cotecna's performance. Fourth, as I will explain in more detail later, UNOIP staff communicated regularly, even daily, with senior Cotecna staff. At no time did the UN tell Cotecna, in so many words, that it was not fully discharging its contractual obligations. The UN did not give Cotecna a copy of the Audit Report, about which the company first learned through media coverage of its release on a website mid 2004. Only one out of 58 OIOS audit reports raises observations and recommendations relating to Cotecna's performance. Moreover, this Audit Report was an interim and internal working document and was the only Audit Report that was unofficially released to the press. Cotecna until today has not had the opportunity to respond officially to the misunderstandings in the UN Audit Report. Now we feel free to do so, as the IIC has officially released the report.

In any event, as shown by our detailed written response to the Audit Report, as well as the thousands of pages of documents that we have submitted to this Subcommittee, we never acted in the performance of our contract without either specifically obtaining clearance from the UN or acting at its instruction.

III. Internal (Cotecna) and External (UN) Monitoring and Oversight

My mention of the Audit Report leads into my third and final subject today, internal monitoring and oversight by Cotecna, and external monitoring and oversight by the UN. I will describe internal and external controls separately, then conclude with certain observations on how, during the authentication process itself, daily interaction between Cotecna and the UNOIP responded well to circumstances presented at the border sites.

A. Internal Controls Provided by Cotecna Itself

As a matter of standard procedure, Cotecna develops SOPs consistent with the International Organization for Standardization ("ISO") reporting structure and standard. Cotecna followed this practice in the OFFP work as well. By way of a small example, Cotecna produced status reports weekly for UNOIP. These reports reflected the number of trucks and vessels processed, the staffing levels at each site, security observations again site by site, and any significant events that occurred over the course of the week in question.

As regards the important function of authentication, we provided authentication sheets to UNOIP once a week until April 2001, after which period we switched to daily authentication.

We also provided reports on the pending authentications (typically authentications fell into this group if there were discrepancies that required resolution—for example, documentary issues, database errors and pending actions from suppliers). This means that UNOIP was aware on a regular basis (i.e., weekly until April 2001 and daily thereafter) as to the precise level of authentications being conducted by Cotecna at every site.

Cotecna implemented a three-tier management structure to ensure that suitable checks and supervision were in place at all times. Cotecna stationed a Team Leader and a Deputy Team Leader on each site and an overall Contract Manager first in Geneva until April 2000 and then in Amman until the end of the contract. The Contract Manager would visit and audit the sites on average every two months and maintained permanent contact with all sites from Amman. One of the Contract Manager's main functions was to ensure that SOPs were being consistently and strictly adhered to—in particular as regards the Field Inspection Manual ("FIM"). Please note that this position was created by Cotecna to ensure efficiency of contract implementation but was not contractually required. Further, Cotecna absorbed entirely the cost of this position. Cotecna also had, in line with its contractual obligations, a senior liaison officer in Baghdad and a Field Manager in Amman. In addition all inspectors as a matter of course transited through Amman.

A final check was the supervision and review by the Geneva Headquarters at Senior Vice President level, supported by an Assistant Contract Manager. As Senior Vice President, I would regularly visit all the sites in Iraq, and we would organize a management/operational meeting with Team Leaders, IT managers and the Baghdad Liaison Officer in Baghdad and/or Amman every three to six months. As possible, these meetings were attended by UNOIP staff when they were on mission in Iraq.

Finally, regular (i.e., occurring two to three times per year) working sessions would take place with the UNOIP in New York.

Cotecna made constant efforts to conduct technical internal audits of the contract on a regular basis out of Amman, as well as on ad hoc basis from the Geneva Headquarters.

Cotecna also hired external auditors as needed to look at specific areas that required third party expertise. For example, an external auditor examined the financials in Amman. In addition, Cotecna recognized when the need would arise to bring in specialist consultants. For instance, we hired Dermot Jennings, a former senior Irish customs officer, as a technical consultant to provide analysis when we needed help resolving point-of-entry issues and delays at Umm Qsar.

To emphasize, the line between Cotecna and UNOIP oversight may be misleading. We were in constant contact and discussions with the UNOIP to develop a modus operandi that reflected our evolving contractual obligations and indeed exceeded them in several instances. For example, we successfully encouraged the UN to permit daily authentication by secure e-mail protocol to address the growing volume of cargo going into Iraq, as faxing authentications was proving too cumbersome for both sides. Four other examples of internal quality-improvement leap to mind: our development of SOPs, our adjustment of staffing levels at the different sites,

our modification of sampling methodologies and our overcoming of problems related to Lotus Notes.

First, primarily through Cotecna's extensive knowledge of field inspection procedures but also through discussion with the UNOIP and knowledge transfer from the former Lloyd's employees whom we hired for their relevant experience, we developed SOPs that served as a practical guideline for authentication. We did not permit our inspectors to deviate from these SOPs other than in circumstances where the UNOIP specifically instructed us to do so. This is clearly demonstrated on numerous occasions and documented extensively.

Second, we attempted to manage staffing shortages by transferring staff from lower traffic sites to Umm Qasr, but only after consultation with and agreement by UNOIP. The UN initially refused to deviate from the staffing levels set out in the RFP and only after repeated negotiations agreed to increase staff levels. This subject has given rise to some misinformed press comment and was alluded to in the OIOS Audit Report. Lost in the reporting is the fact that Cotecna was internally raising its level of performance, not lowering it. A pertinent example is that Cotecna had in place a surplus of inspectors (at one time up to 30 individuals) paid by Cotecna but not charged to UNOIP. These surplus inspectors allowed us to exceed the staffing requirements stipulated and facilitated appropriate recuperation periods for field staff and meeting strenuous shift requirements (e.g., at Umm Qasr at times up to three eight-hour shifts were required to meet authentication demands).

Third, with UN approval, we adjusted sampling methodologies to take into account staffing limitations and yet allow for 100 per cent visual inspection of deliveries for authentication. We agreed on appropriate quantity assessment methodologies with the UNOIP. Cotecna proposed this level as authentication was, to our understanding, designed to perform a number of functions, one of which was to mitigate the risk of dual-use items entering into Iraq, another being to ensure that payment to suppliers by the UN was made only on verification of the arrival of goods. We did not feel that less than 100 per cent visual inspection would be adequate control. Indeed, the UN expressed on at least one occasion at the beginning of our contract the view that this threshold was overzealous and that a risk-based approach would be acceptable. Cotecna rejected outright this suggestion as we did not consider it at all appropriate given the context of our mandate.

Fourth, as regards the shortcomings of the technology, as early as mid-1999 we had in place a permanent Lotus Notes administrator on site in Iraq, as well as IT specialists on each site, in the hope that their knowledge of Lotus Notes could help overcome associated problems. We also encouraged the UNOIP to appoint an experienced Lotus Notes administrator in New York, which the UNOIP finally did toward the end of 1999. Indeed, we did learn about that system. However, we could not fully overcome the fundamental shortcoming of using an inappropriate platform. It continued to make our job more difficult and certain key processes more time-consuming. Indeed, the weaknesses of the Lotus Notes database meant that even the UNOIP could not easily perform statistical analysis of the authentication process. The UN accordingly approached us on several occasions to assist it by providing general statistics, and our information technology staff on the ground was able to extract data and run the requested analysis. Indeed on a few occasions we sent our Lotus Notes administrator and paid for our

external experts to visit UNOIP in New York to assist UNOIP in resolving certain Lotus Notes problems. Ultimately, despite the shortcomings of Lotus Notes for the purposes to which the OFFP put it, Cotecna was able to manage the IT operations sufficiently to ensure that we fulfilled our contract obligations in full. In fact, the Coalition Provisional Authority (“CPA”) relied on our IT support also from November 21, 2003.

B. External Monitoring and Oversight by the UN

With regard to external monitoring and oversight by the UN, there was no formal or standardized audit procedure of Cotecna by the UN, to our knowledge. There was no UNOIP person on the ground in Baghdad. Furthermore, the project was managed from New York and in a different time zone.

However, UNOCHI in Baghdad was always aware, for security and visa considerations, of precisely how, when and where Cotecna inspectors were located in Iraq. We also had regular security briefings and audits by the UNOCHI security manager who was located in Baghdad. Further, all hiring decisions, visa applications and procedural amendments were with the agreement or at the instruction of the UN. In this sense, oversight by the UNOIP was a constant, and a constant that we for our part welcomed. Field reports were issued as a result of the UNOIP site visits that took place on average every several months and typically lasted for two weeks. These visits resulted in suggestions, amendments and improvements to the contract implementation and also performance. Many of these were at our suggestion or were worked out in conjunction with the UNOIP. Further, the short duration of contract periods—six months—meant that good performance was essential to put us in a strong position to be re-hired. Face-to-face meetings in New York followed up the UNOIP’s reports based on its visits to the inspection sites, the Baghdad Liaison Office and the Amman Field Office.

As I mention above, Cotecna was able to develop a good working relationship with UNOIP, despite or perhaps because of the challenges that the job presented. We were in daily contact with the responsible parties within that organization, particularly the UNOIP Customs Experts, whom we found professional and helpful, and with whom we maintained a constant dialogue. This dialogue allowed us not only to refine and reconcile our understanding of our duties, as reflected in the various amendments to the contract, both written and oral, but also to resolve in real time logistical and political problems caused by conditions on the ground. The UNOIP intervened on occasion on Cotecna’s behalf with the UN humanitarian agencies and the Government of Iraq to diffuse tensions or resolve problems, as quickly as possible.

In performing our task of authentication, we remained in daily contact with the UNOIP by fax, telephone and e-mail despite time differences (please note that when the UNOIP staff would arrive at work between 8:00 am and 9:00 am it would already be 4:00 pm to 5:00 pm in Iraq). When we spotted data errors or anomalies in the database, we reported these to UNOIP in New York to get data corrected and or amended. We were precluded from making any amendments to the data ourselves. The Cotecna inspectors were adept at addressing issues arising when drivers presented incorrect documentation and for the most part were able to authenticate goods once the reason for mismatches had been identified—such as entry at a

different border site than the UN documentation indicated. At no time, did Cotecna authenticate goods without the correct documentation or with missing documentation, other than in a few instances when instructed to do so by the UN. It is worth mentioning that authentication is ultimately a “black and white” process and leaves no room for reservation. For this reason, we were meticulous in obtaining specific instructions from the UNOIP whenever needed.

When discrepancies occurred regarding individual shipments, Cotecna immediately referred these as a matter of course to the UNOIP. The UNOIP would then determine how to resolve them. These discrepancies, if minor, were resolved directly between the relevant site and UNOIP. The Contract Manager in Amman would become involved only if the discrepancies were deemed significant. In the event of major concerns, then Cotecna Geneva would also be alerted and involved. Cotecna kept reports detailing these discrepancies onsite and at Cotecna’s Geneva headquarters as appropriate.

Let me not mislead you with such talk of “discrepancies,” though. Discrepancies rarely happened and typically related to irregularities in the documentation presented. Often discrepancies resulted from the mis-keying of information by the UN or a change of border post. Accordingly, the vast majority could be easily resolved. UNOIP kept complete control of the Lotus Notes database and was the only party that could enter and amend contract information.

IV. Conclusion

As I near the end of my statement, I observe that I am not alone in reporting that Cotecna did its job well. The UNOIP staff commended us for our performance on several occasions, and this continued on into the CPA period. As a testament to our good performance and keen pricing, Cotecna had its contract renewed three times and won subsequent re-tenders. Indeed our contract was carried over by the CPA and the current government, ending only on October 8, 2004 when Cotecna handed the task over to the local authorities.

I have discussed three subjects today:

- (1) the negotiation and execution of the December 31, 1998 contract;
- (2) Cotecna’s implementation and performance of the contract; and
- (3) monitoring and oversight of Cotecna’s performance, with a focus on the interaction between Cotecna and the UNOIP.

If you forget any of the details in my presentation, please remember the following: Despite Cotecna’s limited, technical role, our unsuccessful efforts to expand the scope of work, the ambiguities in the design of our mission, the vague RFP, the failure of operational adjustments to record themselves as formal contract amendments, and so on, Cotecna did its job well and fully in accordance with its mandate, in a very difficult local and delicate political environment.

Appendix A

Oil For Food Lotus Notes Database Appendix

In late 1998, Cotecna submitted a successful bid in response to the RFP issued by the UN for provision of inspection services under the OFFP. Cotecna did so on the basis that their own IT and communications solutions would be implemented. In hindsight these would have been efficient in terms of data exchange and processing time as well as significantly more cost effective. The cost of implementing and operating these proposed solutions was included in the fixed man day price quoted of \$499.

However, during contract negotiations it became apparent that the UN insisted on the use of an existing Lotus Notes Database ("LN") system. It became clear that LN would have communications cost implications when used to monitor such a program and especially so in the Iraq environment. As such, the UN agreed to an increase of the fixed man day price.

Once on the ground Cotecna became aware that the insistence of using LN not only resulted in communication cost increases but also led to processing difficulties. The three main difficulties can be summarized as follows:

1) Replication Delays and Failures

Replication in LN is the process whereby remote servers are synchronized with information and data from a master server (in this case the master server was located at UN offices in New York). The LN process of replication involves the following:

- Comparing all the information or data between two different computers
- Defining the differences between the two computers
- Synchronizing the information on both computers

Due to the volume of data being replicated and the poor communications environment in Iraq, this often took a significant amount of time (sometimes days) to complete. It was also common for the replication process to fail which resulted in starting the process of replication again from scratch. Using a more suitable database

platform would have allowed for a more efficient "replication" process to occur in that either newly introduced data or recently edited information would be the only information included in the synchronization process. This would have improved the stability of replication as well as reduced time and communication costs.

2) Data Gaps and/or Anomalies

A direct result of replication failure was data gaps and anomalies between what was available at the UN master server and the local servers in Iraq. Further, there were gaps and anomalies, often significant, within the UN contract details themselves. Specifically, there were differences between the contract summaries and the individual items that these contracts consisted of.

The data gaps and anomalies between the UN master server and the local servers in Iraq can be primarily attributed to the following:

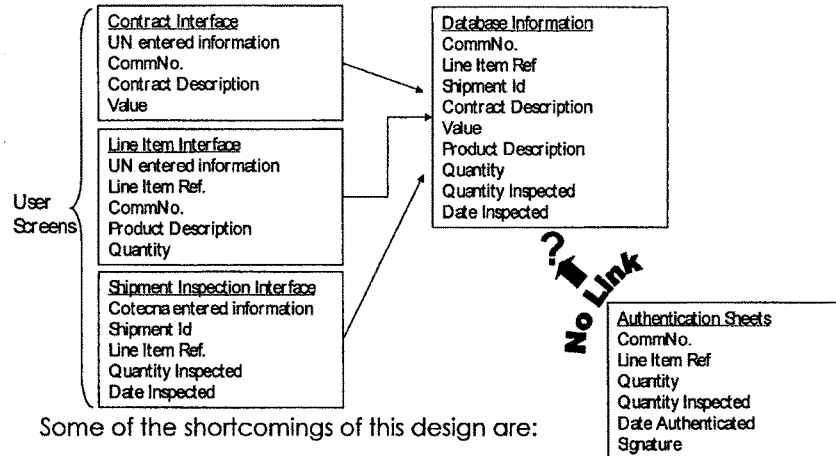
- Replication failures mentioned above
- UN failure to enter relevant information (for the purpose of minimizing the amount of data to be synchronized in the replication process and thereby expediting the replication process)
- Site specific data replication, whereby a contract delivery showed up for inspection at a border other than what was planned. Each border did not have access to information/contracts that were scheduled to arrive at other borders.

In order to resolve the data gaps and anomalies there was an extensive amount of correspondence involved with the UN as well as ultimately additional attempts to update local computers via replication attempts.

3) Authentication Data not Linked to Contract Information

This is perhaps the most significant issue relating to the LN system design. Payment for contracts was based on authentication sheets that were generated from the LN system. The LN system does not link the generated authentication sheets to the stored electronic contract information. That is, there is no relevant information to track authentication sheets such as date of authentication, date the authentication sheet was emailed/faxed or if an authentication sheet

was generated at all. As a result, all that can be generated is at best a highly manual and time consuming audit trail or at worst a non-existent audit trail. Below, is a diagram describing the infrastructure of the LN system:



Some of the shortcomings of this design are:

- Related information must be viewed through multiple screens/interfaces. People performing work manually not using computer to facilitate workload.
- No link between final authentication and work leading up to an authentication (no complete audit trail)
- Inefficient storage of information making computer searches time consuming
- QC reports and summary reports not possible without some sort of manual interaction

We provide as an end note¹ an example what steps are needed to be undertaken to complete an audit trail of authenticated goods. You will note that this is almost entirely manual and that it could take hours if not days to recreate a trail for a single comm. Number.

We feel that the primary reasons for problems encountered as a result of the implemented UN IT system can be summarized as follows:

- 1) The UN insisted on using an inappropriate software package, LN, to implement a "Data and Information Management" system. The stated primary purpose of LN is for emailing, messaging, calendar scheduling and document management. As such:

- a. LN is an unstructured platform and not a relational database system which would have been the appropriate platform to have put in place.
- b. There are size constraints as regards data volumes that can be handled

Furthermore, it is our understanding that IBM which owns LN, markets another of their products called DB2 for this type system.

- 2) The database design itself had some fundamental issues that needed to be met by either manual intervention or by developing separate tools – most significantly
 - a. All essentially associated groups of information were not linked.
 - b. There were no controls to identify anomalies such as UN entered contract summary vs. UN entered individualized line items
 - c. No Quality Control checks/reports
 - d. Obtaining line item reports is cumbersome and tedious
 - e. The process of faxing and emailing signed authentication sheets was manual, time consuming and meant that the authentication details were not recorded within LN.

Conclusion

We are of the opinion that the UN chose an IT platform that was fundamentally unsuited to the task at hand. The problems of using an inappropriate system, were then compounded the difficulties by implementing a poorly designed database structure.

This led to data gaps which compromised the integrity of the database (data gaps, manual/incomplete audit trail, reduced quality control and oversight).

No complete list of authentication sheets or a summary of all authenticated shipments can one be generated from the Lotus Notes database. The shortcomings of the system implemented by the UN were also identified by the UN agencies in Iraq. The Lotus Notes system did not provide an automated report or method that would allow the agencies to summarize shipments that had been inspected on a daily basis. They therefore commissioned Cotecna to provide this information. Cotecna could only do so by creating there own software solution that could summarize the information taken from the Lotus Notes database

(information which of course had to be gathered manually and re-entered into the new system).

There is no reason that a system could not have been developed using a more suitable relational database platform (e.g. DB2, SQL Server or Oracle) to meet the challenges of this program.

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ⁱ Audit trail for one specific contract (CommNo.) – necessary steps:

- 1) Use Lotus Notes interface to search for specified CommNo. This is an ascending list of all CommNo.s. To find a specific CommNo, a user is required to scroll through to the specified number. The CommNo.s range from 1 to 1,320,016, making the process a slow and tedious one.
- 2) Once the specific CommNo is found, details of the contract can be viewed by selecting its number.
- 3) Further details can be displayed about a contract by expanding a section of line items. It is a list in no particular order of specific product details within a contract's shipment.
- 4) Each line item's details can be viewed by selecting it from the list. From this view there is still no information about whether the item has been authenticated or not.
- 5) Further details can be displayed about a line item by expanding a section of shipment inspection details. Each shipment inspection entry must be reviewed to determine how much of a line item has been inspected / authenticated.
- 6) Each shipment inspection entry details can be viewed by selecting it from the list.
- 7) Once an authentication or inspection date is obtained about an individual line item, a manual review of either email records or faxed documents is required to locate electronic images of signed authentication sheets.
- 8) The specific border where the authentication occurred must be determined. This is not always captured by the database as it was not a required field of entry.
- 9) The email log for the specific border is accessed. In cases where the specific border is not captured, a review of all logs for all borders is required.
- 10) Sort the log by date

-
- 11) Scroll to a date close to the authentication date. Scrolling to the specific date of authentication is not always appropriate as authentication sheets may not have been sent on the actual day of authentication because:
 - a. Replication problems with the UN master server
 - b. Data entry delays as a result of local LN database not being up to date with information from UN master server
 - c. Data entry delays as a result of poor database performance in speed limitationsIn some instances, an email will not exist. This could be due to:
 1. Early stages of project faxing was the UN's designated protocol for sending authentication sheets
 2. Due to replication problems sometimes faxing was used instead of emailing
 - 12) Identify all emails with attachments on and after the authentication date
 - 13) Open each individual attachment and search for specified CommNo.
 - 14) Review the description for the specified CommNo. To determine if it is the specific line item.
 - 15) Ensure the quantity tallies up to the expected quantity detailed in line items of the contract. If the totals do not tally, then repeat the email review process starting at step 5.

Repeat Steps 4 through 15 for each individual line item within a specific CommNo.

Audit trail for one specific contract using a more appropriately designed system

- 1) User types in the CommNo. on an audit screen
- 2) User clicks a button to generate a report that shows:
 - a. The CommNo.
 - b. The related line items
 - c. The related shipment inspection forms
 - d. A summary of the authentication sheet (an image of the actual authentication sheet could also be produced)

Appendix B

RESPONSES TO 2003 OIOS AUDIT REPORT ON COTECNA

The 2003 internal audit report discusses 25 recommendations. Below, we have briefly summarized and addressed each recommendation.

Recommendation 1. Suggesting that procedures were not in place to verify Cotecna's attendance records, the audit report recommends that OIP independently verify them.

Response. The United Nations could already verify attendance records by comparing monthly invoices with UNOCHI visa entry records or by examining records in the Amman office. Whether the United Nations in fact did so Cotecna does not know. However, we know that UN-OIP-NYC directly and regularly checked, at random, the number of Cotecna inspectors on each site. Regular visits by OIP to all Cotecna sites typically occurred every six months and lasted two weeks.

Recommendation 2. Stating that staff strengths were lower than the contract stipulated, the audit report recommends that OIP and the Procurement Division amend the contract to include a penalty clause for understaffing.

Response. Early in the contract period, OIP agreed to certain understaffing, so long as Cotecna's invoices accurately reflected this fact, authentications did not suffer, and the understaffing was only temporary. The United Nations agreed to this temporary arrangement because of various factors including: the probationary status of inspectors hired from Lloyd's, delays in the granting of visas, illnesses, etc. Authentications did not suffer and Cotecna's invoices accordingly reflected any shortages. Staffing soon reached and even surpassed contract requirements at no additional cost to the United Nations.

Recommendation 3. Observing that the United Nations failed to realize a two percent discount on the contract price because Cotecna did not receive payment on its invoices within 15 days, the audit recommends that OIP management create internal controls to ensure timely payment.

Response. This recommendation does not raise any "concern over Cotecna's performance" and, in fact, the two percent discount was regularly applied later on.

Recommendation 4. Noting that UNOHCI provided Cotecna with a free-of-charge office in the Canal Hotel, Baghdad, and did not charge Cotecna for medical services, the audit report recommends that OIP quantify the value of these items and bill Cotecna accordingly.

Response. The United Nations did not charge Cotecna for its use of the office at the Canal Hotel because the Government of Iraq, in turn, had not charged the United Nations. Meanwhile, the bombing of the Canal Hotel and subsequent withdrawal of UNOHCI from Iraq prevented the United Nations from seeking reimbursement for medical costs. Given Cotecna's readiness to reimburse the United Nations for any proven costs, the fact that the United Nations

never sought such reimbursement, again, does not raise any “concern over Cotecna’s performance.” However, UNOHCI regularly charged Cotecna for monthly telecommunication costs from the Canal Hotel, and Cotecna did in fact reimburse the UN.

Recommendations 5-10. Six of the audit report’s recommendations arise from its conclusions that the OIP inadequately monitored Cotecna’s performance, and that Cotecna inadequately performed, with regard to “Inter-Agency Humanitarian Programme supplies [13 per cent account goods] in Northern Iraq.” The audit also proposes recovery of moneys from Cotecna for not providing the convoy control and passport collection services for the 13 per cent account goods arriving through Ibrahim Khalil, Zakho as well as whether UNOHCI should continue to provide convoy control services at Zakho at all. Finally, the audit recommends providing induction training for all new inspection agents.

Response. When Cotecna first inherited the contract from Lloyd’s in 1999, Cotecna found, as the OIOS audit report itself puts it, a “Lack of clarity in the Contract concerning the specific obligations of the Contractor in relation to the 13 per cent account goods” (p. 8). Indeed, authentication of 13 percent goods, unlike that for goods approved under the 59 percent account, was not a prerequisite for payment to the supplier. OIP in the end broadened and clarified Cotecna’s authentication responsibility to include 13 per cent goods. OIP did so not to control entry of such goods into Kurdish territory or to control payments to suppliers but to gather information and obtain reliable statistics. It is essential to understand that Cotecna due to its nature as a private sector UN contractor performed a limited “authentication” function. As such it had no enforcement duties or capabilities. Cotecna’s mandate did not authorize it to stop trucks or vessels but only to “authenticate” goods voluntarily presented. Cotecna therefore relied on suppliers to present goods and information. Discrepancies that the audit report tabulates between Cotecna and UN figures arose because some UN agencies and contractors who delivered 13 percent goods did not present their goods to Cotecna. Cotecna had no ability to force the UN agencies to comply with the requirement to present goods for “authentication” but rather relied on the cooperation of the UN agencies. To solve such problems and facilitate the matching of statistics, UNOHCI organized monthly meetings in Baghdad with Cotecna and all UN agencies. Cotecna did not request, and OIP did not pay, additional compensation for the extra work necessitated by Cotecna’s obligation to inspect 13 per cent goods.

As to the recovery of costs for convoy control and passport collection services for the 13 per cent account goods arriving, OIP, Cotecna and UNOHCI eventually agreed that UNOHCI could best provide the convoy of 13 per cent goods.

Dramatic changes in the program following the implementation of Resolutions 1472 and 1483 after the war prevented the United Nations and Cotecna from implementing the kind of induction package for new inspectors that the audit report recommends. Even so, Cotecna did at that time distribute the OIP’s guidelines concerning revised procedures to all staff and developed Standard Operating Procedures (“SOPs”) for the first time as Lloyd’s had none. Cotecna’s SOPs were approved by OIP before implementation. Additionally, new inspectors were given extensive on-the-job training and were closely supervised, never working alone during the training period.

Recommendations 11 and 12. Stating that the OIP inadequately monitored Cotecna's performance, and that Cotecna inadequately performed, with regard to the contract's "24-hour duty requirement" at Zakho and Trebil, the audit report recommends either ensuring 24-hour coverage at those sites or seeking to recover fees for reduced hours.

Response. At all sites, Cotecna's inspectors were available 24 hours a day, 7 days a week. With OIP approval, shifts in Zakho and Trebil corresponded to border opening and closing times when Iraqi officials were available to clear goods. Even when these borders were not open, however, the authentication work of Cotecna's inspectors continued—including data processing, archiving, faxing and otherwise communicating with OIP until at least midnight in Iraq to accommodate the time difference with New York.

Recommendations 13 and 14. Stating that the program lacked equipment adequate to ensure "independent" authentications, the audit report recommends making Cotecna obtain such equipment and making the United Nations in future statements of work specify required equipment more expressly.

Response. Both recommendations appear to misinterpret Cotecna's role under the contract and the equipment required to do so. The OIOS also confuses authentication and commercial inspection. Cotecna had all the necessary equipment to take samples of foodstuffs and to inspect other shipments. An example of the audit report's confusion is its claim that Cotecna was responsible for "the unloading and reloading of containers" (p. 11). Cotecna's contract does not state this as being Cotecna's duty in its capacity as independent inspection (authentication) agent.

Recommendations 15 and 16. Noting that the UN's RFP had not disclosed the Government of Iraq's providing certain facilities free of charge (with such disclosure possibly reducing contract bids), the audit report recommends negotiating a contract reduction with Cotecna and providing such free-facility information in future RFPs.

Response. It is worth noting that the RFP did not provide specifications relating to the precise infrastructure available to the bidder. Further, when Cotecna took over from Lloyd's, the sites and cabins were not in good living condition. Cotecna therefore purchased equipment and materials from Lloyd's, invested in new cabins and continued to make capital improvements in the facilities throughout the duration of its contracts. Basic research by those who submitted proposals responding to the UN's 1998 RFP revealed that Iraq provided offices to Lloyd's free of charge. At the same time, OIP could not ensure that Iraq would continue to provide the offices for free. These circumstances diminish the audit report's assertion that the sites were "free" and the implication that Cotecna received a windfall.

Recommendation 17. For efficiency's sake, the audit report recommends moving Cotecna's Contract Manager from Amman to Baghdad, where he could share an office with the Liaison Officer and communicate more directly with the UNOHCI.

Response. As the audit report itself acknowledges, the contract does not require a Contract Manager, a position that Cotecna initiated on its own, absorbing the associated

additional costs. Also, the Contract Manager's attendance at monthly UNOHCI meetings in Baghdad satisfied the audit report's concerns. Furthermore, moving the Contract Manager to Baghdad was not acceptable to UN-OIP for security and confidentiality reasons.

Recommendations 18 and 19. Recognizing that increased flexibility would improve the contract's efficiency, the audit report recommends drafting new contract provisions that would enable staffing and remuneration to correlate more closely with the varying volumes of cargo presented for authentication at each site.

Response. Indeed, Cotecna itself sought more flexibility in transferring inspectors between the sites because not all sites were equally busy all the time. When Cotecna first inherited the program from Lloyd's, Cotecna sought to avoid such overstaffing and understaffing. For whatever reason, OIP did not give Cotecna the flexibility to move inspectors around. Moreover, the political situation in Iraq did not make movement between sites an easy matter, and it would take some three days to commute between the sites.

More generally, Cotecna would have appreciated written variations to the contract as it changed and written definitions of new and/or amended concepts to provide clarity to the scope of work—e.g., definitions of "Fit for Human Consumption" and "Authentication." Cotecna's requests for such, however, were not welcome.

Recommendation 20. Alleging that Cotecna's hiring of inspectors through Romcontrol (a Romanian provider of personnel) and its request that Iraq put Cotecna on its accreditation list constituted "unprofessional conduct" violating the contract's prohibitions against subcontracting and potential conflicts of interest, the audit report recommends a formal reprimand.

Response. Cotecna sought and obtained OIP's prior written approval and clearance for every individual inspector that it hired through Romcontrol and went on to employ directly. In this sense, "subcontracting" describes only the channel through which these inspectors were paid, not the manner of their appointment nor their employment. In fact, even Cotecna's proposal responding to the 1998 RFP includes the CVs of one Romcontrol chemist and seven Romcontrol inspectors.

As to the potential conflict of interest in simultaneously serving as independent inspection agents and possibly offering commercial inspection services, admittedly, the request that Iraq put Cotecna on its accreditation list was an error, arising from a misunderstanding by Cotecna's commercial division about the company's OFFP contract. Cotecna's Senior Vice President steadfastly reminded employees about the prohibition. The error in this case was immediately rectified, and the person involved was dismissed.

Recommendations 21-23. Expressing dissatisfaction that the United Nations and Cotecna amended their contract before Cotecna began to perform, the audit report recommends that the United Nations ensure that future contract provisions allowing amendment not contradict contract provisions making stated prices all-inclusive, that the United Nations craft future RFPs such that they more accurately identified all requirements in advance, and that it recover from

Cotecna a \$95,000 payment for certain equipment's residual value, pursuant to the first contract amendment.

Response. With regard to Recommendation 23, and pursuant to Amendment 1, Cotecna reimbursed \$95,000 to the United Nations in May 2003, thereby enabling Cotecna to retain ownership of the relevant equipment at the end of the program. Meanwhile, as with so many other items that the audit report identifies, Recommendations 21 and 22 raise no "concern over Cotecna's performance." Rather, they instruct the United Nations to draft its contracts and RFPs differently. The context for these recommendations is as follows. The 1998 UN RFP was not a detailed document and, for example, did not impose on bidders any information technology replication scheme or specific telecommunications obligations. Cotecna therefore based its original 1998 bid (\$499 per inspector per day) on Cotecna's own proposed IT systems and telecommunication facilities. In December 1998, however, the United Nations revealed, for the first time, a specific requirement for the contractor to use Lotus Notes instead of existing communications systems. Because Lotus Notes would involve large, previously unforeseen capital expenditures and telecommunication costs associated with the replication of the Lotus Notes system—never mentioned in the 1998 Request for Proposals—, Cotecna and the UN's Procurement Department on 24 Dec. 1998 agreed that the UN would have to pay Cotecna additional compensation to address the Lotus Notes issue. This agreement became Amendment 1, which Cotecna signed on 29 Mar. 1999, and the UN Procurement Division on 21 Apr. 1999.

Cotecna would have welcomed a more detailed RFP. The program had been in operation for two years with Lloyd's as the contractor, so it is especially surprising in retrospect that the UN did not provide a more detailed and comprehensive specification as regards its information technology and communications requirements, physical infrastructure (existing and required) as well as SOPs.

Recommendations 24-25. Two recommendations call "inappropriate" a "price increase [from \$499 to \$600 per inspector per day, effective 1 February 2000] on account of accommodation, communications and fee for retention of agents."

Response. Cotecna documented its costs for the rehabilitation of camps, inflation, telecommunications, employment of inspectors with special qualifications (such as electrical engineering), etc. As stated in the report itself, OIP was therefore satisfied that Cotecna's costs had actually increased. The audit report objected not to the payment but to the merging of such increased costs with the per-man-day fee structure. This merging of expenses risked overpayment if the \$600 fee per inspector day continued longer than necessary to reimburse Cotecna's investment. Cotecna's per man day fee dropped back down from \$600 to \$520 in 2001, however, eliminating the problem that the audit report anticipated. In any case, the United Nations, not Cotecna, bears responsibility for the choice to merge the increased costs with the per-man-day fee structure. In this context, it should be noted that the complexity of the program and the volume and value of goods authenticated between 1999 and 2002 increased dramatically, necessitating also an increase in the number of inspectors from 54 in February 1999 to 67 in November 2002.

110

**SUBMISSION
OF
ARTHUR VENTHAM
Former Inspector - Cotecna Inspection, S.A.**

**SUBMISSION INTO COTECNA INSPECTIONS S.A. – OIL FOR FOOD
PROGRAM – IRAQ**

Arthur Ventham RFD MBA AFAIM CD

1. Introduction:

Mr. Chairman and Members of the Subcommittee:

At your request, I am here to testify about my experiences as an Inspector with Cotecna Inspection, S.A., the independent inspection and authentication contractor for the Oil for Food Program.

Before I begin my testimony, I want to thank you and this Subcommittee for giving me the opportunity to travel to your Nation's capital to provide assistance to your investigation into the United Nations Oil for Food Program and I hope my testimony assists with your endeavors.

I would like to iterate that I am not here to denigrate my fellow Inspectors employed by Cotecna Inspections S.A. but to provide an insight into what occurred on the ground in Iraq at the sites that I spent time at, namely Ar'Ar, Al-Waleed, Um Qasir and Zakho.

2. Personal Details, Qualifications and Operational Customs Experience:**2.1 Personal Details and Qualifications:**

My name is Arthur William Ventham, I am 54 years of age and I reside in the State of Western Australia.

I hold the following qualifications:

- ✓ Master of Business Administration;
- ✓ Graduate Certificate in Public Sector Management (Customs); and
- ✓ Queens Commission – Department of Defence (Army).

2.2 Operational Customs Experience:

My experience in relation to Customs and investigations stems from the following employment:

2.2.1 Australian Customs Service – 1977 to 1994

Senior positions held with the Service included:

- ✓ Training Officer – Customs Commercial Systems & Investigations
- ✓ Senior Operations Officer – Investigations and Compliance
- ✓ Duty Manager – Compliance and Passenger Processing
- ✓ Senior Investigator – Inland Revenue

2.2.2 ArMar Holdings International – 1994 to 1998

ArMar Holdings International was a boutique-consulting agency, specifically established to provide clients with Tariff and Trade (Customs) advice, business planning, marketing and capital raising. The position held with this organization was:

- ✓ Managing Director – Business Development / Tariff and Trade

In this position I:

- Assisted project proponents to identify Australian manufacturers capable of producing plant and equipment applicable to the project;
- Liaised with international suppliers of components and Australian Customs Service to apply for Tariff Concessions for goods not available in Australia; and
- Prepared Customs Documentation to ensure that importers met the strict guidelines applied to major projects by the Australian Government in relation to local content.

2.2.3 Power Management Australasia – 1994 to 1998

In conjunction with ArMar Holdings International I was contracted to Power Management Australasia (PMA), part of the Power Management Group (PMG). PMG was a specialized accounting (CPA) and business-consulting agency that facilitated major projects both on-shore and offshore Australia.

The position held with PMA was:

- ✓ Chief Executive Officer – Business Development

In this position I was responsible for:

- Facilitating the Government approvals process for importing specialist components to be used in major projects;
- Liaising with overseas clients for the supply of Australian manufactured components for export;
- Preparation of marketing and business plans for national and international organizations wishing to construct resort or resource projects; and
- Liaising with foreign Governments to ensure that local content remained a high priority for projects established in Australia and overseas.

3. Ar'Ar – First Site:

3.1 Dates:

3.1.1 Ar'Ar

I arrived in Iraq on 21 December 2002 and was sent to the newly completed Ar'Ar site, near the Saudi Arabian border, arriving on the 22 December 2002. I remained at the site, except for a 5 day period that I spent in Al Waleed, until 31 January 2003.

3.2 Activities:**3.2.1 Training**

During my time at Ar'Ar there was no training provided by either the Team Leader or Cotecna S.A. Management. It was made quite clear, in our contract, that as an Inspector we were deemed to be "Experts in Mission" (if asked by UN) and were familiar with the procedures required by the UN.

I did ask the Team Leader for a copy of the "Standard Operating Procedures" for the site and was given a number of documents to read that related to another site. I was informed that once trucks started to arrive that we, as a team, would prepare the site operational procedures based on similar procedures that occurred at other land based sites.

3.2.2 Staffing

On arrival at Ar'Ar the staff comprised:

Cotecna Staff:

Craig Airey – Team Leader (RSA);
Romilo Obra – Deputy Team Leader (Philippines);
Chris Bourne – Inspector (NZ);
Vlado Males – Inspector (RSA);
Lars Olssen – Inspector (Sweden); and
Arthur Ventham – Inspector (Australia).

Local Staff:

Camp Manager
Waiters x 2
Cooks x 3
Cleaning Staff x 3
Drivers x 3

The majority of the time was spent either on the internet, watching DVD's (TV coverage comprised three Indian channels), reading in your room, working out in the gymnasium or in the bar.

3.2.3 986 Consignments

During my entire time at Ar'Ar I did not see or inspect any vehicles that were carrying goods under UN SCR 986 sanction.

Mid January (12th or 13th January), three trucks pulled up at the compound and presented manifests for goods that were not 986 goods. I was told that the manifest was for 1066 goods and the trucks were turned around and sent to the Iraq Customs Office. I watched the vehicles drive to the Customs Office and shortly thereafter depart Ar'Ar, heading north towards Baghdad.

When I asked why we did not inspect the goods I was informed by one of the team that we were only to inspect 986 goods, anything else was of no concern to us. Apart from these three trucks, there were no other shipments that I was aware of that arrived in Iraq via the Ar'Ar site.

At this point I began to question the worth of the UN Contract with Cotecna as it did not seem, to me anyway, that the ad-hoc inspections (986 goods only) was not going to stop the illegal importations into Iraq, especially if there was collusion between sympathetic countries.

3.3 Understanding of Oil For Food Program:

Prior to being accepted as an Inspector by Cotecna S.A. my understanding of the Oil For Food Program was somewhat limited to what I had read in the newspapers, heard and saw in the electronic media and the research that I carried out prior to applying for the position.

As I understood it:

- ✓ The United Nations, through Security Council Resolution 986 had placed an embargo on the sale of oil by Iraq to other countries;
- ✓ Iraq was only able to sell oil and buy goods that were approved by the UN (Office of Iraq Program), namely food, medicines, educational and humanitarian supplies;
- ✓ The OIP had established a procedure for the importation of those items approved under the sanctions and had appointed an independent inspection agency (Cotecna Inspections S.A.) to authenticate and approve for payment invoices provided that they complied with the strict guidelines imposed on the purchasers by the UN;
- ✓ Inspections would be carried out at selected sites within Iraq, namely: Zakho, Al-Waleed, Traybeel and Um Qasir; and
- ✓ There were systems, procedures and protocols in place to ensure that the requirements of UN SCR 986 were adhered to.

I was also of the opinion that all goods entering Iraq were subject to the same strict inspection service to ensure that no unlawful or inappropriate goods, such as military, chemicals or other potential dangerous goods were brought into the country illegally. From the procedures and processes that I witnessed as an Inspector this did not appear to be the case as we were only interested in those goods that complied with UN SCR 986 sanctions.

4. *Al-Waleed Site:*

4.1 Dates:

It was in January 2003 that, due to the boredom and lack of work at Ar'Ar, that I asked to go too Al-Waleed for a short while to learn how inspections were conducted so that I could start to write up the "Standard Operating Procedures" for the Ar'Ar site when I returned.

I am not sure of the exact dates that I spent at Al Waleed but I am fairly sure that it was between 15th to 21st January 2003.

4.2 Shifts:

During my time at Al-Waleed I completed seven (7) shifts covering 8:00 am to 2:30 am. The office was closed between the hours of 2:30 am and 8:00 am.

4.3 Operations:

The operations carried out during the shift were as follows:

- i. Drivers would present themselves at the window and hand over their documentation, including cargo manifest, shipping invoices, packing lists and any other documents that they may have had in relation to that particular consignment.
- ii. Inspectors would look at the documentation to ensure that it had been stamped by the Iraq Customs. If this had not occurred the driver was sent back to the Customs Office.
- iii. If packing lists or invoices were not present, drivers were sent away until such time as the documents arrived, this may have taken anything up to seven (7) days.
- iv. If the documentation presented was complete, the Inspector highlighted specific details on the manifest (Driver's name, Vehicle Registration, Weights, Quantities etc:), stamped three (3) copies of the manifest and handed the documents back to the driver who then proceeded to their destination.
- v. Once the documentation had been processed it was written on to a collation sheet (for each Comm:) and placed on a clip board for the data shift to enter and authenticate the next day.
- vi. Inspections were only carried out when directed by the Team Leader or Deputy Team Leader or when samples were required to be taken for analysis. I was told by a colleague that the OIP dictated which consignments were to be inspected and this was written on the collation sheet for that particular Comm:.
- vii. Goods for human consumption were identified on the collation sheet and samples taken, labeled and placed in the sample room for forwarding to the laboratory for analysis.

4.4 Inspections:

During my time at Al-Waleed I processed approximately 200 trucks with varying consignments and was only required to visually inspect one Comm:, namely a consignment of three (3) new trucks described on the manifest as Fire Fighting Trucks.

The information that I was required to verify was:

- ✓ Chassis Number;
- ✓ Engine Number; and
- ✓ List of Spare Parts.

I was somewhat surprised at the level and frequency of inspections being carried out as it did not seem appropriate to what I thought was expected of

an independent inspection agency, particularly when dealing with a regime such as the Ba'ath Party in Iraq.

While most Customs Services operate under a "Risk Assessment Strategy", it appears that this was not the case in Iraq. Given the reasons for imposing the sanctions in the first place, I would have thought that the UN would have required a higher level of inspections than what was currently being provided by Cotecna, however, I was not privy to the actual requirements of the contract between the parties and the comments made are from my own observations and expectations of what an independent inspection service should provide.

Several times I asked colleagues why things were done in such a way and was told that it was because it had always been done that way and we were not there to think of ways of doing the job better, we were there to only process documentation and inspect goods as directed.

During my time at Al-Waleed the number of trucks within the compound ranged somewhere between 500 to 700 per day and only those trucks that had goods subject to UN SCR 986 were processed, the remainder were not inspected nor was their cargo verified to ensure that it was as listed on the manifest.

After completing my time at Al-Waleed I returned to Ar'Ar around the 22nd January 2003.

5. *Um Qasir:*

5.1 Dates:

On or about 27th January 2003 I was informed by the Team Leader at Ar'Ar that Lars Olssen and I were being transferred to Um Qasir with effect 31st January 2003. I was told that this was because there were no trucks being processed at the site and that it was felt by management that staff should be rotated through the site, thereby giving everyone an opportunity to stay in Ar'Ar.

5.2 Arrival at Um Qasir:

On arrival at Um Qasir, we were joined by two Hungarian Inspectors: Laszlo Kymetyo and Karoly Takacs who had also just joined the mission. We were then interviewed by the Team Leader who put us into teams to commence work.

There were four teams operating at Um Qasir, these were:

- ✓ New Port Team (2 shifts: 0800 – 1400 and 1400 - 2000);
 - ✓ Old Port Team (2 shifts: 0800 – 1400 and 1400 - 2000);
 - ✓ Data Team (1 shift – officers were allowed to work either am or pm depending on their own preference); and
 - ✓ Administration Team.
-

5.3 Port Operations:

I was placed in the "New Port Team" under the supervision of a French Inspector by the name of Richard Gay. During the shift at the "New Port" we were required to carry out the following duties:

- ✓ Identifying each "OFF" shipment in accordance with the information provided to us by the Administration Team;
- ✓ Identifying where the container cargo was located on the ship using the loading manifest supplied by the Captain;
- ✓ Selecting containers to examine based on Cotecna guidelines (10% of all Comms: had to be inspected; i.e. 1 – 10 containers meant that we opened up one container, 11 – 20 containers meant that we opened up two containers and so on).
- ✓ Drawing samples of product (for analysis to ensure that they were fit for human consumption – baby formula, chickpeas, rice, tea, wheat and so forth);
- ✓ Visiting bulk cargo discharge facilities (vegetable ghee etc) to collect weighbridge dockets of tankers loaded to compare against the vessels Daily Discharge Manifest;
- ✓ Collecting bulk liquid load sheets from the bulk liquids discharge berth to hand over to the data shift; and
- ✓ Preparing Discharge Summaries for the Data Team on return to the office.

Once the Discharge Summaries had been collated and handed to the Data Team, they would then enter them into the database prior to Authentication taking place.

Whilst I was not a member of the Data Team or privy to the authentication process, I was interested in the process and often assisted after my shift. It appeared that authentication did not take place until after the goods left the wharf.

During my time at the port, I can recall on two occasions when we were unable to locate consignments that had been discharged by the Iraq Port Team between shifts. These missing discharges were reported to the Team Leader who passed on the information to Cotecna Management.

I am unaware of what procedure took place to verify or authenticate these shipments as I was told not to interfere with the way that the Team Leader operated.

5.4 Possible Smuggling Operations:

It was at Um Qasir that I noticed that there were a lot of ship movements up and down the straits between Um Qasir and Warbay Island, particularly at night. The type of vessels that were moving freely included:

- ✓ Small Coastal Tankers (up to approximately 5000 tonnes);
 - ✓ Dhows (large and small);
 - ✓ Inter City Ferries (Dubai – Kuwait – Um Qasir);
-

- ✓ Landing Barges; and
- ✓ Other Commercial Vessels.

I mentioned this to a number of other Inspectors saying that there was plenty of scope for smuggling and what were the UN doing about it. I was extremely surprised at the response given to me by my colleagues, namely:

- ✓ That it was common knowledge that "smuggling" was going on at Um Qasir;
- ✓ That oil was being sold on the "black market" to augment the regime in Iraq;
- ✓ The UN supposedly knew of this but had decided not to do anything (no proof of this was known); and
- ✓ That Cotecna Inspections did not have any authority to inspect any vessels other than those that were reported to us by OIP.

This strategy, or more precisely a lack of strategy, was not in accordance with an effective Customs or "Risk Assessment" inspection regime because it did nothing to prevent the illegal movement of cargo into or out of Iraq. This in effect defeated the purpose of imposing sanctions against Iraq and made a mockery of SCR 986.

I must point out that I did not witness any smuggling nor did I know of anyone within Cotecna that was involved with or associated in these activities; it is only supposition on my part based on what I saw at the Port.

5.5 Staff Attitudes:

During my time at Um Qasir it became apparent that there was a certain amount of animosity and angst between the Team Leader and some of the Inspectors and I perceived that this was based on patriotism more than anything else. I queried this with a few Inspectors and was told that since the Team Leadership had changed, the team had gone "downhill" very rapidly and there was no effective leadership provided by the Team Leader or the company as a whole.

Examples of this (as given to me or witnessed by me) included:

- ✓ Placing Inspectors from African countries into the Data Team, because they did not like working in the heat on the wharves.
- ✓ Placing Inspectors from the old Soviet "block" into the Administrative Team and allowing them to come and go as they pleased.
- ✓ The Team Leader and his fellow countrymen spending the majority of the day in each other's rooms drinking vodka as opposed to managing and leading the Team.

6. Evacuation:

6.1 Evacuation from Iraq:

On the 17th March 2003 the majority of the team was evacuated from Umm Qasr to Al Waleed or Trebil and the next day were sent to Amman Jordan to

await a decision by the United Nations as to what Cotecna was going to do during the hostilities.

6.2 Amman Jordan:

From the 18th March to the 7th April we remained in Amman Jordan and very little was done with respect to Inspections, although I believe that negotiations were ongoing between Cotecna and the OIP in relation to our future commitment to the OFF Program.

Towards the end of March 2003 we were informed that teams would be established and sent to a number of sites to re-establish the inspection and verification of goods under the OFF Program. These sites were to be located at:

- ✓ Aqaba – Jordan;
- ✓ Latakia – Syria;
- ✓ Iskenderun – Turkey;
- ✓ Dubai – UAE;
- ✓ Kuwait City – Kuwait.

I was selected to go to Iskenderun Turkey by the Team Leader, Craig Airey.

6.3 Move to Iskenderun Turkey:

On 7th April 2003 along with 28 other Inspectors I left Amman Jordan and flew out to Istanbul Turkey and finally to Iskenderun which is a port city on the Mediterranean Sea in the South of Turkey.

For the next few days we were establishing an office in the town as well as setting up procedures for operating within Turkey.

7. Operations in Turkey:

7.1 Establishment of Site:

During our stay in Iskenderun a satellite site was established at Mersin, approximately 400 kms west of Iskenderun. This site was manned by four inspectors on a rotation basis with two inspectors being rotated every week.

There were a number of other locations that were visited by inspectors during our time at Iskenderun but these were done from the main base on an "as needed" basis.

7.2 Inspections:

There was some confusion relating to what was to be done and how it was to be achieved as we were only allowed to inspect cargo that was notified to us by the OIP. This was despite the fact that we received numerous requests from shipping companies and other local suppliers of goods wishing to deliver goods under UN Resolution 986.

One of the issues that arose involved the clearance of wheat shipments from a port approximately 180 kms to the west of Iskenderun. We were told by the OIP that a person from the World Food Program (WFP) was also in the area and that he would inspect the shipments and notify us if everything was OK.

We would not necessarily inspect the shipment, in fact I do not recall, other than a one-off meeting with the WFP representative, of any actual inspections carried out for wheat during my time at Iskenderun, instead we were just told to authenticate the shipments on the word of either OIP or WFP.

During our time at Iskenderun, it appeared that we were carrying out more inspections (mainly at Mersin) than we had done previously at any other site but this was still restricted to SCR 986 Goods.

It was at Iskenderun that we became inundated with agency goods, probably because after the hostilities the UN started to import a large range of items, usually those of a humanitarian nature. These goods were not necessarily inspected, instead we were informed (by OIP I think) that these were to be authenticated without inspection. At the time this seemed to be a reasonable request and I did not think any more of it.

7.3 Staff Problems:

It was during my stay at Iskenderun that I was made Administrative Deputy Team Leader with responsibility for all the administration, accounts and other activities associated with the establishment at the satellite site. It was also at this time that the Team Leader (Craig Airey) moved from the Mission to Nigeria where he was setting up the Scanner Contract. He was replaced by Romilo Obra as Team Leader and Ron Neufeld was appointed to the position of Deputy Team Leader.

On one particular occasion I was asked to arrange for the packaging of samples that had been collected from Mersin and delivered to Iskenderun during the changeover of staff. As was normal, I sent a mobile telephone text message to all staff to attend the office to assist (nearly every staff member had a mobile telephone). I also contacted the hotel to get those one or two Inspectors that did not have a mobile and ask them to come to the office.

One of the Inspectors (Ali Moussa) objected to me asking him to come to the office because he was not expected to work and he complained to the Team Leader (Romilo Obra) that I had no right to ask him to work.

I spoke to Romilo and was informed that Ali, along with one or two other Inspectors in the Mission was not there to work. They were friends or relatives of potential clients and only in the Mission so that the company could secure future contracts in Nigeria, Comoros and another African country. When I said that this was unfair on everyone else I was told that it was general practice in Cotecna and that even Kofi Annan's son was an employee at one stage but wasn't required to work (hearsay only).

There were a number of other issues that were raised during our time at Iskenderun involving the lack of motivation amongst some of the Inspectors who would rather stay in their hotel room or on the boardwalk drinking beer and talking to the locals.

It was at this stage that I spoke to Romilo Obra and said that I was unhappy with the way things were going and that as managers / supervisors we needed to do something quickly. As a result of our discussion, the Team was split into groups with each group given responsibility for certain activities (travel, hotel, sampling, etc). This had some effect on morale and attitudes changed.

Towards the end of June, Cotecna Head Office sent out a request for all Team Leaders to identify Inspectors that they wanted to retain as the OFF Contract was due to be renewed at the end of the month and that some Inspectors were not going to have their contracts renewed.

Romilo, Ron and I went through our team and identified a number of Inspectors that we were not happy with. We also held a team meeting where we informed everyone that contracts were up for renewal and gave Inspectors an opportunity to say whether they wanted to remain with the Mission or not and which site did they want to transfer to if their contracts were renewed. A number of them did not want to renew their contracts and departed the Mission at the end of the period.

It was at this stage that the UN (OIP) had made a decision that some of the team was required to move back to Zakho and reopen the site. As a result of the weather, I volunteered to go to Zakho on return from leave and this was accepted by Romilo and Ron.

8. Zakho:

8.1 Dates:

On my arrival in Zakho on 9th July 2003 I was made the "Site Supervisor" and there were six other Inspectors allocated to the site. We were required to have two shifts operating at the border, namely:

- ✓ Shift A – 0800 to 1300; and
- ✓ Shift B – 1400 to 1900.

Due to the ongoing security risks I established a third shift, namely an Admin Shift that would operate either am or pm. This meant that Inspectors were required to operate as follows:

- ✓ Shift A – two Inspectors (0800 – 1300);
- ✓ Shift B – two Inspectors (1400 – 1900);
- ✓ Admin – one Inspector (0800 – 1300 or 1400 – 1900); and
- ✓ Site Supervisor – ADTL (0800 – 1900).

This roster ensured that there was always someone in the office monitoring the radio and carrying out the checking of Comms: that were inspected.

8.2 Operations:

As a result of an incident that occurred with one of the Inspectors when he incorrectly calculated the number of items listed on an Inspection Report. I commenced an audit of open Comms: to determine if any other ones had been incorrectly completed and it soon became apparent that there were a large number of Comms: that were still open but in actual fact were complete because the total number of items had been incorrectly listed.

A common example that I identified that had occurred on a number of occasions was;

- ✓ Comm No: XXXXX had six generators complete, including (for argument sake) back-up spares of six flywheels for each generator.
- ✓ Therefore, there would have to be thirty-six flywheels included in the shipment.
- ✓ The Inspection Report only indicated that there were six flywheels because the Inspector did not understand math's or was unable to comprehend or read a manifest, shipping invoice and packaging slip.

This was not an uncommon incident and as I investigated further I discovered more errors of a similar nature. The matter was brought to the attention of Cotecna management but I believe nothing was done about it.

8.3 OIP Initiated Investigations:

Other work that was carried out during my time at Zakho was to conduct investigations into the importation of goods during the hostilities for which there was no record of having been received.

One of these investigations involved a supposed importation of power plant equipment for a large power plant just outside of Baghdad. The total value of the shipment in dispute was in excess of US\$2.50 m. The supplier, a Turkish company, had lodged an application for payment with the OIP without having their documentation stamped by Cotecna.

After being given access to the "documents" (photo copies) from the shipping company, and conducting a number of investigations with both Turkish and Iraqi Customs, I was not convinced that they were original documents because:

- ✓ The stamps purported to be Turkish and Iraqi Customs stamps were blurred and unreadable;
 - ✓ There was no transit stamps for the border crossing in the driver's passport (copy only supplied);
 - ✓ The name of the person supposedly receiving the goods was unreadable;
 - ✓ The stamp for the receiving location was blurred and also unreadable; and
 - ✓ There was no record of the truck having crossed the border on either the Turkish or Iraqi Customs databases.
-

I provided an initial report to Cotecna saying that I was not convinced that the shipment had in fact entered Iraq and that payment should not proceed until further evidence was supplied to the contrary.

The supplier of the goods and a representative from the shipping company came to Zakho and spoke to me, pleading with me to sign off on the shipment. I asked to speak to the driver of the vehicle but they were unable to provide me with the details or whereabouts of the driver and at one stage they did not even know his name. After meeting with them I became more concerned in regard to the shipment and declined to sign off on the authentication process.

I was eventually told to disregard my views and to sign off the investigations but I refused to do so. I have since been told that this consignment was paid by the UN after a representation by the supplier to their UN representative, but I am unable to confirm this at this stage.

I was somewhat surprised at this as I had prepared a lengthy report on the investigation that I had carried out and had provided evidence from both the Turkish and Iraq (Kurdish) authorities that clearly demonstrated that the truck identified on the manifest did not cross either border during the time that it was reported to have been done so by the driver and supplier.

8.4 Smuggling Opportunities:

During my frequent trips to and from the border post I became increasingly concerned with the large number of trucks that were crossing the border as compared to the number of trucks being processed and/or inspected by my staff.

It was not uncommon to see in excess of 200 to 300 trucks on the transport compound at the border and only have one or two of them present manifests showing that the consignments were 986 consignments. During a return trip to Iskenderun from Zakho, I witnessed a line of trucks, three and four abreast stretching from Habur (border) to Silopi (nearest Turkish town) a distance of approximately 12 – 15 kilometres.

On return to Zakho I saw that this line of trucks had diminished somewhat as had the number of vehicles on the Iraq side of the border. I asked the team how many trucks they had inspected or processed and I was told that they had only processed two trucks, comprising demountable school units.

I passed this information on to Romilo and Ron but was told not to worry about it as those trucks that had not presented their manifests were probably not carrying SCR 986 goods. I found that this was extraordinary given the fact that the UN was still concerned with the importation of weapons of mass destruction, chemicals and other items that could be used by insurgents, however, I accepted what they said but was not 100% happy with this as I believed that we, as the independent inspection service could have, or even should have been more proactive in assessing what was coming into the country.

9. Transfer to Aqaba:**9.1 Lead up to Transfer:**

During the latter part of September 2003 I was asked by the team to clarify a number of aspects relating to safety, security and conditions under which the team was operating under in Iraq.

I approached Romilo and informed him of what the team was saying and asked his direction as to what I should do. He informed me that I should send a report to Joe Saliba, outlining their concerns and ask him to clarify the issues, in particular the insurance coverage for working in Iraq as well as an allowance for working in a dangerous environment. A copy of the report was sent to Romilo before I sent it to Joe Saliba and I changed it slightly at the request of Romilo.

There were a number of Inspectors in Turkey who did not want to rotate through Zakho as it meant that they would lose their \$30.00 a day living allowance as everything in Zakho was supplied by the camp management. It was at this time that those Inspectors who were at Zakho contacted Romilo and stated that they were quite prepared to remain at Zakho with me as they felt that I was an effective leader and had their interests at heart.

9.2 Move to Aqaba:

Shortly after I had sent the report to Joe Saliba there was a Team Leader's meeting in Amman Jordan to which Romilo attended. It was whilst he was there that he received information from Joe Saliba that I was to be removed from Zakho and sent to Aqaba, effectively a demotion. Romilo took the opportunity of contacting me (even though he was forbidden to do so) to inform me of that decision.

On his return to Turkey I discussed the issue with Romilo and Ron and some other Inspectors, all of whom were amazed that Cotecna were doing it as they had all stated that if I stayed in Zakho then they would also stay with me as they felt that I was doing an excellent job as well as looking after their safety and security.

At the end of September I was moved from Zakho to Aqaba.

10. RESIGNATION & REASONS**10.1 Resignation:**

I resigned from Cotecna Inspections SA in October 2003 whilst stationed at Aqaba, Jordan.

10.2 Reasons for Resignation:

There were a number of reasons for my resignation, among them were:

- ✓ I felt that Cotecna was badly managed, certainly at the upper level;
-

- ✓ That Cotecna did not provide adequate training to Inspectors, instead left them to find out for themselves how to do the job properly;
- ✓ That they did not have a performance management or appraisal system in place which I thought would have been essential if dealing with the UN;
- ✓ The company was not performing an adequate function in accordance with UN Resolution 986;
- ✓ Management were unwilling to listen to others, even if their knowledge and customs experience were at a higher level;
- ✓ That the duties of the job were not consistent with best practice for Inspections under the OFF Program; and
- ✓ That I felt that given the lack of work being handled by Cotecna in Zakho, Iskenderun and Aqaba that it was inappropriate to accept remuneration in return for very little work.

I departed Aqaba early in October 2003 and returned to Australia after spending a day in Amman where I held discussions with Milan over the reasons for my resignation.

10.3 Post Resignation:

During these discussions with Milan I was told there were concerns amongst Cotecna Management when I was appointed to the position given my experience, qualifications and customs knowledge, however, due to the fact that Cotecna were unable to recruit qualified and competent inspectors, I was employed.

He went on further to say that Cotecna did not really want people with Customs Management experience, preferring instead to employ non-Customs people, who had little or no knowledge of Customs. I asked about some of the other Customs trained people and he told me that they did not question what Cotecna was doing, instead they did what the company wanted them to do, namely inspect goods or enter data in a database.

I felt that this was a bit strange given that Cotecna was supposed to be in Iraq to be an independent inspection and verification service for the UN. Our contracts with Cotecna stated that Inspectors were supposedly "Experts in Mission" in particular with Customs procedures but I found that, in most cases, many of the Inspectors had little or no knowledge of Customs procedures.

11. CONCLUSION

The period that I spent with Cotecna in Iraq, Turkey and Jordan was an experience that I would not have missed. I went to Iraq to try and do something for the people of that country as well as assisting an organization that I had a lot of respect for, namely the UN.


As an ex-military officer and business consultant, I am aware of and have been trained in logistics, security and service delivery. The activities that I undertook whilst employed with Cotecna was contrary to everything that I had been taught, be that through university, the military or Customs.

As a professional Customs Manager and Business Consultant, I was somewhat surprised at how Cotecna operated when dealing with a major UN activity such as the Oil For Food Program. To my dismay, I found that the inspections being performed by Cotecna (inspections which I found to be inadequate) were in fact, appropriate based on the instructions provided to them by the OIP-UN.

I could not allow myself to continue to be a part of such an inspection program or to be associated with a company who conducted inspection business in that manner.

Whilst I am disappointed that I was unable to work with the UN to achieve a desired outcome, I am not sorry to have left Cotecna when I did as I believe that the way they operated was contrary to "Best Practice".

I will now attempt to answer any questions that you may have.



Arthur W. Ventham RFD MBA AFAIM CD

STATEMENT BY

VERNON P. KULYK

FORMER DEPUTY CHIEF CUSTOMS EXPERT

FOR THE UNITED NATIONS OIL FOR FOOD PROGRAMME

AND

SENIOR CUSTOMS ADVISOR TO COTECNA GENEVA

GENERAL MANAGER, COTECNA LIAISON OFFICE

DAR ES SALAAM, TANZANIA

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

FEBRUARY 15, 2005

I. INTRODUCTION

Mr. Chairman, Ranking Member Levin, and Subcommittee Members:

I bring you greetings from Dar Es Salaam, Tanzania, where I currently live. Thank you for this opportunity to testify before you concerning the United Nations Oil for Food Programme ("OFF Programme" or "Programme").

In July 1998, I joined the United Nations Office of Iraq Programme ("UNOIP"), as a UNOIP customs expert. Eventually I became the Deputy Chief Customs Expert. My responsibilities included reviewing contracts for the humanitarian aid to be shipped into Iraq under the Programme, as well as monitoring the performance of the independent inspections contractors for the Programme.

Prior to my arrival at the UNOIP, I also had nearly thirty years of experience as a Customs Officer for the Government of Canada. I served as Superintendent of the Highway Customs Traffic Operations at the Canadian-U.S. border; Superintendent of International Air Traffic Customs Operations at the International Airport in Winnipeg, Canada; District Programmes Officer for the Department of National Revenue, Canada Customs and Excise; and Project Officer in the Headquarters, Firearms Customs Operations branch in Ottawa, Ontario.

I have substantial experience in monitoring the flow of international goods in conflict zones. During the Balkans crisis in 1993-1994, I was the Senior Team Leader for the Organization for Security and Cooperation in Europe ("OSCE"). OSCE was responsible in part for enforcing sanctions against the regime in Serbia. In 1994, after the armed conflict ended, I became the Head of the Sector for Belgrade of the Customs Monitoring Mission International Conference on the former Yugoslavia ("ICFY") on the other side of the border.

I took a leave of absence from my customs officer position with the Government of Canada to join the UNOIP in New York on a six month, rolling contract to become part of the UNOIP's customs function. I was with the UNOIP for approximately three years, until March 2001.

I welcome the opportunity to share with the Subcommittee my expertise, experiences and observations on the UNOIP, as well as on the OFF Programme, during the period of my service. The Subcommittee's invitation requested that I address the following issues in my prepared remarks: (1) My knowledge of the humanitarian goods contract review and approval process; (2) Details relating to the UNOIP's oversight and monitoring of the independent inspection agents under the Programme, including the inspection agents' scope of duties, and observations of any problems or issues associated with the inspection process due to political, administrative, or local conditions; (3) Observations of any problems or issues in relation to approving humanitarian goods contracts; and (4) My views on whether, and the degree to which, the OFF Programme as implemented achieved the Programme's goals.

II. THE CONTRACT REVIEW AND APPROVAL PROCESS FOR HUMANITARIAN GOODS FROM JULY 1998 TO MARCH 2001

There were two main categories of contracts that the UNOIP was responsible for reviewing under the Programme: contracts for humanitarian goods and contracts for agency goods. Humanitarian goods were sometimes referred to as "53 percent" goods, because 53 percent of the revenues from the sale of Iraqi oil were used to purchase these goods. Later, this number was increased to 59 percent. As I will discuss below, the Government of Iraq was permitted to contract directly for the purchase of humanitarian goods. Agency goods, on the other hand, were sometimes referred to as the "13 percent goods," because 13 percent of the oil revenues were used to purchase these goods. Agency goods were goods purchased directly by United Nations agencies, including the World Health Organization, the World Food Programme, and the Field Administration Logistics Division ("FALD"). Agency goods were purchased directly by agencies for delivery to the 3 northern governates of Iraq, because it was felt that the Government of Iraq could not be trusted to deliver humanitarian goods to the region.

During the period I was with the UNOIP, the contract review and approval process for humanitarian goods was different than the process for agency goods. I will first discuss the process for humanitarian goods, which had six distinct steps:

First, at the beginning of each phase of the Programme, the Programme Management Division (“PMD”) of the UNOIP was responsible for creating a list of goods that could be purchased with the revenues from the sale of Iraqi oil. This list was called the Distribution Plan, and was essentially a large shopping list. The Distribution Plan was broken down into various sectors including food, medical supplies, education, water/sanitation, telecommunications, oil spares, and electricity, and controlled what could be purchased as humanitarian goods. Once the Distribution Plan was approved, the Government of Iraq was permitted to seek contracts for items on the Distribution Plan.

Second, the Government of Iraq negotiated directly with suppliers and entered into contracts for the purchase of goods on the Distribution Plan. The UNOIP review process addressed the issues of appropriateness of pricing and compliance with Security Council Resolution 986, which I will address later in my remarks.

Third, the United Nations Mission representing the nationality of the supplier presented the contract negotiated between the supplier and the Government of Iraq to the UNOIP. For example, if a French supplier had negotiated a contract for spare parts for oil rigs, and spare oil rig parts were on the approved Distribution Plan, then the French Mission to the United Nations would submit the contract to the UNOIP on behalf of the supplying French entity. Under the Programme, suppliers could not present their contracts directly to the 661 Committee; rather, they had to work with their respective Missions to have the contract presented to the UNOIP. Since the Missions were sponsoring the contracts, we at the UNOIP consequently believed that each Mission had a responsibility to review the contracts it was submitting as a first level of review. We in the UNOIP did not rely on the Missions in this regard, although we assumed that each Mission did their best to review the contracts for contractor and supplier compliance before submission.

Fourth, customs experts at the UNOIP’s Contract Processing Monitoring Division (“CPMD”), where I worked, reviewed the applications and the contracts presented by the Missions on a first-come, first-served basis. It is important to note that the CPMD had a practice of prohibiting customs experts from reviewing contracts from their own country of origin. Thus, for example, a customs expert on loan from the Russian government would generally not review a contract if the Russian Mission had submitted the contract. However, as the CPMD was generally understaffed, this practice may not have been strictly followed when contracts began to accumulate.

The customs experts, including myself, reviewed the applications and the contracts box by box, line by line, and clause by clause to assess the following: (1) whether the goods being purchased under the contract fell into a category of goods on the Distribution Plan; (2) whether the goods being purchased under the contract were appropriate and/or suitable for the approved purpose in the sector; (3) whether the goods were priced reasonably under the circumstances; and

(4) whether contracts included prohibited clauses that were outside the scope of the Programme, such as preferred payment clauses or performance guarantees.

To assess the reasonableness of prices, the customs experts attempted to obtain the transactional value of the goods by various methods. These methods included: cross-checking the prices on similar goods; checking catalogs of different suppliers for price comparisons; researching price information available on the Internet; and contacting suppliers via the permanent Missions. It is important to point out that customs experts were not allowed to meet with suppliers in the absence of representatives from the respective Missions to reduce potential offers of bribes or other financial incentives that suppliers might extend. In addition, as the Programme progressed, we began to see recurring contracts and we could compare the price, for example, of basic building supplies from Phase III with similar building supplies in Phase IV. We also compiled a searchable database by which we conducted price comparisons between contracts over previous phases of the Programme. Price assessment was an extremely difficult task for reasons that I will discuss in more detail later in my testimony.

The customs experts checked to make sure that the corresponding paperwork was in order to facilitate the authentication that would be conducted by the independent inspection agents once the goods arrived in Iraq, which I will discuss in more detail in the next section. Port of entry had to be specifically defined so that the inspectors at a particular authentication site would have the proper documentation. In addition, it was particularly important that each and every item to be shipped under the contract be identified specifically as a line-item. For example, a contract could not simply say "assorted spare parts." Rather, it had to specify as a separate line-item each individual part to be shipped under the contract. This line-item detail was necessary to enable the independent inspection agent to verify that each line-item of the contract had arrived in Iraq by a comparison to shipping documents and physical inspections at the borders. It also facilitated the later examination by the United Nations Monitoring, Verification and Inspection Commission ("UNMOVIC"), to ensure that the goods included no dual-use items, which I will discuss in a moment.

In cases where the contract or supporting application was not compliant, the contract was placed under evaluating, or non-compliant, status. The reviewing customs expert would write to the supplier, via the submitting Mission, requesting further information, that the application be revised, or that the parties amend the contract. Amendments were required to be signed by both parties to the contract. The application and contract could not proceed further until the reviewing expert changed the application's status.

Following this thorough review of the application and the contract, the customs expert compiled his or her findings in an Officer's Comment, or report, which included the expert's assessment of whether the contract price was reasonable, slightly high, or excessive. The customs expert also included all written communications between the respective Mission, the supplier, and the customs expert, as well as any technical specifications that had been supplied or requested. The application and contract, the report, and all supporting documentation were then forwarded to the Chief Customs Expert or the Deputy Chief Customs Expert.

Fifth, the Chief Customs Expert or the Deputy Chief Customs Expert conducted another supervisory level of compliance review of each written contract report. Each contract was reviewed and signed-off-on by the Customs Expert who prepared the report and either the Chief or Deputy Chief Customs Expert before submission to the 661 Committee. Thus, from the end of 1999 until I left the Programme in March 2001, while I was serving as the Deputy Customs Expert, I reviewed most of the contracts and written contract reports compiled by the customs experts at the UNOIP. Following this review, the applications, contracts, and supporting documentation were forwarded to the 661 Committee with the written reports of the CPMD customs experts.

At some point in time in 2000, the 661 Committee requested that United Nations Monitoring, Verification and Inspection Commission ("UNMOVIC") comment on the dual use capability of certain items included in humanitarian good contracts. Thereafter, UNMOVIC reviewed the contracts simultaneously with the custom experts' reviews. The written customs experts' reports included comments from UNMOVIC concerning dual-use capability.

Finally, the 661 Committee reviewed each contract and each report, including whether the contract complied with relevant United Nations resolutions, in particular Resolution 986. The 661 Committee had the option of approving the contract, denying the contract, or putting the contract on hold pending clarification. The 661 Committee had 48 hours from its receipt of the contract to take action either approving, denying, or putting on hold the contract. This procedure changed pursuant to Security Council Resolution 1284 after my departure.

If one counts the review that the Mission should have conducted before submission, each application and contract had three levels of review before it was submitted to the 661 Committee, and four levels of review including the 661 Committee. In my opinion, this represented a reasonable review process involving various stakeholders.

Agency goods, or 13 percent goods, the other major category of goods under the UNOIP, had a slightly different contract review and approval process. Because agency goods were purchased directly by the agencies, rather than by the Government of Iraq, the contract review process did not involve the same level of scrutiny that the UNOIP gave to contracts for humanitarian goods. Moreover, the agencies paid for the goods at the time of purchase, so they did not require the same authentication process as humanitarian goods required. Despite these differences, the customs experts in CPMD thoroughly reviewed these contracts using the same criteria I discussed earlier and also compiled a report for each contract. In addition, contracts for the purchase of agency goods had to be approved by the 661 Committee.

III. UNOIP'S OVERSIGHT AND MONITORING OF THE INDEPENDENT INSPECTION AGENTS FROM JULY 1998 TO MARCH 2001

To understand the UNOIP's role in the oversight and monitoring of the independent inspection agents, it is first important to understand the limited role of the independent inspection agents. When I first started working in the UNOIP, Lloyd's Register, a British Company, had the inspection contract for the Programme. In February 1999, Cotecna SA, a Swiss Company,

replaced Lloyds Register. Both companies, during their respective terms, were charged with “authenticating” the goods the Government of Iraq purchased under the Programme. Authentication is the process by which inspectors confirmed the physical arrival of the goods for those contracts that had been approved by the 661 Committee. Authentication requires inspectors to compare the goods delivered to contract documentation approved by the 661 Committee, shipping documents, and cargo manifests. The independent inspectors were not responsible for either pre-shipment inspections, price verification, or a commercial standard post-landing inspection. Food deliveries were, however, subject to laboratory testing to ensure fitness for human consumption prior to authentication.

It should be noted that the independent inspectors had no mandate to monitor or to report sanctions violations, or to carry out inspections of goods not presented for inspection. Thus, under the design of the Programme, the role of the independent inspection agents was reactive, rather than proactive.

The critical aspect of authentication is that it was the trigger for payment to the supplier. A supplier could not draw down on the Letter of Credit issued by the UNOIP until the goods had been authenticated as having arrived in Iraq by the independent inspection agents. Once the goods were authenticated, the U.N. Treasury Department was notified and the Letter of Credit issued to the supplier was funded. As a result, the absence of authentication meant no payment to the supplier. Delayed authentication meant delayed payment to the supplier. Authentication of less than all of the approved goods could mean no payment or partial payment to the supplier, depending on the terms of the contract.

Authentication is not the same as a normal commercial inspection process; rather, it is a very limited physical inspection and document comparison focusing on the arrival of goods in a country. Our mandate was to make sure that approved goods were delivered, not to make sure that the Government of Iraq was satisfied with the quality of goods they received. Because authentication was a prerequisite of payment to suppliers, the Government of Iraq could have used commercial inspectors to hold up payment to, and gain additional leverage on, suppliers. By reducing the level of inspection required, the “independence” of the independent inspectors was enhanced.

The UNOIP sent the relevant contract paperwork to the independent inspection agents at the 4 different entry sites where goods were authenticated under the Programme. In addition, the independent inspection agents would receive contract items to be verified from the UNOIP by virtue of a Lotus Notes database, generally referred to as the OFF database.

The method for authentication and level of analysis, however, varied depending on the type of goods involved. For example, some goods could be verified by documentation and a simple visual inspection. Other, non-standard contracts, however, such as the refurbishment of goods in the oil spares sector, where I worked, often required the customs experts to draft specialized procedures for authentication, or “SAPs.” SAPs were also drafted by the customs experts for any contract containing services.

One example of tailoring authentication procedures to specialized contract needs involved the removal, refurbishment and reinstallation of two Rolls Royce turbine engines. The multi-million dollar contract required the two Rolls Royce engines to be removed from their locations in Iraq, shipped back to the Rolls Royce factory in Scotland, repaired and refurbished, shipped back to Iraq, reinstalled and recommissioned in working order. As a result, each step of the process had to be authenticated. Therefore, the UNOIP drafted a SAP by which a Cotecna inspector would be on site to witness the removal and crating of the two Rolls Royce engines. Cotecna inspectors in Iraq would also be responsible for ensuring that the crates containing the two gas turbines were sealed at the site and remain sealed when loaded on the ship for transport back to the Rolls Royce factory. Once in Scotland, inspectors were responsible for checking to make sure the seals were intact when the shipment was unloaded, as well as making periodic inspections to make sure the refurbishment was in fact being done as required under the contract. Inspectors in Scotland were also required to verify that the refurbishment had been completed and oversee the packing and crate sealing at the Rolls Royce factory. Once the shipment of turbines arrived in Iraq, Cotecna inspectors verified that the seals had not been broken on the shipping containers, as well as monitoring the reinstallation, recommissioning and functioning of the turbines. This is one example of an SAP that we regularly developed at CPMD, and that Cotecna regularly implemented. This type of SAP was approved by the 661 Committee and I believe gave the Committee additional comfort in terms of ensuring that payment was for services performed and goods delivered.

The UNOIP conducted oversight and monitoring of the independent inspectors in several ways. First, the UNOIP was in almost daily contact with the sites discussing what procedures to use to authenticate the goods. In cases involving non-standard goods, the UNOIP worked closely with the independent inspectors to relay the appropriate procedures for authenticating the goods. Second, customs experts from the UNOIP often made mission trips to Iraq to conduct site visits and reported back to the UNOIP on how well the independent inspectors were complying with their obligations under their contracts with the United Nations. The UNOIP did not have a permanent presence at any of the inspection sites in Iraq. While I thought that it would have been advisable for the UNOIP to have had a customs expert in Iraq full-time, others in CPMD were of a different opinion. As a result, the UNOIP customs experts made periodic mission trips to Iraq. I made three such trips during my tenure. Third, in the case of the contract with Cotecna, the United Nations initially granted the company a six-month contract. Thus, the United Nations had Cotecna on a short leash and could have replaced the company if it was unhappy with its performance.

In April 2001, as the term of Cotecna's amended contract was coming to an end in June 2001, the UNOIP issued a Request For Proposal ("RFP") for the independent inspection contract for the Programme. I left the UNOIP on March 31, 2001, but to my knowledge, nobody in CPMD had a role in selecting the winning bid. The procurement division of the United Nations was in charge of selecting the winning bidder, which occurred in May 2001. My feeling, which I believe was shared by the other customs experts in CPMD, was that Cotecna was performing very well under their contract and was very responsive to requests for service enhancements. Due to Cotecna's demonstrated outstanding performance, as well as their unique experience in the Programme, it was in the best interest of the Programme to retain Cotecna as the independent

inspection agent, especially to provide continuity of effective service delivery. Cotecna had been a very dependable contractor under difficult circumstances and often did more than they were contractually obligated upon requests from UNOIP.

When concerns were raised with Cotecna, the company was extremely responsive and took steps immediately to remedy those concerns. For example, early in Cotecna's initial contract the company assigned its inspectors in Iraq to a 5-1-5 schedule, where they would work in-country for five months, take one month off, then return for another five-month shift. At the time, Cotecna could not have known how difficult this schedule would be for its inspectors. Given the problems they sometimes faced dealing with local Iraqi Government officials and the harsh environment, however, this policy started to cause a lot of tension with Cotecna's inspectors. I recommended to Cotecna that it change this policy so the inspectors were able to get time-off under a shorter schedule. Under their contract, Cotecna was not required to implement my recommendation. However, Cotecna was responsive to this request and changed their policy, which actually increased the productivity of the inspectors. This was true of other recommendations and requests made to Cotecna, such as to increase the number of inspectors with "customs" knowledge. The company was always responsive and did more than they were required to under the contract to make the process work. They were not perfect, however, and when issues arose, we did not hesitate to bring these issues to Cotecna's attention, as evidenced by my mission reports which included both critical and complimentary observations. The company's responsiveness is one reason the customs experts had a favorable opinion of Cotecna and believed it was in the best interest of the Programme for Cotecna to be retained for authentications. That said, however, CPMD had no authority over procurement. The procurement division of the Programme made the decision to award the contract to Cotecna.

Based on my experience in the monitoring of Cotecna's performance, when I was leaving the UNOIP Cotecna was high on my list among several offers of employment I received. I had always been impressed with the company's professionalism, responsiveness and its dedication to the task at hand. The other customs experts in CPMD, as well as my superiors in the UNOIP, were aware that I was joining Cotecna and supported my decision. I did, however, avoid working on the Programme to prevent any perceived conflict of interest, given my former role in the UNOIP. Instead, I joined Cotecna's Liaison Office in Dar Es Salaam, Tanzania.

IV. OBSERVATIONS REGARDING THE APPROVAL OF HUMANITARIAN GOODS CONTRACTS FROM JULY 1998 TO MARCH 2001

From the perspective of a customs expert at the UNOIP, it is important to make clear that instances of overpricing in contracts with the Government of Iraq, where they were supported by something more than just a customs officer's hunch, were passed along in our reports to the 661 Committee. It was the 661 Committee alone that approved contracts. On many occasions, CPMD noted that there were instances of overpricing or other concerns in its written reports to the 661 Committee. What the 661 Committee did with the UNOIP's reports and how they used that information is beyond the scope of my testimony. However, I know that a large number of contracts submitted to the 661 Committee contained notices or alerts concerning overpricing. I

do not recall any of these contracts being put on hold by the 661 Committee due to overpricing despite our warnings.

There are several reasons why it was difficult for customs experts to detect overpricing. First, there was the fact that suppliers were taking a large risk under these contracts. In a typical commercial contract, a supplier often would be paid when the supplier delivered the goods to the shipper, often in the country of origin, which is consistent with normal commercial practice. Unlike typical commercial contracts, the suppliers participating in the Programme were not paid until their goods actually arrived in Iraq and were authenticated by the third-party inspectors, either Lloyds or, later, Cotecna. If the shipper was boarded and inspected by U.S. Naval vessels enforcing sanctions, payment could be delayed. Due to the volume of goods passing through the Programme, instances where the Government of Iraq refused to cooperate at inspection sites, and other contingencies, suppliers often were not paid for months after their shipments had arrived.

As a result, suppliers often increased their prices or "overpriced" the contracts by small amounts, in the neighborhood of 10 percent. But given the unusual conditions and risks that suppliers endured in order to participate in the Programme, it was difficult to say that a small increase in price was commercially unreasonable when a supplier could often sell the same product in a commercial transaction with much less risk. In conducting our price assessments, customs experts at the UNOIP were routinely told by suppliers that these slightly inflated amounts were being charged because of the risks that suppliers took by participating in the Programme or the cost of carrying charges on the goods shipped. This explanation often seemed reasonable. Accordingly, a contract for goods that was 10 percent higher may well have been a fair market value. Such issues were always identified and passed along to the 661 Committee.

Second, as the Programme evolved and additional goods were added to the Distribution Plan, it became more difficult to conduct a pricing assessment of the contracts. One reason is that many of the goods added to the Distribution Plan were technical in nature. In the Oil Sector, for example, contracts were signed for the replacement of failed goods which were often 20 years or more in age. The replacement goods had to "fit" the infrastructure and, for example, if a compressor failed it had to be replaced with a compressor of a technology which was consistent with the rest of the environment in which it was to be installed. A compressor that was 20 years old was not worth much on the open market, but was extremely valuable for Iraq's antiquated infrastructure. Since such equipment was scarce, suppliers could charge a substantial premium. Customs officers by trade know a little bit about a lot of things, but as the goods became more sophisticated, it was clear that we needed more technical expertise within the UNOIP. We attempted to add this expertise by adding requirements to our terms of reference for customs officials with expertise in these technical areas, as well as in pricing. Unfortunately, we were not able to make a significant difference in gaining the necessary expertise.

In addition, many of the later contracts for industrial goods had provisions for mobilization, commissioning, and services. Mobilization is the process of getting a good to the location where it will be used, while commissioning is the process of getting the good up and running once it has been delivered. Pricing for mobilization and commissioning take into account numerous factors that are difficult to quantify, including: transportation, travel costs for

individuals, and hourly rates for individuals with various areas of expertise. Thus, it was extremely difficult for customs experts at the UNOIP to detect overpricing in contracts involving provisions for mobilization, commissioning, and service charges. Despite these challenges, however, customs experts at the UNOIP continued to use their best efforts to assess pricing using the various methods I described earlier, and to my knowledge all suspected overpricing was reported to the 661 Committee.

Third, there is the inherent difficulty in assessing a reasonable price or fair market value when you are attempting to compare prices from suppliers in various regions of the world. A price on a good in one region of the world might be completely different from the price on the same good in another region, yet both may be reasonable market prices in their respective regions. For example, the price of a can of Coca-Cola in Wisconsin is different from the price of a can of Coca-Cola in Mongolia. But this doesn't necessarily mean that the cost of Coca-Cola in Mongolia is unreasonably high or that kick-backs are occurring. In short, even taking into account the risk incurred by the suppliers in participating in the Programme, as well as the technical and complicated aspects of many of the contracts, it was often difficult to conduct our pricing assessments in the UNOIP within the context of normal market environments.

For all of these reasons, I believe that, for the most part, the customs experts at the UNOIP did a commendable job considering the extremely difficult task at hand. What is more, our work was reported directly to the 661 Committee, which had the ultimate authority to decide whether contracts were approved, denied, or placed on hold.

The majority of contracts were presented by the Missions of France, China and Russia. There were instances, however, where I believe that individuals within the political elements of the United Nations pressured customs experts to help push contracts along. In one case, Michael Merkoulov, a Russian customs officer, complained to me that he was being pressured by the Russian Mission to help insure that certain contracts were approved. I do not recall exactly how this situation was resolved, but knowing Mr. Merkoulov quite well, I am very certain that he did not succumb to this pressure.

On another occasion, I received an anonymous fax stating that a contract from a Chinese supplier for \$12 million was outrageously overpriced. I spoke with Jeremy Owen, the Chief Customs Expert at that time, to see what should be done. When I later returned to my desk, however, the smoking-gun fax was missing. Subsequently, the document reappeared on my desk. I eventually discovered that Chang Sheng Li, a Chinese customs expert, had taken it and faxed it to the Chinese Mission. Mr. Li admitted that he had contacted the Chinese Mission to request that the Mission look into this irregularity and to advise the Mission not to participate in any potentially illegal contract submissions. I believed that this action by Mr. Li was unethical given that the Chinese Mission had already presented the contract. Despite this conduct, Mr. Li remained with the UNOIP but his duties changed to reviewing agency goods contracts. It is my belief that influential people within the United Nations protected him. I was never personally approached by anyone seeking to exert political influence, and I do not recall any other instances of such conduct beyond the two I just described. I do know, however, that many Missions had regular contact with customs experts from their countries.

As mentioned above, agency goods did not have to undergo authentication in order for suppliers to be paid. As a result, there was no link between oversight by the custom officers and payment for the suppliers. In mid to late 1999, the UNOIP requested that the agencies and Cotecna authenticate the arrival of agency goods to facilitate the provision of statistical information regarding goods delivered under the 13 percent account via the OFF database. Statistics regarding humanitarian goods were readily available because Cotecna had performed its authentication services and could provide detailed information concerning humanitarian goods. However, because agency goods by-passed Cotecna's inspection sites, it was difficult to provide the 661 Committee with any statistics regarding the delivery of agency goods. Accordingly, some shippers of agency goods began to voluntarily stop at Cotecna inspection sites so that statistical information could be provided to the 661 Committee.

Finally, during my tenure at the UNOIP, I heard rumors within the UNOIP that the Government of Iraq was insisting that oil purchasers pay 25 cents a barrel into off-shore accounts as a "signing bonus," but I never came across nor heard rumors of such practices with respect to the contracts for humanitarian goods.

V. VIEWS REGARDING THE SUCCESS OF THE OIL-FOR-FOOD PROGRAMME IN ACHIEVING ITS GOALS

The stated goal of the Programme was to get humanitarian goods to the Iraqi people who were suffering as a result of the United Nations sanctions on the Government of Iraq, while insuring that the Government of Iraq did not manipulate the Programme to rearm its military. Taking into account the complexity of the sanctions scheme, the vast number of suppliers and corresponding countries involved in the Programme, and the fact that the work to be done on the ground was in harsh territory controlled by a dictator, I believe the Programme was successful in achieving its goal in spite of these limitations. From the evidence following the recent invasion of Iraq, it appears that the former Government of Iraq was unable to manipulate the Programme to rebuild Saddam Hussein's army. Moreover, there is no doubt that the Iraqi people received a great number of shipments of food and medicine that they would not have otherwise received had it not been for the Programme, especially in the Northern Governates. The humanitarian efforts of the Programme provided a visual benefit by improving the quality of life for the people of Iraq. In my view, the UNOIP was conducting reasonably good stewardship of this highly complex Programme to the best of their ability within the limitations placed upon it.

The recent focus of the many investigations making news appears to be on the billions of dollars the Government of Iraq allegedly fraudulently obtained through the Programme. I cannot speak to any fraud that might have occurred on the oil sales part of the Programme; that is, the Government of Iraq's sale of oil to fund its purchases of humanitarian goods. I was not involved in that part of the Programme; however, I heard numerous rumors of kick-backs related to oil sales. On the humanitarian goods side of the Programme, as I testified earlier, I can only say that I was working with a group of highly-qualified and committed customs experts in the CPMD that I believe were doing their best to report overpricing and suspected fraud to the 661 Committee. Moreover, all of us within CPMD believe in the work that we were doing. To my knowledge, the 661 Committee was fully aware of all suspected overpricing and fraud detected

by the customs experts in the CPMD. What the 661 Committee did with this information is beyond the scope of my testimony.

In addition, I was impressed with Cotecna's role as the independent inspection agent in charge of authentications under the Programme. Cotecna was charged with a very difficult task in a very harsh environment. Despite this, Cotecna was always responsive to the recommendations of the customs experts. Moreover, as the Programme progressed, the UNOIP repeatedly asked Cotecna to perform additional tasks that, in my opinion, were not covered under their contract. Again, Cotecna was always responsive, and to my knowledge always implemented the requested additional services. Given Cotecna's limited, technical role in conducting authentications for the Programme, as well as the oversight of the company conducted by the UNOIP, I have no reason to believe that Cotecna was involved in any of the overpricing and kick-back schemes that appear to be the focus of several investigations. In my opinion, they did a fine job under difficult circumstances. The limitations on the effectiveness of the Programme included the inability to institute sound customs practices within the Government of Iraq, as well as the lack of freedom of movement in Iraq. Another example of the types of limitations that Cotecna dealt with was the lack of laboratory testing facilities in Iraq. Iraq was not allowed to have its own laboratory facilities due to the potential for dual use. As a result, the Government of Iraq would not allow Cotecna to have laboratories in Iraq for testing food. Therefore, Cotecna had to ship food samples out of Iraq in order to test them to determine whether they met the Programme food standard of "fit for human consumption." This procedure was much more expensive for Cotecna than it would have been to have a laboratory in Iraq for this purpose.

Testimony of John Denson, Saybolt General Counsel,
Before the Senate Committee on Homeland Security and Governmental Affairs,
Permanent Subcommittee on Investigations
February 15, 2005

Mr. Chairman, distinguished members of the Subcommittee,

Thank you for inviting me to speak before the Subcommittee today on the role of Saybolt Eastern Hemisphere B.V. and its affiliates and subsidiaries ("Saybolt") in the administration of the United Nations Oil-for-Food Program (the "Program"). As the general counsel to Saybolt, I am familiar with our role in the Program, which included monitoring the export of oil from specified locations in Iraq and, to a lesser extent, monitoring spare parts and equipment imported into Iraq for use in the oil industry. In addition, Saybolt coordinated studies that oil industry experts conducted on Iraqi oil production and infrastructure.

Saybolt is proud of the role it played in the U.N. Oil-for-Food Program, monitoring more than 2700 loadings of oil at three authorized export locations over a period of almost 80 months. Saybolt's work was performed by dozens of oil inspectors who were rotated in and out of remote locations and required to work under circumstances that were frequently difficult. Moreover, many Iraqi officials with whom Saybolt necessarily interacted were resistant or hostile to the Program, and the on-site monitoring equipment that was available to Saybolt was, as Saybolt noted from the outset, often defective, inoperative, or altogether unavailable. Nonetheless, the irregularities that occurred over several years were very few, and those that did occur were reported and corrected as they became known.

I will focus my remarks on the topics your invitation asked me to address. They include: the selection of Saybolt as a contractor for the Oil-for-Food Program; the performance of the contract, including Saybolt's relationship with the United Nations and the Maritime Intervention Force (the "MIF"); irregularities within the Oil-for-Food Program, including the two Essex "topping off" incidents in 2001; and the audit of Saybolt by the U.N. Office of Internal Oversight Services ("OIOS").

I. SELECTION OF SAYBOLT FOR THE OIL-FOR-FOOD PROGRAM

Saybolt was selected as the independent oil inspection agent of the United Nations through a competitive bid process that was initiated by a U.N. request-for-proposal ("RFP"). The sixth paragraph of U.N. Security Council Resolution 986 (1995) directed the U.N. Secretary General to appoint agents to assist the Committee established by U.N. Security Council Resolution 661 (the "661 Committee") with the task of monitoring the quantity and quality of exports of Iraqi oil under the U.N. Oil-for-Food Program. Pursuant to that authority, on June 11, 1996, the Commodity Procurement Section of the U.N. Procurement and Transportation Division issued the RFP, which included a request for provision of independent oil inspection agents.

Saybolt viewed the U.N. RFP as a good business opportunity to apply our almost 100 years of experience in inspection and analytical testing of petroleum products to a prestigious

international project. We were also pleased that we would be contributing our know-how to a major program designed to serve the urgent humanitarian needs of the Iraqi people. Accordingly, on June 17, 1996, we submitted our Proposal to provide oil export inspection services.

We are aware that the U.N. Independent Inquiry Committee's Interim Report, issued on February 3, 2005, sets forth allegations that one or more individuals within the United Nations may have violated U.N. procurement policies during the negotiation process. No procurement policies of the U.N. were ever provided to Saybolt, and they were not publicly available insofar as we are aware. Indeed, the only procurement policy of which we were aware at the time was the one contained in the RFP, in which the "UN reserve[d] the right ... to negotiate with any of the proposers or other firms in any manner deemed to be in the best interest of the UN." It was Saybolt's understanding during the procurement process that the United Nations viewed Saybolt as the most qualified bidder to handle the job. Saybolt, unlike its principal competitor in the bidding process, specialized in *oil* inspections, rather than all types of inspections. We also offered inspectors with no connections to the region, which was desirable to the United Nations. During the bid process, the United Nations pressed Saybolt for a lower price, which is not uncommon in our industry when negotiating for a contract, and Saybolt did lower its bid based in part on clarifications to the contract requirements that the U.N. provided.

On August 16, 1996, Saybolt and the United Nations entered into a contract (the "First Contract" or "1996 Contract") with an initial term of six months, subject to extensions of six-months each, at the sole discretion of the United Nations. After the First Contract was extended for a total of slightly more than three years, another RFP process was initiated. In that process, Saybolt submitted a Proposal on February 11, 2000, and on May 29, 2000, the United Nations formally accepted that proposal and entered into a new contract with Saybolt that governed Phases VII through XIII of the Program (the "Second Contract" or "2000 Contract").

II. PERFORMANCE OF THE CONTRACT

You have also asked us to comment on the execution of the contract. Saybolt performed two functions in the Program. First, we acted as a monitor. This monitoring role initially applied only to exports of crude oil from two export points authorized under the Program. Our monitoring responsibilities were later extended to include monitoring of imports of oil industry spare parts. Second, we coordinated three studies of the Iraqi oil industry by a group of experts called for under resolutions of the U.N. Security Council.

Saybolt was responsible for monitoring the quantity and quality of Iraqi crude oil loaded onto vessels from the Mina Al-Bakr offshore terminal in southern Iraq and from the port of Ceyhan in Turkey. These two locations were the only locations where we were asked to monitor the export of Iraqi oil to buyers, and they were the only authorized ports for export of oil under the Program. Saybolt was also responsible for monitoring the flow of oil near Zakho, along the Iraq-Turkey pipeline by which Iraqi oil was delivered to the Ceyhan port. We began monitoring in 1996, after receiving a Request to Commence Mobilization from the United Nations dated November 29, 1996.

Beginning in 1998, Saybolt agreed to coordinate the preparation of expert reports on the Iraqi oil industry called for by U.N. Security Council resolutions. The United Nations hired Saybolt to coordinate a study by a group of experts under U.N. Security Council Resolution 1153 (1998). The purpose of this study was to assess Iraqi oil production and transportation capacity, and necessary monitoring. In 2000, Saybolt was hired to coordinate another group of experts study, as called for under U.N. Security Council Resolution 1284 (1999). The purpose of this study was to review the status of Iraqi oil production and transportation capacity. In 2001, Saybolt was hired a third time to coordinate a study of the Iraqi oil industry by a group of experts under U.N. Security Council Resolution 1330 (2000). The purpose of this study was to evaluate in further detail proposed expenditures on equipment and spare parts for the Iraqi oil industry.

Almost a year-and-a-half after we began monitoring oil exports from the two designated exports points and following the first group of experts Report, the United Nations awarded Saybolt a contract for additional inspection work related to the Program. We were asked to submit a proposal to monitor the storage, delivery, and utilization of spare parts that Iraq began to import for the purpose of maintaining and developing the Iraqi oil industry. Our proposal was accepted in a June 1998 amendment to the First Contract.

In 2003, following the overthrow of Saddam Hussein, the oil monitoring program ended. At that point, Saybolt had acted as the United Nations monitor for almost seven years, and had monitored more than 2700 loadings totaling approximately 3.4 billion barrels of oil over the life of the Program. As the program was being dismantled, the Second Contract was partially suspended on April 17, 2003, and was formally terminated by the United Nations on June 4, 2003.

U.N. Contact Points

During its performance as a contractor, Saybolt was in constant communication with the United Nations. Throughout the Program, Saybolt, like the United Nations, utilized a commercially-available electronic online database to ensure that each vessel loading was supported by a contract and a letter of credit that were approved by the Oil Overseers of the United Nations. Through this database, we provided information to the United Nations regarding each loading on a real-time basis. Saybolt exchanged information with the Office of Iraq Programme ("OIP") and the U.N. Overseers on a daily basis.

Saybolt was also in contact with the United Nations regularly regarding staffing. Our inspectors were experienced in monitoring, and they received special training designed to assist them in carrying out their duties as inspectors for the United Nations. As required by contract, individuals nominated to work as inspectors for Saybolt were approved by the U.N. Overseers.

In addition to frequent contact with the United Nations, Saybolt also had regular contact with the MIF. The MIF was copied on reports to the United Nations regarding vessel loadings at Mina Al-Bakr. This enabled the MIF to monitor vessel movements in the Gulf. In addition, we exchanged information with the MIF immediately before the Coalition invasion of Iraq. The MIF assisted in the evacuation of our inspectors, and we provided information to the MIF regarding the layout of the oil facilities in Iraq so that they could be secured more efficiently.

Facing Operational Difficulties Within Iraq

In performing their duties, Saybolt's inspectors were often subjected to personal risks. Nearby military operations and violent attacks were not uncommon. As we have all seen in news reports from that time, Iraq did not always welcome the United Nations or its contractors. Iraq initially resisted the very idea of an Oil-for-Food Program. This political friction between Iraq and the outside world made our task especially delicate, because we were associated with the United Nations in the eyes of Iraqis. Coping with these physically and mentally challenging working conditions required courage and professionalism on the part of inspectors.

Difficult living conditions in Iraq often made performing daily tasks quite a challenge. The state of the Iraqi infrastructure was far worse than even we expected from our preliminary fact-finding missions. At the isolated, remote locations where our inspectors carried out their mission, it was often difficult to obtain the basic necessities — food, electricity, water, transportation, and housing. Telecommunications equipment was primitive. Some days, we had neither electricity nor water at the Mina Al-Bakr terminal. The harsh conditions in Iraq were noted in the reports to the United Nations and were confirmed by a United Nations Iraq-Kuwait Observation Mission ("UNIKOM") safety audit of the Mina Al-Bakr operations in April 1999. On some occasions, our inspectors at Mina Al-Bakr were stranded at the terminal without electricity and without water. Mina Al-Bakr also had frequent air conditioning outages, leaving inspectors exposed to heat that sometimes reached 130 degrees for long periods at a time. Because of the high cost of placing telephone calls from Iraq, communications between our inspectors and their families were limited.

On the subject of difficulties we encountered in Iraq, I should note that we also struggled to arrange reliable, affordable transportation to and from the Mina Al-Bakr terminal, as we were dependent on aged transportation vessels to go to and from that terminal. Standard tasks became complex because we were operating in an environment subject to multilateral sanctions. It was not a simple process to obtain travel visas for our personnel going into Iraq, to clear our equipment through customs without unreasonable delay, to provide transportation within Iraq, or to arrange the means for our employees to pay for their basic living expenses while in Iraq.

Development of Method to Verify Loading Quantities In Absence of Reliable Meters

The poor state of the Iraqi infrastructure not only had an impact on our employees, but it also had an impact on our monitoring methods. As explained above, Saybolt's principal responsibility was to monitor the quality and quantity of oil loaded onto vessels at Mina Al-Bakr and Ceyhan. From the very beginning of the Program, we encountered difficulties in persuading the Iraqis to install and repair metering equipment at the Ceyhan and Mina Al-Bakr sites. When we arrived in Iraq, neither location had metering equipment calibrated to accurately measure how much oil was loaded onto the vessels. We informed the United Nations of this problem even before the Program began through our preliminary fact-finding report.

In the absence of metering equipment at Mina Al-Bakr, Saybolt applied the best alternative method. This method, which is commonly used within the industry, used the capacity

and calibration charts of the vessel in order to determine how much oil was loaded into the vessel. To determine how much oil was loaded onto a vessel, a Saybolt inspector would, prior to loading, measure the on-board quantity ("OBQ") of the vessel. Then, after loading, we would measure the ullage (the amount by which the vessel tank falls short of being full) and the temperature of the oil. Our inspectors compared this data with the calibration charts to determine how much oil had been loaded onto the vessel.

The vessel calibration charts, however, sometimes were not precise. For example, if a vessel hull had been scraped and dented inwards, the overall capacity of the vessel would be reduced. Repairs to the vessel could likewise change the overall capacity of the vessel. In addition, vessels sometimes accumulate residue from previous loadings, which changes the capacity of the vessel.

Saybolt used a standard methodology to identify and correct any imprecision in the vessel calibration charts. Each vessel keeps a record of the variances from its calibration charts, when compared with the volume measured when the oil was offloaded. This record becomes the "vessel experience factor" ("VEF"). The VEF for a vessel is based on the average comparison between ship measurement and shore measurement for the last 10 voyages. The use of a vessel calibration chart and the VEF is an internationally recognized method for determining the quantity of oil loaded onto a vessel in the absence of calibrated shore tanks and/or meters. We followed the procedures set forth by the American Petroleum Institute and the Institute of Petroleum.

In January 1999, following discussion with the United Nations, Saybolt also instituted a procedure to attempt to address potential inaccuracies in the VEF based measurement system. The master of each vessel was required to sign a statement certifying the accuracy of the records provided to Saybolt. The United Nations was informed of this procedure and supported its implementation. A weakness in using the calibration charts and the VEF of a vessel, however, is that inspectors must rely on the records provided by the master of each vessel. Such records could possibly be manipulated without the knowledge of the inspectors.

At Ceyhan, any significant manipulation of the system was detectable because of the ability to compare the shore-tank measurement with the amount of oil reportedly loaded onto the vessel. Although the shore-tank measurements were not sufficiently accurate to be used as the primary means of measurement, they were a cross-check making it possible to uncover major inaccuracies.

At Mina Al-Bakr, however, the infrastructure deficiencies made it more difficult to detect manipulation. Shore tank measurements were not available. The shore tanks were severely damaged during the Iran-Iraq War, and then further damaged during the first Gulf War. The shore tanks that existed were not re-calibrated. The metering system at the loading site was not repaired sufficiently to ensure accurate measurements. Therefore, the inspectors were necessarily dependent upon the calibration tables and VEF data provided by vessel masters.

Saybolt attempted to address this problem in several ways. When the contract with the United Nations was first negotiated, we recommended that the volume of oil loaded onto vessels

be measured with reference to the volume of oil measured at the port of discharge in addition to the loading port. This suggestion was not implemented. In addition, at the outset of the Program, we requested that the metering facilities at Ceyhan and Mina Al-Bakr be repaired and recalibrated. However, the meters, which were owned by the Iraqis, were not recalibrated. The contract between the United Nations and Saybolt specified the method of using the alternative method described above in order to determine the measurements, which, as noted, is the industry standard for measuring loadings of oil in the absence of calibrated metering equipment and/or shore tanks.

III. IRREGULARITIES IN THE OIL-FOR-FOOD PROGRAM

Illegal Payments by Oil Companies

You have asked us for information regarding illegal payments made by oil companies. Saybolt was not involved with, nor did we have any special knowledge regarding, any illegal payments made by oil companies. Saybolt monitored oil, not money.

One area about which Saybolt had some knowledge, however, was port charges. It was well known that the Iraqi government sought to collect port charges during the Program from companies who were purchasing oil through the Oil-for-Food Program. The port charges were also widely reported in the press, including by Reuters in September 2000. During the Program, Stephani Scheer of the OIP asked Peter Boks of Saybolt about the port charges. Mr. Boks provided what information he had regarding the surcharges, which he had learned from oil companies. On another occasion, when the International Association of Independent Tank Owners ("INTERTANKO") inquired about the legality of port charges, we informed the association that they had been verbally advised by the United Nations that such fees would be in violation of the U.N. sanctions.

Sale of Oil Outside the Program

Through its work, Saybolt also became aware of instances of the smuggling of oil outside the Oil-for-Food Program. We reported those instances to the United Nations verbally and, on occasion, in writing. In November 2000, Saybolt informed the United Nations of rumors that the pipeline to Syria had been put into operation. In March 2001, Saybolt informed the United Nations that there was smuggling to Turkey. In addition, we informed both the United Nations and the MIF about illegal loadings that were taking place at Khor Al Amaya, a terminal 10 kilometers to the north of Mina Al-Bakr. Saybolt's mandate was not to inspect all of Iraq, and it was not to act as a police force. However, we sought to assist in the enforcement of sanctions by providing information to the responsible parties.

The Essex Incidents

As noted above, the absence of meters at Mina Al-Bakr was one of the most significant challenges Saybolt faced during the Program, making it harder to detect measurement discrepancies or unauthorized loadings at those locations. Despite our continuous monitoring of oil exports at Mina Al-Bakr, in early October 2001, we learned from the United Nations that the captain of the vessel Essex had reported to U.N. and U.S. authorities that there had been two

incidents of “topping off” of the Essex at the Mina Al-Bakr terminal. Documents subsequently provided to Saybolt by the United Nations and others indicate that in May and August 2001, the State Oil Marketing Organization of Iraq (“SOMO”) arranged to load on board the Essex vessel approximately 500,000 barrels of oil above and beyond that which had been approved by the United Nations.

Saybolt immediately investigated what happened and why. We conducted extensive interviews of our staff, including the Team Leader on the Mina Al-Bakr Platform, and reviewed all available documentation relating to the loadings of the vessel. The investigation found no evidence that any Saybolt employees were aware that the Essex was being “topped off” in May or August 2001. The available evidence indicated that the vessel had coordinated with the SOMO personnel on the Mina Al-Bakr platform to secretly load this additional oil, while Saybolt inspectors were either at another end of the platform in the rest quarters or attending to other vessels.

We detailed our findings and the bases for our conclusions in a report presented to the 661 Committee in October 2001, within days of learning of the incidents. That report is included in the documents previously provided to this Subcommittee. For all of the reasons detailed in our report, we concluded that it was extremely unlikely that there were other incidents of topping off.

Nonetheless, as described in the report to the 661 Committee, Saybolt put into place additional procedures designed to prevent topping off. These included having all team members at Mina Al-Bakr remain on board vessels after the loading amount had been certified until the vessels left port, to ensure there were no additional loadings. For any vessel that did not leave the port immediately after loading, Saybolt placed numbered seals on the vessel loading valves after the loading amount was certified. Before the vessel left the port, our inspectors returned to the vessel to ensure that the seal was still in place, with the same number. We are unaware of any topping off incidents occurring after we instituted these additional procedures.

Allegation that Iraq Attempted to Pay a Bribe to a Saybolt Inspector

Over the past year, Saybolt has learned of allegations that Iraq made efforts to pay approximately \$105,000 to one of its inspectors on the Mina Al-Bakr Platform in order to facilitate the topping off of the Essex. When we learned of this allegation, we immediately investigated it. I have personally overseen that investigation, through which we have made persistent efforts on a global scale to ascertain whether, in fact, Iraqi officials compromised this otherwise well-qualified, U.N.-approved inspector and whether he violated his commitment to act ethically in accordance with Saybolt’s code of conduct.

The evidence obtained through these efforts is still being analyzed, and we have kept Subcommittee staff apprised of the status of this ongoing investigation. Saybolt does not take allegations of bribery of company employees lightly. If we determine there is credible evidence that Iraq bribed one of our inspectors, we will take appropriate action. In that regard, we understand from Subcommittee staff that the Subcommittee will be placing on the record certain documents obtained from Iraq after the fall of Saddam Hussein that reportedly detail specific

efforts by Iraq to deliver payment to this inspector. Again, we will closely examine these documents and take all appropriate action.

IV. U.N. OVERSIGHT OF SAYBOLT

As described in Part II above, the Saybolt contract with the United Nations was subjected to several layers of external oversight: the United Nations reviewed data supplied by Saybolt, communicated with Saybolt regarding implementation issues that arose in the collection of that data, and audited management of the contract.

Review of Data Supplied by Saybolt and Dialogue on Implementation Issues

Through the use of a commercially-available electronic online database, Saybolt supplied U.N. offices with real-time data on loading of oil onto tankers at Ceyhan and Mina Al-Bakr, on the flows of oil through the Iraq-Turkey pipeline at the Zakho station, and on the monitoring of oil industry spare parts imported into Iraq. We also supplied daily and weekly reports to the United Nations Oil Overseers. The 661 Committee also reviewed special reports Saybolt prepared, such as our expert studies on the Iraqi oil industry.

As the United Nations received and digested this information, it often replied to Saybolt, engaging in a dialogue on issues that arose in the course of contract performance. We regularly communicated with the OIP regarding implementation issues, as well as with the Department of Political Affairs (“DPA”), during the initial phases of our monitoring contract. As part of these communications, Saybolt and the United Nations carried on an open dialogue about problems with Iraqi infrastructure, and in particular a lack of fully functioning meters at monitoring stations, which required Saybolt to resort to an alternative method of measuring oil exports.

U.N. OIOS Auditing of Management of Saybolt Contract

The invitation to this hearing indicates that the Subcommittee may want to discuss findings expressed in a certain U.N. Office of Internal Oversight Services (“OIOS”) audit report of Saybolt recently made public by the U.N. Independent Inquiry Committee (“IIC”). Saybolt welcomes the release of this and other reports. We have always been, and will continue to be, in favor of more transparency in the investigation of the Program rather than less.

Although the IIC released the OIOS audit report, it did not release the rebuttal comments of Saybolt and the U.N. OIP. As those rebuttals make clear, the OIOS audit relies upon the mistaken assumption that if Saybolt costs turned out to be lower than anticipated, the United Nations could recover the difference. That assumption is wrong. The risk that actual costs would be higher was borne by Saybolt and the risk that actual costs would be lower was borne by the United Nations. What the auditors failed to grasp was that the United Nations had entered into a fixed-price contract with Saybolt, rather than a “cost plus” contract. Saybolt has produced its rebuttal comments to this Subcommittee and would encourage their public release.

Thank you for your important work and the opportunity to address you today.

United States Government Accountability Office

GAO

Testimony
Before the Permanent Subcommittee on
Investigations, Committee on Homeland
Security and Governmental Affairs, U.S.
Senate

For Release on Delivery
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UNITED NATIONS

**Oil for Food Program
Audits**

Statement of Joseph A. Christoff, Director
International Affairs and Trade



Tuesday, February 15, 2005

UNITED NATIONS

Oil for Food Program Audits



Highlights of GAO-05-346T, a testimony before the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate.

Why GAO Did This Study

The Oil for Food program was established by the United Nations and Iraq in 1996 to address concerns about the humanitarian situation after international sanctions were imposed in 1990. The program allowed the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance.

Allegations of fraud and corruption have plagued the Oil for Food program. As we have testified and others have reported, the former regime gained illicit revenues through smuggling and through illegal surcharges and commissions on oil for food contracts. The United Nations' Independent Inquiry Committee was established in April 2004 to investigate allegations of corruption and misconduct within the Oil for Food program and its overall management of the humanitarian program. In January 2005, the Committee publicly released 58 internal audit reports conducted by the United Nations' Office of Internal Oversight Services (OIOS).

GAO (1) provides information on OIOS' background, structure, and resources; (2) highlights the findings of the internal audit reports; and (3) discusses limitations on the audits' coverage.

www.gao.gov/cgi-bin/getrpt?GAO-05-346T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph Christoff at (202) 512-8979 or christoffj@gao.gov.

What GAO Found

Before the United Nations established OIOS, the United States and other member states had criticized its lack of internal oversight mechanisms. In 1993, the United States proposed the establishment of an inspector general position within the United Nations and withheld U.S. funds until such an office was established. In 1994, the General Assembly created OIOS and tasked it with conducting audits, investigations, inspections, and evaluations of U.N. programs and funds. OIOS has generally provided audit reports to the head of the U.N. agency or program subject to the audit but also provided certain reports of interest to the General Assembly. However, this limited distribution hampered member states' efforts to oversee important U.N. programs. In December 2004, the General Assembly directed OIOS to publish the titles and summaries of all audit reports and provide member states with access to these reports on request.

The audit reports released in January 2005 found deficiencies in the management of the Oil for Food program and made numerous recommendations. We identified 702 findings in these reports. Most reports focused on U.N. activities in northern Iraq, the operations of the U.N. Compensation Commission, and the implementation of U.N. inspection contracts. In the north, OIOS audits found problems with coordination, planning, procurement, asset management, and cash management. For example, U.N. agencies had purchased diesel generators in an area where diesel fuel was not readily available and constructed a health facility subject to frequent flooding. An audit of U.N.-Habitat found \$1.6 million in excess construction material on hand after most projects were complete. OIOS audits of the U.N. Compensation Commission found poor internal controls and recommended downward adjustments totaling more than \$500 million. The United Nations asserted that OIOS had limited audit authority over the Commission. Finally, OIOS audits of the contractors inspecting Iraq's oil exports and commodity imports found procurement irregularities and limited U.N. oversight.

OIOS' audits and summary reports revealed deficiencies in the management and internal controls of the Oil for Food program. However, OIOS did not examine certain headquarters functions—particularly OIP's oversight of the contracts for central and southern Iraq that accounted for 59 percent or almost \$40 billion in Oil for Food proceeds. The Independent Inquiry Committee noted several factors that limited OIOS' scope and authority. First, OIOS did not believe it had purview over the humanitarian contracts because the sanctions committee approved the contracts. Second, the U.N. Office of the Iraq Program steered OIOS toward programs in the field rather than at headquarters. Third, the Office of the Iraq Program refused to fund an OIOS risk assessment of its program management division. Finally, U.N. management and the Office of the Iraq Program prevented OIOS from reporting its audit results directly to the Security Council.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss our review of the internal audit reports of the United Nations (U.N.) Oil for Food program.

Allegations of fraud and corruption have plagued the Oil for Food program. As we have testified and others have reported, the former regime gained illicit revenues through smuggling oil and obtaining illegal surcharges and commissions on Oil for Food contracts. The United Nations' Independent Inquiry Committee was established in April 2004 to investigate allegations of mismanagement and misconduct within the Oil for Food program. In January 2005, the Committee released 58 internal audit reports on the Oil for Food program conducted by the United Nations' Office of Internal Oversight Services (OIOS). On February 3, 2005, the Committee issued an interim report on the procurement of U.N. contractors, recipients of oil allocations, OIOS structure and activities, and U.N. management of Oil for Food administrative expenses.¹

Today, I will (1) provide information on OIOS' background, structure, and resources; (2) highlight the findings of the internal audit reports; and (3) discuss limitations on the audits' coverage.

To address these objectives, we analyzed the internal audit reports to determine the reports' audit coverage, findings, recommendations, disposition of recommendations, and potential cost savings. We catalogued the findings to determine common themes related to the management of the Oil for Food program. We also reviewed the February 2005 Independent Inquiry Committee report. Appendix I contains an explanation of our scope and methodology.

We conducted this review in January and February 2005 in accordance with generally accepted government auditing standards.

Summary

Before the United Nations established OIOS, the United States and other member states had criticized its lack of internal oversight mechanisms. In 1993, the United States proposed the establishment of an inspector general position within the United Nations and withheld U.S. funds until such an

¹Independent Inquiry Committee into the United Nations Oil-for-Food Programme, *Interim Report* (New York: Feb. 3, 2005).

office was established. In 1994, the General Assembly created OIOS and tasked it with conducting audits, investigations, inspections, and evaluations of U.N. programs and funds. OIOS has generally provided audit reports to the head of the U.N. agency or program subject to the audit. OIOS also provided certain reports of interest to the General Assembly. However, this limited distribution hampered member states' efforts to oversee important U.N. programs. In December 2004, the General Assembly directed OIOS to publish the titles and summaries of all audit reports and provide member states with access to these reports on request.

The audit reports released in January 2005 found deficiencies in the management of the Oil for Food program and made numerous recommendations to correct these deficiencies. We identified 702 findings contained in the reports. Most reports focused on U.N. activities in northern Iraq, the operations of the U.N. Compensation Commission, and the implementation of U.N. inspection contracts. In the north, OIOS audits found problems with coordination, planning, procurement, asset management, and cash management. For example, U.N. agencies had purchased diesel generators in an area where diesel fuel was not readily available and constructed a health facility subject to frequent flooding. An audit of U.N.-Habitat found \$1.6 million in excess construction material on hand after most projects were complete. OIOS audits of the U.N. Compensation Commission found poor internal controls to prevent employee fraud, collusion, and illegal activities. In its 2004 assessment of claims for war damages, OIOS recommended downward adjustments totaling more than \$500 million. The U.N.'s Office of Legal Affairs stated that OIOS' audit authority did not extend to reviewing the Commission's decisions. Finally, OIOS audits of the contractors inspecting Iraq's oil exports and commodity imports found procurement irregularities and limited U.N. oversight.

OIOS' audits and summary reports revealed deficiencies in the management and internal controls of the Oil for Food program. However, OIOS did not examine certain headquarters functions—particularly the Office of the Iraq Program's oversight of the contracts for central and southern Iraq that accounted for 59 percent or almost \$40 billion in Oil for Food proceeds. The Independent Inquiry Committee noted several factors that limited OIOS' scope and authority. First, OIOS did not believe it had purview over the humanitarian contracts because the sanctions committee approved the contracts. Second, the U.N. Office of the Iraq Program steered OIOS toward programs in the field rather than at headquarters. Third, the Office of the Iraq Program refused to fund an OIOS risk

assessment of its program management division. Finally, U.N. management and the Office of the Iraq Program prevented the internal auditors from reporting their audit results directly to the Security Council.

Background

In 1996, the United Nations and Iraq established the Oil for Food program to address growing concerns about the humanitarian situation in Iraq after international sanctions were imposed in 1990. The program's intent was to allow the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance, and at the same time prevent the regime from obtaining goods for military purposes. From 1997 through 2002, Iraq sold more than \$67 billion in oil through the program and issued \$38 billion in letters of credit to purchase commodities.

The Oil for Food program initially permitted Iraq to sell up to \$1 billion worth of oil every 90 days to pay for humanitarian goods. Subsequent U.N. resolutions increased the amount of oil that could be sold and expanded the humanitarian goods that could be imported. In 1999, the Security Council removed all restrictions on the amount of oil Iraq could sell to purchase civilian goods. The United Nations and the Security Council monitored and screened contracts that the Iraqi government signed with commodity suppliers and oil purchasers, and Iraq's oil revenue was placed in a U.N.-controlled escrow account. In May 2003, U.N. resolution 1483 requested the U.N. Secretary General to transfer the Oil for Food program to the Coalition Provisional Authority by November 2003. The United Nations allocated 59 percent of the oil revenue for the 15 central and southern governorates, which were controlled by the central government; 13 percent for the 3 northern Kurdish governorates; 25 percent for a war reparations fund for victims of the Iraq invasion of Kuwait in 1990; and 3 percent for U.N. administrative costs, including the costs of weapons inspectors.

In central and southern Iraq, the Iraqi government used the proceeds from its oil sales to purchase food, medicines, and infrastructure supplies and equipment. The Iraqi government negotiated directly with suppliers and distributed food in accordance with its Public Distribution System, a food ration basket for all Iraqis. In northern Iraq, nine U.N. agencies implemented the program, primarily through constructing or rehabilitating

schools, health clinics, power generation facilities, and houses.² Local authorities submitted project proposals to the United Nations to consider and implement. The Iraqi government in Baghdad procured bulk food and medicines for the northern region, but the World Food Program and the World Health Organization were responsible for ensuring the delivery of these items.

From 1997 to 2002, the Oil for Food program was responsible for more than \$67 billion of Iraq's oil revenue. Through a large portion of this revenue, the United Nations provided food, medicine, and services to 24 million people and helped the Iraqi government supply goods to 24 economic sectors. In February 2002, the United Nations reported that the Oil for Food program had considerable success in sectors such as agriculture, food, health, and nutrition by arresting the decline in living conditions and improving the nutritional status of the average Iraqi citizen.

OIOS History, Organization, and Resources

Prior to the creation of OIOS, the United States and other member states had expressed concern about the ability of the United Nations to conduct internal oversight. In 1994, the General Assembly established OIOS to conduct audits, evaluations, inspections, and investigations of U.N. programs and funds. Its mandate reflects many characteristics of U.S. inspector general offices in purpose, authority, and budget. Since its inception, OIOS has submitted its audit reports to the head of the unit being audited for action and only forwarded to the Secretary General those reports in which program officials disagreed with audit recommendations. It also provided certain reports to the General Assembly. However, in December 2004, the General Assembly passed a resolution requiring OIOS to publish the titles and summaries of all audit reports and provide member states with access to these reports on request.

Events Leading to the Creation of OIOS

Before the OIOS was created in July 1994, the United States and other U.N. member states, the U.S. Congress, and the Government Accountability Office (GAO) had expressed concern about the United Nations' management of its resources and had criticized the inadequacies of its

²The Food and Agricultural Organization; International Telecommunications Union; U.N. Development Program; U.N. Children's Fund; U.N. Educational, Scientific, and Cultural Organization; U.N.-Habitat; U.N. Office for Project Services; World Health Organization; and World Food Program.

internal oversight mechanisms. In response, the Secretary General established the Office for Inspections and Investigations in August 1993 under the leadership of an Assistant Secretary General. However, member states—primarily the United States—wanted a more autonomous oversight body with greater authority.

In November 1993, the U.S. Permanent Representative to the United Nations proposed the establishment of an “office of inspector general” to the General Assembly. The office would be headed by an “inspector general” who, although an integral part of the Secretariat, would carry out his/her responsibilities independently of the Secretariat and all U.N. governing bodies. According to the proposal, the office would support member states and the Secretary General by providing independent advice based on an examination of all activities carried out at all U.N. headquarters and field locations financed by the regular budget, peacekeeping budgets, and voluntary contributions. At the same time, the new office would have external reporting responsibilities.

In April 1994, Congress enacted Public Law 103-236, which required certain funds to be withheld from the United Nations until the President certified that it had established an independent office of inspector general to conduct and supervise objective audits, investigations, and inspections. The legislation stated, among other things, that the inspector general should have access to all records, documents, and offices related to U.N. programs and operations. The legislation also called for the United Nations to have procedures to (1) ensure compliance with the inspector general office’s recommendations and (2) protect the identity of, and prevent reprisals against, any staff members making a complaint, disclosing information, or cooperating in any investigation or inspection by the inspector general’s office.

After a series of negotiations among member states, including the United States, a compromise was reached. The General Assembly, in July 1994, approved a resolution creating OIOS within the U.N. Secretariat. OIOS’ mandate reflects many of the characteristics of U.S. inspector general offices in purpose, authority, and budget. For example, OIOS staff have access to all records, documents, or other material assets necessary to fulfill their responsibilities.

OIOS’ reporting mandate calls for it to submit reports to the Secretary General and the General Assembly. Since its inception, OIOS has generally submitted its reports to the head of the unit audited. If program officials disagreed with the report’s recommendations, the report was submitted to

the Secretary General. However, beginning in 1997, OIOS began listing all its reports in its annual reports to the General Assembly and briefing representatives of member states interested in a particular report. It also provided certain reports of interest to the General Assembly. Further transparency over OIOS audit reports occurred in December 2004 when the General Assembly approved a resolution calling for OIOS to include in its annual and semi-annual reports the titles and brief summaries of all OIOS reports issued during the reporting period. OIOS was also directed to provide member states with access to original versions of OIOS reports upon request.³

OIOS Organization and Staffing

As of June 2004, OIOS had 180 posts, including 124 professional staff and 56 general service staff. Staff work in four operational divisions: Internal Audit Divisions I and II; the Monitoring, Evaluation, and Consulting Division; and the Investigations Division. The 58 audit reports released on January 9, 2005, reflect the work of Internal Audit Division I, which contained a separate unit for Iraq-related work. For 2004, OIOS' resources totaled \$23.5 million.

OIOS generally conducts four types of activities: audits, evaluations, inspections, and investigations. Audits determine if internal controls provide reasonable assurance of the integrity of financial and operational information and whether rules are followed and resources are safeguarded. Audits also identify ways to improve the efficient use of resources and the effectiveness of program management. OIOS' internal audit divisions adhere to the Standards for the Professional Practice of Internal Auditing in the United Nations.⁴ These standards regulate issues related to independence, objectivity, proficiency, management, and the code of ethics and rules of conduct for auditors.

Inspections address mandates, management issues, or areas of high risk, make recommendations, and are generally submitted through the Secretary General to the General Assembly. Evaluations assess the relevance, efficiency, effectiveness, and impact of a program's outputs and

³Review of the Implementation of General Assembly resolutions 48/218B and 54/244," A/59/649, para.1(c) (Dec. 22, 2004).

⁴As promulgated by the Institute of Internal Auditors and adopted by the Representatives of Internal Audit Services of the United Nations Organizations and Multilateral Financial Institution.

activities against its objectives. These reports are addressed to the intergovernmental body—normally the Committee for Program and Coordination or the General Assembly—that requested the evaluation.

Investigations staff follow up on reports of possible violations of rules or regulations, mismanagement, misconduct, waste of resources, or abuses of authority. OIOS also monitors program performance and prepares the Program Performance Report of the Secretary General, which is submitted to the General Assembly every 2 years.

The complexity and diversity of the U.N. Oil for Food program and associated risks called for adequate oversight coverage. In 2000, OIOS established the Iraq Program Audit Section within the Internal Audit Division. The Independent Inquiry Committee report stated that the number of auditors assigned to Oil for Food audits increased from 2 in 1996 to 6 in 2002 and 2003. OIOS' audit responsibilities extended to the following entities involved in Iraq operations:

- Office of the Iraq Program (OIP) in New York;
- U.N. Office of the Humanitarian Coordinator in Iraq;
- U.N. Compensation Commission (UNCC);
- U.N. Monitoring, Verification, and Inspection Commission;
- U.N. Human Settlement Program (U.N.-Habitat) Settlement Rehabilitation Program in northern Iraq;⁶
- U.N. Guards Contingent in Iraq; and
- U.N. Department of Management.

⁶OIOS provided audit coverage for U.N.-Habitat; the other 8 U.N. agencies implementing programs in northern Iraq were audited internally by their respective departments.

Audits Show Recurring Management Weaknesses

The OIOS audits revealed a number of deficiencies in the management of the Oil for Food program and its assets and made numerous recommendations to correct these deficiencies. The audits focused primarily on Oil for Food activities in northern Iraq and at the U.N. Compensation Commission. OIOS also conducted audits of the three U.N. contracts for inspecting commodities coming into Iraq and for independent experts to monitor Iraq's oil exports.⁶

We identified a total of 702 findings contained in the reports across numerous programs and sectors. Weaknesses and irregularities were common in planning and coordination, procurement, and asset and cash management. Appendix I contains the summary data of our analysis and a description of our scope and methodology. Our summary below focuses on key findings for the areas that received the most audit coverage—activities in northern Iraq and the U.N. Compensation Commission. We also highlight findings from the audits of the inspections contracts.

U.N. Oil for Food Program in Northern Iraq

The OIOS audits that reviewed U.N. activities in northern Iraq found problems with planning and coordination, procurement, and asset and cash management.

In 2004, OIOS reported that U.N.-Habitat had not adequately coordinated with other U.N. agencies in providing essential services for its housing projects. For example, U.N.-Habitat provided high-capacity generators but had not contacted the U.N. Development Program—the entity responsible for the power sector—to provide electric power connections. OIOS also found that about 3,200 houses were unoccupied for extended periods due to a lack of coordination with agencies providing complementary services.

An August 2000 report noted a lack of planning that resulted in the questionable viability of some Oil for Food projects in northern Iraq. For example, six diesel generators were procured in an area where diesel fuel was not readily available. In addition, local authorities would not accept a newly constructed health facility subject to flooding. A December 2000 report also noted that highways and a sports stadium were built in

⁶Of the 58 reports, 26 reported on activities related to the program northern Iraq, 19 audited the UNCC, 6 addressed liquidation issues, 3 audited the contracts for inspecting oil exports and goods coming into Iraq, and 2 reviewed the U.N. Treasury's management of funds. The Independent Inquiry Committee also released 2 summary reports, one of which had been drafted by OIOS but not issued.

violation of criteria established by the Security Council and the Iraqi government.

In November 2002, OIOS reported that almost \$38 million in procurement of equipment for the U.N.-Habitat program was not based on a needs assessment. As a result, 51 generators went unused from September 2000 to March 2002, and 12 generators meant for project-related activities were converted to office use. In addition, OIOS reported that 11 purchase orders totaling almost \$14 million showed no documentary evidence supporting the requisitions.

In 2002, OIOS found that the U.N.-Habitat program lacked a proper asset inventory system and that no policies and procedures governing asset management were evident. As a result, the value of assets was not readily available. In one case, \$1.6 million in excess construction material remained after most projects were complete.

OIOS also reported that a lack of effective cash management policies meant that project funds were misused or put at risk. In a March 2000 audit, OIOS reported that the U.N. Development Program's country office used \$500,000 in project funds for office expenses without authorization or proper documentation. A February 2002 audit found that the office in Erbil put at risk \$600,000 to \$800,000 in cash due to a lack of cash management policies.

U.N. Compensation Commission

The U.N. Compensation Commission (UNCC), a subsidiary unit of the Security Council, was established in 1991 to process claims and provide compensation for losses resulting from Iraq's invasion and occupation of Kuwait. Compensation is payable from a special fund that initially received 30 percent of the proceeds from Iraqi oil sales. The claims are resolved by panels, each of which is made up of three commissioners who are experts in law, accounting, loss adjustment, assessment of environmental damage, and engineering, according to UNCC.

The UNCC received more than 2.6 million claims for death, injury, loss of or damage to property, commercial claims, and claims for environmental damage resulting from Iraq's invasion of Kuwait in 1991. As of December 2004, all but about 25,000 of these claims had been resolved, and almost \$19 billion had been paid in compensation, according to UNCC.

In a July 2002 risk assessment of UNCC, OIOS found that controls to prevent employee fraud were marginal, operations required close

monitoring to prevent possible collusion, possibilities existed for illegal activities, and payment processing controls were inadequate. The report concluded that the overcompensation of claims and irregular or fraudulent activities could lead to significant financial risks.

OIOS audits identified weaknesses in UNCC's management of claims processing and payments resulting in recommended downward adjustments of more than \$500 million. For example, in a September 2002 audit, OIOS found potential overpayments of \$419 million in compensation awarded to Kuwait. OIOS identified duplicate payments, calculation errors, insufficient evidence to support losses, and inconsistent application of claims methodology.

In a December 2004 audit, OIOS found that using the exchange rate against the U.S. dollar on the date of the claimed loss, rather than the date of payment as consistent with U.N. financial rules and regulations, had resulted in substantial overpayments. OIOS estimated that the likely overpayments were about \$510 million.

Previously in 2002, UNCC had challenged OIOS' audit authority. In a legal opinion on OIOS' authority requested by UNCC, the U.N. Office of Legal Affairs noted that the audit authority extended to computing the amounts of compensation but did not extend to reviewing those aspects of the panels' work that constitute a legal process. However, OIOS disputed the legal opinion, noting that its mandate was to review and appraise the use of financial resources of the United Nations. OIOS believed that the opinion would effectively restrict any meaningful audit of the claims process.

As a result of the legal opinion, UNCC did not respond to many OIOS observations and recommendations, considering them beyond the scope of an audit. According to OIOS, UNCC accepted about \$3.3 million of the more than \$500 million in recommended claims reductions. On the audit of \$419 million in potential overpayments to Kuwait, OIOS noted that it received the workpapers to conduct the audit 8 days after the award was made.

Contracts to Inspect Oil Exports and Commodity Deliveries

To help ensure that the proceeds of Iraq's oil sales were used for humanitarian and administrative purposes, the United Nations contracted with companies to monitor Iraq's oil exports and commodity imports. OIOS audits of these contracts revealed procurement problems and poor contract management and oversight by OIP.

The United Nations contracted with Saybolt Eastern Hemisphere B.V. to oversee the export of oil and oil products from Iraq through approved export points. At the time of the audit report in July 2002, the estimated total value of the contract was \$21.3 million, with an annual contract value of \$5.3 million. OIOS found that OIP had made no inspection visits to Iraq and posted no contract management staff in Iraq. However, OIP had certified that Saybolt's compliance with the contract was satisfactory and approved extensions to the contract. In addition, OIOS estimated that the United Nations paid \$1 million more than was necessary because equipment costs were already built into the inspectors' daily fee structure. OIOS asserted that these costs should have been charged as a one-time expenditure. OIOS recommended that OIP recover the \$1 million paid for equipment and that future contracts provide for equipment purchases as one-time expenditures. OIP did not respond to the auditors' first recommendation and did not agree with the second recommendation.

The first contract for inspecting imported commodities was with Lloyds' Register Inspection Ltd.; the initial 6-month contract was for \$4.5 million, and the total value of the contract increased to more than \$25 million by July 1999. Lloyds' agents were to monitor, verify, inspect, test, and authenticate humanitarian supplies imported into Iraq at three entry points.

In July 1999, OIOS found deficiencies in OIP's oversight of Lloyds' contract. OIP had certified Lloyd's invoices for payment without any on-site verification or inspection reports. OIOS reported that Lloyds' used suppliers' manifests to authenticate the weight of bulk cargo and did not independently test the quality of medicines and vaccines supplied. In responding to the audit's findings, OIP rejected the call for on-site inspections and stated that any dissatisfaction with Lloyds' services should come from the suppliers or their home countries.

OIP awarded a new contract to Cotecna Inspection S.A. Similar to Lloyd's, Cotecna was to verify that the description, value, quantity, and quality of supplies arriving in Iraq were in accordance with the criteria established by the sanctions committee. In April 2003, OIOS cited concerns about procurement issues and amendments and extensions to Cotecna's original \$4.9 million contract. Specifically, OIOS found that, 4 days after the contract was signed, OIP increased Cotecna's contract by \$356,000. The amendment included additional costs for communication equipment and operations that OIOS asserted were included in the original contract. OIP agreed to amend future contracts to ensure that procurement documents include all requirements, thus eliminating the need to amend contracts.

Various Factors Affected Audit Coverage and Effectiveness

OIOS' audits and summary reports revealed a number of deficiencies in the management and internal controls of the Oil for Food program, particularly in northern Iraq. The reports also identified problems in UNCC's claims processing resulting in significant overpayments. However, OIOS did not examine certain headquarters functions responsible for overseeing the humanitarian commodity contracts for central and southern Iraq. Limitations on OIOS' resources and reporting hampered its coverage of the Oil for Food program and its effectiveness as an oversight tool.

OIOS did not examine certain headquarters functions—particularly OIP's oversight of the contracts for central and southern Iraq that accounted for 59 percent or almost \$40 billion in Oil for Food proceeds. The Iraqi government used these funds to purchase goods and equipment for central and southern Iraq and food and medical supplies for the entire country. As we reported in 2004, the Iraqi government's ability to negotiate contracts directly with the suppliers of commodities was an important factor in enabling Iraq to levy illegal commissions.⁷

OIP was responsible for examining contracts for price and value at its New York headquarters. In addition, the U.N. sanctions committee reviewed contracts primarily to remove dual-use items that Iraq could use in its weapons programs. However, it remains unclear which U.N. entity reviewed Iraq contracts for price reasonableness.

OIOS did not assess the humanitarian contracts or OIP's roles and responsibilities and its relationship with the sanctions committee. OIOS believed that these contracts were outside its purview because the sanctions committee was responsible for their approval. OIP management also steered OIOS toward program activities in Iraq rather than headquarters functions where OIP reviewed the humanitarian contracts.

Even when OIOS requested funds to conduct an assessment of OIP operations, the funds were denied. For example, in May 2002, OIP's executive director did not approve a request to conduct a risk assessment of OIP's Program Management Division, citing financial reasons. The Committee also noted that the practice of allowing the heads of programs

⁷U.S. General Accounting Office, *United Nations: Observations on the Oil for Food Program and Areas for Further Investigation*, GAO-04-953T (Washington, D.C.: July 8, 2004).

the right to fund internal audit activities leads to excluding high-risk areas from internal audit examination. The Committee therefore recommended that the Internal Audit Division's budgets and staffing levels for all activities be submitted directly to the General Assembly.

In addition, OIOS assigned only 2 to 6 auditors to cover the Oil for Food program. The Committee found that this level of staffing was low compared to OIOS' oversight of peacekeeping operations. In addition, the U.N. Board of Auditors indicated that 12 auditors were needed for every \$1 billion in U.N. expenditures. The Committee concluded that the Oil for Food program should therefore have had more than 160 auditors at its height in 2000. However, the Committee found no instances in which OIOS communicated broad concerns about insufficient staff levels to U.N. management.

OIOS also encountered problems in its efforts to widen the distribution of its reporting beyond the head of the agency audited. In August 2000, OIOS proposed to send its reports to the Security Council. However, the Committee reported that the OIP director opposed this proposal, stating that it would compromise the division of responsibility between internal and external audit. In addition, the U.N. Deputy Secretary General denied the request and OIOS subsequently abandoned any efforts to report directly to the Security Council.

Conclusion

The internal audits provide important information on the management of the Oil for Food program, particularly in the north, and on the management of the commission that compensates claims for war damages with proceeds from Iraq's oil sales—two areas that have received little public attention. The reports also broaden the findings of the Independent Inquiry Committee's report, particularly with respect to the inadequacies in the award of the oil and customs inspections contracts. However, many unanswered questions remain about the management and failings of the Oil for Food program, particularly the oversight roles of OIP and the Security Council's sanctions committee.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or the other Subcommittee members may have.

Appendix I: Summary of OIOS Audit Findings and Recommendations

We reviewed the 58 reports released by the Independent Inquiry Committee to determine the scope of the audits and the issues addressed in the reports' findings and recommendations. We created a data base of information from 50 reports to identify the program elements that the audits reviewed, the findings of each audit, and the recommendations for improvement.¹ To identify audit scope, we identified the extent to which the audits addressed Oil for Food headquarters operations, U.N. Secretariat Treasury operations in New York, U.N. operations in the northern Iraq, and the U.N. Compensation Commission for disbursing claims for damage caused by the 1991 Persian Gulf War. To determine the range of issues addressed by the audits, we identified the kinds of issues raised by the findings and determined that the audits addressed the following issues: (1) procurement and contract management and oversight; (2) financial management, including financial controls, management of funds, and procedures for payments; (3) asset management, including inventory, and the management of fixed assets such as vehicles, buildings, and supplies; (4) personnel and staffing; (5) project planning, coordination, and oversight; (6) security; and (7) information technology. We established a protocol to identify findings for data input, and we identified specific recommendations in the audit reports. To ensure consistency of data input, a data base manager reviewed all input, and all data input was independently validated. Table 1 presents the summary of overall findings and recommendations in OIOS reports. Table 2 presents these findings by area of U.N. operation.

¹We did not include in the data base information from the six audits that addressed the liquidation and shutdown of the Oil for Food program in 2003. These reports focused on the termination rather than the operations of the Oil for Food program. We also did not include information from the two summary reports because they included discussions of findings documented in previous audits. However, we reviewed these reports to help identify overall areas of concern and lessons learned, and we incorporated information and observations from the summary reports into our statement.

Table 1: Number of Findings and Recommendations in 50 U.N. OIOS Reports by Finding Subject

Finding subject	Findings	Recommendations
Asset management	34	32
Financial management	226	212
Information technology	26	22
Planning, coordination, and oversight	66	63
Procurement/contract management and oversight	219	212
Personnel and staffing	79	74
Security	52	52
Total	702	667

Source: GAO analysis of 50 OIOS reports on various Oil for Food program and UNCC activities.

Table 2: Number of Findings and Recommendations in 50 U.N. OIOS Reports for Selected Oil for Food Program and Related Activities

Activities	Finding subject	Findings	Recommendations
UN headquarters	Asset management	2	2
	Financial management	4	4
	Information technology	0	0
	Planning, coordination, and oversight	9	9
	Procurement/contract management and oversight	54	52
	Personnel and staffing	2	2
	Security	0	0
	Subtotal	71	69
Northern Iraq	Asset management	29	27
	Financial management	93	93
	Information technology	9	9
	Planning, coordination, and oversight	53	51
	Procurement/contract management and oversight	153	150
	Personnel and staffing	41	39
	Security	52	52
	Subtotal	430	421
Treasury	Asset management	1	1
	Financial management	27	27
	Information technology	2	2

Activities	Finding subject	Findings	Recommendations
	Planning, coordination, and oversight	1	0
	Procurement/contract management and oversight	0	0
	Personnel and staffing	1	1
	Security	0	0
	Subtotal	32	31
UNCC	Asset management	2	2
	Financial management	102	88
	Information technology	15	11
	Planning, coordination, and oversight	3	3
	Procurement/contract management and oversight	12	10
	Personnel and staffing	35	32
	Security	0	0
	Subtotal	169	146

Source: GAO analysis of 50 OIGS reports on various OIG for Food program and UNCC activities.

Statement by Stafford Clarry

Former United Nations staff member in Iraq on the Oil-for-Food Program
before the United States Senate Permanent Subcommittee on Investigations
15 February 2005

Mr. Chairman, distinguished members of this committee, thank you for your invitation to testify before you today. I am honored to be here at this time.

My reason for accepting your invitation is to help broaden the knowledge and deepen the understanding of the workings of the oil-for-food program in Iraq, with particular reference to the Kurdistan region where I lived and served throughout the duration of the program. The Kurdistan region includes the Governorates (provinces) of Duhok, Erbil, and Suleimaniyah that have been administered since 1992 by the Kurdistan Regional Government (KRG).

I went to Iraq in 1991 with over 20 years of field operational experience in South Asia and East Africa, and added 15 years in the Middle East. I began international service with the Peace Corps after completing undergraduate studies. Before going to Iraq I completed graduate studies in public administration. I served with three UN agencies in Iraq beginning with UNHCR, the UN refugee agency, during the 1991 Kurdish refugee crisis. Actually, at that time I began in Turkey at the Incerlik Airbase as UN liaison officer in the headquarters of Operation Provide Comfort with Generals Shalikashvili, Jamerson, and Zinni. During that successful operation, after hundreds of thousands of Kurdish refugees returned to Iraq from Turkey and Iran I was reassigned to Baghdad for a year to work on reconstruction and resettlement.

Later, I accepted an assignment in the Kurdistan region with the newly created UN Department of Humanitarian Affairs (DHA) coordinating humanitarian activities of UN agencies and NGOs. At that time, 1993-1996, before the oil-for-food program began the main UN agencies were UNICEF and WFP. Also present were FAO, WHO, and UNESCO but they had relatively very small programs. I was also the area security coordinator focusing with UNGCI (UN Guards) on the security of UN staff and facilities. I continued serving with the UN until the December 1998 bombing of Iraq after which the Saddam regime would neither issue nor extend visas to UN staff members who were American or British citizens.

Prior to the start of the oil-for-food program my area of operation was two of the three provinces administered by the KRG. I was based in Erbil but also lived in Duhok. When the oil-for-food program began and more agencies and staff were assigned to the region, my DHA assignment morphed into a UNOHCI assignment and I elected to be assigned to Duhok where Saybolt was monitoring oil exports at a pipeline metering station, Lloyds Register was certifying imports at the Iraq-Turkey border, and 12 UN agencies were functioning plus some NGOs. Later, due to my interest in reconstruction and resettlement I served directly with UN-Habitat for about 4 months. When service with the UN in Iraq was terminated by the Saddam regime I continued on the oil-for-food program as advisor to the KRG assisting them in relating to the UN, working with 9 ministries that were responsible for services that the program was supporting. I was, thus, affiliated with the oil-for-food program from its start in 1996 until its conclusion in 2003.

My macro purpose in being here is to support an urgent and long overdue, persistent need for radical reformation of the UN's operational culture. I believe the United Nations to be a critically important international institution which has its place in adding substantial value to the human condition. My micro and more intensive purpose is to contribute to the process of ensuring that the Iraqi people receive fully what they are entitled to, and that at least one of the five escrow amounts is clearly, comprehensively, and completely accounted for. I think pursuing the micro purpose is one key to the macro purpose being fulfilled.

My focus has been the Kurdistan region and the 13% account that funded activities to meet the humanitarian needs of the people of that region. The goal is to see a clear, comprehensive, and complete account of all earnings and all expenditures associated with the 13% account.

While the oil-for-food program was intended to provide benefits to the Iraqi people, it also handed them major losses. Keeping the focus on the Kurdistan region, the first loss occurred when the region was allocated only 13%. The Security Council resolution authorizing the oil-for-food program (986 of 1995) allowed 13% to 15% for its people. According to the Government of Iraq's own population figures officially submitted to the UN and endorsed by the Secretary General the people of Kurdistan were entitled to an amount higher than the minimum 13%.

The overarching financial challenge for the Kurdistan region has been determining exactly where it stood in terms of earnings, allocations, and expenditures. Over the 7-year program period the KRG never ceased trying to obtain the simplest of basic financial data. But it failed. The KRG could only generate estimates based on tidbits of data and information it was able to extract from the UN -- a few from the UN-OIP website and a few from the news.

The KRG estimates that Kurdistan is entitled to approximately \$9 billion, which is the sum of estimated oil sale earnings, estimated interest on unspent funds, and estimated gains on currency exchange. The KRG was able to estimate that by the end of December 2002 only about \$4 billion had been spent. It was always all about estimates, never about hard data. Please see two attachments (2 pages):
Oil Sales and UN Allocation Accounts , 13% Account – Only 50% Actually Spent

The only financial data officially received by the KRG was a table of funds allocated to each UN agency and another table of funds allocated to each sector (health, education, water & sanitation, electricity, agriculture, etc.), in April 2002. No tables of expenditures against these same allocations were received. No data on earnings and deductions for pipeline fees were received. No data on bank interest and gains on currency exchange were received. Please see the attachments (4 pages):
(ESC) 13% Account Allocations Phases I-IX By Agency , (ESC) 13% Account Expenditures Phases I-IX By Agency , (ESC) 13% Account Allocations Phases I-IX By Sector , (ESC) 13% Account Expenditures Phases I-IX By Sector

To the best of my knowledge, the KRG never saw any audit reports. While there was always a lot of field action implementing projects in all sectors, there was always the looming absence of clear financial data and a persistent frustration that progress was

excessively slower than necessary. Without hard data, it was next to impossible to make cogent arguments that would help to improve performance.

The recent release of some audits reports is refreshing in the sense that it appears that part of the UN was professionally concerned about the same factors that concerned the KRG. The audit reports on the electricity sector, for example, on DESA, reveal a focus on program and project management aspects that is indeed enlightening. All audits are important, but some are excessively clerical, overly preoccupied with dotting i's and crossing t's and not very helpful for improving program performance.

The audits released so far focus on only two UN implementing agencies, DESA and UN-Habitat. Audits of the others would also be helpful: FAO, ITU, UNDP, UNESCO, UNICEF, UNOPS, WFP, and WHO. It would also be helpful if investigators would critically review the 90-day and 180-day reports submitted by OIP to the Security Council. What did they really say about program performance, problems being encountered, and the status of accounts? What questions could have, or should have, been asked by the Security Council based on these reports?

We also need to see program audits that assessed the construction of housing units over time compared to the number of families living in substandard conditions, amount of potable water per day per person being delivered, amount of electricity being supplied per household, the availability of classrooms and school supplies per student, medical supplies being delivered compared to treatments needed for illnesses and injuries, nutrition delivered against nutritional requirements, etc. And it would have been helpful if cost-benefit analyses were done to test that earnings, expenditures, and benefits were on track and waste minimized. For example, the procurement of food by the Saddam regime needed to be examined closely, especially wheat which was imported under the program, produced locally and procured by the regime, and imported commercially.

Soon after the fall of the Saddam regime nearly two years ago unspent funds estimated at \$5 billion belonging to the people of Kurdistan were transferred by the UN to the DFI (Development Fund for Iraq) managed by the US-CPA (Coalition Provisional Authority). In pursuing its full entitlement the KRG had some success with the CPA and has since received part of the balance, approximately \$2 billion of the unspent funds in the 13% account. The remainder was lumped together in the DFI with funds from other sources.

The people of Kurdistan remain entitled by Security Council resolutions, which have the force of international law, to an estimated \$3 billion. No subsequent resolution has rescinded or superceded this entitlement. Due to genocidal policies of the Saddam regime since the 1960s the region deserves all the funds to which it is entitled. About 25% of the region's nearly 4 million people remain displaced with about 50,000 families still living in substandard conditions. For example, in November 1991 more than 100,000 Kurds were forcibly displaced from the Kirkuk area into KRG-administered territory. Compared with the rest of the country, the region's child mortality rate was 43% higher and infrastructure development was

severely neglected. Though the region has made substantial reconstruction and resettlement progress since 1991, especially under the oil-for-food program, much more remains to be done than has been achieved so far.

Attached are a two-page narrative summary and a table listing factors to be examined in order for the people of the Kurdistan region to know exactly where they stand regarding their oil-for-food finances and, especially, the unspent funds to which they remain entitled. Please see the narrative (2 pages), SCR-986 Oil-for-Food Program: Unspent Funds in 13% Account, and the table (1 page), UN SCR-986 Oil-for-Food Program: 13% Account Summary. I believe that the process of filling in the blank spaces would be educational and revealing to investigators, and helpful to the people of Kurdistan. We have tried being dentists in extracting basic financial data for years. The data, however, is impacted and requires another type of dental surgery that the KRG is not equipped to do.

In the Kurdistan region, ten UN agencies administered the oil-for-food program on behalf of the Saddam regime. The KRG supported the program with over 100,000 civil servants, extensive facilities including warehouses and other buildings, and provided communication, security and other basic services, without charge. Ten KRG ministries supported 10 UN agencies in addressing humanitarian needs in 12 sectors. Without KRG support the UN could not have implemented the program in Kurdistan. The UN, however, set up a parallel administrative structure and hired local staff away from the government and public universities at salaries that were ten to fifty times higher than what the KRG was able to pay.

In center-south Iraq, the Saddam regime negotiated procurement contracts, the "661" Sanctions Committee approved them, and the UN paid the bills. In effect, the regime selected the country, contractor, and price to pay. Global bidding was not required of the regime. In the Kurdistan region, however, though UN agencies responsible for implementing the program were obliged by UN rules and regulations to procure humanitarian goods and services in accordance with global bidding procedures, this applied to only 60% of the funds available to the region.

The balance 40% was put under the control of the Saddam regime. Nearly \$3 billion (separate from the estimated outstanding balance) of Kurdistan's entitlement was allocated to the regime to spend on food, medicines, and oil spare parts. The regime procured food and medicines for the whole country and sent shares to Kurdistan. In addition, amounts for spare parts for Iraq's oil industry, which was completely under regime control, were charged to Kurdistan's 13% account. Oil spare parts should have been charged like pipeline fees, "off the top" with the balance from oil sales being divided among all five escrow accounts. Instead, the people of Kurdistan paid 27% to 37% more per capita than the people of center-south Iraq.

These are a few of the losses peculiar to the 13% account. Other losses included those applicable to other escrow accounts: losses due to undercharges on oil

exports and overcharges on goods imports, substantial interest earned on 13% account funds that went somewhere else, gains on currency exchange that were apparently used for other purposes, costs to the 13% account that should have been charged to the 2.2% account, goods paid for but not received, etc. etc. etc. Some of these are described below.

Examination of the oil-for-food program with its myriad aspects offers the strongest opportunity to radically reform the UN's operational culture which is widely regarded by many both inside and outside the organization to be unacceptably deficient. Some may see it to be hopelessly uncorrectable. This \$70 billion opportunity can be better realized if investigations focus carefully, comprehensively, and clearly on the program's losses suffered by the Iraqi people. The losses need to be credibly calculated and assessed, responsibility determined and assigned, and compensation paid in restitution to the Iraqi people.

It is the impact of financial penalty and restitution that will cause sustainable reform. If we are seeking an operationally reformed UN that is credibly and transparently effective in adding value to the human condition, changing or firing or suspending personnel may dramatically highlight the problem but certainly it will not solve it. The Iraqi people have suffered through decades of creatively cruel and vicious injustices from the inside. Their suffering should not be compounded by the international community imposing its weaknesses on them from the outside.

The problem centers on the UN operational culture, the manner and means by which the UN conducts its critically important everyday business. The UN has access to the best and the brightest people in the world. To its international civil servants the UN offers compensation that exceeds what most, if not all, national governments offer their own civil servants. More significantly, the UN offers opportunity to qualified, experienced, and dedicated people from everywhere to serve the highest human ideals anywhere. Some staff members are indeed successful despite the UN being an organization where the operational environment is chronically and inordinately frustrating to an extent that their effectiveness is severely compromised.

An interjection. The UN is not a monolithic corporate entity with divisions and branches. In many ways, it's a typical bureaucracy with turf battles, one part not coordinating with another, and one floor not talking to another. Some UN agencies are autonomous, built on their own keel and running under their own steam. The UN is indeed a fleet, but with an admiral without real command and control. There is a common UN system, but different UN organizations apply common rules and regulations differently. Moving the fleet in a concerted manner toward a common goal is more analogous to herding cats.

The UN is "We the Peoples . . ." and the oil-for-food program begins and ends with the Iraqi people. It was their money, not the UN's or the US's or any other member state's or combination thereof. Oil-for-food funds were trust funds belonging to the Iraqi people, handled by the United Nations as their trustee.

We really do not know precisely how well or how badly the UN handled their money, but we can find out. We have strong indications though, anecdotal and from audit

reports, that it was handled quite badly, and that the Iraqi people lost many hundreds of millions of dollars. More importantly, the Iraqi people lost the benefits those funds could have provided during a prolonged period of international trade sanctions, national economic decline, and acute personal hardship.

Iraq is inherently a very rich and strong country. Its richness and strength reside far beyond its petroleum wealth and its water resources. Its real strength lies in its very technically competent, educated, skilled, and hardworking people. Proportionately, Iraq may have more qualified engineers than the United States. Certainly, proportionately, Iraq has more women engineers than the US; half the engineers in Iraq are women. Iraqis excel at logistics and accounting – they transport, warehouse, and account with dispatch. They deliver.

Iraqis are builders. I was in Baghdad following the 1991 war. Major damage was done to refineries, power plants, water pumping stations, bridges, major buildings, and other civil service facilities. When I returned in 1993 following an 8-month absence between UN assignments a magic wand performance had occurred. Under sanctions, with their own resources, expertise and labor, without external assistance, I found shredded refineries, power plants and water pumping stations cleaned up, repaired, and functioning. All the damaged bridges across the Tigris River in Baghdad were repaired with the exception of a suspension bridge that took another year or so. Some heavily damaged major buildings were rebuilt and the construction of a huge new double-deck concrete bridge was well underway.

Since Iraq's 1990 invasion of Kuwait the Security Council passed 34 resolutions addressing the humanitarian needs of the Iraqi people but failed to exercise oversight on the performance of UN agencies implementing programs and projects to mitigate those needs. The UN Secretariat with its Office of the Iraq Programme (OIP) charged with the responsibility for coordinating the UN's oil-for-food response failed to engage available expertise to meet programmatic and political challenges. The nine UN implementing agencies responsible for spending and monitoring the delivery of program benefits too often failed to meet attainable professional performance standards. UN member states, in addition to those on the Security Council, including members who pay dues and fund UN agencies, failed to exercise their right to question program progress in order to stimulate improved program performance.

It appeared that no one, no non-Iraqi anyway, really cared. It wasn't their money. The Iraqi people certainly were not responsible for programmatic deficiencies since they had no real control over their funds. No one had to answer to anyone for how the money was being spent. Accountability was not a watchword. The oil-for-food program with its extraordinary resources, in effect, became a playground for the international community.

Neither was transparency a watchword. To this day the KRG still does not know where it stands with respect to funds earned, allocated, and spent. It has seen no accounts. The only (quasi) accounting information the KRG received, in April 2002, was a 1-page table that allocated \$7 billion among UN agencies and a second 1-page table allocating the same amount among sectors (agriculture, education, food, health, electricity, water/sanitation, resettlement, etc.). Since receiving those 2 pages

the KRG has been trying to find out how much has been spent against each allocation. It failed because the UN wouldn't, or couldn't, make the data available.

In center-south Iraq, the Saddam regime, was responsible for implementing the oil-for-food program and the UN was responsible for monitoring the program with respect to adequacy, equitability, and effectiveness. Implementers and monitors were separate. The effectiveness of this monitoring needs to be examined.

In the Kurdistan region, which is separately administered by the Kurdistan Regional Government, the program was implemented by 10 UN agencies on behalf of the Saddam regime. These UN agencies were also their own monitors. Implementers and monitors were not separate. The effectiveness of this monitoring also needs to be examined. The audits that are being released help.

It needs to be clearly understood that inadequate UN leadership and unsatisfactory management were not a function of insufficient resources. The UN was allocated and received no less than \$1.4 billion to cover its administrative costs. To attest to the adequacy of available resources, according to the IIC Interim Report, \$327 million (23%) was "surrendered" because, supposedly, it wasn't needed for administering the program.

Let's take a look at what we know about the program in financial terms. All we really clearly know from UN official sources is that the program began in 1996 and was concluded in 2003. Keeping our focus on finances, let's examine program earnings and program expenditures. Amazingly, despite efforts at various levels, we still do not know exactly how much was earned and how much was expended.

We know that under sanctions Iraqi petroleum products were being illegally exported because it was easily observed, and it was reported in the media with photographs. It needs to be clarified and emphasized that UN sanctions on Iraq were imposed on UN member states, not on Iraq. Security Council resolutions prohibited imports from Iraq. If neighboring countries did not import from Iraq (smuggle), then Iraq could not export (smuggle).

It also needs to be more widely known that Iraqi petroleum products cost pennies inside Iraq but were valued in dollars outside Iraq. To illustrate, in January 1996, before the oil-for-food program began, inside Iraq one US dollar would buy 15,000 (fifteen thousand!) liters of gasoline, nearly 4,000 US gallons! That's what I personally had to pay. Outside Iraq in Turkey, gasoline sold for about four (4) US dollars per gallon!! This suggests that the real money was made outside Iraq, not inside. The oil-for-food program had nothing to do with this trade. Earnings through smuggling by the Saddam regime were indeed losses to the Iraqi people, except for whatever amount may have been applied by the regime to essential public services.

Under the oil-for-food program, by examining only finances and not benefits, how much did the Iraqi people lose on earnings? We have learned unofficially from the

media and other sources that oil sales were undercharged. If this is correct, then losses can be calculated by taking each earning transaction and comparing the actual sale price with the market price available at the time. This is a simple spreadsheet exercise. Once a loss is calculated, then it needs to be determined who is responsible for making it happen. And finally, it needs to be determined how much in compensation is due to the Iraqi people for the losses on earnings that incurred without their involvement and through no fault of their own.

Allow me to interject here that the Saddam regime demonstrated their technical capability by trial runs that exported nearly 3 million barrels per day (bpd) through the Iraq-Turkey Pipeline (ITP) and the southern port of Mina al-Bakr. There were extended periods where 2 million bpd was the norm. There were also periods when the Saddam regime would suspend oil exports for political purposes. During the oil-for-food program, illegal exports continued and domestic fuel requirements were met at very low cost to the consumer. Losses of legal earnings occurred due to illegal exports, and also due to lower than optimum production and export suspensions for non-technical reasons.

We learn from the UN-OIP official website that a total of \$64.231 billion was earned from oil sales. In the media, however, we have seen \$67 million mentioned by UN staff, and even \$68 million elsewhere. What exactly were the earnings on oil sales, and how much was deposited in each of the 5 escrow accounts?

From UN responses in the media we learned that \$2.9 billion was earned in interest on unspent funds. But how much was earned on each of the five escrow accounts? We don't know, though we were informed that bank interest accrues to the account in which it is earned. We are also particularly concerned that 13% funds transferred from the escrow account to UN agencies' accounts may have earned interest which was not returned to the escrow account or applied to Kurdistan. There has been persistent suspicion that interest earned on unspent 13% funds in UN agencies' accounts has been used elsewhere in Iraq, or on non-Iraq programs elsewhere in the world. If this is correct, then it may help explain some of the excessive delay between the time funds were made available to UN agencies and the time they were actually spent.

The amount of interest earned during a period of low interest rates is also an indicator of spending efficiency. The program was implemented over a 7-year period in thirteen 6-month phases (the 14th and final phase was more an extension of the 13th phase). To illustrate, in the Kurdistan region, we learned from WHO that for phase-2 (1997) \$29 million was allocated for medicines. This money was readily available sitting in the bank. But only \$14.7 million (51%) was actually spent. The balance 49% remained in the bank for more than 5 years. The effect was that the people of Kurdistan faced a chronic shortage of medical supplies despite substantial funds being readily available. This situation forced the KRG to spend its limited funds on important and urgently needed medical items. Please see the attachment (1 page): Allocation vs. Actual Expenditure - Medicines

From UN responses in the news media we learned that \$2.3 billion was gained on currency exchange. But how much was gained on each of the five escrow accounts? We don't know.

When proceeds from oil sales were received by the UN, an amount was taken "off the top" for pipeline fees. We have been unable to determine how these fees were calculated and how much they amounted to. The balance was divided among the five escrow accounts for spending, 59% was allocated to humanitarian goods/services for the people in center-south Iraq, 13% to the people in the separately administered Kurdistan region, 25% to people outside Iraq in war reparations related to Iraq's invasion of Kuwait, 2.2% to the UN to cover its administrative costs on the program, and 0.8% for the weapons inspectors.

Above, we looked at losses on earnings. Now, let's look at losses on expenditures. Under the oil-for-food program, by examining only finances and not benefits, how much did the Iraqi people lose on expenditures? We have learned unofficially from the media and other sources that humanitarian goods/services were overcharged. If this is correct, then losses can be calculated by taking each expenditure transaction and comparing the actual procurement price with the market price available at the time. This also is a simple spreadsheet exercise. Once a loss is calculated, then it needs to be determined who is responsible for allowing it to happen. And finally, it needs to be determined how much in compensation is due to the Iraqi people for the losses on expenditures that were incurred without their involvement and through no fault of their own.

While calculating losses on earnings and losses on expenditures there is a third major analysis to be undertaken. This is an analysis of the time gaps from the time funds were earned until they were allocated and until they were spent. Funds were earned and accounted for phase-by-phase. Some funds, as noted previously, remained unspent for more than five years even though the items for which they were allocated were urgently needed for life-saving purposes. This is a simple spreadsheet and graphing exercise to compare spending patterns within each phase and across phases, and also within each UN agency and across agencies.

The fourth major analysis to be undertaken, the most difficult but the most important, is the calculation of losses in benefits that the program could have provided if UN leadership was exemplary and management functioned according to the highest professional standards.

For each of the UN agencies involved in the oil-for-food program in Iraq this was their largest single country program in the world. Funds were made available to the 10 UN agencies in Kurdistan for them to plan and implement projects, and to monitor themselves. There were no timeframes; UN agencies could take 3 months or 3 years to spend available funds. This excessive delay in the face of urgent needs was the

primary source of frustration to the people of Kurdistan and to their Kurdistan Regional Government.

Hundreds of UN international staff from many countries served the program in Iraq. Thousands of very competent and dedicated Iraqi local staff also served the program, both within the UN and with the local authorities. In Kurdistan, most of the former UN local staff is still there in their homeland. Most staff of the local authorities are still in the same positions they held during the program's implementation period.

Substantial documentation is also available in Kurdistan. With Iraqis, face to face contact is far more effective and productive than email and phone calls. Examiners are strongly urged to visit Kurdistan, which is relatively quite secure and stable, using the far more expeditious route via Turkey instead of the cumbersome and often problematic Kuwait, Jordan and Baghdad route. If you can arrange a special direct flight from Istanbul to Iraqi Kurdistan, that would be ideal. An airstrip that served C-17s and C-130s is ready and waiting. The KRG is well organized to provide internal transport and other support services, including security, to facilitate access.

On behalf of the Kurdistan Regional Government, I would like to extend an invitation to Senator Coleman and Senator Levin and any of your colleagues to visit the Kurdistan region and observe first hand the progress made since 1991 and the conditions still being faced by the people in that part of Iraq. You would have complete and ready access to all personnel and documentation available. I may add that springtime is gorgeous in the mountains, especially during April and May.

Thank you and I look forward to your questions and to seeing you in Iraqi Kurdistan.

Notes on the Iraqi Kurdistan Region and the Oil-for-Food Program

The Basics

The Oil-for-Food Program (OFFP) was instituted to mitigate the adverse effects of prolonged trade sanctions on the Iraqi people. Since 1991 Iraq's failure to comply with 17 United Nations Security Council resolutions pertaining to its weapons of mass destruction (WMD) programs lengthened the duration of the sanctions. During the same period more than 34 resolutions were passed by the Security Council to address the humanitarian needs of the Iraqi people.

Foremost among these humanitarian resolutions was SCR-986 passed in April 1995 that allowed the legal export of Iraqi oil and the sale proceeds to be used for the procurement and delivery of humanitarian goods and services to the people of Iraq. Sale proceeds were also applied to cover United Nations administrative expenses pertaining to Iraq, and compensation to victims of Iraq's aggression against Kuwait.

SCR-986 refers to the oil-for-food program and all subsequent resolutions pertaining to the program. The program was implemented in approximately six-month phases. SCR-986 was extended twelve times, each time by a resolution, for a total of thirteen phases. Oil under the program began to be legally exported in December 1996 and was terminated prior to the outbreak of war in March 2003. The program formally ended in November 2003, about two weeks short of seven years.

Comparison with the Marshall Plan

During its duration the Marshall Plan provided \$13 billion (\$90 billion in today's dollars) to seventeen devastated countries in Europe. In comparison, during the seven years of the Iraq oil-for food program more than \$45 billion was made available to only one country. But Iraq was not a devastated country. A reasonably well-established bureaucracy continued to function and the country was richly endowed with substantial resources – oil, water, and most importantly its human resources that were educated, skilled, and hardworking.

Iraqi Kurdistan as a Devastated Region

Iraq not being a devastated country is not quite correct. The only part of Iraq that was devastated was the Iraqi Kurdistan Region where the regime totally destroyed, leveled, more than 4,000 communities including towns of over 30,000 people. Tens of thousands of families fled as refugees to neighboring countries, or to the few large cities where public services were never able to meet the essential needs of their burgeoning populations. In addition, thousands of families were forced to live in so-called "collective towns" that resemble the thinking and behavior surrounding the establishment of reservations for Native Americans. Today, about 25% of the region's 3.8 million residents remain internally displaced, living like refugees in their own country. This devastation was not a function of international conflict; it was a function of confirmed state-managed genocide against the people of the Region.

In the late 1980s, chemical weapons were used against Iraqi citizens all across the Iraqi Kurdistan Region in over 200 locations, from the northwest near the border with Turkey all the way down to the southwest near the border with Iran culminating in the most infamous incident at Halabja.

Before the events of 1990-1991 Iraq was reputed to have among the best public services in the Middle East. The Baghdad regime's devastation of the region, however, is further demonstrated by deliberate neglect. In 1990, before the 1991 war, according to a UN report the child mortality rate in the rest of Iraq was 56 per 1,000 live births while in the region it was significantly higher at 80, 43% higher.

How the Iraqi Kurdistan Region Came About

While there are antecedents in a March 1970 agreement between the national government and the regional Kurdish leadership, today's Iraqi Kurdistan Region is a creation of the Saddam regime. The 1991 war occurred early in that year. In late 1991 the regime unilaterally withdrew its administration and established a militarized demarcation line separating the region from the rest of the country. Iraqi citizens crossing the line were subjected to international border-like checks, and humiliating treatment.

The regime abandoned the people of Iraqi Kurdistan. In response, the region's leaderships were forced to establish a regional administration, which they did without a view toward separation, as clearly stated and affirmed in deeds and actions at that time and at many times since then. By mid-1992 elections regarded as free and fair by international observers were held and a regional parliament (Kurdistan National Assembly, KNA) and a regional government (Kurdistan Regional Government, KRG) were established. Only abusive laws were changed by the KNA. Since the establishment of the KNA and KRG in 1992, all of the same laws and administrative structures in force in the rest of the country were also in force in the region.

Effects of Regional Separation

Because of involuntary separation more than 100,000 civil servants lost their livelihoods and thousands of government retirees lost their pensions. The regime permanently disconnected two of the three northern governorates (provinces) from the national electricity grid and suspended connection to the third for two years. The regime also stopped supplies of home heating and cooking fuels, prevented high school graduates from attending universities in center-south Iraq, and suspended a food-rationing system that functioned throughout the rest of the country. The separation also prevented medical patients from obtaining specialized health care available only outside the region, including kidney dialysis and cancer treatment. These are only some of the adverse features of life in the region during the six-year period prior to commencement of the oil for food program.

North-South Differences in Oil-for-Food Program Management

It needs to be clearly understood that in the rest of Iraq the Saddam regime was responsible for program implementation. This implementation was to have been monitored by the UN. In the Iraqi Kurdistan Region, however, the UN was responsible for implementing the program. Ten UN Agencies were established in the region to plan, implement, and evaluate the program. Remarkably, in the region the UN was responsible for monitoring itself.

In the rest of Iraq, the regime directly managed procurement of all items approved by the UN. The regime was allowed the power, the authority and opportunity, to determine the country, company, and price of procurement. Global bidding was not a UN program requirement. In the region, the UN was responsible for procurement of all goods and services related to the program with the very notable exceptions of **food, medicines, and oil spare parts**. These three items were procured by the Saddam regime and the costs charged to the region that had little, if any, say in the quantity and quality of items delivered.

Strikingly, the costs of these three items amounted to approximately **40%** of the funds allocated to the Region. The balance **60%** that was managed by UN Agencies was for health, education, water and sanitation, landmine activities, agriculture, settlement rehabilitation (housing and related facilities), and telecommunications.

UN Collusion with the Baghdad Regime: Diminished Funds

From the very beginning of the oil-for-food program the UN and the Saddam regime wittingly or unwittingly colluded to diminish funds available to the Iraqi Kurdistan Region. SCR-986 called for 13% to 15% of legal, UN-managed oil revenues to be allocated to the region based on proportionate population. The **minimum 13%** was allocated to the region even though the proportionate population was demonstrably higher. The consequent loss to the region's people varies from \$640 million to \$1.3 billion. A more complete explanation of this calculation is given below. Later, there were moves to decrease the allocation to 10%, but this was thankfully thwarted by a U.S. Government-sponsored resolution that locked in the minimum 13%.

The region was excessively charged for **pipeline fees**. This pertains to costs incurred on the export of oil through the Iraq-Turkey Pipeline (ITP). In the earliest phases, when the amount of oil that was allowed to be exported under the program was set at certain limits, extra amounts above the limits were allowed to be exported to cover ITP fees. In later phases, however, when limits were no longer applicable, the regime was allowed to legally export as much oil as it could (or as much as it chose to). During these latter phases, pipeline fees were directly deducted from each of the escrow accounts, including the 13% account established for the region. Despite repeated requests to the UN, no data has been obtained regarding the total pipeline fees incurred and the amount charged to each escrow account. Unofficial information, however, indicates that the region was charged disproportionately and excessively.

The region was also excessively charged for **oil spare parts**. Of twelve program sectors (food, medicines, health, education, water and sanitation, etc.), oil spare parts were allocated the third highest amount. The UN allowed the regime to use legal oil sale proceeds to procure spare parts for its oil industry beginning with phase-4. During phases 4 and 5 a total of \$300 million was allocated for each phase, and for phases 6 to 13 \$600 million per phase was allocated for oil spare parts. The region was charged a disproportionate share that, per capita, was more than 25% higher than for the rest of the country.

Food was allocated the most funds, nearly \$2 billion for 13 phases. Next was **electricity** at approximately \$1 billion. Today, after seven years of program implementation, the region's electricity generation, transmission, and distribution systems remain woefully inadequate. Despite substantial water flows in the northern mountains, the Saddam regime did not allow the installation of any new hydropower stations, including low-cost and low-environmental impact micro and mini hydropower plants that would have adequately served dozens of smaller communities. The UN, unfortunately, concurred with this approach.

The UN also agreed with the regime directly contracting an \$80 million gas turbine plant to supply electricity to the region. It is assumed the regime chose the country, company, and the price. Strikingly, this plant was to be established **outside** the region, but the costs charged to the region. Given the regime's past confirmed behavior in deliberately disconnecting the region from the national grid, the UN's collusion and inadequate guarantees that the full value of the plant would serve the people of the Region were highly questionable.

Interest earned on unspent funds was confirmed to accrue to the bank account in which it is earned -- by the U.S. Government, the U.K. Government, and by the UN itself via its Office of the Iraq Programme (OIP). Despite various representations, however, the amount of interest earned on the 13% escrow account established for the region has not been revealed. We do know from published OIP reports, however, that \$1.6 billion in interest was earned on the 59% escrow account established to procure humanitarian goods for the rest of the country. Interest is thus being sought on all unspent 13% account funds in ALL UN accounts, in the 13% escrow account and also the bank accounts of UN Agencies into which these funds were transferred before being paid out and leaving UN control.

More than \$4 billion is believed to be unspent in the region's 13% account. One small but specific example: of \$29 million allocated for medicines in phase-2 (1997), WHO confirmed that only \$14.7 million was spent. This means the region received only 51% of the value of medicines it was authorized to receive for phase-2, and that the balance of \$14 million has been sitting in the bank for more than five years!

2.2% of total oil sale proceeds was allocated to cover administrative costs incurred by UN Agencies on the program. There are indications that substantial expenses that could have, and should have, been charged to the 2.2% account were charged to the 13% account. These mis-charges to the 13% account reduced the funds available for the procurement of humanitarian goods for the region.

Markedly, \$300 million from the 2.2% account went unspent and were “surrendered” by the UN to the regime. No proportionate share of these unspent funds was offered to the region.

There was no overall plan with measurable indicators and timeframes to guide program implementation in all sectors and by all UN Agencies. UN Agencies could take virtually unlimited time to spend available funds. The program was closed in November 2003 but only about 47% of the funds allocated for the region had been spent. These included funds earned during phase-8 that began in June 2000. As noted above, even funds earned during phase-2 that began in June 1997 were not spent by the end of the program.

In contrast, the regime spent funds allocated to its 59% account more efficiently, if not more effectively. The effect of this efficiency, however, adversely affected the 13% account. Because the regime negotiated contracts that exceeded the funds available, the UN attempted to obtain fund advances from the 13% account to cover the costs of food and medicines that had not yet been delivered. The usual practice had been that the regime would procure food and medicines for the whole country to be paid from the 59% account. Shares would be sent to the region after which the cost would be reimbursed to the 59% account from the 13% account for the value of food and medicines actually received.

According to OIP’s website figures, a total of \$2.1 billion was spent on medicines for the whole country. 13% of this amount for the region amounts to \$274 million. Data available for the first eleven phases indicates a total of \$346 million was allocated for medicines for the region. According to WHO, however, the value of medicines actually delivered to the region as of August 2002 (phase-12) was only \$100 million.

Iraq’s Population

Regarding population figures, in order for funds in the UN-managed escrow accounts to be paid out, for each of the thirteen phases the Saddam regime had to submit a “distribution plan” for UN approval. This plan was prepared in consultation with the UN in Iraq and submitted to the Secretary General for his endorsement, which occurred in less than one week, usually within a day or two. This plan states population figures for each governorate (province). For the Iraqi Kurdistan Region, we can assume the figures are reasonably accurate because they are based on food registration figures determined by the UN Agency WFP who vetted discrepancies within the region without interference from either the regional authorities or the Saddam regime. In the rest of Iraq, however, the population figures are what the Saddam regime stated they are, without verification by the UN. The regime was claiming higher population figures for the oil-for-food program while elsewhere claiming that the country’s population was being decimated by the sanctions.

During the program’s 7-year duration, according to the regime’s own distribution plans submitted to the UN and approved by the Secretary General, the population of Iraq increased from 21.7 to 26.7 million, an increase of 22%. Iraq’s official census in 1987 states a population of 16.5 million, which increased to 22 million in the official census of 1997, an excessively high 33% growth rate. According to Kenneth

Pollack's "The Threatening Storm," if the 1.5 million who allegedly died due to sanctions were added, plus 500,000 who fled the country during the past decade, the ten-year growth rate would have been 45%! Contrary to what the regime would have had the world believe, according to their own figures the country thrived and multiplied under sanctions.

Population Figures and the Region's Fund Allocation

What does all this have to do with the Iraqi Kurdistan Region? Iraqi Kurdistan's population, as determined by WFP from the last list of beneficiaries receiving food under the program, was about 3.8 million. This list has been checked, rechecked, and revised by the UN. The original SCR-986 resolution called for Iraqi Kurdistan to receive 13% to 15% of oil sale revenues. If the population of Iraq is 25 million, as most authorities currently estimate, Kurdistan's fair share would amount to 15%. As it currently stands, however, at a total population of 26.7 million, Kurdistan's share would be approximately 14%, yet the region continues to receive 13%.

One or two percent of the total of \$64 billion earned during the program's seven-year duration means \$640 million to \$1.3 billion lost to the people of the Iraqi Kurdistan Region. After seven years of program implementation, none of the region's three main cities and none of the towns and smaller communities has an adequate electricity or water supply. These amounts would have made a substantial difference in reaching adequacy in these two sectors (electricity and water).

Transparency and Accountability

If data and information is unavailable to substantiate some of these observations it is because the UN, despite numerous and repeated representations and communications, has cloaked itself in a veil of secrecy and privilege. A primary source of data and information, though very limited, is the UN website maintained by the Office of the Iraq Programme (OIP). For each of the thirteen phases OIP produced a 90-day and a 180-day report that were high on verbiage and low on data and other information that would present a clear picture of what was really going on.

OIL SALES AND UN ALLOCATION ACCOUNTS

account	purpose
59%	humanitarian goods/services for center-south Iraq
25%	compensation fund
13%	humanitarian goods/services for Iraqi Kurdistan Region
2.2%	operational costs for UN humanitarian agencies
0.8%	operational costs for UN weapons inspectors

(Initially, the 59% account was 53%, the 25% account was 30%, and there was a 1% account pertaining to SCR-778. Later, the 30% account was reduced to 25% and the 1% account was eliminated. The 6% was added to the 53% account.)

Since August 1990, UN member states are prohibited from purchasing Iraqi oil products. An oil-for-food program was first offered in 1991 under Security Council resolutions 706 and 712, but the Government of Iraq (GoI) declined to cooperate with implementation. In April 1995, Security Council resolution 986 was passed and rejected by the GoI. However, in January 1996 UN-GoI discussions began and a Memorandum of Understanding (MoU) outlining the implementation process was agreed in May 1996. Oil began to flow in December 1996 and the first goods (food) arrived in March 1997. The oil-for-food program was implemented in approximately 180-day/6-month phases. Each phase was authorized by a Security Council resolution. Ten UN agencies based in Iraq were involved in implementation. In center-south Iraq the GoI managed the program. In the Kurdistan region of northern Iraq, ten UN agencies managed the program on behalf of the GoI in quasi cooperation with the Kurdistan Regional Government.

phase	value (\$ million) as of 21 Mar 03					
	oil sales	59%	25%	13%	2.2%	0.8%
1	2,150	1,269	538	280	47	17
2	2,125	1,254	531	276	47	17
3	2,085	1,230	521	271	46	17
4	3,027	1,786	757	394	67	24
5	3,947	2,329	987	513	87	32
6	7,402	4,367	1,851	962	163	59
7	8,302	4,898	2,076	1,079	183	66
8	9,564	5,643	2,391	1,243	210	77
9	5,638	3,326	1,410	733	124	45
10	5,350	3,157	1,338	696	118	43
11	4,589	2,708	1,147	597	101	37
12	5,639	3,327	1,410	733	124	45
13	4,413	2,604	1,103	574	97	35
total	64,231	37,896	16,058	8,350	1,413	514

Pipeline fees. From the value of oil legally exported, an estimated amount for pipeline fees related to the use of the Iraq-Turkey Pipeline (ITP) are assessed before the account percentages are applied. All five accounts share pipeline fees. Actual pipeline fees are not revealed.

Oil spare parts. \$300 million has been allocated in each of phases 4 and 5. \$600 million in each of phases 6 to 12. These amounts are deducted from only the 59% and 13% accounts. According to distribution plans submitted by the Government of Iraq and approved/endorsed by the Secretary General, however, these charges were to be treated the same as pipeline fees.

Interest. Throughout the program, substantial funds have remained unspent in commercial bank accounts. OIP and two Security Council members (UKG and USG) confirm that interest amounts accrue to the accounts in which they are earned. Despite requests to the UN, the interest amounts have yet to be revealed.

Gains on currency exchange. Funds in commercial bank accounts are maintained in one currency and goods/services are occasionally paid for in another currency with losses/gains on currency exchange.

13% ACCOUNT - ONLY 50% ACTUALLY SPENT

The following is based on data available on the OIP website: www.un.org/depts/oip/
Check "Basic Figures" in the right side panel. Figures below are based on data available per the dates indicated on the OIP website. Note the time gap between income and expenditure figures below.

Income as of 21 March 2003:

Total oil sale proceeds Phases 1 to 13: **\$ 64,231 million**

Theoretical availability for IK, 13%: \$ 8,350 million

Interest earned on unspent amounts and gains on currency exchange are not included. The amount actually available for humanitarian goods and services for IK is the theoretical amount plus interest, plus gain on currency exchange, minus amounts charged for pipeline fees and oil spare parts, which are calculated differently. Pipeline fees are deducted "off the top" and IK receives 13% of the balance. Oil spare parts are deducted from the 13%. IK citizens pay a disproportional share, 27% to 37% more per phase than Iraqi citizens in center-south Iraq.

Expenditure as of 31 December 2002:

Total spent on food arrived for all-Iraq: **\$ 10,760 million**
IK 13% share: **\$ 1,398**

Total spent on medicine arrived for all-Iraq: **\$ 2,111 million**
IK 13% share: **\$ 274**

(The actual amount delivered to IK is much less than \$274 million. Based on WHO figures the value of medicines delivered to IK, as of August 2002, is only **\$100 million**.)

Total spent on IK projects: **\$ 1,673 million (imports + local contracts)**
(electricity, agriculture, reconstruction/resettlement, water & sanitation, health facilities & equipment, education, telecommunications, landmine activities, etc.)

Total charged IK for oil spare parts **\$ 771 million**

Total expenditure: \$ 4,116 million

As of 31 December 2002 OIP indicates \$2.3 billion was spent by the Government of Iraq for food and medicines to be delivered to Iraqi Kurdistan. As of 31 August 2002, at the end of 11 phases, WFP indicates the value of food delivered to Kurdistan to be \$1,415,662,805. As of August 2002, at the end of 11 phases, WHO indicates the value of medicines delivered to IK was only \$100,065,673. The highest amount delivered per phase was \$202,746,964 (phase-8) for food, and \$23,753,182 (phase-1) for medicines. Therefore, WFP and WHO figures do not support the OIP figures.

Conclusion: Based on the above data, only 50% of the amount earned for IK has been spent on humanitarian goods and services. The balance 50%, more than \$4,000 million, remains "in the bank" unspent, part for more than five years.

(ESC) 13% Account ALLOCATIONS Phases I - XI BY AGENCY as of 12 Apr 02

source: UNOHC

agency	sector	PHASE I	PHASE II	PHASE III	PHASE IV	PHASE V	PHASE VI	PHASE VII	PHASE VIII	PHASE IX	PHASE X	PHASE XI	Phases I-XI
FAO	Agriculture	20,150,000	28,000,000	28,000,000	24,000,000	54,400,000	111,900,000	187,141,500	151,327,712	39,100,000	59,965,000	27,000,000	726,584,212
	Education				1,500,000								1,500,000
	Nutrition				10,500,000	4,500,000	12,500,000						27,500,000
UNHSP (Patrials)	total	20,150,000	28,000,000	28,000,000	36,000,000	58,900,000	124,000,000	187,141,500	151,327,712	39,100,000	59,965,000	27,000,000	755,584,212
	Resettlement	12,000,000	6,000,000	11,000,000	30,000,000	15,200,000	191,800,000	108,095,000	75,421,487	58,000,000	106,000,000	106,000,000	4,000,000
UNHSP (Patrials)	Watsan			4,000,000									4,000,000
	Edu (higher)												4,000,000
ITU	Edu (pri/sec)	12,000,000	6,000,000	15,000,000	30,000,000	17,200,000	107,800,000	137,295,000	85,421,497	62,000,000	106,000,000	106,000,000	83,300,000
	total	12,000,000	6,000,000	15,000,000	30,000,000	17,200,000	107,800,000	137,295,000	85,421,497	62,000,000	106,000,000	106,000,000	773,025,355
UNEP	Telecomms	23,370,000	19,300,000	26,000,000	73,700,000	96,200,000	220,417,200	167,658,080	114,390,000	43,000,000	77,000,000	50,000,000	141,500,000
	Electricity												9,700,000
UNESCO	Edu (higher)	5,150,000	5,000,000	5,000,000	5,200,000	4,100,000	12,800,000	31,449,800	13,535,600	15,720,000	12,600,000	3,400,000	911,326,280
	Edu (sec)	5,150,000	5,000,000	5,000,000	5,000,000	2,000,000	19,020,000	11,984,000	35,798,500	17,780,000	5,000,000	10,000,000	121,892,353
UNESCO	total	10,300,000	10,000,000	10,000,000	10,200,000	6,100,000	31,820,000	43,433,800	49,293,950	32,800,000	17,600,000	13,400,000	214,377,553
	Health	3,700,000	3,048,000	2,397,258	614,858	1,747,967	4,048,178	4,832,229	4,343,945	4,500,000	7,000,000	10,000,000	46,234,337
UNICEF	Vac (GOI BP)		651,096	1,302,742	385,144	352,033	350,822	867,771	1,056,055				4,985,063
	Child Protect.	1,300,000	3,170,000	1,170,000	400,000	800,000	2,530,000	3,100,000	1,700,000	2,778,113	2,400,000	20,448,113	3,614,000
UNICEF	Watsan	20,200,000	19,610,000	15,610,000	9,800,000	30,000,000	64,750,000	62,685,000	35,000,000	17,700,000	42,000,000	42,000,000	342,855,000
	Edu (pri)	10,000,000	10,000,000	11,700,000	7,300,000	3,000,000	15,000,000	10,100,000	13,289,400	15,500,000	11,275,167	31,000,000	137,668,567
UNICEF	total	35,200,000	35,480,000	32,180,000	18,500,000	35,900,000	85,950,000	82,215,000	58,293,400	46,700,000	38,757,280	85,400,000	555,485,680
	Resettlement		150,000			900,000	2,200,000	1,500,000					4,150,000
UNOHC	Contingency					3,150,000							3,150,000
	Cap. Building		150,000			4,050,000	2,200,000	1,600,000					1,600,000
UNOPS	total	0	150,000	0	0	4,050,000	2,200,000	3,100,000	0	0	0	0	9,800,000
	Demining	2,500,000	2,668,000	1,000,000	6,090,000	5,850,000	13,892,800	14,000,000	36,890,000	10,100,000	17,200,000	14,000,000	124,160,800
UNOPS	Resettlement								8,287,841		2,500,000		14,487,841
	Watsan								96,571,466	34,100,000			166,671,466
WFP	total	2,500,000	2,668,000	1,000,000	6,090,000	5,850,000	13,882,800	14,000,000	141,759,407	44,300,000	19,700,000	53,700,000	305,350,207
	Food Hand.	3,557,068	1,885,930	1,578,012	1,330,402	234,484	8,200,000	8,968,000	12,550,374	8,200,007	4,414,307	10,000,000	12,714,237
WFP	Nutrition	3,700,000	5,912,000	6,830,000	6,000,000	5,000,000	8,200,000	12,550,374	8,200,007	4,414,307	4,414,307	74,375,682	
	Food (BP)	118,557,879	120,153,393	120,500,237	124,434,079	126,622,328	138,000,000	152,000,000	183,320,000	184,000,000	184,000,000	184,000,000	1,635,628,016
WFP	PSC Food	414,953	420,677	421,751	435,519	443,178	483,000	532,000					3,151,076
	total	126,270,000	128,412,000	128,330,000	135,800,000	132,300,000	146,683,000	161,601,000	195,870,374	193,460,413	188,782,236	185,500,000	1,725,668,013
WHO	Health	6,100,000	6,300,000	6,300,000	6,000,000	12,700,000	86,750,000	89,656,900	120,000,000	43,000,000	26,000,000	24,000,000	430,000,000
	Watsan		390,000	390,000	500,000	500,000	460,000	1,092,090	900,000	500,000	500,000	300,000	5,132,090
WHO	Edu (higher)	28,800,000	300,000	300,000	3,000,000	1,000,000	8,200,000	6,090,000	8,325,985	8,200,000	5,800,000	2,000,000	43,205,985
	Med Hand		250,000										250,000
WHO	total	35,600,000	35,890,000	25,490,000	23,500,000	28,200,000	125,450,000	140,466,900	179,417,675	92,500,000	72,300,000	66,300,000	825,014,575
	Edu (higher)												16,544,400
Grand Totals	oil spare parts												16,544,400
	total	260,000,000	260,000,000	260,000,000	378,851,000	449,951,000	995,105,000	1,181,122,000	1,181,122,000	108,000,000	108,000,000	108,000,000	7,030,401,275

SCR-986 OIL-FOR-FOOD PROGRAM: UNSPENT FUNDS IN 13% ACCOUNT

The SCR-986 oil-for-food program was implemented from December 1996 to November 2003 in thirteen 6-month phases. Each phase was authorized by a Security Council resolution. For each phase the Government of Iraq (GOI) submitted a Distribution Plan (DP) to the UN that was endorsed/approved by the Secretary General. Only after a DP was endorsed/approved could oil-for-food funds be spent. During each phase the UN was obligated to file a 90-day report and a 180-day report. These reports were high on verbiage and low on data.

Under the program, Iraqi oil was legally sold under UN supervision. By the end of the program the sale proceeds were disbursed among five UN-managed escrow bank accounts: 59% for humanitarian assistance in center-south Iraq administered by the GOI, 25% for compensation to non-Iraqi parties for losses and damages caused by Iraq's invasion of Kuwait, 13% for humanitarian assistance for the separately administered Iraqi Kurdistan Region (IKR), 2.2% for UN administrative/operational costs, and 0.8% for the weapons inspectors.

Procurement of humanitarian assistance for center-south Iraq was handled directly by the GOI. The GOI directly negotiated contracts with vendors. Each contract had to be approved by the UN SCR-661 Sanctions Committee before funds under UN management could be released for payment. In the IKR, with the exception of bulk food and medicines, procurement was handled by UN Agencies. The Kurdistan Regional Government (KRG) was not directly involved in contract negotiations.

SCR-986 called for 13% to 15% of UN-supervised oil sale proceeds to fund humanitarian assistance for the separately administered IKR. The figure is based on proportionate population. Even though the population of IKR exceeded 13% of the estimated total population of Iraq, however, the UN decided to allocate the lowest allowable figure of 13%.

Prior to 1991 IKR was the region subject to the most neglect, destruction, disappearances, and dislocation. In 1990, the child mortality rate was 43% higher than the rate for the rest of the country. Up to 1990 over 4,000 communities were destroyed including towns of over 30,000 people. Nearly 25% of the population of IKR is considered to be internally displaced, including over 100,000 persons expelled from the Kirkuk area into IKR in late 1991.

In accordance with SCR-986 passed in April 1995 the UN Secretariat was made responsible for the management of the oil-for-food program. Terms and conditions were either imposed on Iraq or agreed to in the Memorandum of Understanding signed by the UN and GOI in May 1996. The UN had the controlling interest and supervising responsibility. The UN also had the resources to manage the program to the highest performance and ethical standards; 2.2% of oil sale proceeds, nearly \$1.5 billion, were allocated for UN administrative costs. More than \$200 million unspent from the 2.2% account was surrendered by the UN to the GOI 59% account.

IKR received significantly less than the upper limit of 15% allowed under SCR-986. IKR also received significantly less than the 13% that was finally applied; when the program ended in November 2003 perhaps less than 7% was actually spent on IKR.

There are questions regarding the proper calculation of actual pipeline fees and oil spare parts that should have been deducted "off the top" before 13% of the balance was calculated to cover humanitarian assistance costs in IKR. Per capita, IKR citizens paid 27% to 37% more for oil spare parts than citizens in center-south Iraq.

There is the major issue of bank account interest earned on unspent funds, which are substantial. The UN reported interest earned on the 59% account (\$1.6 billion) but never on the 13% account, even though the KRG was informed by OIP, the U.S. Government, and U.K. Government that interest accrues to the escrow account in which it is earned. Despite numerous attempts, the KRG was never informed of the amount. There is also a notion that 13% account funds transferred to UN Agencies' accounts accrued interest that was used for purposes unrelated to Iraq.

The GOI procured bulk food and medicines for the whole country and shares were delivered to IKR. The GOI initially paid for bulk food and medicines from the 59% account established to fund humanitarian assistance for center-south Iraq. The cost of food and medicine actually delivered to IKR was later reimbursed to the 59% account from the 13% account. It is to be noted that OIP attempted to advance funds from the 13% account because the 59% account was over-obligated.

The KRG submitted project proposals to the UN with a total estimated value that exceeded funds available in the 13% account. These projects were urgently needed to serve important humanitarian activities pertaining to the sectors of health, education, electricity, water, environmental sanitation, settlement rehabilitation, landmine activities, agriculture, and telecommunications.

The UN did not share financial allocation and expenditure information with the KRG. There is one exception. After more than five years of program implementation, in April 2002 the UN provided the KRG with tables of allocations by sector and by UN Agency. But when the UN was requested to provide expenditure figures to compare with allocation figures earlier received, in order to determine unspent balances available in each sector and with each UN Agency, no data was forthcoming.

Although the UN submitted to the Security Council during each of the thirteen phases a 90-day report and a 180-day report, complete summary financial data was never a part. Obtaining complete financial data from the UN has been impossible. These reports were available on the OIP website at www.un.org/depts/oip

Attached is a table listing items for which financial data is needed in order to determine the amount of unspent funds in the 13% account when the program ended in November 2003.

UN SCR-986 OIL-FOR-FOOD PROGRAM: 13% ACCOUNT SUMMARY

Oil-for-Food funds from UN approved and monitored Iraqi oil sales were managed by the UN in five escrow accounts: 59% (initially 53%) for humanitarian assistance for center-south Iraq, 25% (initially 30%) for compensation for war losses/damages, 13% for humanitarian assistance for the Iraqi Kurdistan Region, 2.2% for UN overhead costs, 0.8% for weapons inspection activities. There were two additional sources of earnings: Interest earned on unspent funds and gains on currency exchange.

UN administration of the oil-for-food program began in May 1996 and terminated in November 2003 when the program was transferred to the US-led Coalition Provisional Authority (CPA). Program responsibility had been assigned by the UN Security Council to the UN Secretariat headed by the Secretary General. The program was managed by the executive director of the Office of the Iraq Programme (OIP) in New York and its field office in Baghdad, the UN Office of the Humanitarian Coordinator for Iraq (UNOHC-I). Nine separately administered UN Agencies implemented the program in the Iraqi Kurdistan Region (IKR): FAO, ITU, UNDP, UNESCO, UN-Habitat, UNICEF, UNOPS, WFP, WHO.

A clear, comprehensive, and complete final accounting of all funds to which the people of the Iraqi Kurdistan Region are entitled has yet to be produced. To accurately determine correct figures, the table below lists summaries of line items to be carefully examined and calculated. It is roughly estimated that at least \$2.5 billion remains outstanding.

item	description	(figures in thousands of millions of US dollars)		explanation
		add	subtract	
1	oil sale proceeds	64,231	64,231	Total amount UN received from the sale of Iraqi oil under the terms and conditions of the SCR-986 oil-for-food program.
2	pipeline fees (actual costs incurred)			Fees charged to 13% account for Iraq-Turkey Pipeline usage. Pipeline Fees were charged to all 5 accounts. How was the amount calculated?
3	oil spare parts (actual costs incurred)			Costs charged to 13% account for oil spare parts. These costs should have been charged like pipeline fees to all 5 accounts, but were charged to only the 59% and 13% accounts. IKR was charged excessively by 27% to 37% per phase.
4	balance available for humanitarian goods and services			Available to spend on food, medicines, water and sanitation, education, etc.
5	cost of food actually received			Bulk food for all 18 governorates was procured by the GOI from its 59% account. Proportionate shares based on population were delivered to IKR for which the actual cost was reimbursed from the 13% account.
6	cost of medicines actually received			Bulk medical supplies for all 18 governorates were procured by the GOI with funds in its 59% account. Proportionate shares based on population were delivered to IKR for which the actual cost was reimbursed from the 13% account.
7	cost of project activities			Except for bulk food and medicine supplies, and oil spare parts, UN Agencies handled all other sectors: health, education, agriculture, water and sanitation, electricity, landmine activities, telecommunications, and settlement rehabilitation.
8	costs mischarged to 13% funds			UN Agencies' operational/administrative/overhead costs were covered from the 2.2% account. But some of these costs were mischarged to the 13% account.
9	interest earned on 13% funds in master escrow account			Unspent funds in UN bank accounts earned at least \$2.9 billion in interest. IKR is entitled to interest earned on unspent 13% account funds.
10	interest earned on 13% funds in UN Agencies' bank accounts			Some 13% account funds managed by OIP were transferred to UN Agencies' accounts. IKR is entitled to interest earned on unspent 13% funds in all UN accounts.
11	gain on currency exchange			The UN indicates \$2.3 billion was gained on currency exchange. IKR is entitled to gains on currency exchange transactions involving 13% account funds.
12	value of goods procured that were not delivered			Some goods procured with 13% account funds were never delivered, such as those looted from Baghdad, Kirkuk, Mosul, and perhaps other locations.
13	share of unspent 2.2% funds			2.2% was legally designated for UN administrative/operational costs. About \$400 million remained unspent. IKR is entitled to no less than 18% (not 13%).
14	unspent 13% account funds			Remaining funds legally assigned to the Iraqi Kurdistan Region = (13% oil sales + bank interest on unspent 13% funds + gains on currency exchange on 13% funds + 18% of unspent 2.2% funds) minus (correctly calculated and charged costs).

9 February 2004

ALLOCATION VS. ACTUAL EXPENDITURE - MEDICINES

as of August 2002
allocation/expenditure figures from UN sources

Phase	Erbil		Duhok		Suleimaniya		Erbil + Duhok+Suleimaniya					
	34%	spent	23%	spent	43%	spent	100%	spent				
	%		%		%		%					
1	9,792,000	8,568,608	88	5,277,374	80	12,384,000	9,907,200	28,800,000	23,753,182	82		
2	9,860,000	5,062,458	51	6,670,000	45	12,470,000	6,557,780	29,000,000	14,652,742	51		
3	6,290,000	3,503,943	56	4,255,000	61	7,955,000	5,763,713	18,500,000	11,848,150	64		
4	4,080,000	2,830,759	69	2,760,000	69	1,600,695	4,013,277	12,000,000	8,444,731	70		
5	4,760,000	2,618,665	55	3,220,000	36	6,020,000	2,030,475	14,000,000	5,824,261	42		
6	10,200,000	3,159,904	31	6,900,000	23	12,900,000	3,859,519	30,000,000	8,596,646	29		
7	14,960,000	2,805,430	19	10,120,000	15	18,920,000	3,543,684	44,000,000	7,871,164	18		
8	17,000,000	4,473,763	26	11,500,000	21	21,500,000	6,025,430	50,000,000	12,898,556	26		
9	13,600,000	1,531,110	11	9,200,000	7	17,200,000	2,633,732	40,000,000	4,795,456	12		
10	13,600,000	513,507	4	9,200,000	3	17,200,000	617,595	40,000,000	1,380,785	3		
11	13,600,000	0	0	9,200,000	0	17,200,000	0	40,000,000	0	0		
Total	117,742,000	35,068,147	30	79,649,000	20,045,121	25	148,909,000	44,952,405	30	346,300,000	100,065,673	29

Oil began flowing under the UN Security Council resolution authorizing the oil-for-food program in December 1996, almost six years ago. Goods began arriving in March 1997. Of the eleven 6-month phases that have concluded to date, \$346,300,000 has been allocated for the Iraqi governorates (provinces) of Erbil (34%), Duhok (23%), and Suleimaniya (43%) for the procurement - by the GOI - of medicines, medical supplies, and laboratory reagents.

The total value of medical items received as of August 2002 is \$100,065,673. This means that after five years only 28% of the funds available have been spent. The balance 72% (\$246,234,327) remains unspent in UN-managed bank accounts. For example, only 49% of funds allocated for Phase-2 over five years ago have been spent. This has forced the KRG to use its limited resources to procure important and urgent medical items from alternative sources.

What's going on here?

188

STATEMENT BY

AMBASSADOR PATRICK F. KENNEDY

U.S. REPRESENTATIVE FOR UN MANAGEMENT AND REFORM

UNITED STATES MISSION TO THE UNITED NATIONS

BEFORE THE

SENATE HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

COMMITTEE,

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

ON THE

UNITED NATIONS OIL-FOR-FOOD PROGRAM

FIRST SESSION, 109TH CONGRESS

FEBRUARY 15, 2005

Mr. Chairman, distinguished members of the Committee, I welcome the opportunity to appear before you to discuss the UN's Oil-for-Food Program and to answer your questions on various aspects of the management and execution of the Program.

Mr. Chairman, I want to reiterate three key points regarding the context in which the Oil-for-Food Program was established and implemented. First, I want to emphasize that the U.S. was often fighting an uphill battle -- the very establishment of the Program was the result of arduous negotiations among 15 Security Council members-- some of whom were arguing for the complete lifting of sanctions. As a result of this political context, the ability of the United States and the United Kingdom to take measures to counter or address non-compliance during the life of the Program was often countered by other members' desire to, in fact, ease sanctions on Iraq.

Second, sanctions have always been an imperfect tool, but, given the U.S. national goal of restricting Saddam's ability to obtain new materials of war, sanctions offered an important and viable approach, short of the use of force, to achieve this objective.

Third, the United States made decisions and took actions relating to the Oil-for-Food Program and the comprehensive sanctions on Iraq also to achieve overarching national security goals within the larger political and economic context of the region.

Mr. Chairman, given this general context, I would like to attempt to outline some of the issues relating to the responsibility for implementing the Program and for the sanctions in general.

The Oil-for-Food Program was established to address the serious humanitarian crisis that Saddam Hussein had inflicted on the Iraqi civilian population while concurrently maintaining strict enforcement of sanctions on items that Saddam Hussein could use to re-arm or reconstitute his WMD and other military programs.

We believe the system the Security Council devised by and large met these two specific objectives. The Oil-for-Food Program did have measurable success in meeting the day-to-day needs of Iraqi civilians. The daily caloric intake of Iraqi citizens increased and health standards in the country improved. And, as Mr. Duelfer testified before this Committee on November 15 last year, "UN sanctions curbed Saddam's ability to import weapons, technology and expertise into Iraq".

Investigations over the past year have uncovered significant sanctions-busting activities that arose both from Saddam Hussein's manipulation of the Program, and from his and others' abuse of the sanctions regime for financial gain.

In the end, the Oil-for-Food Program reflected three factors:

- A collective international desire to assist and improve the lives of Iraq's civilian population;
- A desire by the United States and others to prevent Saddam from acquiring materials of war and from posing a renewed regional and international threat;
- And, a decision by some companies, member states and individuals to pursue their own financial interests at the expense of the international community.

Mr. Chairman, this final point about actors who colluded with Saddam in breaching sanctions and violating the rules of the Oil-for-Food Program leads me to the issue of responsibility.

The United Nations, first and foremost, is a collective body comprised of its 191 members. A fundamental principle inherent in the UN Charter is that all member states will uphold decisions taken by the Security Council. The effectiveness of the sanctions regime against Iraq and the integrity of the Oil-for-Food Program depended completely on the ability and willingness of member states to implement and enforce the sanctions. In this regard, member states held the primary responsibility for ensuring that their national companies and their citizens complied with the states' international obligations. Through the Treasury Department, the United States, for instance, took measures to establish a vetting process for U.S. companies seeking to do business in Iraq.

We also implemented a comprehensive process to review contracts for humanitarian goods going to Iraq in order to ensure that dual-use items were not being supplied to Iraq through the Oil-for-Food program.

In addition to the responsibilities of member states, the Security Council also established a subsidiary body of the Security Council, the 661 Committee, to monitor the sanctions on Iraq and, once it was established, the Oil-for-Food Program. The 661 Committee discussed issues related to violations of the sanctions between 1990 and 2003 and issues related to the Oil-for-Food Program between 1995 and 2003. Action, however, could only be taken to address these issues if there was the political will and a consensus of all the members of the Committee to do so. Although the United States and the United Kingdom repeatedly raised concerns within this context, and often offered solutions to mitigate abuses, consensus within the 661 Committee continually proved elusive as we faced opposition from one or more members of the Committee.

The Security Council also authorized the UN Secretary-General and the UN Secretariat, under Security Council Resolution 986 in 1995 and subsequent resolutions, to implement and monitor the Oil-for-Food Program. The Office of the Iraq Program (OIP) staff was hired to devise a system whereby oil revenues under the Program could be used to pay for humanitarian supplies for Iraq. To be clear, Mr. Chairman, the Secretariat, the OIP, and the UN Agencies were given the authority and had the power to implement the Program only within the mandate given to them by the Security Council. They were not empowered to monitor or enforce implementation by member states of the overall sanctions on Iraq or act as a border patrol.

To make the division of responsibilities clear, Mr. Chairman, let me offer two examples. The first regards oil flowing out of Iraq. The former Iraqi regime, through its State Oil Marketing Organization (SOMO) proposed prices for various markets and grades of crude for review by the UN Oil Overseers, and for approval by the 661 Committee. The Oil Overseers and Committee members verified that the purchase price of the petroleum and petroleum products is reasonable in the light of prevailing market conditions. The UN contracted monitoring company, Saybolt (a Dutch entity), provided on-site independent inspection agents who kept 661 Committee members informed of the amount of petroleum exported from Iraq. Saybolt inspectors also monitored the arrival of oil industry spare parts under the Oil-for-Food Program. A UN escrow account administered by Banque Nationale de Paris (BNP) received payments for such liftings. Oil flowing out of Iraq through other means - smuggling, trade protocols and the voucher system - was outside the mandate of the UN Secretariat. Member states were responsible for monitoring these activities.

My second example concerns goods coming into Iraq. Again, there was a clear division of responsibility. While the 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 UNSCR 986. Once a contract was approved by the Committee and the goods shipped under the Oil-for-Food Program, the UN's inspection agents, Lloyds Register (British) and later Cotecna (Swiss), 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 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 member states did not take their international obligations seriously and either directly or indirectly facilitated Saddam's sanctions-busting activities. 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 Interim Report indicates, there are serious charges that UN Secretariat officials may have allowed Saddam to further undermine the system.

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

Violations with respect to the Oil-for-Food Program manifested themselves in two key areas: manipulation of oil pricing, and kickbacks on Oil-for-Food Program humanitarian contracts.

In late 2000, UN Oil Overseers reported that Iraqis were attempting to impose excessive price premiums on oil exports. The 661 Committee, led by the United States and 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 through the spring of 2001. The United States, working in close coordination with the British delegation in New York, 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 each month on oil pricing proposals submitted at the beginning of each month by SOMO, the Iraqi State Oil Marketing Organization. This retroactive price analysis gave the U.S. and British experts the opportunity to compare oil prices sought by SOMO to the actual market price of similar crude oils to determine if SOMO's prices reflected "fair market value" -- a requirement under Resolution 986 (1995). Beginning in October 2001, the United States and United Kingdom regularly employed the retroactive oil pricing mechanism to evaluate SOMO's suggested prices until the suspension of the Oil-for-Food Program in March 2003.

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

Separately, allegations of kickbacks related to Oil-for-Food Program humanitarian contracts began to surface in late 2000. U.S. and British

experts raised this issue with 661 Committee experts and UN Office of the Iraq Program representatives in late 2000 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 following the fall of the Saddam's regime, when the United States, through the Coalition Provisional Authority (CPA), 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 UNSC Resolution 1483 (2003), CPA officials, in coordination with UN officials and the Iraqis, took steps to eliminate surcharges in remaining Oil-for-Food contracts.

In addition to efforts to eliminate or counter surcharges and kickbacks, the United States also took initiatives to provide members of the 661 Committee and the Security Council information and evidence of violations by the Saddam regime through 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 Hussein's non-compliance with UN Security Council resolutions, and Saddam's attempts to procure WMD-related materials.

In March 2002 a U.S. interagency team briefed the 661 Committee on the former regime's diversion of trucks. U.S. Commanders of the Multinational Maritime Interception Force (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.

Mr. Chairman, I know that an issue of concern to the committee is what our relationships were with Jordan and Turkey with respect to imports of oil from Iraq during the Oil for Food period and why we felt the need to treat these nations differently. Beginning in 1991 and extending through 2003, the annual Foreign Operations Appropriations Acts contained restrictions on U.S. assistance to any country "not in compliance with the UNSC sanctions against Iraq." The 2002 FOAA, as carried forward in the 2002 Supplemental, for example, contained such language in section 531. The restrictions under section 531 and its predecessors could be waived if the President determined and certified to the Congress that providing assistance was in the national interest.

In the case of Jordan, as we explained to then-Senate Foreign Relations Committee Chairman Biden in a letter dated October 2, 2002, the restriction had been waived each year since its enactment in 1991 by three successive Administrations.

Jordan was and remains a critical partner with the U.S. in bringing stability and a lasting peace to the Middle East. By ensuring that Jordan was not

strangled by a lack of a critical resource, the Jordanian Government was able to pursue policies of critical importance to U.S. national security in the region. The Jordanians made clear to us that their trade would not aid Saddam's weapons programs. We understood they were sending manufactured products to Iraq in exchange for oil. The U.S. determination and certification were solely in recognition of Jordan's lack of economically viable options. The UN Sanctions Committee, with USG support, "took note of" Jordan's imports of Iraqi oil and its lack of economic alternatives.

As we explained in the October 2, 2002 letter, similar consideration was given to Turkey, a close ally of the United States, a NATO partner and host of Operation Northern Watch. Turkey cooperated closely with U.S. nonproliferation efforts against Saddam Hussein's regime. Our approach was to encourage Turkey to bring its trade with Iraq into conformity with UN Security Council resolutions.

Turkey claims that its cumulative losses from the Gulf War and ensuing UN sanctions against Iraq amount to about \$35 billion, and throughout the 1990s pushed for ways to expand its trade with Iraq. From 1991 to the start of Operation Iraqi Freedom, the United States worked with Turkey to discourage trade outside of the UN sanctions regime. For instance, the United States did not support a Turkish request for relief from sanctions under Article 50 of the UN charter. In addition, the United States sought to ensure that UN Security Council Resolutions did not legitimize trade with Iraq outside the OFF Program.

Throughout the 1990s and in the run up to Operation Iraqi Freedom, the United States consistently sought to stem the increase of illicit trade between Iraq and Turkey. For example, the United States strongly objected to Turkey-Iraq Joint Economic Commission meetings, opposed the opening of a second border crossing between Turkey and Iraq, and protested vigorously when the Turkish Trade Minister led a large delegation of business executives to Baghdad in late 2002. Throughout this period, we continued to press Turkey to regularize its trade with Iraq within the OFF Program.

Additionally, trade across the Iraq-Turkey border provided an economic outlet for Iraqi Kurds who were under constant threat from Saddam's regime and who shared our goal of opposing Saddam and are an important part of the new Iraq.

Based on our close and continuing cooperation with these governments, we determined that it was in our national interest to request a waiver on prohibitions of assistance.

The last issue that I would like to address is that of accusations of impropriety, mismanagement or abuse by UN personnel, contractors or agencies.

The recently released UN Office of Internal Oversight Services (OIOS) audits and the Independent Inquiry Committee's Interim Report paint a very disappointing and disturbing picture regarding this issue and we remain deeply concerned.

The lack of transparency on the part of the UN with regard to the OIOS audits has long been of particular concern. The United States Mission to the United Nations has continually sought access to the OIOS audit reports. These were initially denied, as access was deemed to be outside of General Assembly rules. Our staff worked tirelessly since this past summer to get these particular Oil-for-Food audits released, but both the UN Secretariat and the Volcker Committee declined.

Therefore, last fall, the United States put forward language for inclusion in a General Assembly resolution requiring that the UN make all OIOS audits available to UN member states upon their request. The General Assembly adopted this U.S. initiative during the evening of December 23. Within an hour, the United States formally requested copies of the OIOS audits covering the Oil-for-Food program. Two weeks later, the audits were made public.

Mr. Chairman, I convey this information to you because we at the United States Mission to the United Nations take our responsibility to make the UN a more transparent body very seriously and we intend to continue this initiative, in order to ensure adequate follow-up of auditors' recommendations.

The Oil-for-Food Program was a unique endeavor -- a humanitarian program on a scale that we never imagined for which there was no precedent. Although it provided essential sustenance to the Iraqi people, it was also manipulated by Saddam Hussein and his cronies to undermine the sanctions

regime and to further their nefarious political and personal agenda. Recent revelations have exposed problems in the UN's oversight of the Program.

Mr. Chairman, as we go forward, we will take the lessons that we have learned through the Oil-for-Food experience and apply them to future UN endeavors. We will continue to work to improve the UN's management capacity. We have a reform agenda in front of us now. The audit reports will also serve as another tool to improve our ability to monitor and correct problems at the UN.

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

Iraqi Memo Estimating Sevan's Profit at \$1.2 Million

Estimate of Financial Proceeds Achieved by a Sample of People Benefiting from the Crude Oil Allocations

The table below explains the estimates achieved by some individuals and other parties as a result of obtaining oil allocations from the former regime. These proceeds have been calculated based on our estimates of the profit margins related to each phase of the Memorandum of Understanding, and the crude oil lifting these individuals carried out in each phase.

No.	Allocated Party	Total Crude Oil Lifted in All Phases (million dollars)	Estimate of Financial Proceed for All Lifted Quantities (million dollars)
١٤	(مجهول)	٨,١	
٥٥	٤- جورج ترخانفريان (ناجور ايندي) قسم من قبل جهاز المخابرات ومكتب طارق عزيل	٢٠,٧	
٥٨	٥- فواد سرحدان (ناجور يوزلي) من قبل ايندي قسم من قبل	٢,٠	
٦٠		٧,٨	
٦٧	10 Benon Sevan (former manager of Iraq program at the United Nations)	٢,٨	1.2
٦٧		١,١	
٦٢			
١٧			
١٧		٩,٣	1.2

ملحق رقم ٢

تقديرات العوائد المالية لعينة من المستفيدين
من تخصيصات النفط الخام

يبين الجدول ادناه تقديرات للعوائد المالية التي حققتها عينه من الشخصيات وجهات اخرى من جراء حصولها على تخصيصات نفطية من النظام السابق . احتسبت هذه العوائد بالاستناد إلى تقديراتنا لهوامش الربح المتعلقة بكل مرحلة من مراحل مذكرة التفاهم وسحوبات النفط الخام التي نفذتها هذه العينة خلال كل مرحلة .

ت	الجهة المخصص لها	مجموع سحوبات النفط الخام خلال جميع المراحل (مليون دولار)	تقدير العائد المالي لكامل السحوبات (مليون دولار)
١-	جرنوفسكي (رئيس الحزب الليبرالي الديمقراطي الروسي)	٦٠,٣	٨,٦
٢-	حميدة ننع (كاتبة صحفية سورية)	٨,٣	١,٤
٣-	محمد عبد المنان (وزير اوقاف سابق في بنغلاديش)	٣٠,٧	٥,٥
٤-	جورج ترخاتيان (تاجر لبناني قدم من قبل جهاز المخابرات ومكتب طارق عزيز)	٢,٠	٠,٨
٥-	فؤاد سرحان (تاجر برازيلي من اصل لبناني قدم من قبل مكتب طارق عزيز)	٧,٨	١,٠
٦-	علي بلسوط (صحفي لبناني)	٣,٨	٠,٧
٧-	جمعية الصداقة العراقية الفرنسية	١١,٢	١,٧
٨-	اورشامسكي (قصل فخري سابق للعراق في اوكرانيا)	٣,٥	٠,٣
٩-	الياس الفرزلي (تاجر وكاتب صحفي لبناني مقيم في فرنسا)	٦,٣	١,٣
١٠-	بنون سيفان (المدير الاسبق لبرنامج العراق في الامم المتحدة)	٩,٣	١,٢

Benon Sevan's Oil Allocations for Phase IV

7,132	7,200	شركة جونا بيل العربية	شركة جونا بيل (البحرين)	M/04/39	39
1,828	1,800	شركة بنويعس البحرينية	شركة بنويعس البحرينية	M/04/40	40
3,789	4,000	شركة فوريال تريتيك (الفرنسية)	شركة فوريال تريتيك (الفرنسية)	M/04/41	41
1,998	2,000				

No.	Contract No.	Allocated Party	Contractual Company	Allocated Qty (million barrel)	Executed Qty (million barrel)
60	M/04/60	Mr. Benon Sevan - the United Nations	African Middle East Panamanian Company	1.800	1.836

1,800	1,800	شركة فوريال تريتيك (الفرنسية)	شركة فوريال تريتيك (الفرنسية)	M/04/39	39
1,868	1,800	شركة بنويعس البحرينية	شركة بنويعس البحرينية	M/04/40	40
1,810	1,800	شركة فوريال تريتيك (الفرنسية)	شركة فوريال تريتيك (الفرنسية)	M/04/41	41
1,744	1,200	شركة فوريال تريتيك (الفرنسية)	شركة فوريال تريتيك (الفرنسية)	M/04/41	41
500	500				
1,836	1,800	شركة فوريال تريتيك (الفرنسية)	شركة فوريال تريتيك (الفرنسية)	M/04/60	60
1,961	2,000	شركة فوريال تريتيك (الفرنسية)	شركة فوريال تريتيك (الفرنسية)	M/04/61	61
3,968	3,928,020				

اشخاص , شركات و جهات خصصت لهم كميات خلال المرحلة الرابعة ولم يتسلموا
 اذود - 1

7.132	7.200	شركة جيلنا اويل الصينية	شركة جيلنا ناشنل اويل (الصين)	M/04/39	39
1.829	1.800	شركة بترويمكس السلوفاكية	شركة بترويمكس (سلوفاكيا)	M/04/40	40
3.789	4.000	شركة اندويل تريندك (الاندونيسية)	شركة اندويل تريندك (الاندونيسية)	M/04/41	41
1.996	2.000	شركة بتريد المغربية	المسيد عبدالله السلاوي - (مغربي)	M/04/42	42
1.911	2.000	شركة كلكور الصوميرية - فرع فرنسا	شركة كلكور الصوميرية - فرع فرنسا	M/04/43	43
9.941	10.000	شركة سيداتكو الروسية	المسيد جيرنوفسكي (روسيا)	M/04/44	44
15.671	15.000	شركة روزبالت الروسية	الحزب الشيوعي الروسي (روسيا)	M/04/45	45
1.863	1.800	شركة دلتا التركية	شركة دلتا التركية	M/04/46	46
3.675	3.800	شركة نيومين الروسية	شركة نيومين (روسيا)	M/04/47	47
4.032	4.000	شركة النفط الهندية	شركة النفط الهندية (الهند)	M/04/48	48
1.843	1.800	شركة اوردم التركية	شركة اوردم (تركيا)	M/04/49	49
1.887	1.800	شركة سينتا التركية	شركة لظفي اوردوغلان (تركيا)	M/04/50	50
1.837	1.800	شركة ليلوم الإيطالية	شركة ليلوم (إيطاليا)	M/04/51	51
1.746	1.800	شركة كريست الامارات	شركة كريست (الامارات)	M/04/52	52
1.764	1.800	كالاكس الإيطالية	المسيد علي بلوط (البحرين)	M/04/53	53
1.767	1.800	شركة كلف ايردولهايمس للمساوية	المسيد محمد الهوني (البيبا)	M/04/54	54
1.890	1.800	شركة اويل كسيكو الكندية	شركة اويل كسيكو (كندا) المسيد وثر مينهولاد	M/04/55	55
1.668	1.800	شركة لسموس ليمتد الكينية	المسيد محمد عثمان مسعد (كينيا)	M/04/56	56
1.810	1.800	شركة تانرشنل بتروليوم الاندونيسية	شركة أي . بي . إس . أي (اندونيسيا)	M/04/57	57
1.144	1.200	شركة بتروناس الماليزية	شركة بتروناس (ماليزيا)	M/04/58	58
3.991	4.000	شركة بتروفيتنام الفيتنامية	شركة بتروفيتنام (فيتنام)	M/04/59	59
1.836	1.800	شركة لفريلان مدل ليست البنمية	المسيد بنون سيلان - (الامم المتحدة)	M/04/60	60
1.961	2.000	شركة لوك اويل الروسية	المسيد محمد عبد المنان (بنغلاديش)	M/04/61	61
308.131	329.020	المجموع			

أشخاص , شركات و جهات خصصت لهم كميات خلال المرحلة الرابعة ولم يتعاقدوا

لا يوجد

Sevan's Oil Allocations for Phases V, VII, VIII, X, XI and XII

No. Contract	Allocated Party	Contractual Company	Allocated Qty (million barrels)	Executed Qty (million barrels)
48	Mr. Benon Sevan (the United Nations)	African Middle East Petroleum Company	1,300	1,004

51	Mr. Benon Sevan - the United Nations	African Middle East Petroleum Company	1,000	1,000 (might be "not executed")
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56	Mr. Benon Sevan (the United Nations)	African Middle East Petroleum Company	1,500	0,951
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88	Mr. Benon Sevan (the United Nations)	African Middle East Petroleum Company	1,500	1,489
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People, companies and parties who were granted quantities in phase (1), but did not contract

No. Contract	Allocated Party	No contract was signed with the individuals and parties mentioned as per the instructions at the time since they owed some amounts to the United Nations from the exchange of contracts they carried out	Allocated Qty (million barrels)	Executed Qty (million barrels)
3	Mr. Sevan (the United Nations)		1,850	

People, companies and parties who were granted quantities in phase (2), but did not contract

No. Contract	Allocated Party	No contract was signed with the individuals and parties mentioned as per the instructions at the time since they owed some amounts to the United Nations from the exchange of contracts they carried out	Allocated Qty (million barrels)	Executed Qty (million barrels)
12	Mr. Sevan (the United Nations)		1,500	

Permanent Subcommittee on Investigations
EXHIBIT #3

1.000	كومنلث توريد التمساوية	السيد نيكولاي ريجكوف- عضو مجلس الدولة الروسي	M/11/125	124
1.017	كوجب الإيطالية	السيد فريمغوتني - (إيطالي)	M/11/126	125
1.500	كومنلث توريد التمساوية	السيد سوس رومانوف- رئيس اللجنة الروسية للتفتيش مع نائب الرئيس	M/11/129	126
1.000	أويل اند كاز كروب للباكستانية	السيد محمد فقيه البصري - (مصري)	M/11/131	127
1.000	أويل اند كاز كروب للباكستانية	السيد شافيز- (حزب 8 أكتوبر البرازيلي)	M/11/133	128
1.000	شركة ايلقا كسبورت امبورت	حزب اليسار اللوغسلافي	M/11/135	129
1.000	شركة كرومك كسبورت امبورت اللوغسلافي	السيدة لزابيلا كيرالي - رئيسة حزب مصلحة هنغاريا	M/11/137	130
249.571	323.500	المجموع		

أشخاص , شركات و جهات خصصت لهم كميات خلال المرحلة الحادية عشر ولم يتعاقدوا

---	1.500		السيد قلدرني (إيطالي)	1
---	1.000		السيد محمد عثمان سعيد (كيني)	2
---	1.500		السيد سيلان (الامم المتحدة)	3
---	1.000		السيد سمير لقصنت (عراقي أمريكي)	4
---	1.500		محمد الهوني - (ليبى)	5
---	1.500		السيد بودالبي (فرنسي)	6
---	1.500		السيد عثمان زكريا (مصري)	7
---	4.000		الحزب الاشتراكي اللوغسلافي	10
---	1.500		السيد محمد اسحاق (تركي)	11
---	1.500		الحزب الديمقراطي المصري	12
---	3.000	لم يتم التعاقد مع هذه الشركات حسب التوجيهات في حينها نظرا بطارية مبلغ لاجرة عن حصوله الاسترجاع عن تنفيذها طبقا لمادة 14	شركة مسانك المالديفية (شقيق احمد شارييف)	13
---	4.000		شركة ابي تي ايس مصر القبطانية	14
---	1.000		حزب المؤتمر الهندي	15
---	4.000		الشيخ حمد بن علي آل ثاني (قطر)	16
---	2.000		الشيخ عيسى بن زايد آل نهيان (اماراتي)	17
---	1.000	لم يتعاقدوا خلال هذه المرحلة علما انهم نفذوا عقودا لمرحلة اخرى	السيدة توجان القيصل (ارمنية)	18
---	1.500		الاب بنيامين (إيطالي)	19
---	2.000		وزارة خارجية تشاد	20
---	1.000		شركة التحالف العربية (عربية مقارها مصر)	21
---	1.000		السيد يوهيم سنك - (هندي الجنسية) - (العمور)	22
---	1.000		السيد عبدالعظيم منلف (كاتب صحفي مصري)	23
---	1.500		الحكومة الأرمنية - وزارة الخارجية	24
---	1.000		السيد هقز كوشلر (تمساوي)	25
---	1.500		شركة ايد للتجهيزات والتجارة المصرية	26
---	1.000		ادارة الشيشان (روسية)	27

		السيد محمد بن راشد المعلا	M/12/128	127
		السيد جورج ترخوفان (بيلاروس)	M/12/129	128
		الشركة العمالية للاستثمار (عراقية/بيلاروسية مشتركة)	M/12/130	129
		السيد زياد ابو الراغب (الاردني)	M/12/131	130
		اميس لتقنية الثروات السعودية	M/12/132	131
		مؤسسة لشجار العرب الاردنية	M/12/133	132
2.051	2.000	شركة عويض عبودة وشركه	M/12/134	133
0.403	1.500	اريدو بنزولوم فرانسية	M/12/135	134
		السيد ضحان زاكريا (سوري)	M/12/136	135
		السيد شاكز بن زيد (الاردني)	M/12/139	136
0.500	0.500	ابى سى انترناشنال البيلاروسية	M/12/141	137
192.697	391.550	المجموع		

أشخاص , شركات و جهات خصصت لهم كميات خلال المرحلة الثانية عشر ولم يتعاقدوا

---	1.500	الجماعة الروسية للتضامن مع العراق (السيد روداسوف)	---	1
---	2.000	جمعية روسية المصدقة مع لثب درفي (السيد جوهانوف)	---	2
---	4.000	السيد ريجكوب (روس)	---	3
---	1.500	السيد عادل جيجالوي - (أي في ام كليلون)	---	4
---	4.000	السيد جيونوسكي (روس)	---	5
---	2.900	الحزب الديمقراطي الروسي	---	6
---	1.500	السيد بودغليه (الفرنسي)	---	7
---	1.500	السيد برنارد غيميه (الفرنسي)	---	8
---	1.500	السيد ميراميه (الفرنسي)	---	9
---	1.500	الحزب الديمقراطي الاجتماعي الاوروبي (السيد بيرسكي)	---	10
---	1.000	السيد لورششمسكي (اوكراني)	---	11
---	1.000	السيد حميدة نشع (سوري)	---	12
---	4.000	الحزب الاشتراكي اليوغسلافي	---	13
---	1.500	الحزب الديمقراطي المصري	---	14
---	4.000	الحزب الديمقراطي اليوغسلافي	---	15
---	1.500	حزب اليسار اليوغسلافي	---	16
---	1.500	حزب العمال الروسي	---	17
---	1.000	السيد مكرم حكيم (الاردني)	---	18
---	1.500	السيد علي باوط (بيلاروس)	---	19
---	1.500	ابن الرئيس اللبناني لحدو	---	20
---	1.500	السيد فخري لحدو (الاردني)	---	21
---	2.500	السيد لويس شيبليات (الاردني) / بتروكلز وكتوميد	---	22
---	2.000	السيد عبدالله الحوراني (الاسطيني)	---	23
---	3.000	منظمة التحرير الفلسطينية	---	24
---	1.000	السيد محمد اسحاق (الاردني)	---	25
---	1.500	السيد لطفي دوغان (الاردني)	---	26
---	1.000	السيد ناضل فهاشمي (مصري)	---	27
---	1.000	السيد محمد البصري (مصري)	---	28
---	1.500	السيد فلواني (عراقي)	---	29
---	1.500	محمد الفوري - (الاردني)	---	30
---	1.000	السيد رياض الطاهر (عراقي مقوم في بريطانيا)	---	31
---	1.500	السيد سولان (الامم المتحدة)	---	32
---	1.000	السيد سمير انست (عراقي اردني)	---	33
---	2.000	شركة ليلان بيلاروسية	---	34
---	1.500	شركة شامز عبدالحق (بيلاروس)	---	35
---	2.500	شركة اسوا كوتاجونية (عراقية)	---	36
---	3.000	شركة ماينك اسطينية (القل لحدو لحدو)	---	37
---	4.000	شركة بي بي سي البيلاروسية	---	38
---	2.000	شركة سلاف نفت الروسية	---	39
---	3.000	شركة نكت الروسية	---	40
---	1.500	شركة ماسون البيلاروسية	---	41
---	2.000	شركة اوليا لادكاز بيلاروسية البيلاروسية	---	42

تخصيصات النفط الخام خلال المرحلة العاشرة من مذكرة التفاهم

- بلغ إجمالي الكميات المحملة حوالي (٢٧٢) مليون برميل .
- تم تقدير هامش الربح لهذة المرحلة بحدود (٠,٤٥) دولار للبرميل الواحد .

ت.ت	رقم العقد	مناحِب التخصيص	الشركة المتعاقدة	كمية التخصيص مليون برميل	كمية المتقدمة مليون برميل
1	M/10/01	زرايشنط الروسية	زرايشنط	10.000	10.241
2	M/10/02	المسيد كلود كامبوت - (فرنسي)	اي. في. سي. الفرنسية	2.000	2.006
3	M/10/03	لكون بترولوم السويسرية	لكون بترولوم	8.000	8.036
4	M/10/04	المسيد عوض عمورة - (سوري)	عوض عمورة وشركاه	4.000	3.895
5	M/10/05	تت نفت فنترسنتية	تت نفت	5.000	4.894
6	M/10/06	المسيد بشار نوري - (سوري)	نوري للتجارة	4.000	4.036
7	M/10/07	المسيد (كيبوت) روسي	بروز نفت كاز كسبوت	4.000	4.006
8	M/10/08	ايبكس انرجي الفرنسية	ايبكس انرجي الفرنسية	8.000	3.010
9	M/10/09	ايفنار بترولوم السويسرية	ايفنار بترولوم	8.000	8.049
10	M/10/10	جافنا اول الصيانية	جافنا اول	4.000	4.047
11	M/10/11	مشتينو امبورت الروسية	مشتينو امبورت الروسية	5.000	5.088
12	M/10/12	نورنكو الصيانية	جافنا وسماو لجنيريك كوربوريشن	4.000	4.005
13	M/10/13	المسيد لومكار وايت - (امريكي)	نفتا بترولوم - قبرصية	10.000	8.085
14	M/10/14	بترولوفيتام بي. سي. اس. سي. الفيلتامية	بترولوفيتام الفيلتامية	4.000	3.851
15	M/10/15	المسيد ايزاكوف - (روسي)	روز نفت اميكس الروسية	16.000	15.819
16	M/10/16	مجاهدي خلق	ماريل	6.000	5.995
17	M/10/17	لكون بترولوم السويسرية	لكون بترولوم	5.000	4.994
18	M/10/18	المسيد صمد سعدي الجندة - (مصري)	القسن اول السويسرية	4.000	3.890
19	M/10/19	المسيد جروفسكي - (روسي)	مشتينو امبورت الروسية	4.000	4.070
20	M/10/20	المسيد عثمان صلاح - (سوري)	صان صلاح	4.000	3.946
21	M/10/21	المسيد احمد القشير - (اردني)	شركة الرشيد للتصان الدولي الاردنية	2.000	2.004
22	M/10/22	د. تمام شهاب - (سوري)	شركة الهدي	1.000	1.000
23	M/10/23	المسيد تترنكو (تترستان)	روز نفت اميكس	1.000	1.000
24	M/10/24	د. شاكرا الخفاجي (عراقي مغترب)	اولمي اول	2.000	2.070
25	M/10/25	لجنة اقتضان مع شطب العراقي (سوري روسي)	عليور بوري الاوكرانية	2.000	1.940
26	M/10/26	المسيد ايث شيبات - (اردني)	فكوميد	3.000	3.002
27	M/10/27	المسيد غومسريف - (روسي)	سلاجح نفت	6.000	5.809
28	M/10/28	المسيد ليو الفراس - (السلطانية)	شركة عوض عمورة	2.000	2.049
29	M/10/29	المسيد فؤاد مرجان - (بوركيني)	شركة بشار التركية	2.000	2.030
30	M/10/30	المسيد عبدالله الحوراني - (السلطانية)	اناشال اول ويل لقطرية	2.000	1.962
31	M/10/31	تلفن التركية	تلفن التركية	2.000	1.962
32	M/10/32	المسيد القون - (سوري)	لقون ترينك	1.000	1.002
33	M/10/33	المسيد محمد بابو - (جزائري)	ارجي قستمنت	1.000	1.047
34	M/10/34	المسيدة حمودة نضج - (سورية)	ديفون بترولوم لومند التنمية	2.000	1.943
35	M/10/35	المسيد محمد صالح الحوراني - (اردني)	شركة جلول	1.000	0.950
36	M/10/36	بترولوفيتام (اينوج)	بترولوفيتام	2.000	1.860
37	M/10/37	المسيد لطفي دوشان - (تركي)	شركة سينا	1.000	1.003
38	M/10/38	المسيد فوز زريقات / جورج كلوي	مدل لوست سمي كوندكتر	3.000	2.920
39	M/10/39	المسيد شاراك - (روسي)	سيوز نفت كاز	7.000	7.028
40	M/10/40	وزير خارجية تشاد	مؤسسة حاد للتجارة	1.000	1.047
41	M/10/41	نفتو كاز الاوكرانية	نفتو كاز الاوكرانية	2.000	2.004
42	M/10/42	المسيد خوان (صيني)	جوس ستار (هونك كونك)	1.000	1.000
43	M/10/43	المسيد باسم قافيش - (اردني)	ايني ترينك	1.000	2.009
44	M/10/44	سايونوك (صينية)	سايونوك	8.000	6.119
45	M/10/45	كالمنط كاز (كالمينا)	كالمنط كاز (كالمينا)	2.000	2.016
46	M/10/46	المسيد فؤاد الحاج - (بنالي)	ارطل شيبك فد تاركو لجنيس الاماراتية	1.000	0.991
47	M/10/47	حزب كوستونتسا لفتا ليو صلاطي	كرومك اكسبورت امبورت البو صلاطي	1.000	1.004
48	M/10/48	المسيد سيلفان - (الأمم المتحدة)	فروكلن مدل لوست التنمية	1.000	1.004
49	M/10/49	حزب اتصال الروماني	بترولان الاماراتية	1.000	1.038
50	M/10/50	المسيد رياض الطاهر - (عراقي مغترب)	بيريلكو البريطانية	1.000	1.048

- تم تقدير هامش الربح لهذة المرحلة بحدود (٠,٢٠) دولار للبرميل الواحد .

ت	رقم العقد	شركة	كمية التخصيص مليون برميل	الكمية المتقاة مليون برميل
1	M/05/01	اوزموس لمتد (كوبا)	2.000	1.948
2	M/05/02	السيد محمد الهوني - (لوبي)	1.800	1.846
3	M/05/03	تات لفظ للتترستانية	10.000	9.834
4	M/05/04	تبراش التركية	16.000	16.112
5	M/05/05	رييسول الاسبانية	6.000	5.962
6	M/05/06	شركة آبي نويل الإيطالية	3.000	2.927
7	M/05/07	لغا لوكو الروسية	14.400	14.391
8	M/05/08	توتال الفرنسية	18.600	18.431
9	M/05/09	سوكلب الفرنسية	20.000	20.079
10	M/05/10	ترافيكورا الهولندية	7.000	6.124
11	M/05/11	مثنينو امبورت الروسية	7.000	7.100
12	M/05/12	زريضة الروسية (بمسما عنه عقد قناه)	24.350	24.552
13	M/05/13	اجب بترولي الإيطالية	6.800	6.715
14	M/05/14	بترونس الماليزية	3.800	3.705
15	M/05/15	شركة بتروفيتلم الفيتنامية	6.000	6.011
16	M/05/16	شركة نيومين الروسية	6.500	6.579
17	M/05/17	بتروفيونا البلجيكية	3.000	3.008
18	M/05/18	اونتكو الروسية	7.200	6.177
19	M/05/19	سيدالكو الروسية	7.200	7.062
20	M/05/20	سونترك الجزائرية	10.000	10.032
21	M/05/21	سمير المغربية	6.000	5.777
22	M/05/22	شركة سينلفط الروسية	2.300	2.276
23	M/05/23	لوك اويل الروسية	16.000	15.858
24	M/05/23	حزب الوحدة والسلام الروسي	3.000	2.874
25	M/05/24	نلقنا موسكو الروسية	3.600	3.651
26	M/05/25	زان كز الروسية	5.000	4.968
27	M/05/26	لو ام في النمساوية	4.000	3.975
28	M/05/27	روز لغت الروسية	3.600	3.562
29	M/05/28	راومس الروسية	4.000	3.984
30	M/05/29	كوستل الامريكية	3.600	3.705
31	M/05/30	سيركوكس الاسبانية	2.000	1.981
32	M/05/31	لبنى الاسبانية	3.000	2.992
33	M/05/32	شركة اويل لكسيكو الكندية	1.800	1.887
34	M/05/33	شركة لداكس السويسرية	2.000	1.964
35	M/05/34	السيد فريمغوني- (إيطالي)	4.000	3.981
36	M/05/35	شركة آي. اي . اس الإيطالية	1.800	1.839
37	M/05/36	السيد بودالبي - مسؤول فرنسي سابق	3.500	3.521

1.880	1.800	شركة كريست الاماراتية	شركة كريست الاماراتية	M/05/37	38
3.927	4.000	شركة النفط الوطنية الهندية	شركة النفط الوطنية الهندية	M/05/38	39
1.874	1.800	شركة سينتا التركية	السيد لطفي اردوغان - (تركي)	M/05/39	40
12.449	12.500	* شركة جايئا اويل الصينية	شركة جايئا اويل الصينية	M/05/40	41
4.962	5.000	* شركة فورجن اويل البريطانية	السيد خوان / صيني - هونك كونك	M/05/41	42
13.816	13.900	* شركة سينوكم الصينية	سينوكم الصينية	M/05/42	43
1.983	2.000	شركة هاريكو لمتد السويسرية	السيد اورشامسكي - اوكراني	M/05/43	44
2.774	3.000	شركة آي بي اس الايطالية	السيد سالفتوري نيكوترا - الفاتيكان	M/05/44	45
1.766	1.800	شركة فولكان السويسرية	السيد زياد الهادي - (عراقي مقرب)	M/05/45	46
1.972	3.000	شركة امين دنش تجارلت التركية	السيد محمد اصلان - (تركي)	M/05/46	47
1.981	2.000	بولاريسوسيز الالمانية	رهض الطاهر - عراقي مقرب في بريطانيا	M/05/47	48
1.802	1.800	أردم هولندك التركية	أردم هولندك التركية	M/05/48	49
1.750	1.800	اوي اويل الاماراتية	اوي اويل الاماراتية	M/05/49	50
6.925	7.000	نافاكا موسكو الروسية	الحزب الليبرالي الروسي السيد جبروناسكي	M/05/50	51
1.565	1.500	عوض عمورة ومشاركوه السورية	السيد عوض عمورة - سوري	M/05/51	52
1.578	1.500	نوري للتجارة السورية	السيد بشار نوري - سوري	M/05/52	53
6.047	6.000	لوك اويل الروسية	محمد صيد المنان - بنغلاديش	M/05/53,70	54
1.797	1.800	رينجر اويل لمتد الكندية	رينجر اويل لمتد الكندية	M/05/54	55
1.795	1.800	شركة دلتا لتركيا	شركة دلتا لتركيا	M/05/55	56
6.964	7.000	شركة رومس الروسية	الحزب الشيوعي الروسي (عقد عمل للتكمين)	M/05/56	57
1.886	1.800	ايبكس انرجي الفرنسية	ايبكس انرجي الفرنسية	M/05/57	58
1.985	2.000	شركة بتريد المغربية	شركة بتريد المغربية	M/05/58	59
		شركة سيوز الروسية	شركة سيوز الروسية	M/05/59	60
2.959	3.000	شركة هيلينك اليونانية	شركة هيلينك اليونانية	M/05/60	61
		الفرکان مودل فوست بترولوم البنمية	السيد بلون سيلان - الامم المتحدة	M/05/61	62
1.913	2.000	موكو سيرفيس جنوب افريقيا	موكو سيرفيس - جنوب افريقيا	M/05/62	63
6.846	7.000	شركة لكتك الروسية	الحزب الشيوعي الروسي	M/05/63	64
3.558	3.600	تريد بير الماليزية	تريد بير الماليزية	M/05/64	65
		روز بلفظ الروسية	حزب الوحدة والسلام الروسي	M/05/65	66
1.822	1.800	اويدو بترولوم الفرنسية	جمعية الصداقة العراقية الفرنسية	M/05/66	67
		شركة لئن اويل اليونانية	شركة لئن اويل اليونانية	M/05/67	68
2.057	2.000	شركة كالاهاري للناميبية	الحكومة للناميبية	M/05/68	69
2.013	2.000	شركة ميلانوم للناميبية	الحكومة للناميبية	M/05/69	70
1.853	1.800	شركة زد اس اي اليمنية	السيد عبدالكريم الارياني - (يمني)	M/05/71	71
2.039	2.000	فاسيلوفس برنرز البلغارية	لشركة العراقية - البلغارية المحدودة	M/05/72	72
355.908	366.650	المجموع			

أشخاص , شركات و جهات خصصت لهم كميات خلال المرحلة الخامسة ولم يتعاقدوا

لا يوجد

* الارقام اعلاه تشمل المرحلة الخامسة وفترة تمديد المرحلة الرابعة البالغة (٦٠) يوما اعتبارا من ١٩٩٨/١١/٢٦

1.998	2.000	زرايشفط الروسية	جامعة خويكن	M/08/86	86
1.413	1.500	زيراج جي ام بي ايج	الحزب الشيوعي الأوكراني	M/08/87	87
1.001	1.000	زيراج جي ام بي ايج	الحزب الاشتراكي الأوكراني	M/08/88	88
		كي. سي. كي القزمية	السيد توزمان (تركي)	M/08/89	89
		دلنا للخدمات السويسرية	السيد يون كريستيان نيكولاوي	M/08/90	90
2.868	3.000	بتروكاز ديمستريبيوشن السويسرية	السيد ليدث شيبات - (أرمني)	M/08/91	91
1.924	2.000	كينيتفورد كلوب القيرصية	السيد محمد الهوني - (ليبي)	M/08/92	92
		فال لويل الاماراتية	السيد عبد العظيم منقش - (مصري)	M/08/93	93
		دلنا سيرفيس السويسرية	السيد ليو العباس - (المستوني)	M/08/94	94
5.551	6.000	ماريل ريمورسز القيرصية	مجاهدي خلق - إيران	M/08/95	95
0.952	1.500	الفركان مدل ايسن بترولوم البنمية	السيد سيفلان - (الأم المتحدة)	M/08/96	96
2.018	2.000	ميكو نونا الاندونيسية	شركة ميكو نونا - (اندونيسيا)	M/08/97	97
0.800	2.000	شركة يونوجم الاندونيسية	شركة يونوجم الاندونيسية	M/08/98	98
0.954	1.000	شركة جنمار ريمورسز السويسرية	السيد ايفان الفزني - (بنغالي)	M/08/99	99
0.500	0.500	شركة كلستك ماتفيلدجورنك الاماراتية	السيد عثمان زكريا - (سوري)	M/08/100	100
2.126	2.000	شركة زيراج - جي.ام.بي.ايج	اكاديمية علوم السياسية الروسية	M/08/101	101
2.908	3.000	شركة زيراج - جي.ام.بي.ايج	حزب الوحدة والسلام الروسي	M/08/102	102
1.500	1.500	اكنتك الروسية	الحزب الشيوعي الفيلاروسي	M/08/103	103
1.472	1.500	اكنتك الروسية	الحزب الشيوعي السلوفاكي	M/08/104	104
2.081	2.000	روفوس الروسية	اين المسافر الروسي السابق في بغداد	M/08/105	105
		فويل القستريال	السيد سترييف - (روسي)	M/08/106	106
		شركة بسلر القزمية	السيد فزاد سرحان - (إيراني)	M/08/107	107
		شركة دلنا للخدمات السويسرية	حزب مصلحة هنغاريا	M/08/108	108
		شركة مجموعة نورديست	شركة مجموعة نورديست	M/08/109	109
		شركة كلستك الاماراتية	السيد علي بلوط - (بنغالي)	M/08/110	110
1.575	1.500	شركة دلنا سيرفيس للخدمات السويسرية	السيد ناضل الهاشمي - (مغربي)	M/08/111	111
0.999	1.500	شركة دلنا سيرفيس للخدمات السويسرية	السيد محمد القيسري - (مغربي)	M/08/112	112
3.679	4.000	شركة جنمار ريمورسز السويسرية	السيد شارل بسكوا - (فرنسي)	M/08/113	113
		شركة اميوسنا الاسبقية	السيد خافيرو روبرت - (سباني)	M/08/114	114
2.845	8.000	شركة بوران قترانشال القيرصية	شركة نيش بوغو بتول والحزبين الاثري والريفي	M/08/115	115
3.164	8.000	شركة ايتانك الايطالية	شركة نيش بوغو بتول والحزبين الاثري والريفي	M/08/116	116
		مكس اويل ايمتد القيرصية	السيد شاكرا الخفاجي	M/08/117	117
		شركة جويت ستوك نافلوكاز اوكرانية	شركة جويت ستوك نافلوكاز اوكرانية	M/08/118	118
		شركة كوفتوم المافزيرة	السيد عبد العظيم منقش (كاتب صحفي مصري)	M/08/119	119
		شركة بنتونطالي القيرصية	حزب الوصل ابو غعلابي	M/08/120	120
		شركة كيوبيروكي الاسبقية	السيد جورج ترخاتيان - (بنغالي)	M/08/121	121
344.707	410.700	المجموع			

أشخاص , شركات و جهات خصصت لهم كميات خلال المرحلة الثامنة ولم يتعاقدوا

---	1.000	لم تعاقد خلال هذه المرحلة عما فيها قد نفلت عقودا لمرحلة اخرى	سبرغوت نفت غاز الروسية	---	1
---	1.500		السيد توفيق عبد الرحيم (بنغالي الجنسية)	---	
---	1.500	لم يتعاقدوا	السيد بوهيم سنك - (هندي الجنسية) - (لتمور)	---	
---	1.500		الحزب الشيوعي الروسي	---	

تخصيصات النفط الخام خلال المرحلة السابعة من مذكرة التفاهم

- بلغ إجمالي الكميات المحملة حوالي (٣٨٠) مليون برميل .
- تم تقدير هامش الربح لهذه المرحلة بحدود (٠,١٥) دولار للبرميل الواحد .

ت	رقم العقد	صاحب للتخصيص	الشركة المتعلقة	كمية التخصيص مليون برميل	كمية المتبقية مليون برميل
1	M/07/01	شركة سوكنب (إيفان) الفرنسية	شركة سوكنب (إيفان) الفرنسية	14.600	14.604
2	M/07/02	شركة توتال الفرنسية	شركة توتال الفرنسية	14.500	14.611
3	M/07/03	تيرتش لتركية	تيرتش لتركية	12.500	12.608
4	M/07/04	جانينا أويل	جانينا أويل	14.500	14.306
5	M/07/05	سينوكم قترانشال أويل	سينوكم قترانشال أويل	14.600	14.546
6	M/07/06	سونتراك الجزائرية	سونتراك الجزائرية	9.000	8.947
7	M/07/07	زراينغفط الروسية	زراينغفط الروسية	23.000	23.093
8	M/07/08	بتروناس الماليزية	بتروناس الماليزية	2.500	1.972
9	M/07/09	أي. إي. إس الإيطالية	أي. إي. إس الإيطالية	0.600	0.597
10	M/07/10	لجب بترولي الإيطالية	لجب بترولي الإيطالية	8.200	8.141
11	M/07/11	بتروفيتم	بتروفيتم كليتيمية	10.500	10.427
12	M/07/12	تلت نفط للترستانية	تلت نفط للترستانية	9.000	9.166
13	M/07/13	لوك أويل الروسية	لوك أويل الروسية	4.500	4.495
14	M/07/14	زان كتر الروسية	زان كتر الروسية	6.000	6.049
15	M/07/15	بتروبراس البرازيلية	بتروبراس البرازيلية	4.500	4.405
16	M/07/16	سمير المغربية	سمير المغربية	6.000	6.078
17	M/07/17	ريسون الاسيقية	ريسون الاسيقية	6.500	6.111
18	M/07/18	كوستال الامريكية	كوستال الامريكية	2.400	2.387
19	M/07/19	المسيد باسم قافيش - (إيفان)	البنى الاسيقية	2.000	2.019
20	M/07/20	مشتينو امبورت الروسية	مشتينو امبورت الروسية	12.500	12.358
21	M/07/21	نلقا موسكو الروسية	نلقا موسكو الروسية	2.000	1.988
22	M/07/22	أو. إم. في النمساوية	أو. إم. في النمساوية	5.650	5.648
23	M/07/23	الخارجية الروسية	لقا ليو الروسية	13.000	12.980
24	M/07/24	الشيخ احمد متع سعد العنينة	شركة لوي اويل الاماراتية	1.200	0.677
25	M/07/25	لكوم المصرية	لكوم المصرية	2.000	2.008
26	M/07/26	خدمات موكو - جنوب افريقيا	خدمات موكو - جنوب افريقيا	0.800	0.833
27	M/07/27	المسيد محمد عثمان سعيد - كينيا	شركة ليموس الكينية	1.200	1.000
28	M/07/28	يونيبك الصينية	يونيبك الصينية	3.670	3.666
29	M/07/29	المسيد عبد الكريم الابريقي - (ميتي)	زد. إس. أي - مينة	1.200	1.200
30	M/07/30	المسيد بودلفره - فرنسي	شركة فينول - فرنسا	1.500	1.556
31	M/07/31	المسيد عبدالله السلاوي / مغربي	شركة بتريد المغربية	1.200	1.221
32	M/07/32	لكميشن كستيريير / اسيقية	لكميشن كستيريير / اسيقية	1.500	1.500
33	M/07/33	المسيد سلفقوري نيوترا - (الفلجان)	أي. بي. إس الإيطالية	1.500	1.500
34	M/07/34	المسيد فريمغوني - (إيطالي)	كوجب الإيطالية	2.000	2.000
35	M/07/35	سيرغوت نفط غاز الروسية	سيرغوت نفط غاز الروسية	4.000	3.986
36	M/07/36	المسيد ناضل الهاشمي / مغربي	شركة بتريد المغربية	1.200	1.192

4.034	4.000	هلينيك اليونانية	هلينيك اليونانية	MJ/07/37	37
1.200	1.200	دلنا التركية	دلنا التركية	MJ/07/38	38
0.900	0.900	كريسنت الاماراتية	كريسنت الاماراتية	MJ/07/39	39
1.196	1.200	شركة ريدجو بتروليوم الفرنسية	جمعية الصداقة العراقية للفرنسية	MJ/07/40	40
3.500	3.500	بترولينا البلجيكية	بترولينا البلجيكية	MJ/07/41	41
1.196	1.200	داكس الفرنسية	داكس الفرنسية	MJ/07/42	42
2.882	3.000	ساماسو الصومالية	ساماسو الصومالية	MJ/07/43	43
2.022	2.000	ترافز نبط الروسية	ترافز نبط الروسية	MJ/07/44	44
2.992	3.000	اونكو الروسية	اونكو الروسية	MJ/07/45	45
2.169	2.500	ايم اويل الإيطالية	ايم اويل الإيطالية	MJ/07/46	46
0.812	0.800	الانشطة البترولية التونسية	الانشطة البترولية لتونسية	MJ/07/47	47
14.741	14.500	ككتك	الحزب الشيوعي الروسي - زابريك	MJ/07/48	48
3.018	3.000	روز نبط الروسية	روز نبط الروسية	MJ/07/49	49
1.819	1.800	شركة فوم التركية	السيد زين العابدين فوم - تركي	MJ/07/50	50
1.481	1.500	ايتلكك الإيطالية	ايتلكك الإيطالية - السيد فواد مرجان	MJ/07/51	51
2.947	3.000	شركة جالابورن ريس الفنلندية	تاجر الرز الفنلندي	MJ/07/52	52
1.539	1.500	شركة امين التركية	السيد محمد اصلان	MJ/07/53	53
1.200	1.200	شركة لودا ام. بي. البيلاروسية	الحزب القبرصي الديمقراطي البيلاروسي	MJ/07/54	54
0.960	1.000	شركة بونكو البريطانية	السيد رياض الطاهر (عراقي مقم في بريطانيا)	MJ/07/55	55
1.555	1.500	بتروليس الهولندية	بتروليس الهولندية	MJ/07/56	56
0.492	0.500	أورجم اويل اند كتر الفنلندية	السيد حسان زكريا - (سوري)	MJ/07/57	57
3.053	3.000	تومين الروسية	الخارجية الروسية	MJ/07/58	58
2.432	2.500	مستكك الماليزية	السيد فائق احمد شريف - (عراقي مقرب)	MJ/07/59	59
2.518	2.500	تكلن التركية	تكلن التركية	MJ/07/60	60
0.774	0.800	سينا التركية	السيد لطفي اللوغان - (تركي)	MJ/07/61	61
2.426	2.500	بورج فترينتلاندت هسبية - ميره كوته	السيد خولان - (صيني)	MJ/07/62	62
2.479	2.500	زوهاي زين رونك - الصونية	زوهاي زين رونك الصونية	MJ/07/63	63
1.200	1.200	فولما اويل كونستكك - الاسيقية	السيد ابو العباس - (المسطيني)	MJ/07/64	64
1.201	1.200	أونيكس الامريكية	السيد سمير قسننت - (امريكي)	MJ/07/65	65
1.795	1.800	مورو الصوميرية	البرلمان الاسياني / خظير روبرت	MJ/07/66	66
1.509	1.500	زديج جي.ام.بي.اج الروسية	كأهمية العلوم الصوميرية الروسية	MJ/07/67	67
2.983	3.000	بورتا الاونوميسية	شركة نبط الاونوميسية - شركة فرعية لشركة برتلينا	MJ/07/68	68
1.933	2.000	بترولكتر مسترپيوشن الصوميرية	السيد لوث شهبلاط - (ارني)	MJ/07/69	69
4.944	5.000	بش نبط الاشكورية	بش نبط الاشكورية	MJ/07/70	70
2.002	2.000	زديج جي.ام.بي.اج الروسية	حزب الوحدة والسلام الروسي	MJ/07/71	71
3.002	3.000	لوك اويل الروسية	السيد عبد المنان - (بنغلاديش)	MJ/07/72	72
5.036	5.000	كتر بروم الروسية	كتر بروم الروسية	MJ/07/73	73
4.910	5.000	بلميتال فركو البيلاروسية الحكومية	بلميتال فركو البيلاروسية الحكومية	MJ/07/74	74
1.475	1.500	زديج جي.ام.بي.اج الروسية	الحزب الشيوعي الأوكراني	MJ/07/75	75
1.485	1.500	المغليون الأوكرانية	السيد اورشتمسكي - (اوكراني)	MJ/07/76	76

1.500	1.500	نورنكو الصينية	نورنكو الصينية	M/07/77	77
1.809	1.800	شركة ليجارت ترينك ليمت القبرصية	شركة ليجارت ترينك ليمت القبرصية	M/07/78	78
0.962	1.000	شركة النفط الفنلندية	شركة النفط الفنلندية	M/07/79	79
1.492	1.500	جيوان اويل الاماراتية	جيوان اويل الاماراتية	M/07/80	80
1.339	1.500	زرلينغفيلد الروسية	جامعة غويكين للنفط والغاز الروسية	M/07/81	81
8.447	8.500	اي. او. سي الهندية	اي. او. سي / هندية	M/07/82	82
3.935	4.000	أفروجم اويل اند كاز الفنلندية	المسيد برهان الجبلي - عراقي مقوم في بريطانيا	M/07/83	83
1.029	1.200	مينكس التونسية	مينكس التونسية	M/07/84	84
1.174	1.200	كارناكو التونسية	كارناكو التونسية	M/07/85	85
0.961	1.000	شركة النفط والغاز لشرق سايبيريا	شركة النفط والغاز لشرق سايبيريا	M/07/86	86
1.019	1.000	جنمبار ريسورسز السويسرية	المسيد الواسن الفلزني - (بنغالي)	M/07/87	87
1.489	1.500	أفركان ميدل اوست بتروليوم قينية	المسيد سيلفان - (الامم المتحدة)	M/07/88	88
1.894	2.000	شركة مصفاة عمان	وزارة النفط والغاز الصناعية	M/07/89	89
6.481	6.500	تومين الروسية	الحزب الليبرالي الديمقراطي الروسي (جبرونلنكي)	M/07/90	90
0.959	1.200	هايمن الناجيرية	هايمن الناجيرية	M/07/91	91
3.057	3.000	جنمبار السويسرية	المسيد شارل بسكوا - (فرنسي)	M/07/92	92
1.501	1.500	زرلينغفيلد الروسية	المسيد شفرانك - (روسي)	M/07/93	93
0.995	1.000	أموستا اويل الاسبانية	المسيد علي بلوط - (بنغالي)	M/07/94	94
5.822	6.000	سنجرو ماركتك سوسيت لمتد البريطانية	مجاهدي خلق	M/07/95	95
7.374	8.000	بورول فترانشال الفرمونية	شركة يوكوبترول اليوغسلافية	M/07/96	96
1.101	1.200	اروم بتروول الرومانية	حزب مصلحة هنغاريا	M/07/97	97
2.028	2.000	شركة بي.دي.بي. اس. اي ترينك الفنزويلية	شركة بي. دي. بي. اس. اي ترينك الفنزويلية	M/07/98	98
1.549	1.500	ارومس الروسية	ابن المسافر الروسي السابق في بغداد	M/07/99	99
0.993	1.000	جنمبار ريسورسز السويسرية	السيدة حميدة نضع - (سورية)	M/07/100	100
1.197	1.200	أفنايكو الفيتنامية	أفنايكو الفيتنامية	M/07/101	101
379.794	383.620	المجموع			

أشخاص , شركات و جهات خصصت لهم كميات خلال المرحلة السابعة ولم يتعاقدوا

—	1.200	لم يتعاقد	الحزب الشيوعي الروماني	1
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Iraqi Chart Indicating Allocations to Benon Sevan in Phases VI & VII

Country	Allocations of Phase (5)	Allocations of Phase (6)	Proposed Allocations for the Period Following Phase (6)	Remarks
23- Panama A- Regular Requests B- Private Requests - Mr. Sevan	1.5	0.5%	1.5 0.5%	0.5% 1.5 million barrels 0.5%

Country	Allocations of Phase (5)	Allocations of Phase (6)	Proposed Allocations for the Period Following Phase (6)	Remarks
36- Panama A- Regular Requests B- Private Requests - Mr. Sevan	2	0.5%	1.5 0.4%	0.4%

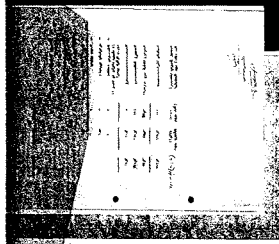
Country	Allocations of Phase (6)	Allocations of Phase (7)	Proposed Allocations for the Period Following phase (7)	Remarks
36- Panama A- Regular Requests B- Private Requests - Mr. Sevan	2	1.5	1.5 0.4%	0.4%

	<u>Kirkuk</u>	<u>Basrah</u>	<u>Total</u>
	156	200	356

- Contractual Quantity Up to 07/12/1999

- Quantity allocated and expected to be allocated

- Mr. Sevan 2



(٦)

الدولة	التخصيص للمرحلة الخامسة	التخصيص للمرحلة السادسة	التخصيص المقترح لتدابير المرحلة السادسة	الملاحظات
٢٧- جنوب أفريقيا	%٠٦	%٠٧	١٢	
أ- الطلبات الاعتيادية	-	-		
ب- الطلبات الخاصة	%٠٦	%٠٧	%٠٤	
- السيد توكيو سكويل	٢ مليون برميل	٣ مليون برميل	٢٨	
٢٨- كينيا	%٠٦	%٠٥	١٢	
أ- الطلبات الاعتيادية	-	-		
ب- الطلبات الخاصة	%٠٦	%٠٥	%٠٤	
- محمد عثمان سعيد	٢ مليون برميل	٢ مليون برميل	١٢	
٢٩- أوكرانيا	%٠٦	%١	٣٠	
أ- الطلبات الاعتيادية	-	-		
ب- الطلبات الخاصة	%٠٦	%١	%١١	
- السيد اورشانسكي	٢ مليون برميل	٤ مليون برميل	١٥ (٣٠٠) مليون برميل	
- الحزب الشيوعي	-	٢	١٥	
٣٠- بلجيكا	%٠٨	%٠٥	١٥	
أ- الطلبات الاعتيادية	%٠٨	%٠٥	%٠٥	
ب- الطلبات الخاصة	-	-	-	
٣١- بنغلاديش	%١٦	%٢١	٥٠	
أ- الطلبات الاعتيادية	-	-		
ب- الطلبات الخاصة	%١٦	%٢١	%١٨	
- الشيخ محمد عبدالمنان	٦ مليون برميل	٨٢ مليون برميل	١٢	
٣٢- أيرلندا	%٠٦	%٠٥	١٥	
أ- الطلبات الاعتيادية	-	-		
ب- الطلبات الخاصة	%٠٦	%٠٥	%٠٥	
- السيد رياض الطاهر	٢ مليون برميل	٢ مليون برميل	١٥	
٣٣- بنما		%٠٥	١٥	
أ- الطلبات الاعتيادية		-		
ب- الطلبات الخاصة		%٠٥	%٠٥	
- السيد سيفان		٢ مليون برميل	١٥	

المجموع	حساب	حساب	
٢٥٠	٢٠٠	١٥٦	- الكميّات المتعلّقة عليها لغاية ١٩٩٩/٧/١٢
			- المخطّطة والمتوقّعة تكفيهما:-
	٢	-	- الصين (شركة دن روتش)
	١٧٠	-	- الهند (شركة بينام ست)
	-	٢	- الهند سلك
١	٣٥	-	- بورتوغال (روميا)
	٣	٣	- الشيشوني (مكافئ)
			(١٠ مليون متوقّعة ان تصب ٦٠ ٥٥/٥٥ كرونا و٥٥/٥٥)
١٥٣	١٠٣	٥	المجموع
٣٧١٣	٢١٠٣	١٦١	- المجموع الكلي
٧٩٥	٤١٣	٣٨٣	- الفرقوم لغاية يوم ١٩٩٧/١٠
٢٩٢٣	١٦٩٣	١٢٣	- المتبقي للفرقوم
(١٥١) مليون بيزو	(١٢٧) (١٢٣) مليون بيزو	(١٢٥) (١٥٠) مليون بيزو	- التعادل اليومي المتبقّي اليوم التحتانية

المصروفات المتعلّقة

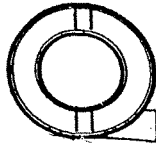
المصروفات المتعلّقة على

التمويل المصرفي

المصاريف التشغيلية

١٥٠٠

ت	الدولة	التخصيص للمرحلة التالية	التخصيص للمرحلة التالية	التخصيص للفترة ما بعد التسوية	الملاحظات		
	القطاعات الاقليمية	-	-	٢			
	درجة لخط نقل كركي			٢	وزن خطه المركزي = = =		
	درجة لخط نقل غير						
	بريد الخطات الخاصة						
	* فونكسيون	٢	١.٥	٤	١.٥		
	* قطريه التلويحي					٣	١.٥
	* قطريه الاتصالي						
	التلويحي						
	القطاعات الاقليمية	٢	٣.٥	٣.٥			
	درجة برونجا	٢	٣.٥	٣.٥			
	بريد الخطات الخاصة						
	القطاعات الاقليمية						
	بريد الخطات الخاصة						
	* قطع محمد حياكسكس	٨.٧	٢	٣			
	التلويحي						
	القطاعات الاقليمية						
	بريد الخطات الخاصة						
	* مجموعة خدمات نقل برالتر			١.٥	مصفى بجي		
	القطاعات الاقليمية						
	بريد الخطات الخاصة						
	* قسمه راجين الطاهر	٢	١	١			
	القطاعات الاقليمية						
	بريد الخطات الخاصة						
	* قسمه سولان	٢	١.٥	١.٥			



State Oil Marketing Organization

P.O Box 5118 Baghdad - Iraq

Commercial Invoice No.: B/89/2001

Sold to : IBEX ENERGY FRANCE
 Exporing port : MINA ALBAKR TERMINAL
 Ships Name : ESSEX
 Destination : USA
 Country of origin : IRAQ

Due date : 14/06/2001
 Contract no. : M09/81
 BNP Confirmation no : 0727182
 Opening Bank Lc No. : F2ILC013503
 Shipment No. : BBL0311

Description of commodity	Quantity		U.S. Bbls	Price per Barrel FOB	Total value in EURO
	Metric Tons	Long Tons			
IRAQ CRUDE OIL					
BASRAH LIGHT	247,637.071	243,725.28	1,798,385	22.190	39,906,163.15
31.61 API GRAVITY AT 60 F *					
Total EURO	THIRTY NINE MILLION NINE HUNDRED SIX THOUSAND ONE HUNDRED SIXTY THREE AND FIFTEEN CEN				39,906,163.15

Total EURO : THIRTY NINE MILLION NINE HUNDRED SIX THOUSAND ONE HUNDRED SIXTY THREE AND FIFTEEN CEN

Price Calculation: $(\text{YTD SECOND MONTH MINUS } \$ \ 8.45 \text{ BBL AVERAGE OF FIVE CONSECUTIVE QUOTATIONS STARTING FROM THE 15 IN DAY FROM THE BL DATE AS PUBLISHED IN PLATTS' CRUDE OIL MARKET WIRE MINUS } \$ 0.24 \text{ API DE ESCALATION})$

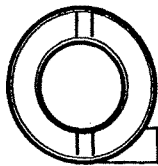
PAYMENT IS TO BE MADE TO THE UNITED NATIONS AT BANQUE NATIONAL DE PARIS,
 S.A. NEW YORK BRANCH FOR CREDIT TO THE UNITED NATIONS IRAQ ACCOUNT,
 EURO SUB-ACCOUNT ACCOUNT NUMBER 0200-201752-002-06

A. Z.
 Y. HIBRAHIM
 FOR STATE OIL MARKETING ORGANIZATION
 HEAD OF FINANCE DEPT.

ORIGINAL

B/L DATED 16/05/2001

Permanent Subcommittee on Investigations
EXHIBIT #5



State Oil Marketing Organization

P.O Box 5118 Baghdad - Iraq

Commercial Invoice No.: B/142/2001

Sold to : IBEX ENERGY FRANCE
 Exporting port : MINA ALBAKR TERMINAL
 Ship's Name : ESSEX
 Destination : USA
 Country of origin : IRAQ

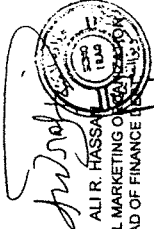
Due date : 25/09/2001
 Contract no. : M/10/08
 BNP Confirmation no : N729174
 Opening Bank Lc No. : LCIM5181892/GROG
 Shipment No. : BBL/3161

Description of commodity	Quantity			Price per Barrel FOB	Total value in EURO
	Metric Tons	Long Tons	U.S. Bbls		
IRAQ CRUDE OIL BASRAH LIGHT 31.41 API GRAVITY AT 60 F°	246,251.138	242,361.24	1,787,407	23.701	42,363,333.31
					42,363,333.31

Total EURO : ~~FOURTY TWO MILLION THREE HUNDRED SIXTY THREE THOUSAND THREE HUNDRED THIRTY THREE AND THIRTY ONE CENTS~~

Price Calculation: WT/SECOND MONTH MINUS \$ 6.55 /BBL AVERAGE OF FIVE CONSECUTIVE QUOTATIONS STARTING FROM THE 15 th DAY FROM THE BIL DATE AS PUBLISHED IN PLATT'S CRUDE OIL MARKET WIRE MINUS \$ 0.25 API DE-ESCALATION

PAYMENT IS TO BE MADE TO THE UNITED NATIONS AT BANQUE NATIONAL DE PARIS, S.A. NEW YORK BRANCH FOR CREDIT TO THE UNITED NATIONS IRAQ ACCOUNT, EURO SUB-ACCOUNT, ACCOUNT NUMBER 0206-201752-002-05


 ALI R. HASSANI
 HEAD OF FINANCE

FOR STATE OIL MARKETING ORGANIZATION

B/L DATED 27/08/2001

ORIGINAL

ملحق رقم (٧)

التعامل مع شركة IBEX ENERGY الفرنسية
خلال مراحل مذكرة التفاهم

- ١- ابتدأ التعامل مع الشركة خلال المرحلة الخامسة من مذكرة التفاهم حيث تقدمت بطلب لشراء النفط الخام العراقي إلى طه ياسين رمضان الذي أحال الطلب إلى وزارة النفط للتصرف وإيداء الرأي فيه. وقد بينت شركة تسويق النفط بأن الشركة غير معروفة لديها واقترحت عدم التخصيص لعدم وجود موقف معروف لها. على الرغم من ذلك فقد وجه طه ياسين رمضان بتخصيص ١,٨ مليون برميل للشركة خلال المرحلة الخامسة وتم التعاقد مع الشركة بتاريخ ١٩٩٩/١/٢٧ بالكمية المذكورة والتي حصلت موافقة وزير النفط السابق عليها بتاريخ ١٩٩٩/١/٣١.
- ٢- استمرت الشركة في الحصول على تخصيصات نفطية في كشوفات المراحل اللاحقة ولغاية المرحلة الثالثة عشر (الأخيرة) وكما يلي :-

تسلسل	المرحلة	الكميات المخصصة (مليون برميل)	الكميات المنفذة (مليون برميل)
١-	الخامسة	١,٨	١,٩٩٦
٢-	التاسعة	٢,٥	٢,٣٧٦
٣-	العاشرة	٨	٣,٠١٠
٤-	الحادية عشر	٢	١,٦٣٥
٥-	الثانية عشر	٧	لم تنفذ
٦-	الثالثة عشر	٧	١,٧٢٥

- ٣- إن التعامل مع الشركة الفرنسية المبين أعلاه هو تعاملًا طبيعيًا ومشابهًا للتعامل مع شركات عديدة مماثلة تمكنت من الحصول على تخصيصات نفطية خلال مراحل مذكرة التفاهم. ولكن الأمر غير الطبيعي في التعامل مع هذه الشركة هو أنها تكاد تكون الوحيدة التي تمكنت من اختراق الرقابة المحكمة للمشرفين النفطيين الموجودين في ميناء التحميل ومن ثم التلاعب بالكميات المحملة من خلال رشوة أحد موظفي شركة سايبولت الهولندية المكلفة من الأمم المتحدة بالإشراف على تحميل النفط الخام العراقي.

تشير معلوماتنا إلى أن هذه الشركة الفرنسية استطاعت لمرتين من التحميل بكميات تفوق الكميات المذكورة في العقد والتي جرى احتساب مبالغها على مرحلتين . المرحلة الأولى ممثلة بدفع قيم الكمية التعاقدية الأصلية من خلال آلية الأمم المتحدة . المرحلة الثانية تمثلت باحتساب مبلغ الكميات الإضافية على العقد والتي دفعت إلى النظام السابق في حساب عائد له في بنك فرنسا في بيروت بعد أن استلم الذين مكنوا هذا التلاعب حصصهم من الرشاوي كل حسب الاتفاق المسبق معه .

بلغت الكمية الإضافية التي لم تدخل ضمن الحسابات الأصولية للعقد ٥٠٠ ألف برميل بقيمة حوالي ٩ مليون دولار ، دفع ٢٠% منها لصالح الشركة الفرنسية التي قامت بالعملية و ٨٠% إلى النظام السابق في الحساب أعلاه . وتشير معلوماتنا إلى أن رشوة الشخص الذي يعمل لدى شركة سايبولت الهولندية لقاء تزويره المستندات بلغت ١٠٥ ألف دولار . إن عملية التزوير هذه تمت بأمر من رئيس النظام السابق وقام بتنفيذها عدد من الكوادر القيادية.

٤- وتشير معلوماتنا أيضا إلى أن الشركة الفرنسية استمرت باستلام كميات نفطية ضمن تخصيصات المراحل اللاحقة لغاية المرحلة الثالثة عشر ، إلا أنها قامت بتحويل شركة أردنية أبحرى (JOGRAIN) باستلام تخصيصاتها نيابة عنها ابتداءً من المرحلة الحادية عشر.

سبي الحساب

العدد: ٤٨ / ٣٠
التاريخ: ١٦ / ٢ / ٢٠٠٤

وزارة النفط / مكتب الوزير
الرقم / ٢١٢٩
التاريخ: ١٥ / ٢ / ٢٠٠٤

(لا يحمل عنوان بلع في صندوق ولا صندوق يملأ منه)
الرقم / ٢٠٠٠ / ٨٨

السيد محافظ البنك المركزي العراقي

م / تسهيل مهمة

بالنظر لقيام السيد (ARMANDO CARLOS) برتغالي الجنسية حامل جواز السفر المرقم F-٥٠٤٤٦٤ الصادر في ٢٠٠٠/٧/٤ البرتغال بتقديم خدمات الى هذه الوزارة لقاء مبلغ قدره ١٩,٧٠٠/- دولار (تسعة عشر ألف وسبع مائة دولار) نقداً .
يرجى التفاضل بالموافقة على تزويده بكتاب تسهيل مهمة إخراج المبلغ أعلاه بصحبته نقداً من خلال مجمع القادسية الحدودي (طربيل) مع التقدير

عاصر محمد رشيد
وزير النفط
٢٠٠٢/٣/٥

وقد أتم
سجلاً

السيد الوزير المحترم

أريدكم
بالتسليم للمبلغ المطلوب
في مركز الإدارة وسنقوم بالتسليم
كله من المبلغ والإدارة
بمبلغ من مائة دولار
مبلغ المبلغ أعلاه
بمبلغ من مائة دولار
بمبلغ من مائة دولار
بمبلغ من مائة دولار

Iraqi Accounting Spreadsheet Showing Bribe Payments To U.N. Oil Inspector

COLLECTOR

BANK	BANK DATE	IND	PAYMENT	COUNT NAME	DOI PRICE	CONVERT	VALUE DOL	SUPER
U.N. Oil Inspector Bank	9/15/2001	added value	-86119	US\$	4019	1	-26704,12067	SAIBOLT Co
U.N. Oil Inspector Bank	3/13/2002	added value	-19700	US\$	19700	1	-6108,65404	SAIBOLT Co

U.N. Oil Inspector Bank	9/15/2001	added value	-86119	US\$	-86119	1	-26704,12067	شركة ساي بولت (SAIBOLT Co)
U.N. Oil Inspector Bank	3/13/2002	added value	-19700	US\$	-19700	1	-6108,65404	شركة ساي بولت (SAIBOLT Co)

Permanent Subcommittee on Investigations
EXHIBIT #8

Letter From Iraqi Oil Minister Describing Bribe Of U.N. Oil Inspector

Page 1

Republic of Iraq
Ministry of Oil

Secret and Personal

To: The Deputy Prime Minister
Head of Economic Affairs Committee
RE: Additional Quantity Loaded at Mina Al-Bakar

1- In compliance with the order of president leader, may God protect him, to load the tankers with additional quantity of crude oil within the Memorandum of Agreement, appropriate arrangement with the oil inspector was made at Mina Al-Bakar, as well as the company buyer as explained below.

Date of Loading	Additional Quantity/barrel	Price	Amount/Dollar
05/16/2001	229 237	18784	\$4,305,987.81
08/27/2001	271 669	17550	\$4,767,990.95
Totals	500 906		\$9,073,978.76

2- Based on the telephone call with your Excellency, we have approved the following:

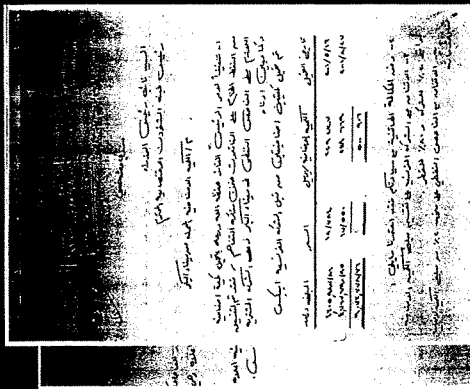
- A- Reach an agreement with the French company to divide the dollar amount of the additional quantity in the amount of 20% to the company and 80% to the country.
- B- Reach an agreement with the oil inspector to award him 2% of the total of additional quantity for his services.

Page 2

- C- In the light of what has preceded, the total of \$105,819 was paid to the oil inspector (Mr. Armando Carlos), for the two aforesaid shipments, which was below the percentage agreed on.

4- The sum paid from the total additional quantity mentioned above was considered as a surcharge; therefore, it was handled in that regard.

Signature
Amer Muhammad Rashid
04/12/2002



Permanent Subcommittee on Investigations
EXHIBIT #9

شركة وشخصي

السيد تاج - رئيس الوزراء
رئيس لجنة الشؤون الاقتصادية بالبرلم

٣ / القيمة الدفترية بحمله من ميزان البر

١- تنفيذاً لأمر الرئيس القائد حفظه الله ورعاه بتحويل كمية اصفهيه
ممن النقط الخاك على التاموت ضمن شركه التقاصم / فقد تم لتسيير
الدفتر على الفاعل النقطي فميزان البر ربح الشركة المشترية
وكما بين اراءه
تم تحويل كميته اصفهياتي من قبل شركة الفزيه ابيكس

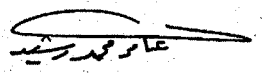
تاريخ التحويل	القيمة الدفترية / بريل	المر	المبلغ د.ل.د
٢٠١٥/٥/١٦	٤٤٩ ٤٤٧	١٨/٧٨٤	٤١٠٥٩٨٧/٨١
٢٠١٦/٨/٢٧	٤٤٨ ٦٦٩	١٧/٥٥٠	٤٧٦٧٧٩١/٨٥
	٥١١ ٩١٦		٩٠٧٤٧٧٨/٧٦

٢- رفض الملائمة الطاقية مع سياوتكم فقد اعتمدا مايلج ا
٣- الدفترية مع الشركة الفزيه على تقسيم مبلغ القيمة الدفترية
بواقع ١٠٪ للشركة و ٨٠٪ للقطر .
٤- الدفترية مع الفاعل النقطي على موزع ١٠٪ من مبلغ القيمة الدفترية
شركة وشخصي



٣- في مقرر اعلانه تم تسديد ما مجموعه (٨١٩, ١٠٥) دولار للفاصله
المنفصل (ARMANDO CARLOS) تحت الشكوك اعلانه وفي
امتن من السج المنفوه عليا

٤- تم اعتبار المبلغ المتحققه عند احوالي الكليه الديمانيه المده
مبالغه سترجه ريزيد تم معاملتها على هذا الاساس.

يرجى التفضل بالاطلاع ..
مع التقدير


علاء محمد رشيد
رئيس المنطق

٢٠٠٤/٤/١٤

2		3	
HOLDER		(1) TITULAR	
COSTA OLIVEIRA		TITULAIRE	
(2) Apellido(s)/Surname/Nom		(12) Número de Identificación/Identity card/Carte d'identité 5327043 de 27.06.1995 LISBOA	
ARMANDO CARLOS		(13) Estado civil/Civil status/État civil CASADO	
(3) Nome(s) próprio(s)/Given name(s)/Prénom(s)		(14) Domicílio/Residence/Domicile A. VA. - TRILVOA	
(4) Nacionalidade/Nationality Nacionalité	(5) Data de nascimento/Date of birth/Date de naissance		
PORTUGUESA	03.10.1958		
(6) Sexo Sex Sexe	(7) Local de nascimento/Place of birth/Lieu de naissance		
M	SÃO SEBASTIÃO DA PENHA LISBOA		
(8) Data de emissão/Date of issue/Date de délivrance	(9) Válido até/Date of expiry/Date d'expiration		
04.07.2000	04.07.2010		
G. CIVIL DE LISBOA			
			
(11) Assinatura do titular/Holder's signature/Signature de titulaire			

Permanent Subcommittee on Investigations
EXHIBIT #10

→ vertrek uit Amman 7 maart 2002
 → aankomst in Amman 7 Jan. 2002

24

25

عجلة سفرات
 MULTI JOURNEYS

سفارة المملكة الأردنية الهاشمية - بغداد
 Embassy of the Hashemite Kingdom
 of Jordan - Baghdad

Consular Division

Ordinary Visa
 Transit Visa
 Serial No. 54
 Valid Till 9.6.2002
 Provided the passport
 is so long valid

Date 10.12.2002
 The Government

5 MAR 2002

انكاست في اردن 5 مار 2002

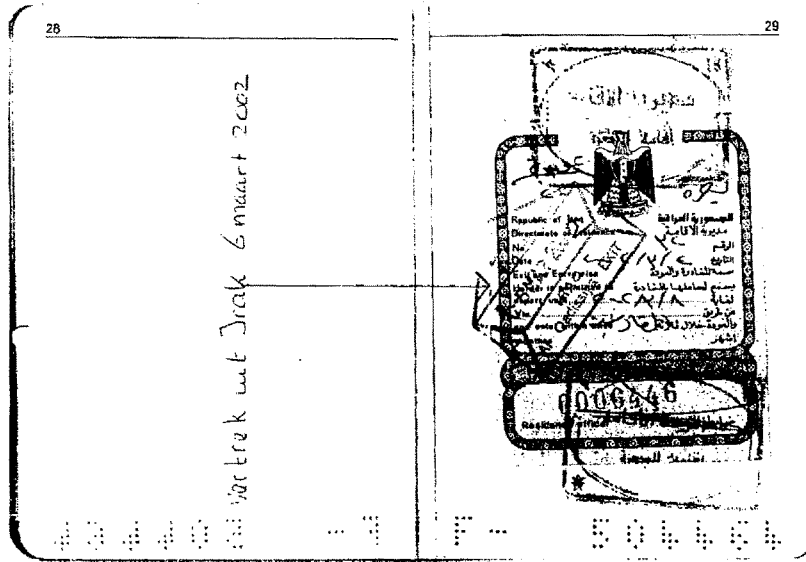
انكاست في اردن 5 مار 2002

Permanent Subcommittee on Investigations

Document received with handwritten notations

Permanent Subcommittee on Investigations

Document received with handwritten notations





FAX MESSAGE

SAYBOLT PORTUGAL

FAST TO THE POINT.

Fax number : 0031 10 4601299
To : SAYBOLT NEDERLAND
Attn : ANNEKE STRULIS
Date : 18-12-02
Subject : MR. ARMANDO OLIVEIRA
Nr. of pages : 3 (including this page)

WE'RE FAST!

Anneke,

Attached are photocopies of Mr. Oliveira's passport with arrival/departure stamps.

Pls. let me know if you need further docs.

Best regards
SAYBOLT PORTUGAL
Paula Martins

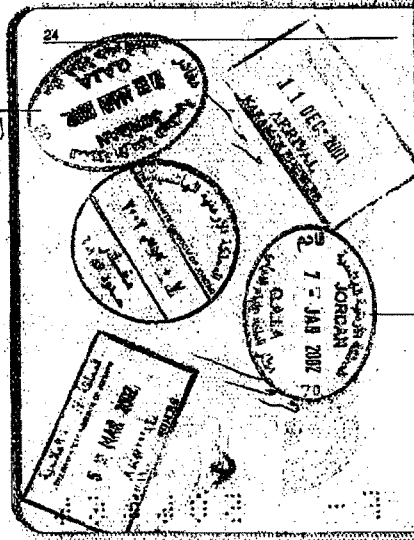
If you are satisfied with our services do tell others. If you are NOT satisfied, please do tell us:
<http://www.saybolt.com/complaint.nsf/>

All our activities are carried out under our general terms and conditions and in accordance with our code of practice. The general conditions can be consulted at <http://www.Saybolt.com/>, and will be sent upon request free of charge.

The information in this message is confidential and may be legally privileged. It is intended solely for the addressee(s). Access to this message by anyone else is unauthorised. If you are not the intended recipient, any disclosure, copying, distribution or any action taken or omitted to be taken in reliance on it, is prohibited and may be unlawful. All results and data contained in this document are subject to our general terms and conditions and are valid only when supported by an original document.

Permanent Subcommittee on Investigations
Document received with handwritten notations.

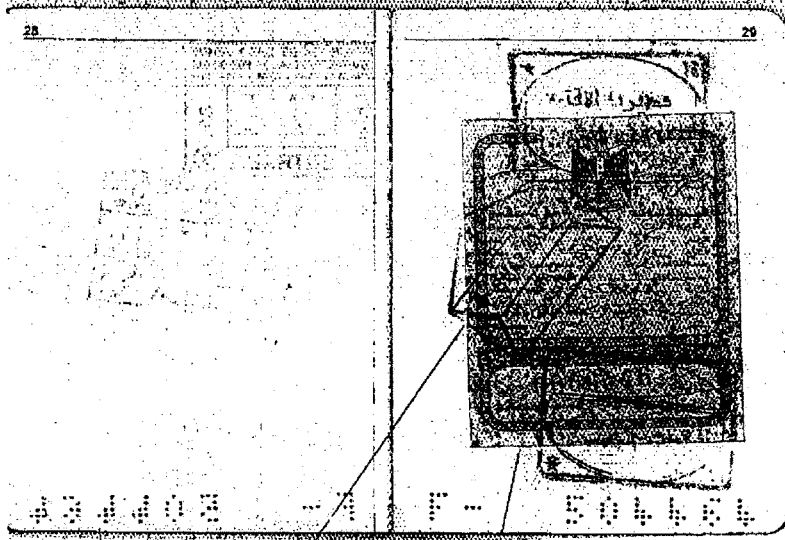
DEPARTURE
FROM JORDAN
7-MAR-2002



ARRIVAL AT JORDAN
7-JAN-2002

Permanent Subcommittee on Investigations

Document received with handwritten notations.



EXIT STAMP FROM IRAQ
5-MAR-2002

* DIRECTORATE OF RESIDENCE

SAYBOLT INTERNATIONAL B.V.

P.o.box 151
3000 AD Rotterdam
The Netherlands

**TELEFAX**

Fax number recipient	+1 212 7721794
To	Permanent Mission of Iraq to the UN, New York
Attention	Mr. Mowafak M. Ayoub, Counsellor
Sender	Anneke Struijs
Phone	+3110 4609218
Fax	+3110 4601299
Our reference	AST
Date	10.07.00
Re	Visa support
Total no. of pages	1

Dear Mr. Ayoub,

Messrs. P. Groen and A. Costa Oliveira from Saybolt International BV will be replacing Messrs. T. Pikk and Murikkoli for their vacation as from 20 July 2000.

We would be grateful if a visa could be available at the Iraqi Embassy in Amman.

We take this opportunity to thank you for giving this matter your attention.

Yours faithfully,
Anneke Struijs
Secretary to Peter B...

Name	Costa Oliveira
First name(s)	Armando Carlos
Nationality	Portugese
Date of birth	03.10.1958
Passport number	F-504464
Place of issue	04.07.2000
Expiry date	04.07.2010
Arrival Amman	22.07.00

Redacted by the Permanent Subcommittee on Investigations

All our activities ... filed out under our general terms and conditions and in accordance with our code of practice.

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Fax number recipient +1 212 7721794
 To Mission of Iraq to the UN, New York
 Attention Mr. Abbas Al Kafaji Counsellor
 Cc T.M. Ali, Jordan
 Phone Anneke Struijs
 Fax +3110 4609218
 Our reference +3110 4601299
 Date AST
 Re 31.10.2000
 Total no. of pages Visa support
 2

Name	[REDACTED]
First name	[REDACTED]
Nationality	[REDACTED]
Date of birth	[REDACTED]
Passport No.	[REDACTED]
Expiry date	[REDACTED]
Arrival	[REDACTED]
Amman	[REDACTED]

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

Costa Oliveira	[REDACTED]
Armanda Carlos	[REDACTED]
Portugese	[REDACTED]
03.10.1958	[REDACTED]
F-504464	[REDACTED]
04.07.2010	[REDACTED]
12.11.2000	[REDACTED]

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations



"SAYBOLT (PORTUGAL), LDA" <saybolt_portugal@ip.pt> on 11-07-2000
14:38:44

Please respond to "SAYBOLT (PORTUGAL), LDA" <saybolt_portugal@ip.pt>

To: Anneke Struijs@Saybolt
cc:
Subject: PASSPORT DETAILS

SURNAMES:	Costa Oliveira
FIRST NAMES:	Armando Carlos
NATIONALITY:	Portuguese
PLACE OF BIRTH:	S. Sebastiao da Pedreira - Lisboa
DATE OF BIRTH:	03-10-1958
CIVIL STATUS:	Married
RESIDENCE:	Mina - Amadora
PASSPORT No.:	F-504464
DATE OF ISSUE:	04-07-2000
EXPIRY DATE:	04-07-2010

Best regards
Orlando Garcia

SAYBOLT INTERNATIONAL B.V.

P.o. box 151
3000 AD Rotterdam
The Netherlands



TELEFAX

Fax number recipient	+1 212 7721794
To	Permanent Mission of Iraq to the UN, New York
Attention	Mr. Mowafak M. Ayoub, Counsellor
Sender	Anneke Struijs
Phone	+3110 4609218
Fax	+3110 4601299
Our reference	AST
Date	10.07.00
Re	Visa support
Total no. of pages	1

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Yours faithfully,
Anneke Struijs
Secretary to Peter Boks

Name	Costa Oliveira
First name(s)	Armando Carlos
Nationality	Portugese
Date of birth	03.10.1958
Passport number	F-504464
Place of issue	04.07.2000
Expiry date	04.07.2010
Arrival Amman	22.07.00

Redacted by the Permanent Subcommittee on Investigations

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Iraq Oil Inspection Contract
for The United Nations

RULES OF CONDUCT FOR STAFF ENGAGED IN CONTRACT

The nature of this contract calls for certain rules of etiquette and conduct to be maintained at all times by all personnel at the various points of operation when both on or off duty.

Saybolt Eastern Hemisphere BV has been engaged by the United Nations to inspect and Analyse oil shipments exported from Iraq.

Being the first contract for the shipment of oil from Iraq to be sold under the auspices of the United Nations, it will no doubt attract much attention, particularly from world media sources. It is therefore more important than ever that you work and behave correctly, remain polite and considerate as well as act with diplomacy, sensitivity and decorum at all times during the period of the contract.

Whilst in Iraq you will be representing not only the Saybolt Group but also the United Nations and in turn your own country. Therefore you will be expected to act and abide by the laws and customs of the country, to act in moderation and above all show respect to the local population at all times.

The terms of the contract require Saybolt to produce accurate measurement of the quantity of oil shipped and exact analysis of the quality of each and every consignment.

The following rules of conduct have been set out for the benefit of everyone concerned and you are required to act in accordance with them. They may be updated from time to time. Please read them carefully and complete and sign one copy. Keep the other copy with you during your stay in Iraq.

1. During working hours only the Saybolt approved and supplied overalls, cap, safety helmet and safety gloves are to be worn with black socks, blue tie and uniform. Safety shoes must be made of leather and be black in colour. Tee shirts, trainers or similar clothing or footwear are strictly forbidden to be worn.



Clothing and shoes must be clean and in good condition at all times.

2. At all times whether on or off duty your hair is to be kept short and neatly combed and your face must remain clean shaven.
3. When off duty, the clothing you wear should be kept respectable, such as short sleeve white shirts, socks, trousers or shorts. Shoes must be made of leather.
At no time will printed or coloured tee shirts, vests, trainers or clothing and footwear be worn or tolerated.
4. At all times you will respect the local and state laws that are in force as well as the customs of the country.
5. Contact with the press or other media is not permitted.
6. If approached by the press or other media, you are to make no comment whatsoever, simply and politely refer them to your manager/Rotterdam
7. At no time are you to discuss local politics or international politics or religion with anyone, you will maintain a neutral position on all of these subjects throughout the period of your stay.
8. The possession, handling, selling or taking of drugs is strictly forbidden at all times and is the subject of instant dismissal from the Company.
9. Alcohol may be consumed during off duty periods in strict moderation and only when the local laws permit. Alcohol abuse and/or drunkenness is strictly forbidden at all times.
10. Immoral liaison with a local or any other person is strictly forbidden and the subject of instant dismissal from the Company.
11. You will not become involved in any arguments or disputes with the local community, your fellow colleagues, or any other person(s).



- 12. Any suspicious approach by a person or persons should be notified immediately to your manager/Rotterdam.
- 13. Any approach by local staff or any other person(s) to alter a measurement or analysis figure is to be immediately reported to your manager/Rotterdam.
- 14. During the period of this contract you may be required to operate from a country other than Iraq. Kindly note that these Rules of Conduct are applicable in all countries you may visit as well as when you are travelling by sea, air or any other means of transport.

I have read and understood the above Rules of Conduct and will act and abide by them accordingly.

Signed... *H. Olmuis*

Date... *21/07/2000*

Print Name... *Amanda Carlos Costa Olmuis*

Address...

Post/Zip...
Country...

= Redacted by the Permanent Subcommittee on Investigations

For and on behalf of Saybolt Eastern Hemisphere BV.

Signed... *H. Straus*

Date... *21/7/00*

Print Name... *H. Straus*

Title/Position... *Sec.*

SAYBOLT EASTERN HEMISPHERE BV

Chemical Laboratories
 Independent Inspectors
 Quality Assurance Services



Annex II

**GENERAL RELEASE FROM LIABILITY ON ACCOUNT OF
 USE OF UN-PROVIDED TRANSPORT**

I, the undersigned, hereby recognize that all my travel on the UN-provided transport, pursuant to Contract PTD/CON/ /96 between the United Nations and Saybolt Eastern Hemisphere BV, is solely for my own convenience and benefit for purposes of work related duties or for emergency medical reasons, and may take place in areas or under conditions of special risk. In consideration of being permitted to travel on such means of transport, I hereby:

- a) Assume all risks and liabilities during such travel,
- b) Recognize that neither the United Nations nor any of its officials, employees or agents are liable for any loss, damage, injury or death that may be sustained by me during such travel,
- c) Agree, for myself as well as for my dependents, heirs and estate, to hold harmless the United Nations and all its officials, employees and agents from any claim or action on account of any such loss, damage, injury or death,
- d) Agree, for myself as well as for my dependents, heirs and estate, that, in the event that the United Nations has insurance to cover personal injury or death, the liability of the United Nations shall be limited and shall not exceed: the amounts of such insurance coverage; or in the case of loss, damage, injury or death during carriage by air, the limitations on the amounts recoverable by passengers under the provisions of the Warsaw Convention.
- e) Further agree, for myself as well as for my dependents, heirs and estate, that we shall look first to any insurance taken out by myself or provided by my employer or the carrier covering such loss, damage, injury or death, and that compensation shall be payable by the United Nations only to the extent that the limits provided under paragraph "(d)" above, exceed the amounts recovered from such insurance.

[Handwritten signature]
 Witness

[Handwritten signature]
 Passenger

21 / 02 / 2000
 Date

Post address: Tel: (010) 460 99 11
 P.O. Box 151: Telex 216 42
 3000 AD Rotterdam Fax: (010) 435 36 00
 The Netherlands

All our activities are carried out under the terms lodged
 at the Arrondissementsrechtbank (County Court) in Rotterdam.
 Trade Register Rotterdam No 234.011

S033186

SAYBOLT EASTERN HEMISPHERE BV

Chemical Laboratories
Independent Inspectors
Quality Assurance Services



Annex III
**GENERAL RELEASE FROM LIABILITY ON ACCOUNT OF
PROVISION BY UN OF EMERGENCY MEDICAL CARE**

I, the undersigned, hereby recognize that all emergency medical care provided to me at UN medical facilities, pursuant to contract PTD/CON/___/96 between the United Nations and Savbolt Eastern Hemisphere BV, is solely for my own convenience and benefit for purposes of work-related duties or for emergency medical reasons, and may take place in areas or under conditions of special risk. In consideration of receiving such medical care, I hereby

- a) Assume all risks and liabilities in connection with the provisions of such medical care;
- b) Recognize that neither the United Nations nor any of its officials, employees or agents are liable for any loss, damage, injury or death that may be sustained by me during the provision of such medical care;
- c) Agree, for myself as well as for my dependents, heirs and estate, to hold harmless the United Nations and all its officials, employees and agents from any claim or action on account of any such loss, damage, injury or death;
- d) Agree, for myself as well as for my dependents, heirs and estate, that, in the event that the United Nations has insurance to cover personal injury or death, the liability of the United Nations shall be limited and shall not exceed the amounts of such insurance coverage.
- e) Further agree, for myself as well as for my dependents, heirs and estate, that we shall look first to any insurance taken out by myself or provided by my employer covering such loss damage, injury or death, and that compensation shall be payable by the United Nations only to the extent that the limits provided under paragraph "(d)" above, exceed the amounts recovered from such insurance.

[Handwritten signature]
Witness

[Handwritten signature]
Passenger

21/03/2002
Date

Post address Tel (010) 460 99 11
P.O. Box 151 Telex 216 42
3000 AD Rotterdam Fax (010) 435 36 00
The Netherlands

All our activities are carried out under the terms lodged
at the Afdeling Registratie (County Court) in Rotterdam
Trade Register Rotterdam No 234 011.



"SAYBOLT (PORTUGAL), LDA" <saybolt_portugal@ip.pt> on 11-07-2000
17:14:13

Please respond to "SAYBOLT (PORTUGAL), LDA" <saybolt_portugal@ip.pt>

To: Peter Boks@Saybolt
cc: Anneke Struijs@Saybolt
Subject:

New tax law in Portugal since 1st January of 6.5% on subsistence allowance with direct reflect on the payment due to the inspectors involved in the Iraq program. Because of this we should increase the monthly fee to US\$ 6,600. This fee is to be applied to all inspectors, i. e., Mr. Ricardo Cotrim, Mr. Pedro Goncalves and Mr. Armando Oliveira.

We advise that we have admitted in Saybolt Portugal Mr. Armando Oliveira on a term contract

Best regards

SAYBOLT PORTUGAL
Jorge V. Goncalves


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- att1.htm

 Anneke Struijs
20-06-2000 14:42

To: "SAYBOLT (PORTUGAL), LDA" <saybolt_portugal@ip.pt>
cc: Peter Boks@Saybolt, NB09C@CCMAIL
Subject: Armando Oliveira 

Dear Mr. Goncalves,

We will apply for the approval of Mr. Oliveira by the UN today.

Mr. Oliveira is scheduled to arrive Amman on 23rd July. Arrival in the Netherlands to be on Thursday 20 July late afternoon.
I have made a provisional booking Amsterdam - Amman, departure 22nd July, Arrival 23 July at 00.50.
The return flight from Amman will be on 20 September arriving at 12.50. There are two flights back to Portugal, 13.45 and 18.35. Please also make a provisional booking from Lisbon to Amsterdam on 20 July and return to Lisbon on 20 September. If possible ticket should be flexible.

Attached please find the draft contract as per your request


. Conexamp.doc

Regards
Anneke

"SAYBOLT (PORTUGAL), LDA" <saybolt_portugal@ip.pt> on 20-06-2000 09:51:51



"SAYBOLT (PORTUGAL), LDA" <saybolt_portugal@ip.pt> on 20-06-2000 09:51:51

Please respond to "SAYBOLT (PORTUGAL), LDA" <saybolt_portugal@ip.pt>

To: Anneke Struijs@Saybolt, Peter Boks@Saybolt, SAYBOLT NB09C@CCMAIL
cc:
Subject:

Attention: Peter Boks
Richard Baznes
Anneke Struijs

Attached the CV of Mr. Armando Oliveira.

I call your attention that this professional is coming from the competition and he will be available as of 1st July. Please make urgent arrangements for his immediate start in the programme.



"Armando Oliveira" <Armando.Oliveira-188@clix.pt> on 19/03/2002 14:11:11

To: "Vladimir Polyakov" <VEGA@farlep.net>, "Teddy Aquino" <tedyaquino@yahoo.com>, NB08@Saybolt, NB03C AT SAYNLDRM@CCMAIL, Richard Barnes@Saybolt, Richard Barnes@Saybolt, Peter Boks/Saybolt/NL@Saybolt, "Oleg Kokorovets" <sokolos@farlep.net>, NB13@Saybolt, NB08@Saybolt, NB05@Saybolt, NB03@Saybolt, Marion Steenbergen@Saybolt, Marinus Jansen@Saybolt, Koenraad Sluimer@Saybolt, Graham Brett/Saybolt/NL@Saybolt, "C Batson" <cbatson@emirates.net.ae>, Anneke Struijs@Saybolt

cc

Subject: Greetings to Everyone

Dear Colleagues

Sorry for the delay, but this Email is to TANK YOU for the cooperation and professionalism that all the people during almost two years worked with me at MAB and to all the others that in other parts of the Program OIL FOR FOOD were directly or indirectly involved on the work.

If during this time I was unpolitized, over reacted or take wrong decisions about something my humbly apologise and all the actions were without second intentions or prejudice and taken on the best of my Knowledge.

Once more TANK YOU.

Kindly Regards to all

Armando oliveira
Lisbon 19-03-2002 13:00LT

. att1.htm

Month: May 2004

Name	Date		Personnel Attendance on Location.																												
	From arrival to departure	Amman.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	
Alcojov S																															
Alchazov I																															
Aquino F																															
Barkhatov S																															
Barnes R																															
Boudry S																															
Casella F																															
de Bruijn H																															
de Souza R																															
Gambelin L																															
Gonzales P																															
Groom M																															
Grown P																															
Harris P																															
Jacirinegi A																															
Kir V																															
Kokorovets O																															
Kofess K																															
Lammertz T																															
Lagunas A																															
Murikol B																															
Murray R																															
Nobilo R																															
Olshin A																															
Orbach A																															
Pak T																															
Popkoy V																															
Popov P																															
Radou V																															
Safikov A																															
Schmitt G																															
Schunko H																															
Shavgoyan A																															
Singdon D																															
Shrag G																															
Tchabansko A																															
Telleg A																															

Permanent Subcommittee on Investigations
EXHIBIT #12

Location	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	Staff No.
Luemala H																															
van der Veen G	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	
Versik R	2	3	1	1	2	4	5	7	8	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
Ceyhan	5	6	5	5	5	5	6	6	7	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	6	
Baghdad	8	8	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	
Mina Al Bakr	8	8	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	
Zakho	4	4	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	
Total	25	25	20	20	20	20	20	21	22	20	20	21	22	20	20	21	25	25	25	25	25	25	25	25	25	25	25	25	25	26	
Oil Program (14)	Total (20)																														
Spare Parts (6)	Total (20)																														
Days in Month:	30																														
Sub-Total Mandays:	420																														
*Projected edit(1) travel days:	24																														
Total Mandays:	444																														
Actual Mandays Recorded:	447																														
Difference:	3																														
*MAB & ZKO Based on 4 day shift changeover where relieving staff arrives Amman 4 days prior departing shift. Two days per man for Baghdad.																															
Apomias:																															
Oil Monitors																															
Ceyh 08/05: Chemist Cover. (actual 1 day early)																															
09/05: Staff Cover.																															
27/05: Staff Cover.																															
Mina Al Bakr 29/04 - 02/05: Staff Cover.																															
13 - 16/05: Staff Cover.																															
Zakho 29/04 - 02/05: Staff Cover.																															
12 - 18/05: Staff Cover, SA str. 1 day early (ft avail.)																															
29/04 - 02/05: Staff Cover.																															
13 - 19/05: Staff Cover. In delay 2 days. (ft avail.)																															
Spare Parts, Baghdad.																															
29/04 - 02/05: Staff Cover.																															
13 - 19/05: Staff Cover. In delay 2 days. (ft avail.)																															
Total Oil and Spare Parts Columns	44																														
Total Rationalisation Proj. Add Days and Difference	5																														
	49																														

From: NB09C AT SAYNLRDM@CCMAIL on 06/05/2001 12:57 AM
 To: "ems:internet (Abraham Mathai) (mathai@un.org)" AT MCIMAIL@TFS@SAYNLRDM@CCMAIL,
 "ems:internet (Sajit) (sajit@un.org)" AT MCIMAIL@TFS@SAYNLRDM@CCMAIL, Peter
 Boks/Saybolt/NL, Graham Brett/Saybolt/NL, "ems:internet (Taleb Ali) (say_tma@go.com.jo)" AT
 MCIMAIL@TFS@SAYNLRDM@CCMAIL, NB08, "ems:internet (Adnan Almarsarweh)
 (almarsarweh@un.org)" AT MCIMAIL@TFS@SAYNLRDM@CCMAIL, "ems:internet (Security
 Operations) (securityoperations@un.org)" AT MCIMAIL@TFS@SAYNLRDM@CCMAIL,
 "ems:internet (Maysoon Wazir) (wazir@un.org)" AT MCIMAIL@TFS@SAYNLRDM@CCMAIL
 cc:
 Subject: Saybolt UN Iraq - Wk.19/20 - On Site Staff List.

To UN Baghdad. Security
 Attn Mr. Abraham Mathai.
 Mr. Sajit
 Mr. Elsayed Ibrahim
 Mr. Adnan Almarsarweh
 Security Operations.
 Maysoon Wazir.

cc Saybolt Rotterdam
 Attn Mr. Peter Boks
 Mr. Graham Brett
 cc Saybolt MEHQ
 Attn Mr. Taleb Ali

From Richard Barnes / Saybolt UN Teams. Baghdad, Iraq.

Dear Sirs,

Please find revision of personnel list; Saybolt UN Monitors stationed
 at the following Iraq locations.

Travel Dates;
 14/05. - Staff entering Iraq, crossing border.
 15/05 & 17/05 - Staff exiting Iraq, crossing border.

Baghdad.
 =====
 Peter Groen Dutch (TL)
 Fuedore Aquino Filipino (Arrives 14/05)
 Lyndon Gambalan Filipino
 Francisco Castillo Filipino
 Vilu Kirt Estonian (Arrives 14/05)
 Heiki Uuemaa Estonian (Arrives 14/05)

Reimo Vatsk Estonian (Departs 15/05)
 Argo Jaanimagi Estonian (Departs 15/05)
 Ilya Alkhazov Russian (Departs 17/05)

Mina Al Bakr.
 =====

Armando Oliveira Portugese (TL)
 Sergey Bouzdyk Russian
 Volodymyr Polyakov Russian (Departs 17/05)
 Valarie Poudov Russian

Peter Popov Russian
Singson Danilo Filipino

Gordan Schoeman S.African (Arrives 14/05)

Zakho.

=====

Heinz Schumko Dutch (TL)
Tovio Laanmets Estonian (Departs 15/05)
Romeo Notario Filipino

Sergey Akulov Russian (Arrives 14/05)

(TL) Denotes location 'Team Leader'

With thanks and kind regards,
Richard Barnes / Saybolt UN Teams in Iraq.

From: NB13C AT SAYNL RDM@CCMAIL on 05/15/2001 10:08 AM
 To: Graham Brett
 cc: Peter Boks
 Subject: Re: 2205/01, Daily Report Mina Al Bakr

From: Saybolt UN Team - Mina Al Bakr
 Date: May 15, 2001.
 Time: 09:15 hrs L.T.

Dear Graham, Rinus,

Weather Conditions:

Clear

Vessels alongside :

BERGE BORG : Finished Loading 15-07:25
 ***** At this moment we are is measurements
 ESSEX : Loaded until Today 747,291 Bbls
 ===== Loading rate 37,000 Bbls/h
 ETC 16/05/01 A.M.

Vessels at anchorage

KRAKA : Arrived at Anchorage B. at 14-01:50
 ASTRO BETA : Arrived at Anchorage A. at 14-10:00

Vessels expected:

SKOPELOS L'Can 15/05 - Not Confirmed by SOMO
 FRONT COMMERCE L'Can 16/05 - " "
 ROME L'Can 20/05 - " "
 URAL L'Can 22/05 - " "
 FRONT CHAMPION L'Can 23/05 - " "
 TBN L'Can 25/05 - " "

Confirm receipt of following UN fax messages:

Contr.#	Purchaser	Item	Date	Ship	BNP No.	Qty	MB

Monitors on Station

Armando Oliveira
 Valeriy Poudov
 Petr Popov
 Danilo Singson
 Sergey Bouzdyk

Kind regards
 Saybolt UN Team - Mina Al Bakr.

257


REMARKS:

Monitors on Station:

Armando Oliveira
Gordon Schoeman
Danny Singson
Sergey Boudyk

In Basrah Rest House:
Travel today to Platform:
Rogerio de Sousa
Ralph Murray

Kind regards
Saybolt UN Team - Mina Al Bakr.

 -att1.htm

From: NB13C AT SAYNLDRM@CCMAIL on 05/17/2001 12:20 PM
 To: Graham Brett, "Graham Brett" <graham_brett@compuserve.com>
 cc: Peter Boks
 Subject: Re: 2211/01, Daily Report Mina Al Bakr

From: Saybolt UN Team - Mina Al Bakr
 Date: May 17, 2001.
 Time: 11:00 hrs L.T.

Dear Graham, Rinus,

Weather Conditions:

Clear, and Very Strog Wind

Vessels alongside :

ESSEX : Left pier 16-20:30
 =====

Manoeuvring of ASTRO BETA was cancelled seconf time due to Strong Wind. They gone try today in the Afternoon if the wheater permit.

Vessels at anchorage

KRAKA : Arrived at Anchorage B. at 15-10:45 Not Confirmed
 ASTRO BETA : Arrived at Anchorage B. at 14-10:00 Confirmed By SOMO
 SKOPELOS : Arrived at Anchorage B. at 15-17:30 Confirmed by SOMO
 FRONT COMMERCE : Arribed at Anchorage A. at 16-05:30 Confirmed by SOMO

Vessels expected:

ROME L*Can 20/05 - Not Confirmed by SOMO
 URAL L*Can 22/05 - " "
 FRONT CHAMPION L*Can 23/05 - " "
 TBN L*Can 25/05 - " "
 OPALIA L*Can 26/05 - " "

Confirm receipt of following UN fax messages

Contr.#	Purchaser	Item	Date	Ship	BNP No.	Qty	MB
M/09/01	ALCON PETROL.	C/Amm(5)	15/05			4,000	
M/09/28	NAFTA PETROL.	C/Amm(4)	15/05			1,200	
M/09/60	PETROGAZ	L/C	15/05	URAL	D727417	2,000	
M/09/86	ZERIC GMBH	L/C	15/05	FRONT CHAMPION	D727418	2,000	
M/09/76	MARBEL R.	L/CAM(1)	15/05	WELH VENTURE(*)	D727183	2,000	

(*)Already Loaded

Monitors on Station

Armando Oliveira
 Valeriy Poudov
 Peter Popov
 Danilo Singeon
 Sergey Bouzdyk

Kind regards
 Saybolt UN Team - Mina Al Bakr.

S023862

Miquel Oliveira

From: "Armando Oliveira" <Armando.Oliveira-188@clix>
To: <pb@saybolt.com>
Sent: quarta-feira, 10 de Outubro de 2001 14:16
Subject: Fw:

--- Original Message ---

From: Armando Oliveira
To: peter_boks@saybolt.nl
Sent: Wednesday, October 10, 2001 1:53 PM

Dear Peter Boks

Regarding the phone calls of yesterday, I'm gone try to summarise the procedures.

After receiving the Un Confirmation (LC) we confirmed with terminal manager if they already have the Somo order to load. If every thing is Ok, after vessel's mooring we went on board to perform the OBQ inspection.

After loading the final inspection is performed and checked on the end with vessel Ch officer if our calculations have the same figures (TOV and FREE WATER) as vessels.

After that we went to our office to performed our report and prepare the B/Lading paper That we give to MAB Shipping Department, and the Un Notification.

As soon as we have finished the paper work, we went on boar with the UN Notification

To confirmed with the captain if the discharge port is the same that we have in documentation .if everything is ok the papers are signed and captain stay's with none copy and Saybolt with the other.

After that we came out from the vessel and went to the accommodation, here normally we stay, some time on the office, dayroom or Dining Room.

What happened after until the vessel's left from the pier we don't now.

About the question that you asked to me if some time I was under pressure or asked to turn around my Eyes, this kind of things never happened.

All saybolt people have very good relation ship with all terminals personal.

I hope that will be enough for you

Best Regards
Armando Oliveira

10-10-2001

S023778

Q Month: August 2001

Personal Attendance on Location.

Name	Date		From arrival to departure Amman.																																		
	29	30	31	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28						
Ajwazov I	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A					
Ajullo F.																																					
Balhtarov S																																					
Barnes R																																					
Berisaia V																																					
Bouzyki S.	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M					
Castillo F.	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A				
Chasirvov K	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z				
de Bruijn H	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C				
de Souza R	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A			
Gambalin L	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C			
Gonzales P	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A		
Guen P																																					
Jeaning/ A																																					
Kallgin I																																					
Kfi V																																					
Kokorovitz O	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M			
Kotbas K																																					
Kotbas K																																					
Laguna A																																					
Murillo S.																																					
Murray R																																					
Nizario R	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z			
Nizario R	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M		
Okwira A	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C	C		
Otych A																																					
Pall T																																					
Luemas H	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A		
Pratik V																																					
Poljakov V.																																					
Popov P.	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M		
Posdev V.	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	
Sampers A																																					
Schoonen G																																					
Schurko H	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z	Z		
Shagoyko A																																					
Singam D	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M		
Sraj G																																					
Tonubchireto A.																																					

Permanent Subcommittee on Investigations
EXHIBIT #13

STATEMENT

I the undersigned have been instructed on behalf of Trefigura to attend loading of M/T Essex at Al Bakr on August 26-27/08/01 in order to monitor and supervise the loading operation of the vessel.

My specific instructions were to make sure the loading operation was not delayed by any vessel's problems and avoid occurrence of demurrage as well as to monitor and supervise the measurements on board the ship since in the particular terminal the Bill of Lading figures are determined in accordance with ship's figures. Finally to establish quality of the cargo loaded in respect of API, temperature and water content.

We were informed that on previous Basrah Light Crude oil cargoes discharged in the United States there have been cargo losses of 8 - 10,000 bbls comparing the outturn figures at discharge port and Bills of Lading figures, and this is what the Charterers were concerned with and wanted to avoid, by making sure measurements were done properly.

Boarded the vessel on 27/08/01 while the vessel was de-stopping at Fujairah.

The same date noon the vessel sailed towards Al Bakr.

Arrived Al Bakr inner anchorage 24/08/01 16:30 Hours.
Vessel berthed at Terminal on 25/08/01 11:48 Hours Local Time and Port authorities, Loading Master and Saybolt surveyors boarded at the same time.

On arrival at loading terminal, we were advised by loading Master, that as per IBEX instructions vessel was to load up to maximum 2,100,000 bbls which was confirmed by my principles as the maximum quantity under the Trefigura's Beheer B.V. purchase contract from IBEX.

Loading commenced on 25/08/01 15:00 Hours.
On 27/08/01 19:20 Hours loading was interrupted by Terminal and both Saybolt surveyor and Loading Master boarded the vessel in order to measure cargo loaded on board by that time.

On completion of the measurements and cargo calculations loading was resumed from 27/08/01 at 20:00 Hours to 28/08/01 at 04:00 Hours, when load stop order was given by terminal to Master of Essex.

On completion of loading, Saybolt Mr. Armando Oliveira and Loading Master Mr. I. I. Al Serah boarded the vessel again.
Ullage reports were prepared for the total cargo on board, which were signed by loading Master and vessel's Master.

On completion of cargo calculations two sets of Bills of Lading were presented by the Loading Master, which were signed by the Master.

T0006902

14. NOV. 2001 21:53 ALLEN & OVERY SLIDE a to

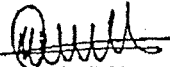
Nº 4892 P. 40/143

In order to make sure that loaded cargo was in accordance with terminal UN requirements have also requested loading master to issue a letter verifying the total quantity on board the vessel, copy of which attached.

As per my instructions on behalf of Charterers letters of protests issued to the terminal for omitting the "SCAC" code as attached. The loading master signed both.

Vessel sailed from terminal on 28/08/01 at 15:50 Hours.

Also please find attached copies of both B/L.



Capt. Manolis Manoussakis

T0006903



"NB13"
 <Nb13@saybolt.com>
 08/27/2001 08:42 AM

To: Peter Boks/Saybolt/NL@Saybolt, Graham
 Brett/Saybolt/NL@Saybolt
 cc: Marinus.Jansen@Saybolt
 Subject: Re: 2470/01, Daily Report Mina Al Bakr

From: Saybolt UN Team - Mina Al Bakr
 Date: August 27, 2001.
 Time: 09:30 hrs L.T.

Dear Graham, Rinus,

Weather Conditions :

Clear.

Vessels alongside :

SETTEBELLO Finished Loading 26/08 at 22:25, S.R.S Report 30312/01
 already sent. ETS 27/08 P.M.

ESSEX Loading Until Now 1,233,340 Bbls
 ETC 27/08 P.M.

BARAO DE MAUA
 Operation

	Time	Date
End of sea passage	10:00	24/08/01
Notice of Readiness Tendered	10:00	24/08/01
Arrival at Anchorage	11:00	24/08/01
Pilot on Board	24:00	24/08/01
Left Anchorage	23:15	24/08/01
First Line Ashore	02:40	27/08/01
All Fast to Berth No.4	06:35	27/08/01
Notice of Readiness Received	06:35	27/08/01
Gangway in Position	06:35	27/08/01
Free Pratique Granted	TBA	27/08/01
Cargotanks inspected/dipped	08:00	27/08/01
Loading Arms Connected (2x16")	TBA(*)	
(*) Awaiting Lay-Can		
COMMENCED LOADING	TBA	
Commenced Deballasting	TBA(When started Loading)	
Estimate Time of Deballasting	12 Hours	
Vessel's Qty Intention	1,904.239 NBbls	
ETC	30/08 A.M.	

Independent Surveyor:

NIL

Vessels at anchorage :

MARIA A.ANGELICOUSSIS Arrived 26/08 - 16:00 at Anchorage B - Confirmed by SOMO.

Vessels expected :

CHEVRON NAGASAKY 31/08 Not Confirmed bySOMO
 TBN 31/08 " "

Confirm receipt of following UN fax messages:

Contr.#	Purchaser	Item	Date	Ship
Snp No.	QtyMB			

REMARKS:

Monitors on Station:

Armando Oliveira
Gordon Schoeman
Danny Singson
Sergey Bouzdyk

Rogério de Sousa
Ralph Murray

In Basrah Rest House:
No One

Kind regards
Saybolt UN Team - Mina Al Bakr.

 -att1.htm



"NB13"
 <Nb13@saybolt.com>
 08/25/2001 09:09 AM

To: Peter Boks/Saybolt/NL@Saybolt, Graham
 Brett/Saybol/NL@Saybolt
 cc: Marinus Jansen@Saybolt
 Subject: Re: 2465/01, Daily Report Mina Al Bakr

From: Saybolt UN Team - Mina Al Bakr
 Date: August 25, 2001.
 Time: 10:00 hrs L.T.

Dear Graham, Rinus,

Weather Conditions :

Clear, windy and slight waves.

Vessels alongside :

BERGE BOSS Finished 24/08 at 21:55, SRS report 30311/01, already sent.
 ETS 25/08 at 08:09.

SETTEBELLO Loaded until now 530,000 Bbls
 ETC 26/08 P.M.

Free Pratique Granted(*) 21:45 23/08/01
 (*) Corrected Time
 Commenced Deballasting 08:00 24/08/01
 Completed Deballasting 02:50 25/08/01

ESSEX Mooring Now

Vessels at anchorage :

BARAO de MAUA arrived on the 24/08 at 11:00, Anchorage B.

Vessels expected :

MARIA A. ANGELICOU 28/08 " Not Confirmed by SOMO
 CHEVRON NAGASAKY 28/08 " " " "
 TBN 31/08 " " " "

Confirm receipt of following UN fax messages:
 Contr.# Purchaser Item Date Ship
 Bnp No. QtyMB

M/10/41	NAFTOGAZ UK.	L/C	23/08	ANTONIS I. ANGLEC.	N730091	2,000
---------	--------------	-----	-------	--------------------	---------	-------

REMARKS:

Monitors on Station:

Armando Oliveira
 Gordon Schoeman
 Danny Singson
 Sergey Boudyk

In Basrah Rest House:
 Rogerio de Sousa
 Ralph Murray

Kind regards
 Saybolt UN Team - Mina Al Bakr.

 - att1.htm



<Nb13@saybolt.com>
08/28/2001 09:11 AM

Bret/Saybolt/NL@Saybolt
cc: Marinus Jansen@Saybolt
Subject: Re: 2473/01, Daily Report Mina Al Bakr

From: Saybolt UN Team - Mina Al Bakr
Date: August 28, 2001.
Time: 10:00 hrs L.T.

Dear Graham, Rinus,

Weather Conditions :

Clear.

Vessels alongside :

SETTEBELLO ETS 27/08 11:30.

ESSEX Finished Loading 27/08-19:20, S.R.S report 30313/01
already sent.

ETS 28/08 11:00

BARAO DE MAUA

Operation	Time	Date
Loading Arms Connected (2x16")	11:00	28/08/01
COMMENCED LOADING	11:45	28/08/01
Commenced Deballasting	12:10	28/08/01
Estimate Time of Deballasting	12 Hours	
Completed Deballasting	06:15	28/08/01
Loading until Today		382,710 Bbls
ETC		30/08 A.M.

Vessels at anchorage :

MARIA A.ANGELICOUSSIS Arrived 26/08 - 16:00 at B.Anchorage - Confirmed by SOMO.
CHEVRON NAGASAKY Arrived 27/08 - 16:30 at B.Anchorage - Not Confirmed by SOMO.

Vessels expected :

NIL

Confirm receipt of following UN fax messages:

Contr.#	Purchaser	Item	Date	Ship
M/10/19	MACHINOIMPORT	L/C	24/08	CHEV.NAGASAKY
				N730113
				0,835

REMARKS:

Monitors on Station:

Armando Oliveira
Gordon Schoeman
Danny Singson
Sergey Bouzdyk
Rogerio de Sousa
Ralph Murray

In Basrah Rest House:
No One

Kind regards
Saybolt UN Team - Mina Al Bakr.

S023834

-att1.htm

Saybolt UN Iraq Program. Relief Sche 107
 IRAQ Date: 31/Aug/01

TRAVEL DATES / Arr.: Arrival date Amman, Dep.: Depart date Amman.

TURKEY			Flight Dates			Name			Flight Dates			Name			Flight Dates		
Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.
Pall T	2-Sep	7-Oct	Telling A	6-Oct	30-Dec	Barkhatov S	30-Dec	17-Mar									
Barkhatov S	12-Aug	4-Nov	Van de Veen	4-Nov	28-Jan	Telling A	27-Jan	7-Apr									
Saripovs A	6-Sep	18-Nov	Chaschinov K	18-Nov	3-Feb	Snoeiij G	3-Feb	2-Apr									
Tchubchenko	26-Aug	12-Nov	Snoeiij G	12-Nov	4-Jan	deBruijn H	3-Jan	1-Mar									
Snoeiij G	7-Aug	6-Oct	deBruijn H	5-Oct	4-Dec	Gonclaves P	4-Dec	24-Feb									

IRAQ			Flight Dates			Name			Flight Dates			Name			Flight Dates		
Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.
Aquino F	5-Aug	3-Oct	Vatsk R	30-Sep	28-Nov	Alkhazov I	25-Nov	23-Jan									
Alkhazov I	2-Sep	31-Oct	Kirt V	28-Oct	26-Dec	Vatsk R	23-Dec	20-Feb									
Jaanimagi A	2-Sep	31-Oct	Aquino F	28-Oct	26-Dec	Castillo F	23-Dec	20-Feb									
Barnes R	19-Aug	17-Oct	Groen P	14-Oct	14-Nov	Barnes R	11-Nov	9-Jan									
Lagutin A	5-Aug	3-Oct	Castillo F	30-Sep	28-Nov	Jaanimagi A	25-Nov	23-Jan									
			Gambalan L	16-Sep	28-Nov	Murikkoli S	25-Nov	9-Jan									
ikkoli S	19-Aug	17-Oct	Bertasius V	(15/10)	14-Nov	Schunko H	(10/12)	26-Dec									

Mina Al Bakr			Flight Dates			Name			Flight Dates			Name			Flight Dates		
Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.
Buzdyk S	22-Jul	19-Sep	Poudov V	16-Sep	14-Nov	deSouza R	11-Nov	9-Jan									
Murray R	19-Aug	17-Oct	Buzdyk S	14-Oct	12-Dec	Poudov V	9-Dec	6-Feb									
Schoeman G	5-Aug	3-Oct	Singson D	30-Sep	28-Nov	Kokorovetz	25-Nov	23-Jan									
Polyakov V	2-Sep	31-Oct	Schoeman G	28-Oct	26-Dec	Singson D	23-Dec	20-Feb									
deSouza R	19-Aug	17-Oct	Oliveira A	14-Oct	12-Dec	Kalugin I	9-Dec	6-Feb									
Oliveira A	22-Jul	19-Sep	Popov P	16-Sep	14-Nov	Murray R	11-Nov	9-Jan									

Zakho			Flight Dates			Name			Flight Dates			Name			Flight Dates		
Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.	Name	Arr.	Dep.
Pitsik V	2-Sep	31-Oct	Otych A	28-Oct	26-Dec	Shagoyko A	23-Dec	20-Feb									
Bertasius V	19-Aug	To Bgd	Schunko H	14-Oct	To Bgd	Notario R	9-Dec	6-Feb									
Schunko H	22-Jul	19-Sep	Notorio R	16-Sep	14-Nov	Groen M	11-Nov	9-Jan									

Saybolt UN Teams in Iraq. Staff Moves Advice. Date: 23-Feb-02

To:
SOMO Baghdad.
Attn: Mr. Ali R Hassan. Acting Executive Director General.
Attn: Mr. Nawar A. Al Mafarji.
Attn: Mr. Khamil CH Al Obaidi.

South Oil Company.
Attn: Mr. Abdel Bari Mahmoud Shoukat. Director General.
Attn: Mr. Habib Radhi Abdel Imam. Public Relations.

North Oil Company.
Attn: Mr. Ali Hameed Saleh. Director General.
Attn: Mr. Mohammed Hussein. Operations Manager.

UNHQ Baghdad.
Attn: Mr. Tun Myat. / Secretary.
Attn: Mr. Sayed Capua.
Attn: Security Operations.
Attn: Ms. Maysoon Wazir.

UNIKOM Umm Qasr.
Attn: Ms. Hazel Scott. CAO

SAYBOLT Rotterdam.
Attn: Mr. Peter Boks.
Attn: Mr. Graham Brett.
Attn: Ms. Anneke Struijs

SAYBOLT Jordan.
Attn: Mr. Taleb Ali.

SAYBOLT UN Teams.
Baghdad, Mina Al Bakr, Zakho.

Dear Ladies and Gentlemen,

Please find the following update of Saybolt UN staff movements, entering and leaving Iraq.

GRATEFUL IF MINA AL BAKR AND ZAKHO MS1 TEAM LEADERS ENSURE HARD COPY OF THIS MESSAGE IS FORWARDED TO NOC AND SOC, ATTN;

SOC; Mr. Habib Radhi Abdel Imam
NOC; Mr. Mohammed Hussien

PERIOD WEEKS: 9 & 10

Entering Iraq to BAGHDAD.		
Name	Arr.Amm	Dep.Amm>BGD

file://C:\WINDOWS\SYSTEM32\... 0007000...

25/2/02

Permanent Subcommittee on Investigations
EXHIBIT #14

S025366

Alkhozov I	3-Mar	4-Mar	
Leaving Iraq from BAGHDAD.			
Name	Dep.BGD>Amm	Dep.Amm	
Gambalan L	5-Mar	6-Mar	

Entering Iraq to MINA AL BAKR.			
Name	Arr.Amm	Dep.Amm>BGD	Dep.BGD>Bas
Buzdyk S	3-Mar	4-Mar	5-Mar
Poudov V	3-Mar	4-Mar	5-Mar
Leaving Iraq from MINA AL BAKR.			
Name	Dep.Bas>BGD.	Dep.BGD>Amm	Dep.Amm
Oliveira A*	3-Mar	5-Mar	7-Mar
Aquino F*	3-Mar	5-Mar	6-Mar

Entering Iraq to ZAKHO MS1.			
Name	Arr.Amm	Dep.Amm>BGD	Dep.BGD>Zko
Notario R	3-Mar	4-Mar	5-Mar
Leaving Iraq from ZAKHO MS1.			
Name	Dep.Zko>BGD.	Dep.BGD>Amm	Dep.Amm.
Saripovs A*	3-Mar	5-Mar	7-Mar

* Travel one day early to allow application for Jordan visas in Baghdad.

VISA REQUIREMENTS AND DOCUMENTATION.

All personnel travelling into Iraq require an entry visa. Please will team leaders liaise with SOMO, SOC and NOC for documentation process of travel and residents permits. The departing staff are normally reassigned to Iraq on a regular basis. Grateful for the assistance of our colleagues at SOMO, SOC and NOC to have re-entry visas issued for all departing staff.

ACCOMMODATION.

Amman. Grateful if reservations can be made for the above persons in Amman, with reference to the given arrival and departure dates.
Baghdad. Please arrange for accommodation at the Baghdad Al Hamra hotel, to cover arrival to departure dates in Baghdad.

Basrah.

Grateful if accommodation can be arranged at the SOC Basrah Rest House to cover the period of stay from arrival to the first available marine transport to Mina Al Bakr. Also arrival from MAB to departure for Baghdad.

TRANSPORTATION.

Grateful if you will arrange the necessary transportation requirements for the above personnel to travel to or from your location to or from Baghdad, as itemized in the dates given above.
Thank you for your kind assistance with the above arrangements.
Please do not hesitate to contact me for any further clarification.

With thanks and kind regards,
Richard Barnes
Saybolt Netherlands
On behalf of Saybolt UN Teams in Iraq.

Anneke Struijs
24/01/2002 13:46

To: NB13@Saybolt, NB08@Saybolt, NB05@Saybolt, say_tma@go.com.jo, Richard Barnes@Saybolt, romyfermy@yahoo.com, saybolt_portugal@ip.pt, zoya_polynova@saybolt.lv, ivanova@saybolt.ru
cc: Peter Boks/Saybolt/NL@Saybolt, Marion Steenberg@Saybolt, Ellen Zagwijn@Saybolt, Graham Brett/Saybolt/NL@Saybolt

Subject: Travel arrangements

Please be advised of the following travel arrangements:

Travelling to Amman:

Date	Name	From	flight	depart	arrival
02MAR	Alkhazov	Moscow	SU505	21.55	00.55 03MAR
	Buzdyk	Moscow	SU505	21.55	00.55 03MAR
	Pudov	Moscow	SU505	21.55	00.55 03MAR
02MAR	Notario	Manila	EK85	23.00	04.00 03MAR
03MAR		Dubai	EK903	06.45	08.10

Travelling from Amman :

Date	Name	To	flight	depart	arrival
Ref					
06MAR	Gambalan/Aquino	Dubai	EK904	09.15	15.30
07MAR		Manila	EK84	08.20	20.25
07MAR	Oliveira	Frankfurt	LH3611	03.25	07.05
		Lisbon	LH4264	09.10	11.10
07MAR	Saripovs	Vienna	OS854	03.30	06.35
		Riga	OS3693	13.20	16.15

TMA Please reconfirm flights for all people leaving Amman. Thanks!

Please check the above details and revert if you have any comments/queries.

Best regards
Anneke

Permanent Subcommittee on Investigations

EXHIBIT #15

S024564

Oliveira's Bank Statement (March 2002)

totta
Banco Totta & Açores

— = Redacted by the Permanent
Subcommittee on Investigations

BANCO TOTTA & AÇORES, S. A.

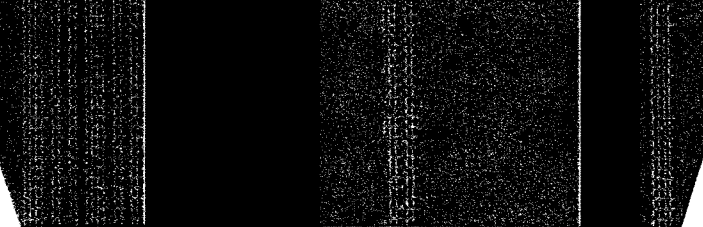
EXTRACTO DE CONTA

EXMO. SENHOR
ARMANDO CARLOS COSTA OLIVEIRA

N.º IDENT. BANCÁRIA: [REDACTED] 978 - EURO Período de 2002-03-01 a 2002-03-31
 Salda da Conta N.º Conta Produto Data Ext. Pág.
 AMADORA [REDACTED] D. D. - TOTTA GADENADO 2002-04-16 1

Data Mov.	Data Val.	Descrição das movimentações	Importância Deb.	Importância Cred.	Saldo disponível	S. Oper.
2002-03-01	2002-03-01	[REDACTED]	18,00			0000
2002-03-01	2002-03-01	[REDACTED]	,75			0000
2002-03-01	2002-03-01	[REDACTED]		3.889,58		0010
2002-03-01	2002-03-01	[REDACTED]	50,00			0000

2002-03-11 2002-03-19 COMPRA DE MOEDA 5.624,22 5.511,57+ 5063



2002-03-11	2002-03-19	COMPRA DE MOEDA	5.624,22		5.511,57+	0000
2002-03-12	2002-03-12	[REDACTED]	39,84			0000
2002-03-13	2002-03-13	[REDACTED]	282,84			0010
2002-03-19	2002-03-19	[REDACTED]		28,44		0010
2002-03-19	2002-03-19	[REDACTED]	170,48			0010
2002-03-16	2002-03-16	[REDACTED]	28,37			0010
2002-03-16	2002-03-16	[REDACTED]	61,30			0010
2002-03-18	2002-03-18	[REDACTED]	18,38			0010
2002-03-18	2002-03-18	[REDACTED]	21,82			0010

BANCO TOTTA & AÇORES

Banco Totta & Açores, S.A., Sociedade Anónima - Capital

Sede: Rua Arco, nº 88 - 1100-000 Lisboa

Permanent Subcommittee on Investigations

EXHIBIT #16

totta
Banco Totta & Aporese

Data: 2002-03-11

CONFERA
CUNEO 0165733

Número de Conta: 51-0000-
Tipo de Conta: TOTTA-ORDENADO

— = Redacted by the Permanent Subcommittee on Investigations

ARNANDO CARLOS COSTA OLIVEIRA

R\$ 5.000,00

DESPESA
IMPOSTO SELD

REPETICAO

— = Redacted by the Permanent Subcommittee on Investigations

Deposante

Carnificação de Banco

— = Redacted by the Permanent Subcommittee on Investigations

Este Depósito só se torna efectivo após a boa cobrança dos valores.


12

Banco Totta & Aporese, S.A. - Endereço: Rua - Caixa Postal 50000-000 - C.P.C. Litoral, São Paulo - Fone: (51) 3011-1111 - Telex: 51020111 - Fax: (51) 3011-1111

Permanent Subcommittee on Investigations
EXHIBIT #17

Fax from Kojo Annan to Robert Massey dated September 14, 1998

FAX : COTECNA LAGOS PHONE NO. : 234 1 269 09 05 Sep. 15 1998 10:21AM P2
 FAX : COTECNA LAGOS PHONE NO. : 234 1 269 09 05 Sep. 15 1998 10:20AM P1


COTECNA INTERNATIONAL LIMITED

FAX

DATE : 14/09/98
TO : Mr. Robert Massey **COPY** : E.G. Massey, M. Wilson, A.E. Prunier
FROM : Mr. Kojo Annan **REF** :
SUBJECT: NON ALIGNED MOVEMENT (NAM) SUMMIT, DURBAN SOUTH AFRICA

During the course of the NAM summit, many contacts were established at Presidential and political levels, Ministerial levels, and with certain influential people in the private sector.

Before outlining the marketing developments on a country by country basis, I would initially like to place emphasis on another strategic development that will ultimately prove to be very beneficial for Cotecna's long term marketing strategy.

As discussed with you on Sunday, PM and I have put in place a "machinery" which will be centred 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. For certain reasons, PM was integral to creating the aforementioned structure.


Country by Country breakdown:

1. Mozambique - A brief meeting was held with the Minister of Finance, Thomas Salama, in Johannesburg, Airport. He confirmed that a tender will officially be announced at the end of September, but did not specify whether it will be for one or two companies. However, he was fully aware of Cotecna's interest in participating. Contact was also made with a Mr. Valdes, a private businessman and UN employee, who was with the Presidential delegation. He claimed to have direct access to the President and offered his assistance for both Mozambique and Angola.
2. Tanzania - Good contact was made with Mr. Daudi Mwakeiwaga, Ambassador Extraordinary & Plenipotentiary and Permanent Representative to the UN. He can arrange an audience with the President very easily and, depending on your current strategy, this could be done during the General Assembly (G.A.) in New York.
3. Uganda - Very good contact established with the ADC to President Museveni through PM. The ADC proposed to me to come and meet the son of the President to establish a business relationship.
4. Malawi - No contact made.
5. Zimbabwe - No contact made. Far too preoccupied with Kabilal

SAKA00049

Fax from Kojo Annan to Robert Massey dated October 26, 1998

FROM : COTECNA LAGOS PHONE NO. : 234 1 269 09 85 Oct. 26 1998 04:24:11 PZ
 FROM : COTECNA LAGOS PHONE NO. : 234 1 269 09 85 21


COTECNA INTERNATIONAL LIMITED

CONFIDENTIAL FAX

DATE : 26/10/98
 TO : Mr. Robert Massey COPY :
 FROM : Mr. Kojo Annan PAGES : 2

SUBJECT: OUTSTANDING CONSULTANCY EXPENSES

In view of recent concentrated efforts in trying to re-establish our contract in Nigeria, and various business development trips to South Africa, Geneva, New York, and Washington, I have spent numerous weeks working on behalf of Cotecna.

As clearly stipulated in our consultancy agreement any additional day after 7 working days per month will be remunerated at a rate of USD \$500- per day. Therefore I would like to note the following:-

JULY - 8 Days Worked
 Comprised of 6 days in Abuja during my father's visit to Nigeria and going to Minna with Pierre Mouselli. Also, 2 days of initial discussions with Pierre Mouselli and general work.

AUGUST - 14 Days Worked
 Comprised of 4 days during your visit to Nigeria, 2 days of preparation for your visit and planning of trip to South Africa and general work. 6 days in Abuja with two trips to Minna, and finally, 2 days in South Africa for the NAM Summit.

SEPTEMBER - 22 Days Worked
 Comprised of 5 days in South Africa for the NAM Summit, 2 days in Geneva, and 15 days in New York for the General Assembly and various meetings relating to other "special projects".

OCTOBER - 18 Days Worked (This includes 4 upcoming days in Abuja this week to attend ECOWAS Summit, go to Minna, and follow up in the Ministry.)
 Comprised of 2 days in New York, 7 days in Washington for the World Bank Conference and returning to Africa, 2 days in Lagos with Professor Ajensu and general work, 3 days in Abuja to visit the Minister of Finance and the Permanent Secretary.

Therefore, the total number of extra days worked amounts to 34. At a rate of \$500 per day, the outstanding expenses which I am owed totals \$17,000. With our agreement commencing on the 1st of March, 1998 the above mentioned figure actually covers an 8 month period at a rate of \$2,125 per month on top of the basic consultancy fee.

I would like these funds to be transferred to my usual banking coordinates, but, to the following account no. [REDACTED].
 All other details such as account name, branch, etc... remain as normal.

SAKA00096

[REDACTED] = Redacted by the Permanent
 Subcommittee on Investigations

Permanent Subcommittee on Investigations

EXHIBIT #19

Letter from Andre Pruniaux dated December 4, 1995 from files in Lagos, Nigeria (produced to PSI on December 22, 2004)

COTECNA INSPECTION S.A. (COINS)
 P.O. Box 4555 1211 Geneva 6 Switzerland
 TEL: (022) 849.8700 FAX: (022) 849.8709 / FAX: (022) 849.8739

INTER-OFFICE CORRESPONDENCE

Date : 04.12.95
 To : Neville J. Bunnella - CIL Lagos
 Copy : Michel Boffin
 From : Co-Int. Geneva/AEP
 Page(s) : 1 + 2
 Our ref. : 1157/jb
 Subject : Kolo Annan

Received by our office 27/12/95

I refer to our telephone conversation of Friday 03 December 1995. Attached is Mr. Annan's CV. He will arrive Lagos on or around 5th January 1996 and will take care of his accommodation and transportation. He will be based in Lagos for 3 to 6 months (if longer, if necessary). Although he will report to you, I believe that he should be considered as a "Junior Liaison Officer" or "Assistant Liaison Officer". His total package (off-shore plus local in Nairobi) will be CHF 3'000/- /month (x 12 months). Kindly let me know what will be his Nairobi salary and I will complete the balance in CHF in Geneva. Exact details of his arrival will be communicated to you soon.

Not reported
 André E. Pruniaux

Attached is also copy of a recent article of newsweek on Kolo's father, Kolo Annan.
 Pruniaux - Mr. K. Annan's CV
 Page : 10 - 20a, 20b, 20c, 20d, 20e, 20f, 20g, 20h, 20i, 20j, 20k, 20l, 20m, 20n, 20o, 20p, 20q, 20r, 20s, 20t, 20u, 20v, 20w, 20x, 20y, 20z, 20aa, 20ab, 20ac, 20ad, 20ae, 20af, 20ag, 20ah, 20ai, 20aj, 20ak, 20al, 20am, 20an, 20ao, 20ap, 20aq, 20ar, 20as, 20at, 20au, 20av, 20aw, 20ax, 20ay, 20az, 20ba, 20bb, 20bc, 20bd, 20be, 20bf, 20bg, 20bh, 20bi, 20bj, 20bk, 20bl, 20bm, 20bn, 20bo, 20bp, 20bq, 20br, 20bs, 20bt, 20bu, 20bv, 20bw, 20bx, 20by, 20bz, 20ca, 20cb, 20cc, 20cd, 20ce, 20cf, 20cg, 20ch, 20ci, 20cj, 20ck, 20cl, 20cm, 20cn, 20co, 20cp, 20cq, 20cr, 20cs, 20ct, 20cu, 20cv, 20cw, 20cx, 20cy, 20cz, 20da, 20db, 20dc, 20dd, 20de, 20df, 20dg, 20dh, 20di, 20dj, 20dk, 20dl, 20dm, 20dn, 20do, 20dp, 20dq, 20dr, 20ds, 20dt, 20du, 20dv, 20dw, 20dx, 20dy, 20dz, 20ea, 20eb, 20ec, 20ed, 20ee, 20ef, 20eg, 20eh, 20ei, 20ej, 20ek, 20el, 20em, 20en, 20eo, 20ep, 20eq, 20er, 20es, 20et, 20eu, 20ev, 20ew, 20ex, 20ey, 20ez, 20fa, 20fb, 20fc, 20fd, 20fe, 20ff, 20fg, 20fh, 20fi, 20fj, 20fk, 20fl, 20fm, 20fn, 20fo, 20fp, 20fq, 20fr, 20fs, 20ft, 20fu, 20fv, 20fw, 20fx, 20fy, 20fz, 20ga, 20gb, 20gc, 20gd, 20ge, 20gf, 20gg, 20gh, 20gi, 20gj, 20gk, 20gl, 20gm, 20gn, 20go, 20gp, 20gq, 20gr, 20gs, 20gt, 20gu, 20gv, 20gw, 20gx, 20gy, 20gz, 20ha, 20hb, 20hc, 20hd, 20he, 20hf, 20hg, 20hh, 20hi, 20hj, 20hk, 20hl, 20hm, 20hn, 20ho, 20hp, 20hq, 20hr, 20hs, 20ht, 20hu, 20hv, 20hw, 20hx, 20hy, 20hz, 20ia, 20ib, 20ic, 20id, 20ie, 20if, 20ig, 20ih, 20ii, 20ij, 20ik, 20il, 20im, 20in, 20io, 20ip, 20iq, 20ir, 20is, 20it, 20iu, 20iv, 20iw, 20ix, 20iy, 20iz, 20ja, 20jb, 20jc, 20jd, 20je, 20jf, 20jg, 20jh, 20ji, 20jj, 20jk, 20jl, 20jm, 20jn, 20jo, 20jp, 20jq, 20jr, 20js, 20jt, 20ju, 20jv, 20jw, 20jx, 20jy, 20jz, 20ka, 20kb, 20kc, 20kd, 20ke, 20kf, 20kg, 20kh, 20ki, 20kj, 20kk, 20kl, 20km, 20kn, 20ko, 20kp, 20kq, 20kr, 20ks, 20kt, 20ku, 20kv, 20kw, 20kx, 20ky, 20kz, 20la, 20lb, 20lc, 20ld, 20le, 20lf, 20lg, 20lh, 20li, 20lj, 20lk, 20ll, 20lm, 20ln, 20lo, 20lp, 20lq, 20lr, 20ls, 20lt, 20lu, 20lv, 20lw, 20lx, 20ly, 20lz, 20ma, 20mb, 20mc, 20md, 20me, 20mf, 20mg, 20mh, 20mi, 20mj, 20mk, 20ml, 20mm, 20mn, 20mo, 20mp, 20mq, 20mr, 20ms, 20mt, 20mu, 20mv, 20mw, 20mx, 20my, 20mz, 20na, 20nb, 20nc, 20nd, 20ne, 20nf, 20ng, 20nh, 20ni, 20nj, 20nk, 20nl, 20nm, 20nn, 20no, 20np, 20nq, 20nr, 20ns, 20nt, 20nu, 20nv, 20nw, 20nx, 20ny, 20nz, 20oa, 20ob, 20oc, 20od, 20oe, 20of, 20og, 20oh, 20oi, 20oj, 20ok, 20ol, 20om, 20on, 20oo, 20op, 20oq, 20or, 20os, 20ot, 20ou, 20ov, 20ow, 20ox, 20oy, 20oz, 20pa, 20pb, 20pc, 20pd, 20pe, 20pf, 20pg, 20ph, 20pi, 20pj, 20pk, 20pl, 20pm, 20pn, 20po, 20pp, 20pq, 20pr, 20ps, 20pt, 20pu, 20pv, 20pw, 20px, 20py, 20pz, 20qa, 20qb, 20qc, 20qd, 20qe, 20qf, 20qg, 20qh, 20qi, 20qj, 20qk, 20ql, 20qm, 20qn, 20qo, 20qp, 20qq, 20qr, 20qs, 20qt, 20qu, 20qv, 20qw, 20qx, 20qy, 20qz, 20ra, 20rb, 20rc, 20rd, 20re, 20rf, 20rg, 20rh, 20ri, 20rj, 20rk, 20rl, 20rm, 20rn, 20ro, 20rp, 20rq, 20rr, 20rs, 20rt, 20ru, 20rv, 20rw, 20rx, 20ry, 20rz, 20sa, 20sb, 20sc, 20sd, 20se, 20sf, 20sg, 20sh, 20si, 20sj, 20sk, 20sl, 20sm, 20sn, 20so, 20sp, 20sq, 20sr, 20ss, 20st, 20su, 20sv, 20sw, 20sx, 20sy, 20sz, 20ta, 20tb, 20tc, 20td, 20te, 20tf, 20tg, 20th, 20ti, 20tj, 20tk, 20tl, 20tm, 20tn, 20to, 20tp, 20tq, 20tr, 20ts, 20tt, 20tu, 20tv, 20tw, 20tx, 20ty, 20tz, 20ua, 20ub, 20uc, 20ud, 20ue, 20uf, 20ug, 20uh, 20ui, 20uj, 20uk, 20ul, 20um, 20un, 20uo, 20up, 20uq, 20ur, 20us, 20ut, 20uu, 20uv, 20uw, 20ux, 20uy, 20uz, 20va, 20vb, 20vc, 20vd, 20ve, 20vf, 20vg, 20vh, 20vi, 20vj, 20vk, 20vl, 20vm, 20vn, 20vo, 20vp, 20vq, 20vr, 20vs, 20vt, 20vu, 20vv, 20vw, 20vx, 20vy, 20vz, 20wa, 20wb, 20wc, 20wd, 20we, 20wf, 20wg, 20wh, 20wi, 20wj, 20wk, 20wl, 20wm, 20wn, 20wo, 20wp, 20wq, 20wr, 20ws, 20wt, 20wu, 20wv, 20ww, 20wx, 20wy, 20wz, 20xa, 20xb, 20xc, 20xd, 20xe, 20xf, 20xg, 20xh, 20xi, 20xj, 20xk, 20xl, 20xm, 20xn, 20xo, 20xp, 20xq, 20xr, 20xs, 20xt, 20xu, 20xv, 20xw, 20xx, 20xy, 20xz, 20ya, 20yb, 20yc, 20yd, 20ye, 20yf, 20yg, 20yh, 20yi, 20yj, 20yk, 20yl, 20ym, 20yn, 20yo, 20yp, 20yq, 20yr, 20ys, 20yt, 20yu, 20yv, 20yw, 20yx, 20yy, 20yz, 20za, 20zb, 20zc, 20zd, 20ze, 20zf, 20zg, 20zh, 20zi, 20zj, 20zk, 20zl, 20zm, 20zn, 20zo, 20zp, 20zq, 20zr, 20zs, 20zt, 20zu, 20zv, 20zw, 20zx, 20zy, 20zz

Letter from Andre Pruniaux dated December 4, 1995 from files in Geneva, Switzerland (produced to PSI on August 28, 2004)

COTECNA INSPECTION S.A. (COINS)
 P.O. Box 4555 1211 Geneva 6 Switzerland
 TEL: (022) 849.8700 FAX: (022) 849.8709 / FAX: (022) 849.8739

INTER-OFFICE CORRESPONDENCE

Date : 04.12.95
 To : Neville J. Bunnella - CIL Lagos
 Copy : Michel Boffin
 From : Co-Int. Geneva/AEP
 Page(s) : 2
 Our ref. : 1157/jb
 Subject : Kolo Annan

I refer to our telephone conversation of Friday 03 December 1995. Attached is Mr. Annan's CV. He will arrive Lagos on or around 5th January 1996 and will take care of his accommodation and transportation. He will be based in Lagos for 3 to 6 months (if longer, if necessary). Although he will report to you, I believe that he should be considered as a "Junior Liaison Officer" or "Assistant Liaison Officer". His total package (off-shore plus local in Nairobi) will be CHF 3'000/- /month (x 12 months). Kindly let me know what will be his Nairobi salary and I will complete the balance in CHF in Geneva. Exact details of his arrival will be communicated to you soon.

Not reported
 André E. Pruniaux

Permanent Subcommittee on Investigations
EXHIBIT #20

Fax from Kojo Annan to Elie Massey dated August 28, 1998

FROM : COTECNA LAGOS PHONE NO. : 234 1 269 09 85 Sep. 02 1998 10:38PM P1

CIL	COTECNA INTERNATIONAL LIMITED
------------	--------------------------------------

CONFIDENTIAL FAX

DATE : 28 August 1998 REF : KAAJA0798

TO : Mr. Elie Massey - Geneva COPIES :

FROM : K.A. Annan - Lagos

PAGE(S) : *2 file*

SUBJECT : CONSULTATIVE STATUS FOR IFIA WITH THE UNITED NATIONS

Following discussions with one of my colleagues in New York, I would like to inform you that during the forthcoming General Assembly (commencing September 14th), votes will be taken regarding applications for consultative status.

The 2nd Committee of the GA, the economic and development committee, will decide on applications for consultative status. Thus, I was advised that it is necessary for you to try and establish what the current position is with IFIA. Furthermore, I will try to be in New York at some stage in September as a follow up to my meetings in South Africa at the Non-Align Summit and could, if required, pursue the IFIA case.

Finally, there are one or two other matters regarding the 'Middle East' and possibilities for your own 'pet project' in Africa that are best discussed over the phone. I can be contacted in Lagos until Sunday morning, Hotel Ivoire, - Abidjan until Monday afternoon, and for the rest of the week until September 4th in South Africa where my GSM - 00 44 7771 656 313, will be operational.

I Look forward to hearing from you soon.

Best regards,

[Signature]

K.A. ANNAN SAKA00052

Permanent Subcommittee on Investigations

EXHIBIT #22

Instructions from Cotecna to Kojo Annan for the 1998 U.N. General Assembly

with June file

1998 MEETING OF THE UN GENERAL ASSEMBLY

As agreed your participation in the 1998 UN General Assembly will be intended to follow up on the contacts established in Durban, during the NAM conference.

The country briefs remain fundamentally the same. This note serves to define the countries on which our efforts should be focused :

- MOZAMBIQUE : Following your meeting with TS we want to consolidate our relations with the President and make clear our objective of obtaining the contract with his support.
 - TANZANIA : A soft marketing approach to introduce yourself to the President and to renew our commitment in wanting to participate in the future tender .
 - UGANDA : SWIPCO has sent a report to the UN advising that SGS be awarded the contract. The report is a masterpiece of irregularities. We should seek the President's intervention on this issue as he is the highest authority in the land and has openly declared his intention to ensure transparency.
 - MALAWI : The tender is due anytime from now. Let us establish contact with the President and his entourage.
 - CONGO : We submitted our bid on the 15/09/98. Kindly carry out your planned meeting with DSN and suggest a meeting between the latter RMM and us in the near future.
 - MADAGASCAR : We need to establish a good contact with the President as a tender is imminent. He recently made comments in favor of us.
- By other Presidents or other personalities you deem important and useful for our future work.

SAKA00051

Permanent Subcommittee on Investigations

EXHIBIT #23

Fax from Michael Wilson to Kojo Annan dated August 28, 1998

to file Kojo Annan

COTECNA INSPECTION S.A.



P.O. Box 6155 - 1211 Geneva 6 - Switzerland
TEL : (41-22) 849 69 00 - TLX : 413 107 COT CH - FAX : (41-22) 849 69 49

CONFIDENTIAL FAX

Date : 28 August, 1998
To : Mr. Kojo Annan
Fax no. : 00234-1-269 0985 Lagos

9. Ghana

Current Situation :

We are in discussion with the Government to introduce a re-engineered Inspection scheme to fit Ghana's Gateway project. Our current contract ends in October 1999. EGM, RMM, MM, and I met with President Rawlings in Davos (February 1998).

Kindly follow up on your two hour meeting with the President and your ~~meeting~~ held in Accra on Tuesday 18 August 1998.

Objective : Maintain the good relations established, and strengthen ~~our~~ and in Ghana.

Kindly send us the details of the hotel where you and PM will be ~~staying~~ and please take your European GSM with you as it works in South Africa.

All best and good luck in your mission,

Michael Wilson

SPECIMEN

Letter from Elie Massey to Joseph Connor and Kofi Annan dated October 6, 1998

CO:INS *Misc Orgs. C. Lanza*

COTECNA INSPECTION S.A.

RECEIVED
 OCT 14 1998
 927941
 EXECUTIVE OFFICE
 OF THE SECRETARY-GENE

TEL: (41)22 849 60 00
 FAX: (41)22 849 60 00
 TELE: 412107 COT CH
 CABLES: COTECNA GENEVA

CORRESPONDENCE:
 P. O. BOX 4981 - 1211 GENEVA 8
 SWITZERLAND

Mr. Joseph Connor
 Under Secretary General
 for Management
 Room 2700
 United Nations Headquarters
 New York, New York
 10017

YOUR REF. OUR REF. GENEVA,
 88, RUE DE LA TROISSERIE

October 6, 1998

Dear Sir:

Re: Possible Additional Funding

First of all, the undersigned wishes to thank you sincerely for the time and kind attention you had given on September 30, 1998, to the presentation he made addressing the possibility for the United Nations to receive, free of charge, voluntary and substantially increasing contributions from various licensed Lottery Organizations.

In the United States alone, such organizations had a global revenue of approximately 35 Billion U.S. dollars in 1997, a little more than one third of the World's total of about 100 Billion U.S. dollars for the same year.

Furthermore, it is worthwhile to note that the majority of these licensed Lottery Organizations voluntarily fund various "good causes" in their respective regions, such as Health, Education programs, Sports, Music, and Arts.

A major "good cause", The International Federation of Red Cross and Crescent Societies for more than a year has been the happy beneficiary of the Lichtensteiner licensed Lottery called "Plus Lottery" which operates on the Internet under the continued scrutiny of auditors, Coopers and Lybrand A.G. (see enclosure).

The undersigned in his capacity as founder and sole owner of the Cotecna Inspection group of companies, and of Cofinter S.A. (Switzerland), had the honor to fund a non-profit feasibility study for the World Health Organization (W.H.O.), in Geneva, together with the French National Lottery Organization, a copy of which has been submitted to your kind attention. The undersigned has attentively noted your valuable comments and will study them carefully, particularly the different aspects you have noted regarding this potentially interesting project.

We remain at your disposition for additional information you may wish to receive, without any commitment on your side.

Very truly yours,
Elie Massey
 Chairman
 Cotecna & Cofinter Cities

Copy for → cc: H.E. Kofi Annan
 Secretary General - U.N.O.
 38th Floor
 New York, New York
 10017
 App: 1

SAKA00797

Permanent Subcommittee on Investigations
EXHIBIT #25

Resume of Kojo Annan

17/07/95 14:58 THE DIRRY HOUSE + 41 22 9496939 NO. 435 002

KOJO ADEYEMO ANNAN

— = Redacted by the Permanent
Subcommittee on Investigations

EDUCATION:

1991 - 1994 UNIVERSITY OF KEELE, KEELE, ENGLAND
Degree in Economics and Politics
BA Hons - Second Class Upper

1990 - 1991 ST ANDREWS COLLEGE, CAMBRIDGE, ENGLAND
3 A Levels

1986 - 1990 RENDCOMB COLLEGE, GERRINGSTERSHIRE,
ENGLAND
9 GCSE's

LANGUAGES:

Proficient in French.

WORK EXPERIENCE:

January 1995 Currently working as a client negotiator for international
publishing house, Stroudgate plc.

June - August 1993 UNITED NATIONS, GENEVA, SWITZERLAND
Assisted in preparing a bi-annual report on United Nations
High Commission for Refugees activities.

July - Sept 1992 UNITED NATIONS, GENEVA, SWITZERLAND
Assisted in documenting information and analyzing statistics
on refugees and their movements.

ADDITIONAL INFORMATION:

Knowledge of PC software gained from studying information
technology at GCSE level. These skills were enhanced by
my work experience. Diplomas in Word for Windows and
Lotus 1-2-3.

Rugby: England U18	1990
England Universities Squad	1992/93
S/S West England U16	1989
Harlequins Colts	1990/91

I was captain of school rugby, tennis and athletics teams.

Interests include reading, music, travelling and sports.

SAKA00128

Permanent Subcommittee on Investigations

EXHIBIT #26

United Nation : Iraq Oil for Food Program
Meeting Wednesday 23 of december

Mr Jeremy Owen
Mr Robert Massey
Mr Elie Massey
Mr Andre Pruniaux
Mr Carlo de Hennin
Mr John Broadhurst
Mr Alexis Poitevin

JO summarised meeting he had with AEP in the morning. He explained UN sanction regimes department structure and history.
JO is UN chef customs officer / contract manager. *(on loan from HQ Customs)*

Communication:

There is 3 types of communication, voice, fax, and data.
UN have problem with data transfer, UN Lotus expert (Brandon) was in charge of checking records replication in Iraq database on a daily basis from NY. Number of items (records) is assessed to 400 per day.
JO expressed the importance of voice communication for daily operations. Communication voice was estimated at 60 minutes average per day and sites between NY and Iraq. UN team leader could increase communication time at startup. Communication has to be done directly from NY to the site. Queries and Information from NY to Iraq will have to be communicated through Cotecna. Procedure has to be defined.
Fax communication : 600 pages per week for all sites. Faxes are sent once a week from sites expected from Umm Quasr 2 times a week.
E-Mail is not really used at the moment (replication problem) not fast enough.

Staff:

JO thinks Team Leaders (TL) is a crucial issue, especially in Zakho and Trebil. TL have a high level of autonomy on site, they have a lot of contacts (on ministry of trade representatives and customs for data comparison), they can even change procedures. Equipment and accommodations are handled by TL.
In Umm Quasr 2 inspectors are allocated by ship. Quantity inspected is assessed at 7mt per day (24 h) average.
Zakho seems understaffed. Team leader should be more a diplomat than operational. He is supposed to have regular meetings with UN agencies and political Kurd representatives. Relationship with UN agencies are more sensitive. Mainly day light work but 24h basis. Goods are inspected in Zakho, documents are sent to Nineveh (escort) to Iraq Customs.
Trebil 24h work even at Night. This is the main site. (Arrogant attitudes from truck drivers...)
Baghdad manager is to be considered as a Cotecna Ambassador. JO do not want him to take any decision within Iraq. He will provide requested information to UNOCHI and to MDOU / GOU as well.
Lloyds (Werk) seems to provide necessary report on a daily basis. Report is an extract from Lloyds Access database. Manager will attend monthly meeting with each team leader in Baghdad.
Team members have to be from mixed origin. Lloyds record was adequate. No inspector should be from the region, especially Pakistaneses. All CV will have to be approved by UN NY.
Even if Iraqis speak english, an arabic speaker is needed in each team. As well in Zakho Kurdish and Turkish interpreter would be useful.

Smuggling :

Inspectors are not supposed to stop these shipments. Inspectors duty is to inspect only goods mentioned on OC letter presented by truck drivers. He has to check if goods match.
Petrol is sold from Iraq to Turkey or to Jordan. Value of smuggled goods are not important therefore it is tolerated.

was Lloyds
No prohibited equipment ~~were~~ inspected by independent agent (but some goods can sometimes be seen in Baghdad and were not inspected and even not approved in NY UN Ex Computers with pentium processors).
Smuggling by hiding banned goods loaded in ships has to be checked by another organisation (661 committee and Lloyds). *Ln on*

Physical analysis:

Chemicals for oil industry are to be agreed by a team of experts in NY according to distribution plan. Some are sensitive products.

For bulk in trucks inspection is performed on the 1st and the 20th (inspection of this type of goods is 1 truck out of 20).

For analysis there is a lack of equipment (No import licence was allowed for Lloyds).

Sampling: Bottom line is Fit For Human Consumption. *govern*

In case of doubt samples have to be sent for analysis.

Sample from Zakho can be sent by DHL through Turkey (It has to be negotiated)

Results have to be shared with UN only.

Inspectors rarely found discrepancy between OC letters and shipments.

Containers are offloaded at the port on trucks. (No container enters Iraq. Sometimes quantity being approved by UN NY can be different from what is inspected. Inspector has to check quantity still match.)

Some trucks are sometimes fully emptied. *for Lloyds maintenance*
Maintenance cost: USD per person / day in Umm Quasr.

Medical:

UN Baghdad (Von Sponick) has a responsibility for medical and security evacuation for everybody who works for UN.

Trebil and Al Walid: It is better to drive to Amman.

Umm Quasr: Low level medical center / 5 km / No.

Zakho: Could be sent to Turkey (No guarantee).

It is very difficult to get out of the country quickly. If evacuated inspector could not be allowed to come back.

Other information:

Jonas Larsen (Custom Officer) is day to day linked to the sites in Iraq. Find out file status and sometimes advise on potential sensitive shipments.

UN NY has to inform Security Council or 896 committee resolution and Inspector agency implemented *these* procedures.

UN NY plans to implement a stronger inspection program on the field. For the moment they mainly gather information from UNOCI and exporters. They intend to monitor more than in the past.

All movement of equipment movement have to go through Trebil and Jordan.

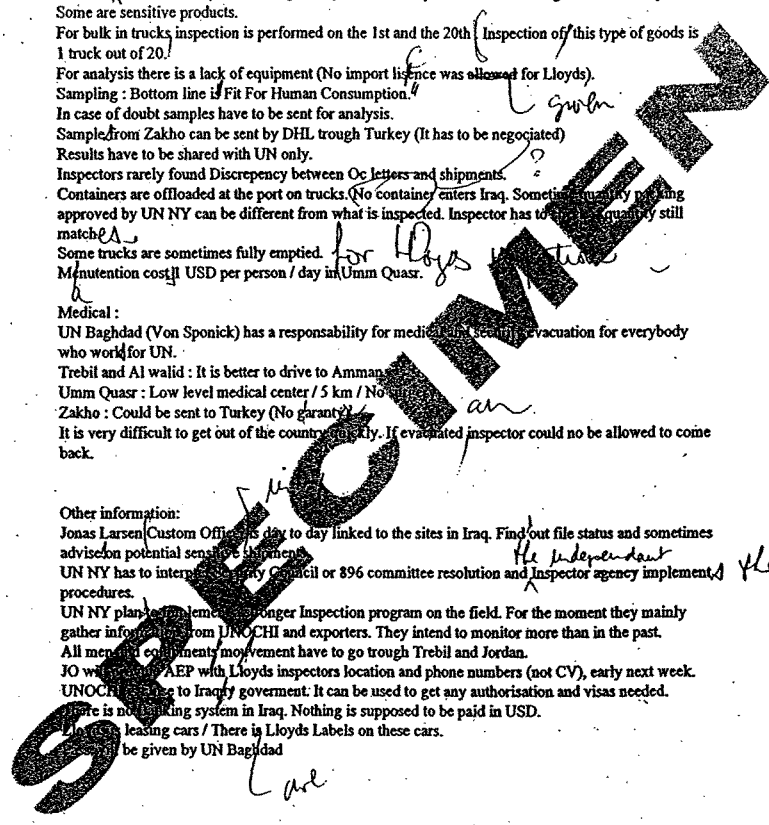
JO will coordinate AEP with Lloyds inspectors location and phone numbers (not CV), early next week.

UNOCI will coordinate with Iraqi government. It can be used to get any authorisation and visas needed.

There is no banking system in Iraq. Nothing is supposed to be paid in USD.

Leasing cars / There is Lloyds Labels on these cars.

Labels to be given by UN Baghdad *care*



18.FEB.1999 12:57

19.033 F.1

To: Lucien FERNANDEZ @ Cotecna.com AT internet @ CCMAIL
 cc:
 Subject: UMMQASR SITUATION

Dear Sir

1. You already know that Mr. Clacey is not very happy with what is going on down here and I can not blame him at all. The truth is that we have no real control about any figures concerning bulked and bagged cargo. Why I did not inform you about this situation until now? Because I could not believe that you don't know how the situation really is. Maybe you still remember our discussion when I tried to tell you that in Ummqasr is a different and delicate situation. I will try now to explain what is all about and how could Lloyd's manage the situation having on site only 12 people (sometime only 6).

Let's start with site procedures (Did somebody read our site procedures? I already sent them to Amman 2-3 weeks ago). We use to collect daily the weighbridge figures (Iraqi figures), foreman (tally sheets) figures (Iraqi figures again) and if we want to have another useless figures, figures from the State Company for Water Transport. All these figures should be the same because we are talking about the same ship isn't it. So we have three different figures (Iraqi) for the same amount of manifested cargo discharged from the same ship. In this situation who should be believed Supplier or Receiver. That is the question.

How could Lloyds cover everything with only 12 people down here (I know, I am not allowed to tell you that but...). There are two choices. First one they had an agreement with UN and they knew exact which is their position and what they have to do. Second one: The Lloyd's site procedures were done and adapted to this situation by the inspectors working for them during 2 years. Everything was very closed analyzed: the political situation, geographical area, their logistic situation, how many people they need and for how they are getting paid, and especially the Iraqis way of doing this job (unloading, weighing, preparing the documents, etc.). They tried to do their best: weighbridge calibration, scale calibration, control the way of weighing the trucks, etc. without any noticeable success but they also realized very soon that in 90% of the situation they can prove that the Iraqi figures are inaccurate or to be more precise controversial. Then Lloyd's said Bingo or Evrika. Why to hire 100 people to do a proper job when you are paid only for 12 or 14. In this way appeared Ummqasr site procedures. The common sense rule, the middle way, the way to keep everybody happy. You can not see there anything regarding counting the bags, trucks, etc. There is written inspection, survey control, checking the way Iraqis are counting the bags, weighing the trucks, producing the documents. So they actually realized that they are not going to do the same thing what Iraqis are doing. That is why they could manage the situation with such a small amount of people. You should clarify this situation with UN a.s.a.p.. My feeling is that we are not here to work as a tally mans. Do not even mention this word to UN. Because if you will do this they will

Permanent Subcommittee on Investigations

EXHIBIT #28

SA015407

say that was what they expected you to do down here which is totally false. Then we will have to work as tally mans and you have to hire another 50 people to work here and it is to late to ask for more money for this contract.

I hope I was very clear about all this situation. At least I tried to do my best but, unfortunately, my English needs a lot to be improved. The right person who can tell you more about Ummqasr and can advise you is Mr. Warwick Preston. Try to contact him. He is excellent and his knowledge about the project are at this date invaluable.

2 There are problems here not only with bulk and bagged cargo. Today checking a container ship I found all the containers with the broken seals. Captain told me that the US Navy checked all the containers. Please contact UN and inform them about this situation. The US Navy should put their own seals on those container which have been checked or should fax us a list with the containers opened during their control

3. Spoke with UN today. They are very concerned why we did not send any authentication reports these days. I had to inform them that our fax is out of order. I tried to rent one in Basrah but it is not available. The Field Manager has already been told about this situation 3 days ago.

4. Concerning DANUBE TRADER (Comm. No.'s 4227 & 4279) ROILER PROTEINE): We have all the documents to sustain our decision. Do not worry. We have to have a policy regarding this kind of situations. We are responsible only in front of UN because they hired us to do this job. For the others these information are classified. (at least use to be).

If you need any more information please do not hesitate to contact me. I am working for you!!!

Best Regards

Adrian Baranga

Team Leader

SPECIFIC

COTECNA INSPECTION S.A.

P.O. Box 6155 - 1211 Geneva 6 - Switzerland

TEL : (022) 849.69.36 TLX : 413 107 COT CH FAX : (022) 849.69.28



FAX

Date : 11 February, 1999
 To : COTECNA - AMMAN
 Attention : Mr. Carlo de Hennin
 CC : A. E. Pruniaux / A. Poitevin (Geneva)
 Page(s) : 1
 Our ref. : CDH_11_02_Analysis.doc
 Subject : ANALYSES

Thanks for your fax re. the above; I agree that "fit for human consumption" has a very vague meaning and leaves too much room for interpretation.

On the other hand, all transactions involving edible products always relate to a specific technical / phytosanitary norm/standard, which is generally mentioned on the contracts. This means that the elements to be analysed will always be mentioned on the contractual documents. I do not know how Lloyd's dealt with the samples, but it seems obvious that the samples should always be despatched with the scope of the analyses, i.e. copies of the contractual documents where the requirements are mentioned (when you buy a car, you would always expect the invoice to detail the features, technical specs and equipment; well, it is the same for any other product). If this has not been done, please ensure that all sites provide the contractual documents by fax for the samples received in Amman, and instruct the site to always attach them in the future when despatching samples to Amman.

Georges Madanat and Jean-Louis Clayes know these procedures and tests very well so I suggest you request them to assist you with this issue.

Regarding samples from Zakho and Umm Qasr, they are supposed to be sent to Amman via Baghdad for the time being; logistics to be organised between Amman and Baghdad; I'm afraid that we will have to hire cars for the time being. As requested by you, I have already sent a fax to DHL Kuwait in order to arrange collection of samples at UNIKOM - Kuwait: do you know what the status is? For Zakho, I'll discuss on Monday how to organise the despatch of the samples to Amman.

Please keep in mind that this is an extremely important issue for the UN and that we have made commitments to avail analyses results within 72 hours from drawing the samples ...

Best regards,

Lucien Fernández
 PP. Sidace Paros

Permanent Subcommittee on Investigations

EXHIBIT #29

SA013881

CGTECNA INSPECTION
AMMAN

CO: *[Signature]*
10 FEB 1999

Cotecna GYA
M. Fernandez

ANALYSES DES ECHANTILLONS EN COURS AU 31.1.99

Caleb Brett Sharjah m'a appelé concernant
les échantillons pris par lui jusqu'en
31.1.99 mais arrivés à Caleb Brett
après 31.1.99.

Lloyd's lui avait dit que Lloyd's n'est
plus responsable des analyses, et que la
facture sera payée nous.

J'ai dit que non.

Mais j'aurais pu dire si j'ai tort, d'ailleurs
Lloyd's si j'ai raison. J'ai préféré
éviter toute discussion avec Caleb.

SA013883

SPURIOUS

Lucien

[Signature]

Fais un avis à Lloyd's

C de Hennin

Je dois écrire à Lloyd's Croydin

93.06

[Signature] → Attendons
réponse de

09/02 de Hennin
10/02/99 *[Signature]*

COTECNA INSPECTION S.A.

P.O. Box 6155 - 1211 Geneva 6 - Switzerland

TEL : (022) 849.69.36 TLX : 413 107 COT CH FAX : (022) 849.69.28



F A X

Date : 10 February, 1999
To : INTERCONTINENTAL HOTEL - AMMAN
Attention : Carlo de Hennin - Room No. 527
CC : A. E. Pruniaux / A. Poitevin (Geneva)
Fax No. : (00962 6) 464 52 17 / (009626) 562 46 98
Page(s) : 1
Our ref. : CDH_10_02_Various.doc
Subject : VARIOUS PENDING ISSUES

- 1 - Caleb Brett invoices for analytical services; you are absolutely right : Andre has confirmed that there has been no such agreement with Lloyd's (we may receive the results of the analysis, but the responsibility, and the cost incurred, is Lloyd's).

Please fax us the invoices and send originals to Gva so that we may forward them with a note to Lloyd's.

- 2 - Sample analysis with the Iraqi Grain Board; I was under the impression that the Iraqi Grain Board only had analytical facilities in Hamm Qasr and Baghdad. Your note does not specify how and where such information has been received. Could you please let us know the source (and copy of document if received in writing). On the principle, this could save us the investment in a cabin for the "mobile" lab, but we should know how the IGB will guarantee total independence. Lastly, it would be interesting to know whether to some extent, the authorisation to import the mobile lab would be subordinated to our acceptance of the proposal (remember the catering and the sites...). Your views will be appreciated.
- 3 - OC's in Amman; we had the idea of copying them in Gva (first place of receipt), but have given up due to the enormous amount of paperwork. We receive advance notification from N.Y. prior to them mailing the hard copies and we merely cross-check against the copies received; we then split them by site and courier them to Amman (first courier bag sent this evening, incidentally). In the case of Amman, it is definitely not a good idea to copy them; just ensure that they have been properly split and dispatch to the sites without delay (cars returning after bringing samples for analysis).

Best regards,

Lucien Fernández

SA013884

PRUNIAUX Andre

File

From: FERNANDEZ Lucien
Sent: lundi, 12. avril 1999 10:15
To: cotecna
Cc: PRUNIAUX Andre; POITEVIN Alexis
Subject: RE: G3 06 - medical samples - waiting in fr

Carlo,
Medical samples are to be kept until three months after arrival the last partial shipment pertaining to es. I OC; these samples are never to be analysed. Regarding their destruction, QIP in NY have promised to help find a suitable place to incinerate them. The only likely place was the UNSCOM's incinerator, but we are still awaiting their news.
Best regards,
Lucien

From: cotecna [SMTP:cotecna@index.com.jo]
Sent: 08 April 1999 06:47
To: LUCIEN
Subject: G3 06 - medical samples - waiting in fr

From: "Cotecna Inspection" <cotecna@index.com.jo>
Date: Wed, 7 Apr 1999 16:45:25 +0300
To: "Geneva M. Fernandez" <Lucien_Fernandez@cotecna.com.jo>

It seems that some stations still have medical samples in their refrigerated stores, pending instructions on what to do for analysis.

Quid ?
Rgds.
CdH

SPECIMEN

PRUNIAUX Andre

From: FERNANDEZ Lucien
 Sent: jeudi, 24. juin 1999 18:21
 To: cotecna
 Cc: PRUNIAUX Andre; COMARAT Franck
 Subject: RE: G3 06 Sampling - medical samples - new

Rec trac

Carlo,

These are good questions and you have a very good inspector's approach; we have to stick to our mandate in the case of medicines, which is a contentious one as you know. We have to draw samples of medicines and keep them for a period of three months from the date the last partial shipment has crossed an international border. We do not need to analyse them and, should the need arise, it would be OIP who would request the samples and deal with them. I am told that the UN checks the quality of the medicines at the manufacturer, not for specific transactions, but for the whole production in general, therefore we are not required to analyse such samples, since they are deemed fit for their intended use.

In summary, nothing will change for us, whether or not there are labs in Jordan that can perform such analyses. On the other hand, we have to ensure that all medical samples taken in the field are stored in the best conditions; it could be a good idea to check how our refrigerators for medical samples are doing.

Best regards,
 Lucien

From: cotecna [SMTP:cotecna@index.com.jo]
 Sent: 24 June 1999 16:19
 To: LUCIEN
 Subject: G3 06 Sampling - medical samples - new

From: "Cotecna Inspection" <cotecna@index.com.jo>
 Date: Thu, 24 Jun 1999 13:12:05 +0200
 To: "Geneva M. Fernandez" <Lucien_Fernandez@cotecna.com>

We keep medical samples without analysing them.

I do not worry about drugs coming from Pasteur, Merieux, or Switzerland.

I see, in the last many important consignments of drugs coming from Jordan, Egypt, Lebanon, Syria and, lately, from Vietnam. Not only aspirin, but vaccines, antibiotics and other sensitive material for IV administration and haematology.

Do not hide my being concerned. I remember, from my old days in Lebanon, the problems we had at U.N.R.W.A. with Lebanese and Syrian drugs for Palestinian refugees.

A new laboratory has opened in Amman. Environmental Laboratory, specialising in microbiological and chemical analyses. Their partners are (so they claim) Norwest Labs, from Edmonton, Alberta (C.E.O. Jean CrUpin). The Canadian lab, acting under a Canadian Government programme (as reported verbally, subject to confirmation) intends to open, in Amman, the first international private lab in the area, for medical analyses as well, with label ISO 25

I intend to try the lab for our usual analyses.

But what with the drugs made in Vietnam and other lost colonies ?

Regards,

C. de Hennin

Page 1

Permanent Subcommittee on Investigations
 EXHIBIT #31

SA003165

P.O. Box 6155 - 1211 Geneva 6 - Switzerland
 TEL : (022) 849.69.36 TLX : 413 107 COT CH FAX : (022) 849.69.28

COINS

F A X

Date : 8 March, 1999
 To : UN O.I.P. - N.Y.
 Attention : Mr. Jeremy Owen - Chief Customs Expert / Contracts Processing Section /
Mr. Didier Sabroux / Mr. Jonas Larsen
 CC : A. E. Pruniaux / A. Poilevin (Geneva)
 CC : C. de Henhin (Amman) | M. Eljasz (Baghdad)
 Fax No. : 001212 - 963 8083
 Page(s) : 2 + 2
 Our ref. : J_Owen_08_03_Claims_Proc.doc
 Subject : CLAIMS FROM IRAQI RECEIVERS.

Dear Jeremy,

The attached is an illustration of the common claims received from the Iraqi receivers. This particular example relates to an inspection carried out under Lloyd's procedure and you may understand that it is a little embarrassing for Cotecna to try to deal with this situation. Because such cases are frequent, it is necessary that the following points are clarified :

- 1- Our understanding is that claims are expressed directly to us by the concerned Iraqi authorities and that we are then only forwarding them to the OIP in New York.
 The following situations may arise :
 - a) Authentication has already been issued for different figures; what does this imply?
 - b) Authentication has not been issued, does the claim affect such authentication?
- 2- In the case of Umm Qasr, where most claims originate, we know that due to critical shortage of contractual staff, it is simply impossible to attend (even as a witness) the complete unloading process, which means that we can either only use the manifested figures and evaluate shortages, damages or re-operations (as done by Lloyd's), thereby ignoring the facts and figures collected by the Iraqis, or use the Iraqi's, who are 100% present during discharge and can rightfully claim that their figures are real whereas ours are only estimates. Keeping Lloyd's procedures also means that we are relying on shippers' figures to the detriment of receiver's figures, meaning that we will not be acting as an independent agent, since we do not have the means to check independently.
 In such instance, as illustrated on the attached protest, the Iraqis complain that Lloyd's still manifested figures that were not in line with those endorsed by the other parties (vessel's and Iraqi's). The Iraqi claim indicating that the authentication is to be based on Umm Qasr's weighbridge figures makes some sense, but we can simply not endorse them unless we are present during the whole operation, i.e., having inspectors 24 hours per day during the whole process, which cannot be made, since there are 10 vessels unloading simultaneously and we only have 11 inspectors.
- 3- We have recently been told verbally by UN representatives to carry out thorough inspections at random on one particular vessel to test the value of figures generated by the Iraqi parties; what about the 90% of other vessels where we will not have any independent information : do we accept Iraqi figures or do we use manifested figures, adjusted on the basis of evaluated corrective factors?

Permanent Subcommittee on Investigations

EXHIBIT #32a

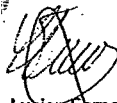
SA001954

- 4 - For those claims relating to authentications made by Lloyd's, what are we expected to do?
- 5 - For the claims relating to authentications made by Cotecna, what should be our position towards the Iraqi authorities?

It is urgent that answers are received in relation with the above mentioned procedures, since we are under pressure from the Iraqi side to accept their statements. If we may express an opinion, we understand that we have to do our own count or weight determination, but when it is physically impossible and there is a claim from the receivers, we need to know what actions have to be taken or which answers have to be given.

As usual, we are grateful for your early indications regarding the foregoing, since we do not wish to appear as biased in our role of independent agent.

Best regards,



Lucien Fernandez
Contract Manager

SPECIMEN



UN SCR 986 PROJECT

COTECNA INSPECTION S.A.

BAGHDAD OFFICE TEL. 00873 761 375 645 FAX. 00873 761 478 179



FAX	
DATE	: 07 March 1999
ATTN.	: Mr. V. Kulyk - Customs / Technical Expert
CC	: Mr. C. de Hannin - Field Manager Mr. A. Baranga - Umm Qasr Team Leader
PAGE(S)	: 4
OUR REF	: 28/CN/99
SUBJECT	: Ref. Comm. 4227 & 4279

Dear Verne,

Please find attached the fax message I received today from Ministry of Agriculture via UNOHCL.

For your information, I already introduced to your office above problems (see fax no. 12/CN/99 dated 15 Feb 99), as well as my Field Manager & Umm Qasr Team Leader (fax no. 10/CA/99).

Please inform Mr. J.Owen about this matter.

Best regards,

Marek Eljasz
Cotecna Liaison Officer, Baghdad

SPECIMEN

in 381

Ministry of Agriculture
STATE COMPANY FOR AGRICULTURAL SUPPLIES
Wazeria - Baghdad - IRAQ

UNION ROOM
7 MAR 1999
BAGHDAD

Ref: 100
Date: 7/3/1999

FAX TOP URGENT

TO : COTECNIA - BAGHDAD

WE WOULD LIKE TO REFER TO OUR FAX MESSEGES 700 DATED 11/1/99 & 129 DATED 11/2/1999 ..
WHEN WE INFORM YOU THAT THE SHORT LANDED QUANTITIES OF MY NORBALK RAMIN & DANUB TRADER WAS 19.33 M/T APPROXIMATED AND WE REQUEST YOU TO INFORM THE CONCERNED PARTIES NOT TO PAY THE VALUE OF THE CONSIGNMENT. FOR UNFORTUNATELY WE RECEIVED COPIES OF PAYMENT TLEXES ISSUED BY THE BNP TO THE CENTRAL BANK OF IRAQ INFORMING THEM THAT THEY PAID THE FULL VALUE OF THE L/C NEGLECTING THE SHORT LANDING. THIS PRACTICE IS EFFECTING OUR RIGHTS KNOWING THAT THE POINT OF VIEW IS THAT YOUR COMPANY AS ASUPER INTENDENT CO. MUST PROTECT THE SHIPPER & THE RECEIVER RIGHTS BECAUSE THE SHORT LANDED &/OR DAMEG QUANTITY &/OR REJECTED QUANTITY DEPEND ON THE STATEMENT OF FACTS & THE DAILY DISCHARGING REPORT OF THE VESSEL FROM ONE SIDE & ALL THE MENTIONED DOCUMENT ARE DEPEND ON CALIBRATED WEIGHBRIDGE TEBEYS WHICH COPY OF IT IS DELEVERD TO YOUR REPRESENTATIVE IN UM QASER. HENCE WE DECLARE HERE OUR PROTEST & NON ECCEPTANCE OF WHAT HAPPEND BECAUSE AS WE SAID ABOVE YOU DID NOT PROTECT OUR RIGHTS ESPECIALLY THE L/C STATATED THAT PAYMENT IS EFFECTED AFTER THE UNITED NATIONS ADVISED THAT THE STANDARIZED CONFIRMATION OF THE ARRIVAL OF THE COODS IN IRAQ HAS BEEN ISSUED ACCORDING TO OUR KNOWLEDGE THE STANDARIZED CONFIRMATION SHOULD BE DEPENDED ON THE WEIGHBRIDGE OF UM QASER PORT)

HOP TO RECEIVE YOUR REPLY SOONEST POSSIBLE
THANKS & BEST REGARDS

DIRECTOR GENERAL & Chairman
1/3/1999

SP

COTECNIA - GENEVA

Assent 1496

P.O BOX 24028 TLX : 2680 TAWREED , 2634 ALAF, FAX : 964-1-2250233 PHON : 4250234 - 1

COIN.

SA001957

COTECNA INSPECTION S.A.



P.O. Box 6155 - 1211 Geneva 6 - Switzerland
 TEL: (022) 849.69.00 / TLX: 413 107 COT CH / FAX: (022) 849.69.28



UN SCR-986 PROGRAMME

FAX

Date : 10 March, 1999
 To : COTECNA UMM QASR
 Attention : Mr. Adrian Baranga
 CC : A. E. Pruniaux / A. Poitevin (Geneva)
 CC : C. de Hennin (Amman) | M. Eljasz (Baghdad)
 Fax No. : 00873 - 382 342 752
 Page(s) : 1 + 4
 Our ref. : Umm_Qasr_10_03_Claims.doc
 Subject : CLAIMS FROM IRAQI RECEIVERS.

*File
UN-Drag*

Dear Mr. Baranga,

Please find attached two claims from Iraqi receivers, which you probably already received from Baghdad. Since these claims have been addressed to Geneva, I have to provide an answer as soon as possible. In order to formulate a reply, I need from you the exact quantities that were authenticated for these transactions, as well as the indication of damaged cargo / sweeping / shortages, etc. where applicable. Finally, I would appreciate if you could let me know whether we have been able to attend the complete unloading operations and whether there were any incidents to be reported.

May I stress that the above queries are not intended to make a judgement on your work, but you know that the current procedures inevitably lead to such situations and we are trying to illustrate these facts to you in order that we can improve the quality of our intervention. Hopefully these cases will be resolved.

Your urgent reply will be highly appreciated; will keep you informed of possible developments.

Best regards,


 Lucien Fernández
 Contract Manager

Permanent Subcommittee on Investigations

EXHIBIT #32b

SA001893

Ministry of Agriculture
STATE COMPANY FOR AGRICULTURAL SUPPLIES
Wazirya - Baghdad IRAQ

ref: 201
date: 13/3/1999

FAX TOP URGENT

TO : COTECNA - BAGHDAD
SUB : CONTRACT ALAF (MOU) / 6 / 98

WITH REGRET WOULD LIKE TO INFORM YOU THAT WE RECEIVED THIS DAY ACABLE DATED 1/3/99 STATED THAT PAYMENT TO COROMO GENERAL BANK I/C 302/44/98 BNP I/C 2711096) IS EFFECTED ON 1/3/99 AMOUNTING TO USD 2414034 WHILE WE INFORM YOU BY OUR FAX MESSEGB 160 BD 2711096 ALL DETAILS REGARDING THE DAMEG GARGO & THE SHORT LANE GARGO ITS QUANTITIES WAS 85.100 M/T CROSS THE NET IS 84767M/T WHICH IS USD 41336 BUT UNFORTUNATLY WE NOTICED THAT BNP PAID THE AMOUNT INSPITE OF THE OFFICIAL CERTIFICATE OF SHORTAGE & DAMEG ISSUED BY UM QASR PORT AUTHORITY & THE STATEMENT OF FACT & REASON DISCHARGING REPORT (ACCORDING TO THE DETAILS OF OUR 2711096 MESSEGB). THE FINAL CALCULATION SHOWS THAT THE BNP PAID COROMA USD 5570 NEGLECTING THE FACTS WHICH MENTIONED ABOVE THIS ACTION WAS DONE WITH NUTRIS & NTC CO. AS YOU HAVE BEEN AWARDED NOW WITH COROMA MAKES US FEEL THAT OUR RIGHTS ARE NOT BEING PROTECTED ESPECIALLY ITS DEPEND ON OFFICIAL INFORMATION KNOWING THAT DISCHARGED QUANTITY WAS 4934.900 M/T CROSS BAGRD IN 4832 BAGS MULTIPLIED BY 200 GRAM WEIGHT OF EACH EMPTY BAG BECAUSE THE CONTRACT ON NET BASIS HENCE THE ACTUAL VALUE SHOULD BE PAID IS FOR 4915.234M/T. PLS TAKE THE NECESSARY ACTION TO OBLIGE COROMO CO. TO REIMBURSEMENT AT ONCE THE USD 5570 TO THE BNP DEPENDING ON THE MENTIONED FACTS. YOUR PROMPT ACTIONS WILL BE HIGHLY APPRECIATED

HOPE TO RECEIVE YOUR REPLY SOONEST POSSIBLE
THANKS & BEST REGARDS

MOHAMAD KHAIRI MOHAMAD
DIRECTOR GENERAL & Chairman

/ 3 / 1999

COTECNA - GENEVA ATT MR. LOSYAN - PROJECT MANAGER PLS TAKE THE NECESSARY ACTIONS FROM YOUR SIDE & ADVISE COROMO CO. WE ASTONISHED YOUR ACCEPTANCE THE EXTRA PAYMENT AS YOUR REPRESENTATIVE MR. CAHIM JEMAL WAS BY UM QASR PORT WITH OUR DELEGATION TO SUPERVISE DISCHARGING OPERATION STEP BY STEP & HE IS FULLY INFORMED ABOUT THE DAMEG & SHORTAGE CARGO. PLS PAY BACK THE EXTRA FUNDS TO BNP & AND CLAIM TO P.I CLUD & OR INSURANCE CO. TO GET YOUR RIGHTS & ADVISE .

Assoel: 1498

P.O BOX 26028 TLX : 2680 TAWREED , 2634 ALAF, FAX: 964-1-2250233 PHON: 4250230 - 1

SA001894

MINISTRY OF AGRICULTURE
STATE COMPANY FOR
AGRICULTURAL SUPPLIES
WAZERIA- BAGHDAD - IRAQ



جمهورية العراق
وزارة الزراعة
الشركة العامة للتوريدات الزراعية

TO: COLTECNA REGISTER / OFFICE BAGHDAD FROM: COMMERCIAL DEPT

REFERENCE NO.:	DATE:
202	1999/3/10
FAX NUMBER:	TOTAL NO. OF PAGES INCLUDING COVER:
001 - 212 - 9633009	2
RE:	YOUR REFERENCE NUMBER:

PLEASE REPLY TOP URGENT

DEAR SIR

REFERENCE I/CS No. K711018

WOULD LIKE TO INFORM YOU THE FOLLOWING:

- 1 - M.V. KINZAN MARU LOADED WITH 9601.730 M/T GROSS WEIGHT OF SOYA BEAN MEAL SUPPLIED FROM SOCOPA COMPANY ARRIVED UM QASER PORT ON 7 / 2 / 99 BREAKTHED UM QASER G17 AT 17:45 HRS LT.
- 2 - ACCORDING TO DISCHARGING REPORT DATED 13/2/99 AND STATEMENT OF FACTS ISSUED BY IRAQ STATE COMPANY FOR WATER TRANSPORT (AS VESSEL AGENT) AND SIGNED BY THE AGENT AS WELL STATED THAT SHORT LANDED QUANTITY IS 82.756 M/T AND THE DAMEG CARGO LEFT ON BOARD IS 356 BAGS EQUIV. WEIGHING 9601.730 M/T.
- 3 - DISCHARG QUANTITY OF BAGS IS 192426 BAGS WEIGHING 9601.730 M/T (GROSS) WEIGHT.

FROM ABOVE THE QUANTITY WHICH WAS RECEIVED AT PORT OF UM QASER IS 9601.730 M/T OF SOYA BEAN MEAL WHICH VALUE OF SAID QUANTITY SHOULD BE PAID TO THE SUPPLIER.

P.O. BOX 26028 TLX : 2680 TAWREED , 2634 ALFA,
FAX : 964-1-2250233 PHON: 4250230-1

SA001895

MINISTRY OF AGRICULTURE

STATE COMPANY FOR
AGRICULTURAL SUPPLIES
WAZERIA- BAGHDAD - IRAQ



الجمهورية العراقية
وزارة الزراعة
الشركة العامة لتوريدات الزراعة

PLEASE TAKE NECESSARY ACTIONS TO INFORM THE CONCERNED PARTIES
AND ADVISE.

BEST REGARDS AND THANKS IN ADVANCE

MOHAMAD MOHAMAD
DIRECTOR GENERAL & CHAIRMAN

CC TO:

COTECNA GENIWA : MEMBER, LOSYAN - PROJECT MANAGER -

PLEASE TAKE NECESSARY ACTIONS FROM YOUR SIDE AS WELL.

BEST REGARDS

SCAS - PLS SUBMIT SHIPPING DOCUMENT TO BNP ON THE ABOVE

AND ADVISE .B. REGARDS

11124

SPECIMEN

1K-419
 جمهورية العراق
 وزارة التجارة
 الشركة العامة لتجارة المواد الغذائية
 بغداد - منطقة جميلة الصناعية - ساحة 1 ايار
 Import
 الاسم :
 الحدد : 999
 التاريخ : 718/99
 1 / 1

بسم الله الرحمن الرحيم



Ministry of Trade
 State Co. For. Foodstuff Trading
 P.O Box 548 - Baghdad
 Tel: 8828550 - 8215270
 TLX : 21 - 2232 MBYAAT IK
 21 - 2608 CFOOD IK
 21 - 4450 ESTUFF IK
 FAX : 2830370 - 285228
 2852496

TO: CONTECNA INSPECTION S.A / UM QASER

SUB / PULSES INDENT 33297
 SUPPLIER : COFCO CO, CHINA
 L/C : G 708 644 - SEQ NO. 1436

DEAR SIR:

FURTHER TO OUR LETTERS FOR ABOVE INDENT, WE WOULD LIKE TO INFORM YOU THAT COFCO CO, HAS SHIPPED QUANTITY OF 16000 M/TON OF WHITE BEANS ON VESSEL "FENG ON SHAN" WHICH ARRIVED UM QASER ON 15/3/99 AND WE CONFIRMED RECEIVING QUANTITY 12886,662 M/TON FROM THE WHOLE QUANTITY LOADED ON ABOVE VESSEL.

THE B.N.F PAID TO ABOVE CO, USD 9,049,51 (NINE MILLION FOUR HUNDRED EIGHTY NINE THOUSAND EIGHT HUNDRED SEVENTY NINE USD & FIFTY ONE CENT COVERING 14488,271 M/TON.

THE DIFFERENCE IN AMOUNT USD 1,049,093,29 (ONE MILLION FORTY NINE THOUSAND NINETY THREE USD & TWENTY NINE CENTS) TO COVER 1461,469 M/TON WHICH SUPPLIER MUST COMPENSATE SAID DEFICIT BY SHIPMENT OF GOODS INSTEAD OR TO REPAY SAID. PLEASE TAKE THIS INTO YOUR CONSIDERATION AND INFORM B.N.F ACCORDINGLY.

THANKING YOU, WE REMAIN

YOURS FAITHFULLY

[Signature]
 DIRECTOR GENERAL
 YOUSUF M. ABDUL RAHMAN

UNOHCI RADIO ROOM
 6 MAR 1999
 BAGHDAD

CONTECNA

COTECNA INSPECTION S.A.



P.O. Box 6155 - 1211 Geneva 6 - Switzerland
 TEL : (022) 849.69.00 / TLX : 413 107 COT CH / FAX : (022) 849.69.28



UN SCR-986 PROGRAMME

FAX

Date : 15 June, 1999
 To : COTECNA UMM QASR
 Attention : Maciej LUBIENSKI
 CC : A. E. Pruniaux / A. Poitevin (Geneva) | Mr. C. de Hennin (Amman)
 Fax No. : 00873 - 382 342 752
 Page(s) : 2
 Our ref. : Umm_Qasr_15_06_Delays.doc
 Subject : DELAYS IN AUTHENTICATIONS.

Dear Maciej,

It appears that there are some marginal issues that eventually create unwanted delays or disruptions in the authentication process. Please note and circulate the following guidelines :

- 1 - When the ship does not have shipping documents, please take the following steps :
 - a) Try to obtain them from the supplier
 - b) If nothing is received from the supplier within 2-3 days from your request, inform OIP so that they try to obtain them from the supplier via the supplier's Mission in NY;
 - c) Under no circumstances are you allowed to request / accept shipping documents from receivers.
- 2 - When Iraqi figures are not made available within 2-3 days from completion of discharge, please proceed to authenticate landed quantities, based on manifested figures and adjusted on the basis of ascertained shortages / pilferage / sweeping (visual findings), where applicable.
- 3 - For the time being, and until our systems are suitably modified, please refrain from entering quality remarks on the authentication sheets, unless the goods are not fit for human consumption. This is motivated by the fact that Lloyd's used to send such remarks as an attachment that was not conveyed to Treasury because quality disputes are commercial issues in which neither OIP nor Cotecna have to be involved; now that these observations appear on the actual authentication sheet, the Treasury in New York does not know whether payment can be effected, therefore these authentications are left pending forever. However, if there are quality problems, you are welcome to quote them to OIP by a separate communication clearly identifying the shipment.

Referring to your today's note on Mr. Biernacki's problem, I would like to stress that, whether or not Iraqi figures are made available, how reliable will they be if you have not been witnessing the weighing process? How then has it been done in the past, since there are quantity shortages claimed by the Iraqi receivers on virtually every shipment, whereas it is the manifested figures that have been authenticated.

Permanent Subcommittee on Investigations

EXHIBIT #32c

SA003326



As a matter of interest, whenever we have witnessed the making-up of discharge figures, we have always found blatant cheating on the Iraqi part. Manifested figures are correct, to the extent that they have been verified and endorsed by several parties during the loading of the vessels; shortages on arrival can therefore only result from the discharge operations. Again, by paying regular visits during the discharge of the vessels, your inspectors will evaluate losses resulting from the discharge and make an educated guess of the resulting shortages where applicable.

Contrary to what you state in your fax, I am told that three days was the maximum waiting period for receiving Iraqi figures that prevailed up to just over two months ago (my source in Jean Azouri and OIP); coincidentally, delays in authentications have been experienced since then ... In the light of the above, please confirm that all authentications pending the receipt of Iraqi figures have been cleared as at today.

I appreciate the job is quite new to you and wish to thank you for your extraordinary efforts and helpfulness; may I suggest that, in case of doubt as to what to do in any given situation, you contact Jean Azouri in Zakho; Jean has been in Umm Qasr since the beginning of the programme and knows the answers to all your possible questions. Of course, you are always welcome to contact me and I shall do my best to assist and support you in your endeavours.

Best regards,



Lucien Fernández
Contract Manager

SPECIMEN

25703998

Notes from meeting with Cotecna 23 - 25 March 1999.

Discussed Mr. Larsen's mission report.

Cotecna will perform a presentation of the company and their work in Iraq at the meeting in May in Baghdad.

Cotecna stated that actions have already been taken to solve the situation in Zakho.

OIP will investigate the possibility of where to destroy medical samples discreetly in Iraq.

A job description for Mr. Marek Eljasz will be done and presented to UNOHCI in order to clarify his duties in Baghdad.

Security Officer in Baghdad will be asked to forward an evacuation plan that includes independent inspection agents.

OIP will investigate the seals that are broken by MIF and not replaced.

OIP will raise the problem with the Iraqis in regards to that they do not examine the cargo in Umm Qasr until after 2-3 weeks after arrival.

Cotecna were advised that Mr. Kulyk would visit Iraq and review the recommendations mentioned in Mr. Larsen's mission report.

Invoicing:

Discussions with Ms Neeta Tolani Executive Office in regards to invoicing. OIP will respond after final discussions are done in regards to days Cotecna can bill for inspectors in Iraq.

The format, which the invoice was presented in for the February invoice, was agreed as acceptable.

Communication computers:

Cotecna equipment has arrived to Amman and will hopefully arrive to Trebil on the 26 March.

Hard copies of OC letter and contract to be sent to Amman office instead of Geneva upon official request from Cotecna.

The proposed amendment to contract in regards to larger communication costs will be accepted but will be reviewed after 6 months.

OIP will investigate Cotecnas claim that dial up to V-sat will be at no cost to the UN.

Treasury:

It has been proposed by Cotecna to forward the authentication sheets by using E-mail instead of using fax communication.

Mr. Lucien Fernandez from Cotecna explained the security system to be used and Treasury agreed upon a trial period.

UN will set a date for the trial period to commence once received a response from Cotecna in regards to fax sent to them in regards to security.

The trial period is to last for one week when Cotecna will forward authentication sheets both by using fax and E-mail. If the procedure for sending authentications is acceptable the authentications will be sent from the sites daily.

OLA:

Cotecna raised their concern of acting independently especially in Umm Al-Qura. It was clarified to them that all the claims should be forwarded to OIP. They are not to be involved in any commercial disputes between supplier and buyer. They are to inform a receiving claims that they will forward them to OIP.

OIP will inform the Permanent Mission of Iraq to the United Nations that all the claims sent to Cotecna should be addressed to OIP through the Mission.

CPS will agree with Cotecna on definition of procedures in regards to quality and quantity control.

Cotecna is not to perform any pre-shipment or post-shipment of goods destined for Iraq under the UNSCR 986 resolution

Inspector
created for Dray

Staff:

It was agreed that Cotecna would not set up a liaison office in New York.

Cotecna will forward to CPS a summary of Customs officers that already are or will be employed.

Cotecna will forward site procedures and an official proposal to change the number of staff on the sites.

Cotecna will provide CPS with medical health certificate for the inspectors. For practical reasons it was agreed that the former Lloyd's employees will conduct a medical examination when passing through Amman for leave.

Jeremy Owen
Chief Customs Officer
Contract Processing Section

Andr  Pruniaux
Senior Vice President
COTECNA

**COTECNA
OUTSTANDING MATTERS**

	Work Required	Deadline
1	Formal response to Jonas Larsen's mission report, including remedial actions taken or to be taken.	6 April 1999
2	Provision of site procedures and sampling methods.	6 April 1999
3	Response to OIP's fax on e-mail authentications.	31 March 1999
4	Provision of medical certificates for Cotecna inspectors and proposal for ex-Lloyd's Register inspectors.	9 April 1999
5	Forwarding to Contracts Processing Section (CPS), claims and comments received by Cotecna from Government of Iraq (GOI).	Appropriate <i>in-gong</i>
6	Provision of a proposal to change staff distribution in Iraq.	9 April 1999
7	Job description for Baghdad Liaison Officer to be shared with OIP.	9 April 1999

cc: *[initials]* Almstrom
N. Tolani
S. Katz
T. Afeworki

SA002260

OFFICE OF THE IRAQ PROGRAMME
(Contracts Processing Section)

OUTSTANDING MATTERS

	Work Required	Deadline
1	Fax to UNOHCI regarding security evacuations.	Done; to be reviewed 16 April 1999.
2	Report on container seals broken by MIF.	2 April 1999
3	Confirmation on chargeable mandays to be invoiced.	2 April 1999
4	Instructions to Cotecna regarding correspondence received from the Government of Iraq (GOI).	30 March 1999
5	Letter to Permanent Mission of Iraq regarding above.	2 April 1999
6	Letter confirming OIP does not require Cotecna's Liaison Office in New York.	9 April 1999
7	Confirmation of replication schedule in respect of Version 2.	2 April 1999
8	Decision regarding e-mail system for authentications.	9 April 1999

cc: J. Almstrom
 N. Tolani
 S. Katz
 T. Afeworki

SA002261

PRUNIAUX Andre

From: cotecna
Sent: samedi, 10 avril 1999 13:40
To: LUCIEN, ANDRE
Subject: G2.07 Larsen 01 - answer to report - 10



G2.07 Larsen 01 -
nswer to report - 10.

From: "Cotecna Inspection" <cotecna@index.com.jo>
Date: Sat, 10 Apr 1999 11:44:10 +0300
To: "Geneva M. Fernandez" <Lucien_Fernandez@cotecna.com>
, "Geneva M. Pruniaux" <Andre_Pruniaux@cotecna.com>

As requested, attached my answer to Mr. Larsen's report.

Caution : a previous message to Mr. Pruniaux, with an attachment in Word, triggered his answer that there was a virus in the attachment. Later, he answered to my message, which means that he managed to open the file in Word.

Kindly watch out by opening this attachment. If you find a virus again, shall I do ?

Regards.

CdH

Friday

see LF

SPECIMEN

COMMENTS AND ANSWERS TO MR. LARSEN'S REPORT

Meeting Canal Hotel

No comments.

The suggestions made by MDOU are not realistic.

ZAKHO

I have not awaited Mr. Larsen's report for :

- a) carrying out an unannounced inspection myself;
- b) ordering a full audit that took two weeks, and the report of which reached my desk at the end of March.

Unfortunately, it is not apparent - to me - that the audit mission has had an immediate and large effect.

1. Inspection duties

During the audit, inspection techniques and improvements have been explained and recommended.

For the time being, I am not so sure that the audit's recommendations have been followed and fully implemented.

I intend to carry out another inspection myself, some days after the new station head will have taken up his duties.

2. Office procedures

I am afraid Mr. Larsen is right on almost all counts.

The audit report states that samples are now under lock. I shall see.

Mr. Larsen is right on the issue of the local interpreter, who does some interpreting in addition to his other tasks. I witnessed the same things as Mr. Larsen. Now the audit report, as well as Mr. Szymicek, state that the issue is under control, that the local interpreter has no access to files any more, and that he did not, nor does, process data.

I fail to believe that the local interpreter has, from one day into another, reduced his activities and does not have access to the office any more. He definitely processed data, me and Mr. Larsen witnessing, and the denial by Mr. Szymicek does not make any sense.

I am not convinced, audit's advice notwithstanding, that the local interpreter is a necessity. I shall see for myself, together with the new station head. We do not have any in Trebil, and Trebil works well without.

24 hour coverage at the border does not make sense, as the border closes during the night.

24 hour coverage in the office has been secured by performing radio checks at ungodly hours, also in the other sites.

3. Human resources

The station head was demoted. An experienced deputy from Trebil has been appointed station head, and one of the best inspectors from Zakho has been promoted deputy.

A major troublemaker was fired.

I agree with Mr. Larsen's comments on spreading nationalities. But with a majority of our inspectors coming from the same countries, an optimal spreading remains wishful thinking. We have broken up the Czech connection, but are reinforced the Phillipino connection, and we added an Hungarian connection.

I shall see for myself whether there is any improvement on the ethnic separation syndrome. Of course, the ethnic separation was enhanced by the absence of good human resources management. On the other hand, the poor knowledge of English of many inspectors entails reverting to their native language.

4. Security issues

Zakho was not informed on the restricted movement on the road. As a matter of fact, neither was I. Nobody was. Not our fault.

Conclusion

That Zakho is not fulfilling its contractual responsibilities is an overstatement.

UMM QASR

Mr. Larsen's comments on equipment omit to add that it was Lloyd's equipment. Our equipment works fine, we have four lifts now and everything would be excellent, were it not that it is New York that does not function.

I cannot accept Mr. Larsen's insidious comments.

Comments on the port procedures and the silo : not of our concern.

I am too well aware of the accommodation problem. Again, Mr. Larsen is not objective. We received only regularly the import authorisation for the cabins. We still do not have the authorisation to extend the camp, which is a prerequisite to put the cabins. The bill between the Sheraton and the camp was also subject to Iraqi authorisation. And at the end, it was the U.N. who stopped us from using the Sheraton.

The remark that there are only two inspectors with customs experience is, again, unfair. The other inspectors were approved by U.N. And I personally do not think it necessary to have only customs officers, which seems to have become a kind of fixation.

AL WALEED

I do not think it is a prerequisite to have a station head and a deputy on site when some acting inspector perfectly fits the job of the captain of the football team which Al Waleed's staff mainly is.

I was not aware of the procedure of the summary sheet. See my remarks in the paragraph dealing with Mr. Larsen's final conclusions.

Same comments apply regarding his remark on inspectors with customs experience.

TREBIL

Same comments apply as for the other sites, mutatis mutandis. Our equipment and our system work fine : it is New York that does not function. Before our equipment arrived, the optical disk sent from New York indeed did the job.

I know quite well that accomodation is insufficient. It was for Lloyd's as well, but, then, New York never objected. Again, delay exclusively to be attributed to Iraqi Government.

I am glad to hear that the new sampling procedures made Mr. Larsen happy.

Same comments on his remarks regarding inspectors with customs experience.

As to his comments on Mr. Jacquelin : il y a une mouche au plafond.

BAGHDAD OFFICE

A secretary was recruited even before Mr. Larsen left my field. I had the idea before him saying so.

The question of extending his office hours at Canal Hotel is not realistic, as Mr. Eljasz spends many more hours at Canal Hotel than most of the U.N. officers. It would be appreciated, on the contrary, that the U.N. ensure the presence of their staff before 10:30 Hr and after 14:30 Hr.

I am not happy myself with the double office, but I see the necessity due to the absence of confidentiality at Canal. Each and every communication is noted and circulated.

AMMAN OFFICE

No comments, of course.

GENERAL FOR ALL SITES

The discussion on the scope of work is a matter of primary policy and U.N. policy. Obviously, both parties have different conceptions. I think the U.N.'s policy is, technically speaking, wrong. Are we to inspect or not? Inspection is not risk assessment, and I fail to see his point.

We, of course, had our equipment on site and working on time. Sorry for the people who were meeting in the crisis room, waiting - and hoping - that we wouldn't make it.

PERSONNEL

It is not correct that a large number of experienced inspectors chose to leave the programme since we took over. They left before, for reasons of miscalculation of salary only.

General morale is not low, I must contradict this. Some inspectors may leave, indeed, because they find better contracts. This happens everywhere in the world and at any time, and it's not a phenomenon related to Cotecna only. Until now, we had only one resignation, due to his going back to the Army, and another resignation which was announced from the beginning of his contract.

Your visiting the sites, talk to the people and solve the problem is an empty idea, because Mr. Larsen does not say what the problem is. There is no general problem. There are some questions, indeed, mainly regarding the leave in one

period. If some staff are of the opinion that their situation was better under Lloyd's, they are wrong. The difference in salary is not that large. They benefited from some advantages and liberties indeed (days off in Baghdad, for instance), but these liberties were in contradiction with Lloyd's contractual obligations to the U.N. The U.N. never objected to Lloyd's as they do to us. Some lost advantages are compensated with other advantages now.

I must say that I am in control of the so called problem. See my remarks in the final paragraph.

We are now receiving nothing else but customs inspectors. We will see what will happen. As said, I am not convinced by the U.N. requirement on having but customs officers. It was not a requirement when you presented the first batches of new inspectors, was it ?

His - again insidious - remark on the presentation of a curriculum calls for the answer that this was exactly part of his job, his hours.

CONCLUSION

But thou shrieking harbinger, foul precursor of the fiend, [...] to this troop come thou not near.

I disagree that we provide services at the minimum acceptable level. Mr. Larsen contradicts himself with this general conclusion compared to his comments in particular.

Why should there be a further decline ? The decline was possible due to the obsolete Lloyd's equipment, not reliable communications, inadequate systems and incompetence at New York level. Mr. Larsen obviously handles different standards when talking of Lloyd's and of Cotecna.

There are some improvements possible; there always are.

Some have already been implemented : equipment, telecom, sampling, management problems in Zakho.

Some are in progress : sample transport (when our fleet will eventually arrive), analyses (laboratory up to strength, further equipped and working almost exclusively for us - no delays any more [although U.N. was not so strict on delays when Lloyd's took 15 to 20 days]), troop's morale on certain issues.

Some have still to be done : better telecoms for Amman and Baghdad (fax), better E-mail transmission (U.N. server), tighter incident reporting and handling, more strict abidance by operational procedures, more operational control, more attention to staff's welfare (although they cannot complain on Amman's hospitality), more discipline on the movements of staff, some flexibility on leaves and transport costs, better use of telephone and fax, better packing and securing of cargo, standardising of equipment, advanced first aid, ... etc.

Pursuant to the authority vested with me in accordance with clause five of my mandate as laid down in your memorandum of January 21, I shall enforce more operational control. The other aspects are already under control. If I could have a little more flexibility on staff holidays (two periods, our covering the costs for those who request it - not everybody does), I am sure there would be no more "low" morale. I can talk to the staff on any other issue.

We are ready for the next inspection from New York.

SPECIMEN

COINTECH INSPECTION S.A.

P.O. Box 6155 - 1211 Geneva 6 - Switzerland
TEL : (022) 849.69.00 / TLX : 413 107 COT CH / FAX : (022) 849.69.28

UN SCR-986 PROGRAMME

F A X

Date : 21 April, 1999
 To : UN O.I.P. - NEW YORK
 Attention : Mr. Jeremy Owen - Chief Customs Expert / Contracts Processing Section /
Mr. Didier Sabroux / Mr. Jonas Larsen
 CC : A. E. Pruniaux / A. Poitevin (Geneva) | C. de Hennin (Amman)
 Fax No. : 001212 - 963 8083
 Page(s) : 6
 Our ref. : J_Owen_19_04_Larsen_Report.doc
 Subject : RESPONSE TO J. LARSEN'S MISSION REPORT.

Dear Jeremy,

As agreed, please find our formal comments to Jonas Larsen's mission report. It is our view that such missions and reports are to be looked at as means to improve our output and correct our possible shortcomings, but it is also our view that special visits may also give misleading impressions (we experienced something similar during our reconnaissance mission mid-January), therefore we will strictly stick to the facts stated in Jonas's report.

Zakho

Most of the points raised in Jonas's report had already been identified by Cotecna and remedial action had been planned. The following steps have been taken :

- 1- A full 3 weeks audit was carried out during the month of March by a senior Team Leader and, as a result, the following steps have been taken :
 - a) The normal procedures relating to Agency goods have been restored, although not to the desirable extent. This being the responsibility of the Team Leader and the latter having repeatedly ignored injunctions, it has been decided to remove the Team Leader from his position and to appoint a new Team Leader instead. Mr. Goran Ciric has been appointed Team Leader and Mr. Maciej Lubjenski appointed Deputy Team Leader, effective April 16th; both inspectors have a strong experience of this site and have been proven both responsible and disciplined.
 - b) Inspectors have now been re-shuffled and their shifts changed in such a way that ethnic groups are not entertained any longer. This was a simple management / leadership issue, rather than a nationality issue; our auditor has already ensured more interaction between inspectors by merely ensuring that meals times and locations would be identical for all inspectors and by assigning additional duties related to the management / maintenance of the camp, all activities carried out jointly by staff of different nationalities. One inspector who had a quite unacceptable attitude towards Kurds, drivers and colleagues alike was revoked; he apparently already had a negative track record while working with Lloyd's. Two inspectors (same nationality) who did not adhere to the team spirit were transferred to two different sites. It can be said that the cohesion of the team has now been durably achieved.

Permanent Subcommittee on Investigations

EXHIBIT #35

SA012671

- c) Our auditor immediately enforced mid-March the secure storing of samples and closed files in a locked room; it should be noted that this is exactly how we found the organisation of the site when we took over; presumably, you must have noticed this when you conducted his last mission.
- d) Similarly, our auditor implemented 24 hour coverage at the border.
- e) The interpreter's tasks have been limited to those inherent in his trade; it should be said that he wasn't doing anything that he had not been previously doing prior to Cotecna taking over.

Although some improvement is still expected on the communications with OIP, this being a priority task of the new site's management, it is Cotecna's opinion that it is now satisfactorily fulfilling its contractual obligations.

Umm Qasr

The traffic figures quoted in the report are to be analysed in conjunction with our staffing proposal made separately to the OIP. In our view, as clearly indicated during our meeting in New York in March, the site's staffing does not allow to fulfil our contractual responsibilities, and we further believe that these have not been comprehensively fulfilled in the past either.

Regarding the computer problems, these were exclusively related to the hardware; this has been a constant and recurring concern for Cotecna, since all data processing and communications equipment leased during this interim period kept failing and required permanent patching in order to be kept functional; we understand that this has been happening for months prior to our appointment. The new equipment has now been installed and there are more than sufficient communications equipment (Inmarsat B allowing a speed of 7 times the previous one, as well as two Mini Radiophones as backup per site) and data processing equipment. It should be noted that Cotecna had already decided to increase the number of PC's and communication lines prior to signing the contract.

Inspectors staying at Basra have been transferred to other sites due to the deterioration of the security situation (and to OIP by Cotecna, as requested); Cotecna is adding 4 cabins to this site in order to accommodate 8 additional inspectors, should its proposal be accepted by OIP.

Al Waleed

The Team Leader of this site was only available for a short period, but suitable replacement has meanwhile been found and an experienced Deputy TL with Customs background has been promoted.

Traffic is still very low and inspectors get additional training in Trebil; Cotecna would be happy to come to an agreement in order to man the site for only 12 hours, since we believe that the inspectors in excess in Al Waleed could find a much better use in Umm Qasr. We still need to know which authorities to approach in order to come to an agreement.

Summary sheets had always been shown to the Iraqis prior to authentication; it appears that it had been authorised by OIP. During our recent meetings in New York, we were told that fact sheets could be shown, but this point has not been reported in the minutes : we need this to be confirmed in writing by OIP.

Trebil

Problems with Lotus Notes data base have continued during the month of March and April; these were due to the change of data base structure. A new generation of Lotus Notes data base and application is now in use.

Accommodation had been insufficient for inspectors for over 7 months when Cotecna took over; new cabins have meanwhile been approved and shipped on site and we are still awaiting the completion of the civil works by the Ministry's contractor.

Baghdad Liaison Office

Decision to hire a secretary had already been taken, and the candidate identified at the time the inspection was carried out; it was only pending the authorisations from UNORCI prior to proceeding with the hiring. Meanwhile, the new staff has joined our Liaison Office.

Premises at the Canal Hotel do not allow Cotecna to extend much more of its presence there; on the other hand, our Liaison Officer is virtually 24 hours per day on duty to attend late night calls from OIP in New York; it is therefore considered that his staying exclusively at the Canal Hotel to attend the business is not practical, since he would not have time to rest.

General for all sites

Cotecna accepts that its understanding of the scope of work may need to be reviewed, but it should also be noted that Lloyd's procedures (7 pages for all sites in all) are the only ones Cotecna ever received. It was assumed that these minimal procedures were in agreement with OIP; if it is not the case, specific guidelines should urgently be issued by OIP. Meanwhile, we can only work on the basis of additional findings made verbally by OIP/CPS. The statement regarding 100% inspection by Cotecna is to be qualified: Cotecna applies random procedures that are representative of the average quality / quantity of the consignments, based on international standards, and do not in any way perform 100% inspections. This is particularly applicable to the quality; as far as the quantity is concerned, Cotecna's contract is unequivocal: it has to be 100%.

Risk assessment is a method that Cotecna has been using for quite some time, but we fail to understand how it could possibly be applied in Umm Qasr, and at the same time still comply with our contractual obligations. Whilst risk assessment can be applied to manufactured / consumer goods based on manufacturers' record and quality assurance systems, there is no risk assessment formula applicable to commodities, since the ultimate quality of the products is solely related to the product itself, and can be influenced by factors beyond the control of the sellers (traders, generally), such as storage, transport, handling, transshipment, discharge, etc. However, Cotecna would be happy to apply risk assessment methods and will welcome any suggestion made by OIP/CPS, particularly for Umm Qasr.

The remark made on the report regarding Cotecna's equipment is now out of date; problems currently experienced in the authentication process are not attributable to Cotecna.

Personnel

There are a number of statements made in this portion which we feel compelled to challenge, mainly because they seem to be based on subjective assumptions and personal views, most of which have in fact not materialised, contrary to the predictions made by the writer of the report.



21 April, 1999

Firstly, it is inexact that "a large number of experienced inspectors chose to leave the programme": Cotecna hired 30 out of 54 inspectors from former Lloyd's staff; this means that our staff was originally composed of 56% of experienced inspectors. It should also be said that many of the inspectors who chose to leave the programme claimed that they would have done so anyway, whether Lloyd's had retained the contract or not.

When interviewing the inspectors on the occasion of our reconnaissance mission in January, the vast majority of inspectors working for Lloyd's expressed deep dissatisfaction towards their employer and most claimed that their morale was nearing depression. Even highly paid inspectors having little work pressure would feel a little depressed due to the context they live in, but this is inherent in this assignment and obviously, given the choice, anyone would prefer to work in a civilised place with a high salary. During our visit, we felt that most people knew that they had precious little time to make an impression, therefore they felt they had to dramatise the situation to have an impact on their counterparts.

We would also like to stress that none of the inspectors who remained in the programme were forced to do so; they were given comprehensive and unbiased information about the employment conditions that Cotecna could offer them and signed their respective contracts with full knowledge. The report implies that these inspectors did not provide the services required by the UN* because they were unhappy with their remuneration; this is extremely serious and reflects a very poor image of the former Lloyd's inspectors' professionalism and professional ethics. We trust that the formulation of such a statement is well beyond the thinking of the writer.

Credit has been given by Cotecna to the inspectors who remained in Iraq for their valuable input and hard work during the transitional period, although one should not over-stare the strain deriving from the training of new staff, since there were more trainers than trainees; however, we find quite remarkable the observation regarding the computer and communications problems as being the prime source of inspectors' dissatisfaction. It should be remembered that all these systems were leased from the former IIA, and it is a fact that, during the month of February, they were not working any better or any worse than it had been the case during the previous years. As to the assumption that a large number of these inspectors would leave the programme, it is quite evident that this has not been the case, in spite of the fact that "personal terms have not substantially been adjusted". To be fair, the writer should have analysed the remuneration terms (monthly salaries paid by Cotecna, as opposed of bimonthly salaries paid by Lloyd's), which in fact are not that far apart. OIP should also consider that, in order to lower the overall contract costs as was one of its objectives, Cotecna could not match Lloyd's terms, which were exceedingly generous, as any expatriate could tell.

Much could be said about the relation between inspectors with Customs experience and quality of their work; paradoxically, in spite of the fact that Zakho had 3 inspectors with Customs experience the site rated the worst among all sites, whereas Trebil that has none seems to have been fully compliant with the UN requirements. As to the relation between customs experts and risk based authentications in Umm Qasr, we have to emphasise that none of the staff we interviewed in this site, with the exception of the Team leader, thought they were doing a very professional job when we interviewed them. Again, the "risk based authentications at Umm Qasr" have to be explained, since it is our experience of inspectors working for/in Customs world wide, that such method is not relevant for commodities, particularly in a context where port operators and facilities are not to be taken in good faith, as would happen in Scandinavia, Britain or Canada. From a Customs perspective, the risk is assessed on the basis of tariff rates and sensitiveness of the products; in the case of Iraq, how would this translate in terms of risk management?

Another affirmation made in the report regarding the lack of knowledge from the inspectors regarding the global procedure seems quite surprising considering that most inspectors were participating in the programme well before February and some of them had been there for over two years and that none of the previous inspection missions had remarked this notorious gap. If this is a true reflection of the inspectors overall knowledge, it appears that this has been prevailing all along and was basically an inherited deficiency.

In general terms, it is a common occurrence that people are destabilised at the time drastic changes take place; in the case of Iraq, owing to the fact that people are in such related conditions, this feeling is magnified, but everything eventually settles down. The mission was conducted at a time when the new organisation was still being implemented, therefore impressions drawn during this unsettling period can be misleading.

Summary of Recommendations

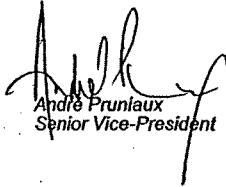
- 1- A presentation will be made by Cotecna on the occasion of the next monthly meeting in Baghdad.
- 2- We look forward to receiving OIP's comments regarding IDOU's remarks regarding sampling and authentication.
- 3- To the extent possible, nationalities have been spread evenly; however, Cotecna has considered the qualifications of the inspectors as a prime factor to assign them to any particular site.
- 4- A sample storage room has been created in Zakho, since it never existed before. To the extent possible, the temperature shall be kept under control.
- 5- Closed files in Zakho are now in the closed room (the former TV room).
- 6- The interpreter in Zakho is now only performing his specific duties and does not have access to the files.
- 7- As can be ascertained by OIP, Zakho has been fulfilling a 24 hour coverage for the last month.
- 8- Communications in Umm Qasr have been upgraded, as was projected, since authorisation to import equipment was received.
- 9- Procedures have been presented to OIP.
- 10- Although Cotecna still has reservations regarding this requirement, we are pleased to confirm that 30% of the workforce in Iraq have a Customs background.
- 11- Cotecna purchased in January all the additional cabins that Lloyd's intended to install to accommodate the inspectors. This has been approved by the Iraqi authorities, but the contractor designated by the latter for the erection is not performing so far.
- 12- Cotecna fully agrees to limit Al Waleed's coverage to 12 hours; we are awaiting indications as to how to deal with this request.
- 13- Every effort has always been made by Cotecna's management in order to meet the inspectors' reasonable requests. Cotecna is improving the working conditions of its staff in Iraq by improving communication facilities, data processing equipment, security, sanitary conditions and lodging facilities, all of which are very important for peoples' comfort; Other conditions have to be consistent with the financial balance of the contract.



21 April, 1999

All the foregoing comments are made in good faith and we trust that they are going to be seen as our honest and objective perspective on the issues raised. There is always room for improvement, and Cotecna is committed to continually improve its services, with the support and assistance of the OIP, in order to contribute to the successful and smooth implementation of this important mission.

Best regards,


André Pruniaux
Senior Vice-President


César Fernández
Contract Manager

SPECIMEN



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UN SCR-986 PROGRAMME

FAX

Date : 29 March, 1999
To : INTERCONTINENTAL HOTEL - AMMAN
Attention : Carlo de Hennin - Room No. 527
Fax No. : (009626) 464 52 17 / (009626) 562 46 98
CC : A.E. Pruniaux / A. Poitevin (Geneva)
Page(s) : 1 + 5
Our ref. : CDH_29_03_Report_Larsen.doc
Subject : CONFIDENTIAL : J. LARSON'S REPORT.

File
UN-Drop

Dear Carlo,

Please find attached a copy of J. Larson's report following his recent inspection visit. Please let us have your comments and, where applicable, indicate what remedial actions that already have been taken.

Best regards,

Lucien Fernández

SPECIMEN

SA002211

Permanent Subcommittee on Investigations
EXHIBIT #36

Mission Report
Technical Mission: 25 February-10 March, 1999
Jonas Larsen, Customs Officer

The purpose of the visit was to evaluate the services provided by Cotecna, the new Independent Inspection Agents and to attend the monthly meeting between UNOHCI and Cotecna.

Meeting Canal Hotel:

Monthly meeting at Canal Hotel, Baghdad: Deputy Humanitarian Coordinator, Mr. Farid Zarif, chaired the meeting. The meeting was held in a positive spirit. Questions were raised as to if Cotecna is supposed to carry out the same duties as the previous contractor, Lloyd's Register. I explained that Cotecna signed a contract with UNOHCI to perform the same duties as L.R. I recommended to Cotecna that for the next meeting they should take the opportunity to do a presentation of themselves and their duties in Iraq. See minutes of meeting for more information.

Meeting with MDOU: they suggested that the procedures with regard to authentications should be amended. Authentications should be pending for a month awaiting a confirmation from the receiver, stating that the delivered goods are as per contract. They also questioned the sampling procedure and stated that the samples taken by the Independent Inspection Agents had no value from a legal point of view. This is not an issue that falls under my mandate, I advised them to bring their suggestions to OIP New York.

Zakho:

The volume of traffic was very low during my visit and had been so for a couple of weeks.

The problems with regard to Agency goods remain the same. However, the Team Leader Mr. Berthold Szymiczek, has implemented another level of acceptance of documents provided by the Agencies. He is releasing the truck(s) in good faith that the Agencies concerned will supply proper paperwork to them upon arrival of the truck(s) to their warehouses. Unfortunately, this is not happening so there are many shipments not yet reported.

The Team is divided into three (3) groups due to the fact that some nationalities are over represented on the site. I recommended to Mr. Alexis Poitevin, representative from Cotecna, that they should spread the nationalities equally throughout the sites.

The samples are not in a locked room as mentioned in Mr. Jeremy Owen's report of December 1998. The closed files should also be stored in a locked room. I also became aware that the local interpreter is responsible for the closed files and that he has access to all of them. I also noticed that he spent a lot of time in the office doing various tasks other than what he is hired to do. In my opinion, since one of the golden rules is that no information is to be given to a third party, all the work related to authentications should be done by the independent inspectors.

There is no 24-hour coverage at the border or the office.

The staff had not been informed by UN Security in regards to restriction of movements on the road between Mosul and Zakho between the hours 11.00 am - 03.00 pm.

In my opinion that Cotecna is not fulfilling their contractual responsibilities to the UN.

Umm Qasr:

The traffic in Umm Qasr is very high for the moment. For the period January-February 1999, 56 vessels arrived. When compared to the same period in 1998, which was a total of 57 vessels, it is too early to draw any conclusions as to if the traffic will increase in 1999 or not. The total number of vessels, which arrived in 1998, was 300. I recommend that at the end of June 1999, a new comparison should be done.

During my visit to the port, I noticed that only the wheat and container vessels were being discharged. I was told that there are three reasons for that: (i) the Iraqis don't have enough trucks for unloading/transportation when the port is running at full capacity, (ii) there is not enough labor for discharging, and (iii) the Foodstuffs Company is taking samples upon the vessel's arrival. The samples are then sent to Baghdad for testing and, based on the results, the vessel will commence discharging. This procedure can take up to 8 days.

The main computer was not functioning and had been so for a week. This means that Cotecna has not been able to authenticate or send/receive information electronically during that period. They are awaiting spare parts and hope to have the computer up and running in a couple of days. Jay Sutterlin, OIP is trying to resolve the matter by close liaison both with the site and Cotecna, Geneva.

There is only one 'B' Sat for communicating which means that only one line is available. If that line should break down, it would mean that there is no means of communicating with the outside world. It also means, whenever they are replicating or using the line, there is no possibility to contact the site. I recommend that Cotecna be asked to increase their number of communication lines on the site immediately.

There is a good team spirit at this site encouraged by the suitable Team Leader and Deputy Team Leader.

All essential personal belongings are kept at UNIKOM in case of evacuation.

The silo manager, Mr. Sabah, previously advised the site that it could be dangerous to visit the port during the dark hours of the day. He mentioned kidnapping of truck drivers, etc. However, during a meeting with Mr. Sabah, I raised the question of if there were any problems for inspectors to visit the port during the dark hours; he replied that the inspectors can visit the port whenever they wanted and there was no problem whatsoever. He stressed his concerns about not receiving any spare parts for the silo. I advised him to bring up the issue with his Ministry.

I recommend that Umm Qasr, on a weekly basis, provide OIP, New York with a report of all the problems with regard to security so this matter can be addressed to the proper parties.

Cotecna has for the moment 13 inspectors and 1 food agricultural expert on site. The camp only accommodates 12 inspectors, so 2 inspectors are at the Sheraton Hotel, Basrah. In case of an evacuation, it could be very difficult to contact the inspectors located in Basrah within reasonable time. I recommend that Cotecna either set up additional accommodations at Umm Qasr or facilitate the site with the necessary communication to be used between the site and Basrah.

There are only 2 inspectors with Customs experience on site.

Al-Waleed

There was no traffic on the site for the past week. No Team Leader or Deputy Team Leader was on site from 9 March 1999.

Communication and computer working satisfactorily.

As happened previously, Cotecna will continue to send inexperienced inspectors to Trebil for training so they are prepared if and when goods start to arrive.

I recommend since the traffic is so low, that if an agreement can be reached with the proper authorities to have the border point manned for only 12 hours/day, that the number of inspectors could be decreased to 8. The excess inspectors could be used at busier entry points.

I discovered that inspectors are showing a summary sheet to the Iraqis before authentication. The summary sheet contains the same information as the authentication sheets. I advised them to stop that procedure until further notice from CPS/OIP, NY.

There are 3 inspectors with Customs experience on site.

Trebil:

The site was very busy due to the arrival of a large wheat shipment discharged at Aqaba.

Experiencing problems with Lotus Notes database. They have not been able to replicate since 19 February. OIP has sent an optical disc through UNOHCI and once received, the problem will hopefully be solved.

The two Deputies (Milan Radonovic and Goran Ciric) are running the site operationally, and the Team Leader is more of a coach for the team and seems not to know much about the operation.

Accommodation is not sufficient for the inspectors on site. I recommend that additional rooms be erected.

The site had implemented the new draft sampling procedures. The inspectors were satisfied and said that the samples are now more representative than before.

There are no inspectors with Customs experience on site.

Baghdad Office:

Mr. Marek Eljasz has been running the Baghdad office since it was taken over by Cotecna. Since Mr. Eljasz does a lot of work for Cotecna in their office at Chartage Hotel, it is recommended that he hire a secretary so that the office in the Canal Hotel is always manned. It was also requested from UNOHCI that the office hours be extended. I suggest that the office at Chartage Hotel and the duties performed there can be done at the office at Canal Hotel, this would increase his presence at the Canal Hotel.

Amman Office:

Field Manager, Mr. Carlo DeBenedictis, is very much aware of what is happening in Iraq. The office was well set up. No inspectors move without his knowledge. He is also receiving all the test results and forwards them to the sites and retains the originals in his office.

General for all sites:

I had prior to my departure, randomly selected three OCs for each site. I reviewed the files on the sites both by handcopy and files in the database. The files were shown to me and I found all the required information.

The site procedures remain the same as those of Lloyds Register, since Cotecna has not yet presented any new procedures either to the sites or the UN. I was shown new draft sampling procedures for the three land borders. The procedures were implemented at Trebil. The new procedures are more thorough than the previous contractors.

Cotecna needs to be briefed in more detail of the scope of work to be performed in Iraq. Their understanding is that they have to do 100% inspection of all goods crossing the border. Since a debriefing was not done in Amman upon my transit, Cotecna will visit NY for a debriefing 22-23 March 1999.

They request to have their own inspectors doing a full tally of what is crossing the border. They are especially concerned for Umm Qasr and they want to increase the number of inspectors to a minimum of 27. If Cotecna is to perform the duties based on risk assessment, I see no need to increase the number of inspectors.

Al-Waleed and Trebil are showing the Iraqis a summary sheet from SAMDS showing the amount to authenticate for their approval. This procedure should change since the figure to authenticate should be independent and for the UN only.

Cotecna has rented some equipment from Lloyd's and this agreement will end at midnight, 31 March 1999. Since Cotecna's new equipment has not yet arrived in Iraq to date, the situation is getting critical. In order to perform their duties as per contract with the UN after 31 March, Cotecna needs to have their new equipment up and running by the 31 March or else the whole authentication process will be affected, meaning there will be no authentications from the sites.

Personnel:

Since Cotecna took over from LR, a large number of experienced inspectors chose to leave the programme. Due to the low morale within the team, a large number of the remaining inspectors mentioned that they are considering leaving the programme. The inspectors are in an evaluation period and can terminate their contract with only one week's notice.

Currently the morale and the spirit in the teams are low. The sites need a period of stability in regards to those issues so they can concentrate on their work and train the new inspectors accordingly. Immediate action to solve this problem should be taken so the sites can provide the services required by the UN. I recommend that Cotecna management visit the sites and talk to the inspectors to resolve this problem.

I would like to give credit to the inspectors in Iraq who are putting a lot of effort into both running the programme and training all the new inspectors despite all the problems with regards to communication, computer and administrative problems. My fear is that unfortunately a large number of these inspectors will leave the programme if their personal terms are not adjusted.

Since the take over by Cotecna, the number of inspectors with Customs experience has decreased dramatically. I recommend that CPS require Cotecna to contract more inspectors with Customs experience especially if we are to continue risk based authentications at Umm Qasr.

On all of the sites I did a short presentation of OIP and informed them, step-by-step, of the procedure of a contract from submission to payment. The presentation was appreciated by the inspectors who were not aware of the procedures in the programme and of their responsibilities of authenticating the arrival of goods crossing the borders to Iraq.

Conclusion:

Overall, I am satisfied that Cotecna are providing services as per their contract with the UN, albeit at the minimum acceptable level. A further decline in the provision of authentication services is likely to result in Cotecna failing to meet their contractual obligations.

Summary of Recommendations:

- Cotecna should perform a presentation at the next monthly meeting in Baghdad.
- OIP, New York should respond to the comments from MDOU regarding sampling and authentications. → L
- Nationalities should be spread equally throughout all four border points.
- The sample storage area at Zakho should be enclosed and temperature controlled.
- The closed files at Zakho should be stored in a secure room.
- The interpreter in Zakho should only be performing the duties that he is hired for. Inspectors should perform the office work related to authentications.
- Cotecna should be advised that they are not fulfilling their contractual responsibility at Zakho with regards to 24-hour coverage. ✓
- A comparison should be done in Umm Qasr by the end of June 1998, or so, to compare with the same period in 1998 with regards to the number of vessels arriving.
- Communication at Umm Qasr urgently needs to be upgraded.
- Cotecna should present site procedures to UN. ✓
- All efforts must be made to assist Cotecna in importing their equipment to Iraq. If their equipment is not operating at 1 April no authentications will be done from the sites. ✓
- Cotecna should increase the number of inspectors with Customs & Sanctions experience. 1
- Additional cabins should be created in order to accommodate all staff stationed at each site.
- Al-Walced should have 12-hour coverage instead of 24-hour. The remaining inspectors can be relocated to busier entry points.
- Cotecna management visit the four entry points and resolve the problem with low moral amongst the team.

✓ L F
✓ A P

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OFFICE OF THE IRAQ PROGRAMME
FACSIMILE (9)

To: Cotecna Inspection S.A. Mr. Andre E. Pruniaux, Senior V.P. Mr. Lucien Fernandez, Contract manager	Fax: 011 41 22 849 69 39 Tel:
From: Jeremy Owen Chief Customs Expert Contracts Processing Section	Fax: +1 212 963 8083 Tel: +1 212 963 8287
Subject: Outstanding matters.	
Date: 25 April 1999	Number of pages (including cover page): 4

I) There are a number of matters outstanding which I will hopefully resolve in chronological order in this fax. I would first however like to address the question that continues to be the cause of the majority of correspondence between Cotecna and the UN, that is the question of quantity and quality inspections and Cotecna's liability arising there from.

II) From the outset of correspondence with Cotecna this office has tried to convey that the current operation in Iraq is unique in both its political mandate and operational needs. We have consistently stated that Cotecna is operating on behalf of, and reports to, the Secretary General only. In this respect the Secretary General is ultimately responsible for the manner in which the operation is carried out. We are fully aware that in normal commercial operations full Q&Q inspections are usually completed at a price commensurate with the appropriate time and equipment available. As you so rightly point out in your fax, staffing this operation is subject to "administrative, political and physical constraints". It is my hope that we can work together within these constraints to carry out the authentication procedure on behalf of the Secretary General to the highest standards possible. To that end I would refer to my fax of 1 April which summarized the manner in which claims or correspondence from either contracting party should be handled. I would also like to advise you that a letter has been drafted to The Permanent Mission of Iraq which formally advises the Government of Iraq of Cotecna's role, responsibilities and rights as United Nations independent inspection agents. We will advise you once the letter has formally been delivered.

III) In respect of your fax of 16 April containing your site sampling procedures. I would like to thank you for the work that must have gone into producing such a detailed document and would like to assure you that we are reviewing it thoroughly. A direct result of this review is my fax to you of 21 April requesting how the sampling procedures fit into the general guidelines issued to your inspectors, for example will each truck be sampled; if not how many trucks of each shipment and at what interval? As mentioned above we appreciate the conditions Cotecna are working under and

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Permanent Subcommittee on Investigations
EXHIBIT #37

SA002402

that 100% turnout of each and every shipment is not realistic. We have also communicated to you that Cotecna are not responsible for authenticating shipments to the contractual standards of the Government of Iraq rather to the description of the goods approved for shipment by the 661 Committee. With this in mind I am sure you recall the discussions held here in New York with our legal officers, when it was stated that adoption of the site and sampling procedures by OIP would define the terms "quantity" and "quality" as mentioned in the contract with Cotecna. It is therefore imperative that OIP and Cotecna reach agreement on these matters expeditiously.

IV) Also on 16 April we received your proposal in respect of staff distribution in Iraq. I would like to thank you for the fact Cotecna has taken the initiative of reviewing the work carried out at each site in Iraq. I would firstly like to comment that any movement of staff must ensure that all sites remain capable of operating safely and effectively 24 hours a day. Cotecna must not comment on, or seek to restrict, the operating times of any of the four entry points.

In respect of Al Waleed, and with the pre condition given above, I have no objection to the redeployment of 3 staff to Umm Qasr.

In respect of Trebil I require further information before making any response. Whilst I appreciate that on most occasions staff from Al Waleed can be utilized to supplement the proposed reduced complement, how would Cotecna handle a period of time when both Al Waleed and Trebil were receiving heavy traffic flow or when a security situation restricted travel between the two sites?

In respect of Zahko I can also accept the reduction of staff. I do however notice your comment that you will adjust the shift structure as the border is only open a limited time. Whilst I accept this as a matter of fact how would Cotecna be able to staff a situation where the border was open 24 hours a day and will the site still be contactable 24 hours?

In respect of Umm Qasr I note your concerns about the shortage of staff and the effect this has on Q&Q inspections. I also accept your assessment that 100% quantity assessment cannot be done within current staff limits if the port is operating at or close to maximum capacity. In respect of your comment that this is leading to an increasing number of claims I would like to mention:

1. When I visited your offices in Geneva in December 1998 I believe I mentioned that I anticipated that from the moment you commenced the contract you would be bombarded with correspondence by the Government of Iraq which may or may not be pertinent to shipments authenticated. Indeed the number of "claims" registered increased dramatically from almost non-existent under the previous inspection agents to the level you are now receiving.

AS has been consistently mentioned, and is mentioned again in this fax, claims from the Government are not the responsibility of Cotecna. For your information there is no reason why independent cargo superintendents can not be employed by the two contractual parties at Umm Qasr.

Despite the above mentioned I agree with your conclusion that the staffing at Umm Qasr needs to be addressed. The original indications given to you of traffic levels was based on a summary of previous traffic and was made in late summer of 1998. Since that time traffic levels have

increased and, given the applications subsequently approved, will continue to increase. I would therefore accept the proposed redeployment of staff from Al Waleed and Zahko.

I note in your total staffing table you have increased the total number of inspectors in country from 54 to 56. Given that the contract stipulates 54 billable inspectors plus six additional provided free of charge, a total of 60, I would appreciate your comments on this before I formally pass the proposal to Procurement section for the contract to be amended.

V) In respect of your comments on computer problems, also faxed 21 April, I would like to address these matters separately in an additional response to follow shortly.

VI) Your fax of 23 April refers to problems with documents sent to Geneva and forwarded to Amman. At the time of your visit to New York you mentioned that you would wish the documents to be sent directly from our office to Amman. We would be happy to comply with this request once confirmation is received in writing. This may alleviate, or help to resolve more expeditiously, any future problems with respect to hard copy documents.

VII) Finally your fax of 23 April refers to chlorine gas shipments and working with UNICEF to provide authentications. There is a fundamental problem with UNICEF, or any other party, in respect of obtaining quantity figures subsequent to the goods leaving the entry point. Cotecna must provide independent confirmation of arrival of goods at point of entry into Iraq. Additionally our legal office stipulates that the United Nations must not be involved in any way in the actual authentication process. UNICEF is part of the United Nations family and would therefore be subject to this prohibition.

I hope that this reply, together with those sent previously, resolves any outstanding matters between us. If you feel there are further answers required please do not hesitate to contact me. Best regards.

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OFFICE OF THE IRAQ PROGRAMME

FACSIMILE

To: Cotecna Inspection S.A. Mr. Lucien Fernandez Contract Manager	Fax: 011 41 22 849 6939/6928 Tel:
From: Jonas Larsen Customs Officer Contracts Processing Section	Fax: + 1 212 963 8083 Tel: + 1 212 963 4046 E-mail: larsen@un.org
Subject: Letter from Mr Sevan to the Permanent Mission of Iraq	
Date: 25 May 1999	Number of pages (including cover page):3

Dear Lucien,

Please find attached letter that was sent on 24 May 1999 from Mr. Benon Sevan to the Permanent Mission of Iraq to the United Nations in regards to quality inspection of goods arriving to Iraq.

Best Regards

Jonas Larsen
Jonas Larsen

Free

cc: *APC*

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POSTAL ADDRESS--ADRESSE POSTALE: UNITED NATIONS, N.Y. 10017
 CABLE ADDRESS -- ADRESSE TELEGRAPHIQUE: UNATIONS NEW YORK

OFFICE OF THE IRAQ PROGRAMME

REFERENCE: ED/99/GOI/18

24 May 1999

Excellency,

I have the honour to refer to letter MRNO90 of 7 April 1999 from the Permanent Representative of Iraq, pertaining to a commercial dispute between the Government of Iraq and a supplier, and request for a copy of the authentication report and details of the samples drawn by the United Nations independent inspection agents. I would also like to refer to issues raised today by His Excellency Mr. Mohammed Mahdi Jash, Minister of Trade, to the representative of Cotecna at Umm Qasr, in particular, that authentication should not take place in case of discrepancy in quality or contract specifications, and that no document should be sent by Cotecna which would entail payments to the supplier.

In this connection, I would like to state that the independent inspection agents are appointed by the Secretary-General and report directly to the Secretary-General while undertaking their duties, as stipulated in the relevant sections of Security Council resolution 986 (1995), the procedures of the Security Council Committee established by resolution 661 (1990), and the Memorandum of Understanding between the United Nations and the Government of Iraq. They are, therefore, only permitted to receive instructions from the Secretary-General, and must not become involved in any way in the commercial transactions between the Government of Iraq and its suppliers, or in disputes arising out of these transactions.

The role of the independent inspection agents stationed at the four entry points to Iraq, as stated in paragraph 27 of the Memorandum of Understanding, is to confirm the delivery to Iraq of consignments through the comparison of the appropriate documentation, such as bills of

His Excellency
 Mr. Rokan Hama Al-Anbuga
 Chargé d'Affaires
 Permanent Mission of Iraq
 to the United Nations
 New York

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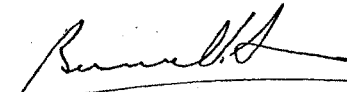
lading, other shipping documents or cargo manifests, and the documents issued by the Security Council Committee, against goods actually arriving in Iraq. Except to the extent necessary to comply with applicable requirements mandated by the Security Council, the independent inspection agents are not required to inspect to the standards of common commercial practice shipment quantity and quality examinations, or to ascertain whether the goods meet all particular technical or other specifications that may be in the contracts between the purchasers and suppliers, such examinations being within the ambit of the purchaser and supplier to arrange and fund. Specifically, in the case of bulk foodstuffs, the independent inspection agents have been instructed to inspect the consignments to the end that they assess whether the consignment in question matches the specifications itemized in the Committee approval letter and the other documents referred to in the Memorandum of Understanding.

In the event of an irregularity with regard to the technical or other specifications of a commodity, the Security Council Committee is informed that normal commercial practices go forth, as stipulated in paragraph 36 of the Committee's mandate and paragraph 28 of the Memorandum of Understanding. This would include, of course, a situation where the goods are deemed unfit for human consumption by the independent inspection agents.

I would like to indicate that neither resolution 986 (1995), nor the Security Council Committee procedures, nor the Memorandum of Understanding between the United Nations and the Government of Iraq, preclude the inclusion in contracts by the Government of Iraq for the purchase of humanitarian goods of reasonable and appropriate provisions to protect the purchaser. These include warranties, performance bonds or penalty clauses. Such provisions must also be in each case consistent with normal commercial practice, and any payments pursuant thereto must be made only to the United Nations Iraq Account.

I would like to thank your Government for its continued assistance with respect to the work of the independent inspection agents.

Please accept, Excellency, the assurances of my highest consideration.



Benon V. Sevan
Executive Director

SA002850

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UN SCR-986 PROGRAMME

F A X


Date : 27 May, 1999
 To : OFFICE OF THE IRAQ PROGRAMME - NEW YORK
 Attention : Mr. Torben Henriksen - Customs Expert, Contracts Processing Section
 CC : Mr. Jeremy Owen - Chief Customs Expert / Contracts Processing Section
 Fax No. : 001212 - 963 8083
 CC : A. E. Pruniaux & A. Poitevin (Geneva)
 Page(s) : 1 + 9
 Our ref. : T_Henriksen_27_05_Sampling_Auth.doc
 Subject : SITES' SAMPLING METHODS.

Dear Torben,

Welcome on board! I refer to your fax dated 26.06.99 on the above subject and have to apologise for not answering Jeremy's fax (thought I had, but could not find a trace). I am attaching the revised sites' sampling procedures which also comprise the new guidelines for the authentication. I am sending the whole set because, as you know from Verne, we have recently amended the sampling procedures to minimise the delays in authenticating the goods, hence the whole procedure has changed.

Should you have any further query or require any clarification, please do not hesitate to contact me.

Best regards,


 Lucien Fernández
 Contract Manager

Permanent Subcommittee on Investigations

EXHIBIT #39

SA014003



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UN SCR-986 PROGRAMME

**SAMPLING PROCEDURES FOR LAND BORDERS (TREBIL, AL-WALEED, ZAKHO)
AND PROVISIONAL PROCEDURES FOR VESSELS' SAMPLING (UMM QASR)**

A) GENERAL GUIDELINE FOR BULK AND BAGGED CARGO

- 1 - Based on the sampling plan to be designed according to the table attached, inspectors inform, where appropriate, the truck driver that samples are to be drawn from his load (see attached sampling chart for the determination of the number of trucks to be sampled).
- 2 - The driver is requested to fully uncover (or to open) the truck. When the operation is completed, the driver will inform the inspector that he can proceed with the sampling.
- 3 - The inspector has to draw the sample himself off the truck (No samples are to be taken by the driver from the truck).
- 4 - The sampling has two objectives :
 - a) Determine whether goods are fit for human consumption; this is performed systematically for all food products on the basis of a preliminary sample (see point B)4- below). Authentication of the shipment will be effected upon receipt of satisfactory laboratory analyses and after the crossing of the border of all the trucks relating to the COMM.
 - b) Determine whether the quality of the goods conforms to the contractual requirements; this is performed on representative samples (see point B)6- below) for one sample per food product, per site and per month. **These elements will not influence the authentication and will only be reported to OIP in New York as an observation, for information purposes.**

SUMMARY OF PRODUCTS AND ANALYSES REQUIRED			
Product	Fit for human consumption (FFHC) criteria	Send samples for FFHC analyses	When to carry out quality analyses
Wheat (grain and flour)	- Heavy metals - Radioactivity	Systematically	One sample once a month per site
Sugar	- Heavy metals - Radioactivity	Systematically	One sample once a month per site
Pulses (lentils, beans, etc.)	- Heavy metals - Radioactivity	Systematically	One sample once a month per site
Vegetable ghee	- Heavy metals - Radioactivity	Systematically	One sample once a month per site
Baby food	- Heavy metals - Radioactivity	Systematically	One sample once a month per site
Milk (powder infant milk)	- Heavy metals - Radioactivity	Systematically	One sample once a month per site
Cheese	- Heavy metals - Radioactivity	Systematically	One sample once a month per site
Detergent powder	- Heavy metals - Radioactivity	Systematically	One sample once a month per site
Soap	- Heavy metals - Radioactivity	Systematically	One sample once a month per site



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UN SCR-986 PROGRAMME

B) BULK CARGO

- 1 - For bulk cargo, samples have to be drawn every 500 MT of the total shipment.
- 2 - Inspectors will collect samples from the top of the truck with the sample gauge (No samples are to be taken by the driver from the truck trap).
- 3 - Quantities drawn have to be strictly identical.
- 4 - In order to determine if products are fit for human consumption, when 50% of the shipment / partial is inspected, an average (preliminary) sample for this shipment / partial is prepared and despatched to the laboratory for the following analyses to be performed :
 - a) Heavy Metals Analysis
 - b) Radioactivity Analysis
- 5 - Following completion of the random sampling, reduction of all samples taken will be carried out, until 15 kg of representative sample have been mixed and separated using the sample mixer and divider equipment.
- 6 - From this quantity, inspectors will compose 3 average samples of 5kg each. Samples are placed in bags, numbered and sealed.

C) BAGGED CARGO

- 1 - For bagged consignments, samples have to be drawn every 250 MT.
- 2 - Each sample has to be collected with a sample gauge in different spots of the truck.
- 3 - Quantities drawn have to be strictly identical.
- 4 - In order to determine if products are fit for human consumption, when 50% of the shipment / partial is inspected, an average (preliminary) sample for this shipment / partial is prepared and despatched to the laboratory for the following analysis to be performed :
 - a) Heavy Metals Analysis (except for infant milk)
 - b) Radioactivity Analysis (except for detergents and soap)
- 5 - Following completion of the random sampling, reduction of all samples taken will be carried out, until 15 kg of representative sample have been mixed and separated using the sample mixer and divider equipment.
- 6 - From the quantity remaining, inspectors will compose 3 average samples of 2 kg each. Each sample is placed in bags numbered and sealed.
- 7 - For sugar, flour, and detergents, inspectors have to give particular attention to storage and protection of the goods against humidity and light. For this reason an average sample will be composed every 2500 MT and stored in flasks. At the end of the sampling process, the contents of all flasks will be gathered into one bag, duly numbered and sealed.

SA014005



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D) GENERAL CARGO (Milk powder, Soap, detergent, Ghee...)

- 1 - Inspectors have to draw a sample for each consignment / trucks related to the same OC letter.
 - 2 - Inspectors will collect samples at regular intervals depending on consignments or Batches / lots, e.g. milk powder, pulses etc... (See attached illustration).
 - 3 - Quantities drawn have to be strictly identical.
 - 4 - In order to determine if products are fit for human consumption, when 50% of the shipment / partial is inspected, an average (preliminary) sample for this shipment / partial is prepared and despatched to the laboratory for the following analysis to be performed :
 - a) Heavy Metals Analysis (except for infant milk)
 - b) Radioactivity Analysis (except for detergents and soap)
 - 5 - Samples are divided in 3 equal parts, which have to be bagged.
 - 6 - The 3 plastic bags are labelled and sealed.
- This sampling procedure is to be implemented for all products except for infant milk.

E) MEDICINES

- a) Where possible each item per consignment / OC has to be sampled.
- b) Where it is physically impossible to draw a sample per item, e.g. when medicines are containerised, and can not be completely unstuffed at the border, samples will be drawn according to the available facilities.
- c) In case b) above, inspectors shall report the items for which samples were taken and the reasons for not drawing additional samples in the observation box of the inspection report.
- d) Samples will be recorded by the inspector in the relevant log book and their lot number shall be identified; when one item has several lot numbers, only one sample for one lot shall be collected at random per consignment.
- e) Samples of medicine shall not be sent for analysis, they will be kept in such condition as to preserve their integrity, whenever possible.

F) VESSELS' SAMPLING METHOD (provisional procedure, applicable until additional staffing is permitted).

- a) Upon arrival of the vessel, witness sampling by port authorities in the vessel's hatches.
- b) Ensure that several samples are drawn from different spots and at different levels.
- c) Where several lots/hatches are present, ensure that samples are drawn for each lot/hatch.
- d) To the extent possible, ensure that quantities drawn are identical to be representative.
- e) Reduction of all samples taken will be carried out (until 15 kg of representative sample have been mixed and separated).

SA014006



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- f) From this quantity, inspectors will compose 3 average samples of 5kg each. Samples are placed in bags, numbered and sealed.
- g) In order to determine if products are fit for human consumption, this preliminary sample (cannot do representative sampling due to shortage of staff) is prepared and despatched to the laboratory for the following analysis to be performed :
 - a) Heavy Metals Analysis (except for infant milk)
 - b) Radioactivity Analysis (except for detergents and soap)

G) SAMPLES LABELLING

To be identifiable, samples have to be labelled differently according to their destination:
Labels for samples sent for Analysis should not mention Truck / container reference, and COMM number. On the label, only the following should be reported:

- a) Sample reference number
- b) Batch / Lot reference (where applicable)
- c) Total quantity of the shipment
- d) Date sample is drawn
- e) Product description

Labels for samples remaining in storage on site should mention :

- a) Sample and file reference number
- b) COMM number
- c) Batch / Lot reference (where applicable)
- d) Total quantity of the shipment
- e) Date sample is drawn
- f) Product description

H) SAMPLES DESPATCH FOR ANALYSIS

1 - Samples' distribution is as follows :

- a) 1 sample is sent to the laboratory for analysis;
- b) The remaining 2 samples are stored in Cotecna's site.

2 - A standard letter requesting analysis must be attached to each sample sent to laboratory with the following information :

- a) Sample reference
- b) Seal number (*).
- c) Lot number (where applicable)
- d) Type of analysis requested

SA014007



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3 - For each sample sent for Analysis, Amman Field Manager must be informed by fax with the following details:

- a) Package reference, according to transport
- b) Sample reference
- c) OC letter / COMM number
- d) Total quantity of the shipment
- e) Product description

J) SAMPLES' STORAGE DURATION

Inspectors have to retain all samples for at least (3) three months after the last shipment under the purchase contract to which the samples relates, arrives in Iraq. Samples drawn by Inspectors are to be destroyed after the relevant time. Under no circumstances are samples to be given to any third party unless otherwise instructed in writing by the United Nations Contract processing Section, New York.

- (*) Each site will have unique seal numbers, by which it will be identified.

SPECIMEN



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Tel (41 22) 849 69 00 / Fax (41 22) 849 69 28

UN SCR-986 PROGRAMME

SEALS' ACKNOWLEDGEMENT OF RECEIPT

The undersigned acknowledges receipt of the following Cotecna's Seal Nos.:

Seal No.	
Seal No.	
Seal No.	
Seal No.	
Seal No.	
Seal No.	
Seal No.	
Seal No.	

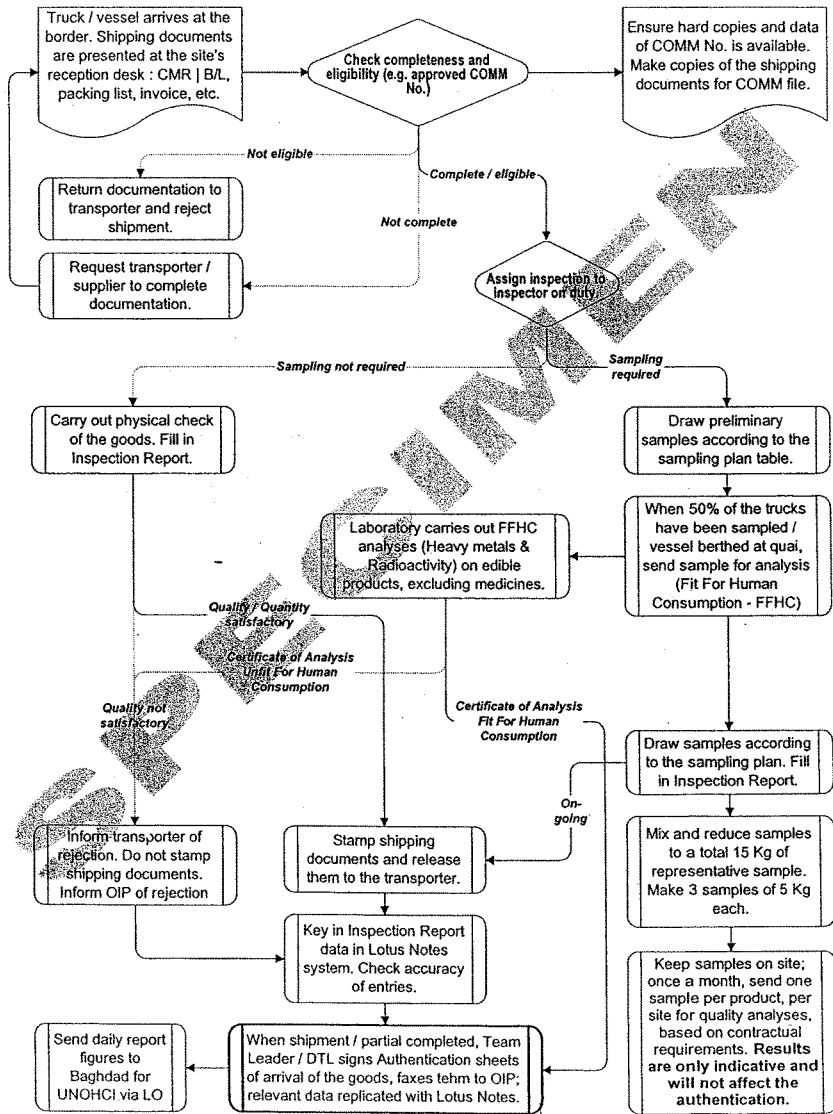
The above Seals are under my personal responsibility and I acknowledge that they are to be used exclusively for the sealing of samples taken in the frame of the authentication activities.

Site Name	
Name and Surname	
Title	
Date	
Signature	

SA014009



FLOW CHART FOR AUTHENTICATING THE ARRIVAL OF THE GOODS IN IRAQ



COINS

BULK CARGO SAMPLING PROCEDURES CHART

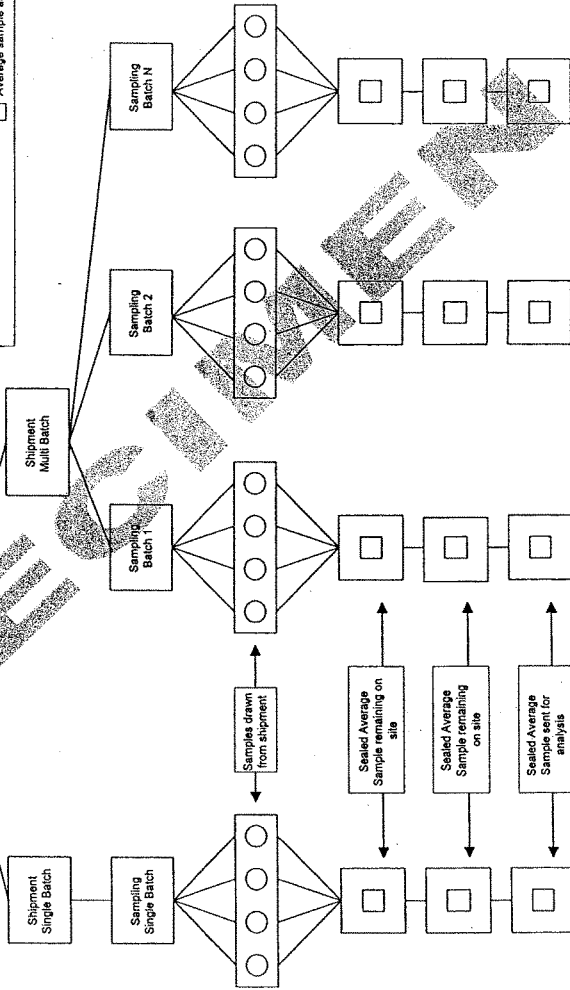
UN SCR-986 PROGRAMME



Comments	
From 1 to 4 Containers	Samples are drawn from all containers
From 4 to 2000 Metric tonnes	4 samples are to be drawn
From 2000 to N Metric Tonnes	Samples are drawn every 500 Mt
Average sample has to be prepared for each shipment or batch	

CONVENTIONS
 Sample drawn from shipment
 Average sample after reduction

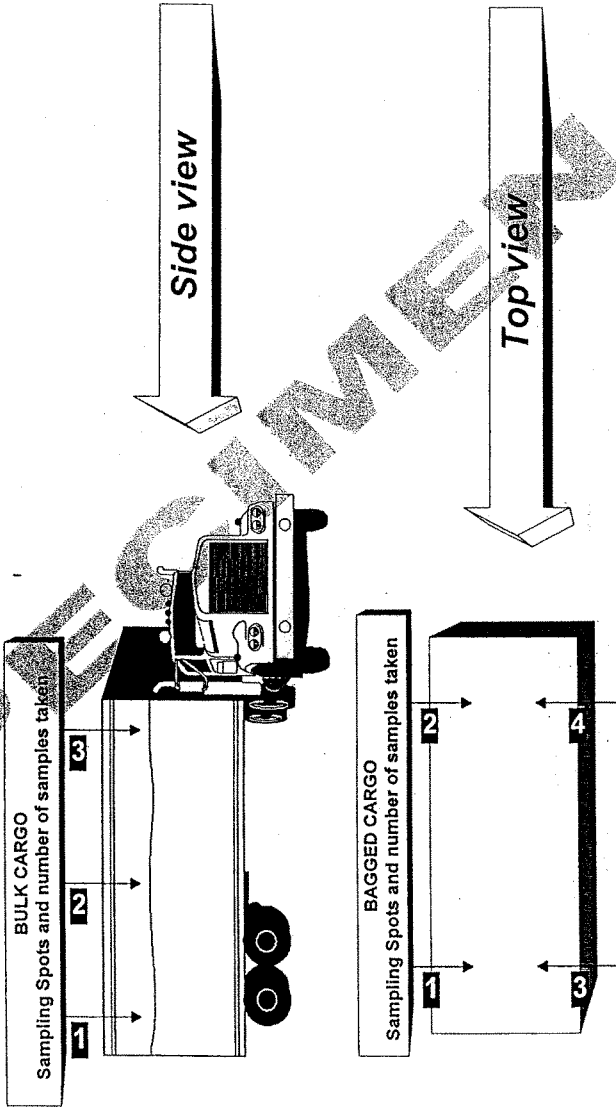
OC Letter



CO-INS

UN SCR-986 PROGRAMME

BAGGED AND BULK CARGO SAMPLING PROCEDURE FOR TRUCKS



PRUNIAUX Andre

From: FERNANDEZ Lucien
Sent: lundi, 28. juin 1999 09:16
To: PRUNIAUX Andre
Subject: FW: G3 04 4Mar - visit report May - 25.6.99

From: cotecna [SMTP:cotecna@index.com.jo]
Sent: 25 June 1999 19:19
To: LUCIEN
Subject: G3 04 4Mar - visit report May - 25.6.99



G3 04 4Mar - visit
report May 99 - 24.6.

From: "Cotecna Inspection" <cotecna@index.com.jo>
Date: Fri, 25 Jun 1999 17:08:12 +0200
To: "Geneva M. Fernandez" <Lucien_Fernandez@cotecna.com>

Attached my draft report on my visit to Umm Qasr at the end of May.
Regards

C. de Hennin

*File
Draft*

*pas tout à
bit !*

JB
J

SPECIMEN

REPORT ON A VISIT TO UMM QASR
May 1999

MANUAL INSPECTION PROCEDURES

Notice of arrival of a ship at Umm Qasr port

Umm Qasr learns about the arrival of a ship :

through a notice of arrival faxed by the United States Coast Guard blockade in the Persian Gulf. These notices are not systematic, and not always complete as far as the identification of the O.C. consignments on board of the announced vessel is concerned;

through information collected from the Harbour Master's office, during the day before morning, by our duty officer; during the last weeks, a decrease in willingness to supply this information has been noticed;

through visual observation, twice per day, by our duty officer touring the ports;

through notice given by inspectors active in the port, when a ship is arriving.

All arriving ships carry 986 cargo.

Previously, the ferry, linking Umm Qasr to Dubai, was visited by our team. Since it was found, recently and almost accidentally, that this ferry carried the 986 compressors, the ferry is now systematically visited.

Berthing

Upon berthing, a team of inspectors, assigned by the Team Leader, visit with the master and retrieve all documents that can be in their hands on.

It happens that only one inspector is assigned to a ship. It should be avoided. Should the ship have several O.C. consignments on board, all consignments are of the responsibility of the assigned inspector(s).

Documents required for inspection are :

the letter
the
the cargo manifest
the invoice
the packing list.

Useful, but not compulsory are :

the mate's receipt
the tally slips
the certificate of origin
the fumigation or sanitation certificate
any pre-loading or lading inspection report or other cargo superintendancy statement.

SA003085

Master's protests, if any, are not considered.

Note: It seems to have been ascertained that some 986 consignments were inspected by Cotecna prior to, or upon, loading. The compatibility of such loading inspections with Cotecna's mandate in Iraq should be scrutinized.

SPECIMEN

REPORT ON A VISIT TO UMM QASR
May 1999

A. MANUAL INSPECTION PROCEDURES

1. Notice of arrival of a ship at Umm Qasr port

Umm Qasr learns about the arrival of a ship:

- a) through a notice of arrival, faxed by the United States Coast Guard blockade in the Persian Gulf; these notices are not systematic, nor are they always complete as far as the identification of the cargo assignments on board of the announced vessel is concerned;
- b) through information collected from the Harbour Master's office, during the daily visit, every morning, by our duty officer; during the last weeks, a decrease in willingness to supply this information has been noticed;
- c) through visual observation, two times per day, by our duty officer touring the two ports;
- d) through notices given by inspectors active in the port, when spying an incoming ship.

All arriving ships carry 986 cargo.

Previously the ferry, linking Umm Qasr to Dubai, was not visited by our inspectors. Since it was found, recently and almost accidentally, that this ferry carried some 986 compressors, the ferry is now systematically visited.

Berthing

Upon berthing, a team of two inspectors, assigned by the Team Leader, visit with the master and retrieve all documents they can lay their hands on.

It happens that only one senior inspector is assigned to a ship. It should be avoided.

In case the ship has several O.C. consignments in her holds, all consignments are of the responsibility of the appointed inspector(s).

Documents, required for inspection, are:

- the O.C. letter,
- the B/L,
- the cargo manifest,
- the invoice,
- the packing list.

Useful, but not compulsory, are:

- the mate's receipts,
- the tally slips,
- the certificate of origin,
- the fumigation or sanitation certificate,
- any pre-loading or loading inspection report or other cargo superintendency statement.

Master's protests, if any, are not considered.

Note: It seems to have been ascertained that some 986 consignments were inspected by Cotecna prior to, or upon, loading. The compatibility of such loading inspections with Cotecna's mandatory Iraq should be assessed.

The collection of the ship's bag can result in finding, from a complete set of clear, legible documents, to nothing. Caution in receiving documents is required, for it has been experienced, for instance, that a master remitted a wrong O.C. letter, not related to the cargo.

It regularly happens that the ship's bag is empty. In most, if not all, cases, it means that an Iraqi governmental agent (Port clerk, Grain Board or Ministry of Trade) has boarded the ship first and has taken everything with him..

Ideally, all parties should board the ship at the same time. This never works, anywhere.

In case of some to all documents missing (70 % of the arriving ships present an incomplete bag), the inspectors commence their search for the missing ones, their inspection depending on what document they can retrieve, or being limited accordingly. Inquiries on missing documents are addressed to suppliers, to Iraqi

authorities (the return of these documents, by the latter, being close to nil). Previously, identical demands were lodged with consignees, with the consideration that the latter realise that, pending his supplying documents, no inspection would occur, nor any cargo released. It seems that inquiries have been practised more willingly with shippers and/or consignees than through O.I.P. and the respective national Missions to the U.N. Umm Qasr have now been urged to correct their proceedings, and queries with consignees have ceased.

Inquiries with suppliers are legio. They entail huge telecommunication costs and are met with answers of various degrees of adequacy, depending on the country of shipment. Telecommunication costs, which can be considered as a service to suppliers, rank second high after transmission costs to New York and far above transmission costs to Geneva and to Amman added up.

The screening of ship's documents, as well as the monitoring of the retrieval of missing ones, remains of the inspector(s)'s responsibility. There is no noticeable in-depth counter-checking on the inspector's work of scrutiny of documents.

B. DISCHARGE AND INSPECTION

1. Bulk cargo

Bulk cargo is discharged in silo, in direct transshipment onto trains, or in direct transshipment onto trucks.

Direct transshipment onto trains is done at night. The port submits, after departure of the train, the weigh & tally slips. Umm Qasr team has no possibility of verifying the accuracy of the weigh reports.

Discharge in silo is solely evidenced by the silo electronic weigh scale. It is not possible to switch off the scale during a certain period of time, so creating a short landing. Unless posting an inspector permanently in the silo engine room to witness the working of the scale, no real supervision is guaranteed. The silo weigh scale is said to have been calibrated, once upon a time. Again, the accuracy of the calibration cannot be guaranteed.

The net weight of bulk, directly transhipped onto trucks, is ascertained by the port weighbridge only. The same remark on its accuracy applies. Inspectors can only rely on the figures shown on the weigh & tally slips, and even have no guarantee that all trucks have actually passed the weighbridge:

There is no draft surveyor, which is a must. Umm Qasr contest the utility of a draft surveyor, due to the variable density of the harbour water. This objection is overruled.

Consequently, the inspectors can only rely, when ascertaining bulk cargo discharge, on the figures shown in:

- the weigh & tally slips,
- the delivery order,
- the outturn report,
- the cargo manifest,
- the mate's receipt,
- the visual estimate of sweepings.

Assessing the exact weight is, hence, a compromise with some logical deductions between, and based upon, the various figures submitted.

Should an inspector witness something seriously wrong during the course of discharge, which may affect final figures, he has no right to stop discharge operations.

Accurate and comprehensive inspection of cargo actually discharged would require:

- a) the regular calibration (once per week) of all scales, by an independent calibrator;
- b) manpower, the maximum of which (all stations working) can be calculated as follows:

1 draft surveyor	1
1 inspector at the silo's engine room (= 3 inspectors on 8 hours shift)	3
1 inspector on each of the four silo suckers (= 3 inspectors on 8 hours shift)	12
1 inspector for each mobile sucking station (4 stations) (= 3 inspectors on 8 hours shift)	12
same for second quay	12
1 tallyman inspector for trucks departure (= 3 on 8 hours shift) for quay 1	3
same for quay 2	3
1 inspector on weighbridge one (= 3 inspectors on 8	3

hours shift)	
same on weighbridge 2	3
total	52

2. Bagged cargo

Whether inspectors receive documents or not, discharge operations start at the Port Authority's discretion.

Five to six cranes, sometimes also ship's gear, can work 24 hours per day. Direct transshipment onto trucks proceeds with 36 bags in an hour.

Without a permanent tally at each and every crane, the tally is to be performed in the hold, no guarantee exists on the accuracy of the number of bags actually discharged.

Assessment of discharged bagged cargo, hence, again a compromise with some logical deductions, between and based upon, figures shown on:

- the weigh & tally slips at the weighbridge (without any guarantee that some trucks do not bypass the weighbridge)
- the port's tally on board,
- the ship's outturn report, if any,
- the delivery receipts,
- the manifest on board,
- the manifest receipts,
- the visual observations of bags rejected,
- the visual observation of bags reconditioned,
- the observed sweepings.

For transshipment of bags onto trains at night, no weigh tickets exist, only port tally slips.

Accurate and comprehensive inspection of cargo actually discharged would require manpower, the maximum of which can be calculated as follows:

6 ships at the same time (already observed) @ 7 inspectors tallying and sampling per ship @ 3 shifts	126
1 inspector at each of the scales / weigh bridges (2 at the port's exit) @ 3 shifts	6
total :	132

Sampling

Sampling is done in a more or less contradictory way with the Ministry of Trade or with the Grain Board.

As a matter of fact, Umm Qasr inspectors sometimes take their samples from those taken by the Iraqi authorities, by retrieving them from the shelf of the Iraqi laboratories in the port.

Damaged cargo

Mildewed, dark stained, lumpy, destroyed, or wet bags remain on board. Regularly, the Port exaggerates in refusing lumpy sugar bags. Our inspectors tally these bags. Again, the reduced manpower does not allow an accurate tally of these rejected bags.

Tom bags are set aside in the shed and reconditioned by port labour. The reconditioned bags are weighed by port personnel only. The inaccuracy of the scales used by port labour in shed was illustrated by an exercise conducted by the undersigned. A weight of 10 kg., used by the inspectors in the camp's gymnasium for weight lifting and conditioning, showed 9,80 kg on the mechanical scale and 10,30 kg on the electronic scale. None of the scales have been calibrated since a long time.

Presently, the accuracy of the weight after reconditioning is hardly ascertained or even verified by the inspectors, due to the absence of manpower. Permanent monitoring of reconditioning would require two additional inspectors per ship @ three shifts, or $6 \times 2 \times 3 = 36$ additional manpower.

Note: the port procedures in Umm Qasr, as well as the inspection procedures under our mandate, completely discard international maritime law, by waiving the consignee's claims against the vessel, and by reducing maritime fortune and average caused at sea to a matter between supplier and consignee, ultimately so prejudicial to the supplier.

3. LTU cargo

Ships inspected by the United States Coast Guard arrive with their containers unsealed.

In the absence of documents allowing the identification of goods inside the containers, the inspectors try to identify the cargo as much as possible, among others by checking the labels, marks and numbers on the goods in the front row of the container. While waiting for identifying documents, containers are set aside prior to inspection. Packing list and invoice are necessary, for no inspection is initiated without these documents, with the exception of gee, for which commodity the cargo manifest suffices.

Upon receipt of documents, containers are visually identified and checked against the cargo manifest. 5-10% of the containers are selected at random and set aside for opening and inspection of its contents. Opening and inspection are performed with Iraqi Customs present. Consignees can attend, but their arrival or their presence is not awaited for.

If the container contains small crates or packs, a visual check inside the container is more or less possible. But, even then, an exhaustive verification of the total load is impossible, without unstuffing. Unstuffing can be done with forklifts or with manual labour. Such unstuffing has to be paid for. The port refuses to pay, the Customs refuse to pay, and we do not pay.

Large and heavy crates stacked in the front row of an LTU prevent all inspection. If the consignee is present, the easiest procedure is to make him sign for receipt. If he is not, the inspector has no choice but to accept the information mentioned in the packing list.

Inspection is, hence, perfunctory, at random, and without any real guarantee on accuracy. Serious inspection would require 4 forklifts, ditto drivers, and 4 teams of 2 inspectors, on 8 hours shift, i.e. 24 inspectors.

Final inspection figures are, again, a compromise between the figures shown by the packing list, by the cargo manifest, by some visual observation and by the results of the weighbridge.

In one particular case, a trucker called the inspectors, arguing that there was a loss of 50 kg. on his container load of 22 T of black tea in 48 kg. bags. Discussion did not help and the inspector refused to recognise the loss, ascertained by the weighbridge. The trucker was invited to unstuff his container, which he did after much discussion who would pay for the labour. At the end, he did. With 56 degrees Celsius in the shadow, the container was unstuffed, and all 453 bags were accounted for, without any tear or loss. The unstuffing and the tallying took three hours, and it is humanly impossible to do this systematically. After the inspector' departure, the trucker could restuff the container, the hours in the sun drying up his tea.

After inspection, the LTU wait for being picked up by the consignee, unsealed, but safely stowed, door against wall.

4. Medicine

Medicine arrives in LTU. In almost all the cases, documents are ready and complete.

Samples are taken as the containers are not reefer containers, and there is no cool storage possibility in the port.

5. Soybean

The usual inspection procedures apply, on top of which Umm Qasr notifies Soyab in Rotterdam, the Baghdad phone almost permanently not being answered.

6. Chlorine gas

Chlorine gas arrives in LTU. Due to the absence of adequate handling equipment and of protective gear against this dangerous cargo, individual identification of the cylinders, and inspection of their gross/net weight is not possible. Inspection is therefore restricted to the verification of the cylinder numbers on the packing

list, and on the checking of the gross/tara weight according to port weighbridge results.

Authentication is done according to documents only.

Three consignments have been registered since February.

C. INSPECTION FILE

The inspectors compile their inspection file per OC. They remain the masters of their file until the completion of their inspection.

The file contains the documents received from the ship, the computer printout received from the port, acknowledging the total weight discharged, and all relevant – or irrelevant – notes.

The weigh & tally slips from the port's weighbridges are entered into an Excell spreadsheet on daily figures. The final results of the spreadsheet are, hence, nothing more than the sum of the weigh slips issued by the port. These figures are only one of the data on which the inspectors will have to rely to conclude on the tonnage that can be authenticated.

There is no crosscheck on the accuracy of an inspector's file, nor on the accuracy and comprehensiveness of the entering of all data into the Excell.

D. REPORTING AND AUTHENTICATING

As said, the inspector remains the master of his file until completion of his inspection.

On completion of his inspection, the inspector issues a final written report, and suggests the final figures that can be authenticated. Some reports, as well as some notes for the record, are hardly legible. Command of the English language, especially of the written language, is generally poor to absolutely insufficient.

The Team Leader and his deputy monitor the progress of inspection reports. That means that questions are asked when the name of a ship remains too long on the white board, pending inspection by the inspector(s) assigned to her. The answers given by the inspectors are accepted at face value. There is no real inspection on the inspectors.

The Team Leader receives and checks the reports and the files submitted to him by his inspectors, counter-verifying them with the Lotus database. The Team Leader alone decides on the final figures that will be authenticated. In case of dissenting opinion, the matter is discussed with the inspector(s). The Team Leader's decision prevails.

The Team Leader issues a summary report and an authentication sheet. That is, if the Lotus database contains the line items. Both documents are faxed, together with a covering letter, to New York.

There is no crosscheck of the Team Leader's work.

Some consignments arrive in partial shipments, on board of various ships. The various consignments are added up until the sum equals the tonnage mentioned in the Lotus database. Authentication can only be completed. If, for some reason, the final tonnage of the total consignments is less than the tonnage mentioned in the Lotus database, the authentication remains pending, until Umm Qasr is informed about the reduced tonnage.

Presently, Umm Qasr are handling a variety of Excell spreadsheets, on top of the two Lotus databases.

- 1) one Excell spreadsheet for the daily entering of the tonnage mentioned on the weighbridge slips for bulk cargo,
- 2) one Excell spreadsheet for same, for bagged cargo,
- 3) one Excell with the daily totals of the port, a printout of which is pinned to the office wall, for the adding of additional figures, the manual adding entered the next days,
- 4) one Excell showing the arrivals and sailings of the week, as well as the issued authentications,
- 5) one Excell keeping track of the O.C.s in progress; this Excell has, however, been abandoned.

The figures for Baghdad, as well as the weekly report for Geneva and New York, are extracted from the combination of these various tools.

The transfer of data from one tool to another is done manually. Such manual transfers, as well as the multiplication of tools, create necessarily human errors; the more there is, again, no counter-check. Excell can safeguard a correct sum, not a manual transfer to another Excell. The various Excells are not linked, and the crew does not master the export-import techniques.

Lotus Notes is a comprehensive, integrated project management system, allowing all the aforesaid listings, calculations, monitoring schedules, reporting, as well as any combination thereof, while safeguarding accurate transfer of data from one sub-application to another.

It is recommended that Lotus Notes, now used for a tiny percentage of its capacity only, be programmed and used.

E. OFFICE EQUIPMENT AND OFFICE MANAGEMENT

Office space is insufficient. Installation works for additional cabins are under way, and have been completed since the end of the visit.

Office furniture is insufficient. Equipment is good except for the photocopier, that is close to the end of its life. The printer is used as a copier, which is not recommended for a large amount of copies.

Filing is clear, easy to consult. The filing of e-mailed files has not been assessed.

Computer equipment seems high tech for a layman. However, some questions arise, such as on the utility of switching the modem from the main workstation to the portable for using the E-mail, whereas Umm Qasr has three modems.

The Dell laptop could not start a single programme, for obscure reasons. This was discovered after the departure of the IT specialists.

A complete inventory of equipment was listed, and all serial numbers, models and types recorded. A copy is kept in Umm Qasr, another in Amman.

E-mail stopped upon my arrival, then stopped. The phenomenon is, hopefully, not related. E-mail communications are said not to be reliable, but not for reasons proper to Umm Qasr.

F. TELECOMMUNICATION EQUIPMENT

Motorola VHF, one base and 6 handsets, was installed in my presence, tested, and found working. Three channels are in use:

channel 1: frequency 160.550
channel 2: frequencies 157.200 to 152.200

channel 3: frequencies 159.070 to 153.700

All channels are monitored by UNIKOM and by the U.S. Navy.

Direct telephone and fax communications are possible with the U.S. Navy. The communications are scrambled by U.S. aircraft.

Umm Qasr presently use 4 satellite lines:

B-sat: 00 873 382 08.40.10 (24 hours manning guaranteed)
 M-sat 1: 00 873 762 06.82.19
 M-sat 2: 00 873 762 06.82.31
 fax: 00 873 382 08.40.14.

Lines are working well. Fax communications with Amman for messages exceeding two pages are difficult, especially in the direction Amman – Umm Qasr.

G. SECURITY

Security risks for Umm Qasr staff are nil. The camp is situated inside the port, and entrance to the port is strictly controlled. Risks for robbery or assault do not exist.

In case of an Iraqi military action against the team, the crew is lost, because it is trapped. Rescue by UNIKOM troops must be considered as non existing. Rescue by U.S. Marines is technically possible, and can be asked for, but would come too late.

Risks resulting from allied military action are also nil, for the port is not a target. A hypothetical allied attack would be notified four hours in advance, time enough to evacuate the camp and to move towards UNIKOM. Missile attacks do not take place in the area, so the risk of a missile going astray is virtually non existent.

Basrah remains a risky area, and must be avoided, especially at night.

The camp has a night guard, an elderly gentleman who tends the garden at night.

H. MEDICAL ISSUES

The German Medical Corps at UNIKOM can render all medical assistance, on a 24-hour basis, at a distance not exceeding 5 minutes drive. The medical facilities of the Corps are good, although not impressive. Ambulances are ready, and will rush to the camp, if necessary. There is, hence, no need for any medical facility, nor for a large medical cupboard in the camp. Some dressing to stop the bleeding suffice. The Corps supplies all the rest, free. Serious cases are, so required from a strictly medical point of view, evacuated to Kuwait by the German Medical Corps themselves, the authority from the Force Commander not being a pre-requisite.

I. FIRE FIGHTING EQUIPMENT

Existing fire fighting equipment in the camp is insufficient, badly placed, obsolete and not reliable any more. A comprehensive fire fighting equipment plan has been set up, prices obtained, and negotiations on discounts and on maintenance are under way.

Fire fighting drills have never been practised. The planning and training of such drills has been imposed.

J. GENERAL EVACUATION

General evacuation plans were outdated. New schemes have been drafted, but remain unsatisfactory, as being too theoretical. Two scenarios must be considered: an immediate retreat, in less than 10 minutes, and a quicktrain exercise, allowing two hours for the total dismantling and evacuation of all equipment, cabins and furniture excepted. The existing plans ask for 24 hours for the exercise that should take not more than two hours. The matter will be pursued upon the arrival of our own transport and upon completion of the new installations, and exercises conducted.

K. HUMAN RESOURCES

Even an increase of staff up to 18 inspectors will keep Umm Qasr far below the absolute minimum requirements for a, if not comprehensive, at least relevant

inspection of the incoming cargo. An optimal number of staff, in a port working at full throttle in its present constellation, would require 244 inspectors.

Adequate handling material is also a prerequisite for serious inspection. Presently, there is nothing, not even a calibrated scale.

Working conditions are difficult. It is humanly and healthwise not possible to stay for longer than two or three hours in a hatch, at 70 degrees, or on the waterfront, checking containers, at 55 degrees in the shadow. Inspectors must reduce their presence, and, for three hours spent in the baking sun, need a rest of two hours before resuming their outdoors shift. An eight hours shift, as mentioned above, should be understood as a maximum of eight hours per day, divided in slots of two to three hours.

The present crew has undoubtedly its qualities, but is not more than average to good. It must be said that they have suffered a lot under a previous management of a totalitarian character. Harsh words of rebuke and reprimand were more common than a normal conversation. Individual capabilities, no doubt existing, were not exploited, even not looked after. All staff present in Umm Qasr firmly rejected the idea of continuing working in Umm Qasr should the previous management return.

As a consequence, the present Team leader, Mr. Thierry Benon, had his hands full to restore a normal, even convivial atmosphere, required in such working conditions. He definitely succeeded. On top of his resources management he had to open and run an office that had, under the previous management, remained hermetically closed to all staff, a task that was made even more difficult due to the total absence of any briefing instructions or take over procedures, as well as due to the total absence of serious filing. He had to find out by himself, while remaining under constant shelling by the previous management and by their staff.

This explains the absence of sufficient cross-, counter- and double-checks, an issue that should be addressed.

Errors have, no doubt, been committed, due to a variety of factors, of which the above mentioned are only a few. Other factors are: the absence of proper documentation, the difficulty of obtaining missing documents, the passive obstruction shown by Iraqi authorities, the multiplication of software tools, the difficulties of telecommunications, the absence of precise working instructions and of information on procedures. During the period of the visit, no major errors were found.

Mr. Benon, as a former Marine Infantry Captain, has no doubt the leader's capacities to manage a crew and a camp. Some additional detailed training in procedures, as well as assistance in setting up adequate software tools, would be of help. His English is hardly sufficient.

Mr. Dumitru Sonea should never have been a deputy, not even an acting one. He is immature and unsure. He will execute orders when told, as a former Block Lieutenant Commander can do. But when he takes an initiative, it will, for sure, be the wrong one. The errors that came up during the visit were, mostly if not all, due to him. Mr. Sonea, knowing that he could be blamed for the errors, visibly expected to be terminated at the end of the visit. Mr. Sonea's activities are more administrative, and he performs only a limited number of inspections himself, which should change. His spoken English is average to good, according to local standards.

Mr. Erchen Geafar is underestimated. He is a competent inspector, meticulous, systematic, reliable and, on top, friendly. His previous experience makes him well suited for the job, as he knows inspection of ships and almost all kind of cargoes. Mr. Geafar lacks any leadership qualities. His English is rather poor.

Mr. Berthold Szymiczek has no leadership qualities, but is a decent inspector. He still, too often, refers on how it was done in Zakho, but this will disappear. He is as convivial as a graveyard in November. His English is acceptable.

Mr. Emmanuel Kwame is not an inspector by birth or by training, but a pharmacist. He has undoubtedly learned large parts of the trade, and is willing to continue. He seems to be rather slow, but delivers decent work, although checking of his work is commended. It should be avoided to put him alone in charge of a ship, as he is not sure about how to deal with problems without proper guidance. His English is acceptable.

Mr. Wieslaw Olszewski is, no doubt, a first class inspector in silo commodities. He is lost when confronted with other cargo. A silent, efficient, no-problem worker. He hardly speaks any English.

Mr. Per-Arne Helland is a Norwegian customs officer, and this says it all. He is, most probable, a trade union representative in his country. A good inspector, looking for the lost or hidden bag, and happy whenever he finds something wrong. He is as friendly as can be a customs officer who suspects you of having narcotics in your pocket. He can be nasty.

Mr. Slawomir Biernacki is not precisely the hard striving or driving force of the team. He takes it easy. He is convinced that he knows it all, but he does not. He produces decent work. If he spoke Polish, maybe people would understand him.

Mr. Raoul Tramontana can be very good if he wants to. He benefits of a long experience, and produces good work. From time to time, he needs to be pushed, and taken away from the television by force. A friendly fellow, with some average to decent English. He is, probably, the man who knows Umm Qasr best.

The other staff members were not present.

L. CAMP MANAGEMENT

Compared to other camps Umm Qasr is well kept, well maintained and well groomed. In absolute value, it could do better on cleaning and maintenance. Several issues of dirty spots were cleared with Mr. [redacted] the caterer, and, it must be said, immediately taken care of. Some of the security issues, like bare electric wiring, the emergency stop switch on the generator missing, gas bottles inside the kitchen, were taken up. Some of them had been addressed before the end of the visit.

Unacceptable working conditions in the kitchen and in the laundry room, due to the heat, called for immediate measures, like the installation of a small air conditioner in the laundry room and the construction of a rotan canopy in front of the kitchen, exposed to the sun.

Air conditioners can hardly cope with 50 degrees, and it must be feared that air conditioning will be insufficient at 65 degrees.

An exhaustive inventory of catering equipment and cabin furniture was made, and a shopping list of really needed, or simply required items, was drafted.

Supplies are secured daily. Quality and variety of the catering is excellent.

PRUNIAUX Andre

From: kulyk
Sent: Thursday, March 30, 2000 3:28 AM
To: ANDRE
Subject: Authentications of missing cargos

*File Procedure -
Trap*

From: kulyk@un.org
Date: Wed, 29 Mar 2000 19:50:15 -0500
To: <Milan_RADENOVIC@Cotecna.com>, <Andre_PRUNIAUX@Cotecna.com>, <azoun@un.org>, <coinst@un.org>, <coins@un.org>, <coinsz@un.org>, <coinsu@un.org>, <cotechna@go.com.jo>

Further to the information as provided below, I would like to ensure that all are aware that, in principle, we would discourage any and all authentications after the fact. (That we do not authenticate after the fact, should be the stock answer to inquiring suppliers & other interested parties.) The exceptions however are outlined below. I would stress that all of the information communicated in this set of guidelines is to be kept "in house" and not to be shared with the suppliers, shippers or other interested parties, including GOI ministries and receivers. We want to ensure that we maintain control of what goods we do authenticate and that we do so only under sound circumstances within the established guidelines.

Cheers, Verne
----- Forwarded by Verne Kulyk/OIP on
29/03/2000 07:35 PM -----

Verne Kulyk
26/03/2000 05:25 PM

To: Milan_RADENOVIC@Cotecna.com at internet@ccmail
T Coins/UNDP@UNDP
A Coins/UNDP@UNDP
Z Coins/UNDP@UNDP
U Coins/UNDP@UNDP
Cotecna Inspection Jordan <cotechna@go.com.jo> AT
Internet@CCMAIL
Andre_PRUNIAUX@Cotecna.com at internet@ccmail
cc: Farid Zarif
Felicity Johnston
Jun Guba
Milton Esliker
Jennifer Carr

Subject: Authentications of missing cargos

I have been meaning to address these issues with you for some time.

Given some of the events that have recently transpired with respect to missing cargos, removal from port areas without Cotecna knowledge, potential allegations of inappropriate influence made against UN personnel etc, I believe that it is valid to remind ourselves that, authentications after the fact, are generally not acceptable and should not be done with the following exceptions. These exceptions should however still involve consultations with the Cotecna Field Manager and OIP (via myself).

We should authenticate missing cargo when it has been established that the missing cargo has passed the borders,

(this can be verified by consultation with Iraqi Customs), that you have the appropriate documentation on site, and that the missing authentication is a result of a mathematical error on the part of the sites (Given the amount of work that our inspectors go through and the pressure of the situations, these occurrences are expected and we should not be concerned about admitting such errors and should take whatever available steps there are to correct them). This should be done in consultation with OIP.

We may also consider authenticating missing cargos that have not been reported to us by shippers, when it has been established that the goods were verified as having arrived in Iraq by Iraqi Customs. While clearly not according to the established procedures, shippers who do not report should be advised that these actions affect the supplier's ability to receive payment. As such, when it can be established that there is no collusion between the shipper and the supplier, suppliers may be given the benefit of the doubt. Any consideration to authenticate these goods should be supported by the appropriate documentation and physical

examination of the goods inland and in consultation with OIP.

We may also, in the case of Oil Spares contracts, consider authentications of non reported cargo when it can be established and confirmed that the goods were witnessed by Saybolt monitors as having arrived at the designated storage sites. These goods should be readily identifiable and examined by Saybolt monitors. This action should, once again, only be undertaken once the proper documentation is received, (items #1 to #6 below) and after consultation with OIP.

Usually, we learn of missing authentication from the supplier when they become concerned that payment has not been made. We may also, on a case by case basis consider authenticating such cargos that were not reported to any of the authentication sites, when it can be established by all of the following:

verifying with Iraqi Customs that the goods entered Iraq;
written explanation from the supplier and the shipper as to the non-report and assurance that it will not reoccur; (authentication will be withheld until this is received)
documentation is supplied by the supplier to support the delivery;
the receiver has acknowledged receipt of the goods;
the goods are clearly identifiable and described as according to the shippers and relevant documentation;
that the goods are intact and available for examination;
that the goods were in fact examined by the UN independent inspection agency and,
in all cases, in consultation with OIP.

We should ultimately not authenticate the arrival of irregular goods that are bulk shipments, not clearly distinguishable from other similar goods as those that were shipped and not available for examination (as in the case of egg basket items that may have already been consumed). Such claims should be reported to OIP.

Finally, as in the case recently detected at Zakho, we should not authenticate the arrival of goods where altered or falsified documentation has been detected. Such documentation should immediately be retained and in no circumstances be returned to the shipper. You may also wish to report such discoveries to the appropriate Customs authorities for their own action. Such occurrences must,

immediately be reported to OIP accompanied by a comprehensive report with all copies of the relevant documentation for followup and final decision on the merits of authentication.

The port of Um Qasr and the geographical displacement of the Iraqi Customs in relation to Zakho are special situations, in that, at Um Qasr, the receiver, through the Ministry of Trade has ready access to the goods, while for Zakho, goods are conveyed to the Iraqi Customs headquarters in the North at Nineveh. Recently, at Um Qasr, we have encountered some difficulties regarding the removal of goods prior to inspection by the UN independent inspection agents. At Zakho, we have experienced the withholding of CMRs (due to quality disputes) stamped by Iraqi Customs, from the Zakho site. I would encourage all Team Leaders to interact with the appropriate authorities (Iraqi Customs and port/facility managers) to explain the position with respect to authentications and solicit their cooperation.

Please bear in mind, that when goods go unreported by the shipper to the UN independent inspection agents at the borders of Iraq, whether or not with the full knowledge of the supplier, it is the supplier who is generally disadvantaged. Consider, however, that, even if the receiver of the goods acknowledges receipt, such requests for authentication are subject to verification. If it is not possible to authenticate the goods according to the aforementioned criteria, then it is the supplier's/shipper's insurance that should bear the losses, not the excrow account of the Iraq Programme. Please also consider that there are a number of factors that may contribute to cargo going missing or even being non-existent. As you all are aware, all international / transborder shipments worldwide are vulnerable to abuses such as theft, pilferage, collusion, fraudulent documentation or by any number of other reasons. Shipments to Iraq are no exception. Shipments should not and will not be authenticated, nor will suppliers be made eligible for payment, merely on the basis of claims from the suppliers or the purchasers.

The UN independent inspection agents (Cotecna) are the only authenticators of record, and, as such, must be satisfied beyond any doubt that suppliers and shippers have fulfilled all of their obligations with respect to reporting all such goods for authentication at the time of arrival at the borders. Any considerations being given to making authentications for goods unreported upon arrival at the borders, should be in consultation with OIP.

A briefing regarding these and other issues relating to the implementation of SC 1284 will be presented to all participating supply missions in New York on March 27th. In addition to the information mentioned, I will take the opportunity to encourage suppliers to use the suggested packing list that we have discussed. I will be emphasizing to all participants the importance of joint cooperation in ensuring that all goods requiring authentications be reported to the UN inspection agents at the border in order for the supplier to be made eligible to be paid. Further, I will emphasize that goods that are not reported, will not be authenticated without the UN independent inspection agents verification that the goods arrived.

We can all appreciate that we want to ensure that the necessary humanitarian supplies arrive in Iraq and are available for their intended use. Procedures have been established by the Committee and the Office of the Iraq Programme has gone to considerable length to advise all participants of these requirements. The actions of all persons involved in the authentications process must be free

from any influence on the part of suppliers and receivers and be beyond reproach. Our adherence to these procedures is necessary in ensuring the continued integrity of the programme and the continued confidence that the Committee places in the discharge of our duties.

I would like to thank you all for your excellent efforts to date and would be pleased to discuss the implementation of any other additional guidelines that may be undertaken in order to assist you in your functions.

Note: This information will follow by fax from Mr. Farid Zarif, Chief, Contracts Processing OIP

SPECIMEN

Pruniaux André

Le Procédure Iraq

From: Verne Kulyk [kulyk@un.org]
 Sent: Monday, November 06, 2000 6:24 PM
 To: Pruniaux André (Exchange) <andre.pruniaux; Cotecna Inspection Jordan <cotecna@un.org>
 Cc: U Coins; Farid Zarif; Felicity Johnston; Dejan Radojevic
 Subject: Re: Continued - Umm Qasr inspection procedures

Andre/ Milan/ Goran: Our understanding is that authentications do not take place until after the goods have left the port. Goods that have not left the port area are not considered to have arrived in Iraq. We have discussed the issue here and are of the opinion that we should not authenticate containers/shipments of goods that may remain in the port area. I understand that they will affix an URN seal to those containers that they examine/inspect. My concern is that if they then authenticate these goods without knowing that they have left the port area, there is then the possibility that the goods may be rejected without their knowledge. This will leave us open to criticism from the receivers. As well, authenticating goods that are still within the port area, while being facilitative to the suppliers in terms of payment, may result in the goods being diverted and never reaching the supplier. Your proposed authentication procedures also make the authentication process vulnerable to such potential allegations of fraudulent actions.

While I agree that it is unfair for a supplier to wait weeks for an authentication for goods that have arrived, but not accepted by the receiver, it is not our role to solve the port authorities problems. Our office has been quite vocal and has consistently encouraged the purchase of additional equipment and the need to upgrade the port facilities. Suppliers will have to argue this point with the receivers who are the stewards of the facility and in charge of the discharge/distribution procedures. While we can recognize the problems they are not our problems nor have we created them. It is inappropriate for us (OIP & Cotecna) to be drawn into this issue and for us to take any leadership role in solving their dilemmas. We will, of course assist as usual in any efforts to ameliorate the situations however should not take on the responsibility for this. Cotecna's role, (perhaps unfortunately due to the circumstances), is to work within the current constraints and make the best use of a bad situation.

If the port authorities remove the goods from the port area, the goods should be authenticated unless if the receiver is in agreement or not (in the obvious cases of short delivery or damaged goods, where noted, an appropriate comment should be made on the shipment inspection form. Short delivered goods should not be authenticated.). The issue of non-compliance with contractual specifications then becomes an item for discussion between the supplier and the purchaser. With respect to the issue of "non-reportable" I simply meant that containers that your staff will have inspected in this file would still be in the port and will not have crossed the gates. As discussed with Craig, authentication should be contingent on verification that the goods have entered Iraq (cleared the port gates). This is of course dependent on the co-operation shown to your staff by the Iraqi Port Authorities. Bottom line is that if goods leave the port without being reported, that is bad for the supplier and the authentication will not take place. This is the responsibility of the Port Authority/MOT/SOMO and we should not take this on as our responsibility. If the situation of goods leaving the port without report to Cotecna continues, there will be a long list of suppliers who will be very vocal. Their complaints should then be directed to the Port facilities/authorities. I would not like to see these complaints directed at Cotecna for something that was done from a facilitative point of view. Hope this clarifies our position.

Regards,
 Verne

Permanent Subcommittee on Investigations

EXHIBIT #42

SA010112

Cotecna Inspection Jordan <cotecna@go.com.jo> on 24/10/2000 11:16:23 AM

To: "Verne Kulyk" <kulyk@un.org>
 cc: "Felicity Johnston" <johnston@un.org>

Subject: Continued - Umm Qasr inspection procedures

Dear Veme,

Following your recent conversation with Craig, here are my concerns:
 To avoid possible confusion for Umm Qasr Team I would appreciate if we can define something for their pretty clear procedure and action:
 Moment of the authentication : Will Team authenticate after inspection has been done (with or without receiver) ?, or as I understood from your conversation with Craig:
 Team should keep files pending until cargo(containers) will leave the port ?

Here are points in favor of undertaking immediate inspection of the containers:

1. MOT as a main receiver for the key commodities is pretty expedient and they appear almost always within one week, and if the cargo is to be rejected, they do it immediately. So there are no major delays in the key commodities inspection and take-over, partially because of the nature of the cargo.
2. SOMO is known as very slow in attending inspection, sometimes delayed for more than a month time. Oil spares consignments are checked in warehouses together with Saybolt, and ultimate LOD has been produced for all discrepancies in detail. It is noticed recently that SOMO representative does not sign for the compliance of goods to the contract specifications during inspection (as it was before), but just signs his presence during the inspection. However, real moment of taking away of the container might be week or couple of weeks later depending on transportation availability. (On the other hand, detailed expertise is done later by Saybolt, and in the moment of the inspection which is based on identification of the goods against shipping documents, database and experience of the inspector with random checked items - it is clear that full compliance of cargo against specification is not realistic in the moment of container inspection, unless discrepancies are very notorious.)
3. MOE is second-known for very slow for the inspection. Some of containers were stranded for more than a two months, with no prospect of soon clearance. Receivers for other items: GEEP, WATSAN, GAMCO are next in the sequence.

Assuming that most of inspections are related to the foodstuffs, which are inspected shortly after container is on the container yard, it seems very optimistic to require inspection of containers (containing spare parts, machine tools, etc. stuff) as soon as they are available - with or without receiver's presence (in any case not conditioned to the receiver's presence).

Before this changes were suggested from our side, authentication was consequent to the nearest date of inspection and mostly because of non-presence of the receiver and slow container handling with the only one fork-lift - authentication was obviously delayed (I am not excluding reasons inherent to human factor from our side).
 Now, making authentication process dependent to the physical removal of the container(s) from the port will bring unpredictable delays in authentication -as there are no guaranties that inspected container(s) will be carried away right after the inspection. Container port is lacking equipment and in the same time, there is no reliable source of container statistics in the port.
 Some of containers have been "lost" i.e. without record when and where they have been carried away.

Markovic Tania

From: Pruniaux André
Sent: jeudi, 18. janvier 2001 15:00
To: (Amman) Pladenovic Milan
Cc: Saliba Joe
Subject: Craig Airey's fax on containers leaving the port without inspection

Milan,

You should send directly copy of Craig's letter + memo to UN-OIP-NY (Attn : Felicity Dejan - Copy : AEP) with your comments.
Thanks.

André E. Pruniaux

SPECIMEN

Permanent Subcommittee on Investigations
EXHIBIT #43

SA013853



Fax

Date: 18 January 2001
 To: Cotecna Amman
 Att: Milan Radenovic
 Copy: COINS Geneva - Andre Pinaux
 From: Craig Airey
 Subject: Containers leaving the port without inspection
 Our Ref: UQF/01/22
 Pages: 1 + 1

Dear Milan

Please find attached a copy of a letter to the Port Manager for your information.

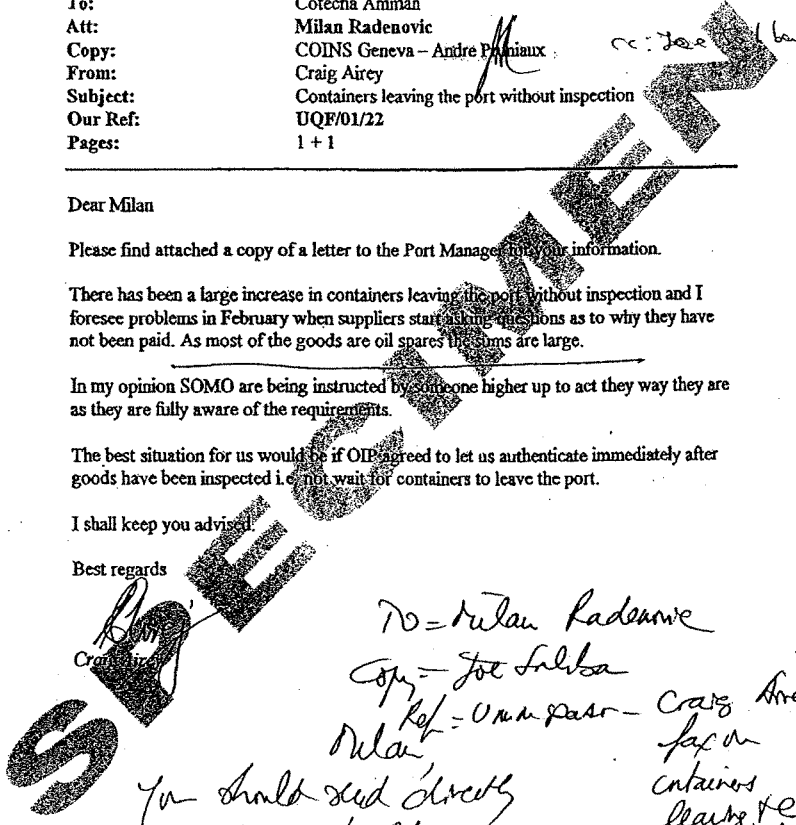
There has been a large increase in containers leaving the port without inspection and I foresee problems in February when suppliers start asking questions as to why they have not been paid. As most of the goods are oil spares the sums are large.

In my opinion SOMO are being instructed by someone higher up to act they way they are as they are fully aware of the requirements.

The best situation for us would be if OIP agreed to let us authenticate immediately after goods have been inspected i.e. not wait for containers to leave the port.

I shall keep you advised.

Best regards



Craig Airey
 Craig Airey

TO - Milan Radenovic

Copy - Joe Saliba

Ref - Umm Qasr - Craig Airey's

*Milan
 fac on
 contains
 leaving the
 port without
 inspection -*

*You should send directly
 copy of Craig's letter + memo
 to ON-ODP-N4 (Attn =
 Felicity - Stefan - copy - ACP)
 with your comments -*

*Clubs
 REP*

Markovic Tania

From: Pruniaux André
Sent: lundi, 2. avril 2001 10:20
To: UN.ORG--(Amman) Radenovic Milan
Cc: Saliba Joe
Subject: URGENT - RE: Info: Greenlight to reduce backlog in Umm Qasr

Milan,

Have you received written approval from UN-OIP New York? Please send copy to Geneva?
Also, have you issued a written instruction to Umm Qasr? Please do, copy to my attention.
Who is the TL (and DTL) in Umm Qasr?
Thanks.

André E. Pruniaux

-----Original Message-----

From: Cotecna Inspection Jordan [mailto:cotecna@go.com.jo]
Sent: samedi, 31. mars 2001 12:51
To: Geneva M. Pruniaux
Cc: Joseph Saliba
Subject: Info: Greenlight to reduce backlog in Umm Qasr

Andre,

For your info : we have been given consent from Felkay and Dejan to authenticate all cargo which have been inspected, but waiting to leave the Port. This is a interim measure to reduce backlog in Umm Qasr.

Visitor from OIP will see the situation on the ground and if necessary review this decision.

I hope that in next two weeks this measure, accompanied with daily authentication will drastically reduce pending comms in Umm Qasr.

Regards,
Milan

SPECIFIC COMMENTS

02.04.2001

Permanent Subcommittee on Investigations

EXHIBIT #44

SA005087

Pruniaux André

From: Cotecna Inspection Jordan [cotecna@go.com.jo]
 Sent: Monday, July 22, 2002 12:39 PM
 To: Pruniaux André
 Cc: Saliba Joe
 Subject: Fw: Visit of UNOHCI Deputy Humanitarian Coordinator

Andre,
 Related to your recent points from OIP.
 This was quick report after Mr. Elfverson's visit. Dmitri was not diplomatic enough, indeed (conversation took just 10 minutes) but on the other side Chris was raising questions mainly related to smuggling of cargo.



----- Original Message -----

From: "Z Coins" <coinsz@un.org>
 To: "cotecna" <cotecna@go.com.jo>
 Cc: "joe.saliba" <joe.saliba@cotecna.ch>
 Sent: Saturday, June 01, 2002 11:23 AM
 Subject: Visit of UNOHCI Deputy Humanitarian Coordinator

- > Dear Milan,
 >
 > Mr. J. Christer Elfverson, Deputy Humanitarian Coordinator paid a visit to our Site on 1st of June.
 >
 > No general issues were raised by him for discussion. The questions asked were as follows:
 >
 > 1. How many trucks are crossing Zakho and Trest border besides trucks under 986 Resolution? - The answer was given: We are responsible exclusively for 986 goods and it is not possible to estimate from our side the number of smuggled goods and it is not in our mandate to be involved in such matters.
 >
 > 2. If the situation improved from the past year with a delay of the delivery of Humanitarian Goods, he mentioned that 2500 trucks are stuck somewhere in Turkey and the answer was the similar as to the 1st question that according to our contract we are responsible for the confirmation of arrival of the goods to Iraq and we have no knowledge of either distribution or for some problems with the deliveries.
 >
 > On the whole by the questions it became obvious that Mr. Elfverson has no idea about the responsibilities of Cotecna in Iraq. The whole meeting took probably about 10 minutes.
 >
 > Best regards
 > Dmitri
 >
 >

Pruniaux André

From: cotecna1 [cotecna1@go.com.jo]
Sent: Monday, July 08, 2002 9:13 AM
To: Undisclosed-Recipient;
Subject: Fw: Wafa Twal. e-mail address

Re: Akhuan Lo

----- Original Message -----
From: cotecna1
To: Joseph Saliba
Sent: Monday, July 08, 2002 9:11 AM
Subject: Wafa Twal. e-mail address

Hi all,
This is my new e-mail address.
cotecna1@go.com.jo

Best Regards
Wafa Twal

SPECIMEN

COTECNACOTECNA Inspection S.A
ZAKHO - IRAQ

UNSCR 986

COTECNA Inspection S.A.
PO Box 1
SILOPI - TURKEYTel: +41 22 849 7870
Fax: +41 22 849 7871
Email: coinsz@un.org

24 September 2003

To Whom It May Concern:**Re: ARTHUR WILLIAM VENTHAM - COTECNA EMPLOYEE - IRAQ**

COTECNA Inspection S.A. is the independent inspection agency appointed by the United Nations Security Council to inspect and authenticate shipments into Iraq under the auspices of the United Nations Security Council Resolution 986 - Oil for Food Project.

Arthur Ventham has been employed with Cotecna since December 2002 and will leave the Mission with effect 21st November 2003. I have had the privilege of working with Arthur, initially at Ar'ar when I was Deputy Team Leader and later at Zakho when I took over the responsibilities of Team Leader and was instrumental in having him appointed as Assistant Deputy Team Leader.


During his appointment with Cotecna, Arthur has proven to be a very conscientious and dedicated team member who has assisted me greatly during the uncertain times experienced during our return to Iraq, particularly with the administration, security and financial accountability required to ensure that the site operated at maximum efficiency.

When asked to write a reference for him I did not realise how difficult it would be, given the support and assistance he has provided over the past 10 months, however, I would like to say that:

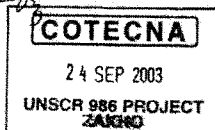
- Arthur is a very dedicated and hard working individual who gives of himself more than 100% effort at all times, regardless of the situation or amount of stress, anxiety or confusion that may arise.
- He is a natural leader, who is able to implement the aims and objectives of the organisation with little or no recourse from his Managers or staff.
- His administrative and organisational skills are of a very high calibre as are his financial and auditing skills.
- He is able to communicate effectively with people from a variety of cultures and backgrounds and is mindful of the various different ethnic cultures and nuances associated with different nationalities and is able to build rapport with international staff at all times.
- Arthur is an honest and dedicated member of our team and is always prepared to go the extra mile when needed to ensure that timeframes and deadlines need to be met.

It is with regret that I see him leave the Mission as he will be sadly missed, not only by me but his fellow team members. I have no reservations about recommending him to any employer, at an international or national level. If any further information is required, please contact me at [REDACTED] or at our company website coinsz@un.org I will be happy to oblige.

Regards,



Romilio Obra
Team Leader
COTECNA Inspection S.A.
ZAKHO - IRAQ



[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #46

Pruniaux André

From: Pruniaux André
Sent: Monday, September 29, 2003 4:07 PM
To: Saliba Joe
Subject: FW: RESIGNATION
Joe,



Please tell him to leave (as soon as possible!).

Thanks.

André E. Pruniaux

— = Redacted by the Permanent
Subcommittee on Investigations

-----Original Message-----

From: Arthur Ventham [mailto:]
Sent: Monday, September 29, 2003 3:28 PM
To: andre.pruniaux@cotecna.ch
Subject: RESIGNATION

Mr Pruniaux,

For your action.

Regards,

Arthur Ventham

Chat via SMS. Simply send 'CHAT' to 1889918. [More info here.](#)

SPECIMEN

Permanent Subcommittee on Investigations

EXHIBIT #47

9/29/2003

SA012190

COTECNACOTECNA Inspection S.A
AQABA - JORDAN

UNSCR 986

MINUTE

TO : André Pruniaux

FROM : Arthur Ventham

CC : Joe Saliba
Milan Radenovic

DATE : 29th September 2003

RE : RESIGNATION - COTECNA INSPECTION S.A.

Mr Pruniaux,

I refer to your email that I received today in relation to my complaint regarding the humiliating treatment that I had received by being moved from ADTL Zakho / Iskenderun and transferred to Aqaba as an Inspector. The email, as brief as it was, gave no reason for the decision to support your colleagues and is not one that I would expect from a Vice President of an international organisation, however it does confirm my impressions of Cotecna as being a very small minded organisation with limited management ability necessary to deliver quality outcomes in the international arena.

Given the above scenario, I cannot give Cotecna the respect and support I had intended when I first joined the Mission and hereby officially tender my resignation. The reasons for my resignation are numerous and include, inter alia the following:

- The management practices of Cotecna belong in the dark ages and do not comply with "Best Practice", "Investors in People" or "Total Quality Management" programmes taught and espoused by many of the leading organisations and tertiary institutions in the world today. Maybe I have been privileged to work for very professional organisations in the past, I don't know, however, I have been around long enough and held very senior positions in organisations to know what works and what doesn't, and the practices employed by Cotecna do not work.
- Cotecna do not want qualified and experienced personnel in the Mission preferring instead to employ people from Third World and Eastern European countries who have little knowledge or comprehension of what is required of them in a complex and sophisticated area such as the "Oil for Food" project. This on the fact that I have conducted numerous audits on Inspection Reports and found that time and time again, these people have recorded the incorrect information in the reports, thereby delaying payment to the suppliers. A simple example is where an Inspection Report shows six items, each comprising a number of sub items and the Inspector completing the report cannot identify the actual number of components being imported. In one audit that I did it was identified that an OC had been completed nearly 6 months ago and yet was still "open" because consecutive Inspectors had no idea on how to calculate the number of items included in the Packing List supplied. In every case that I was involved with could be traced back to the same persons, yet they are still employed after 2 - 3 years.
- During my time with Cotecna I worked long and hard, volunteering to undertake numerous extra responsibilities and duties, often working 8 - 10 hours per day whilst in Zakho and for what? I found out that when I was appointed to the position of ADTL and given a pay rise of \$300 per month that I was still only earning the same rate of pay as other Inspectors from Sweden and Denmark, despite having the responsibility of a remote site, the safety and welfare of up to 10 Inspectors and the day to day operations of a fairly dangerous and insecure site.

SA012191

- The true test of a leading company is the kind of Manager that it turns out, either by its recruitment practices or in-house training; the same can be said for its staff. Cotecna does not have "Experts in Mission", instead they recruit basically anyone that they feel they can put into a country (like Iraq) and expect them, mainly through inappropriate or at the least very poor training, to support the company achieve its "bottom line". There are clear examples of where Cotecna have got it wrong, not once, twice or even three times but time and time again. They re-employ people who have shown their true character by undertaking nefarious activities that have brought the organisation into disrepute, not only do they re-employ them they put them in senior positions within the company. Cotecna then play Inspectors of against Inspectors by saying that we should not discuss our contracts amongst ourselves as we each have individual contracts with the company. The truth behind this is so that Inspectors will not find out that they are being paid less than another person who does less than they do, a clear case in point was my own salary compared to the Swedes and Danish contingent who were receiving exactly the same rate of pay as myself but were only contributing about ¼ of what I was doing and who often came to me for advice on how to do their job! There is an old saying: "If you pay peanuts you get monkeys" and this is certainly the case with Cotecna.
- Honest and open communications between employer and employee should be amongst the highest priority for any organisation, unfortunately this is not the case with Cotecna. Instead we are left to find out what is happening through an informal process, namely the rumour mill, instead of hearing it direct from management. A clear example of this is the incident involving our colleagues who attempted to enter Iraq from Kuwait. It was a number of days before we heard anything from management regarding this incident, instead we heard about it from our colleagues themselves almost the same day. It would not have been a monumental task for management to put out an "Immediate Update" that covered the salient points, stating that everyone was safe and that all members who had been injured had been treated and were back in Kuwait. I think it was about 4 or 5 days, if not more, before any formal announcement was seen by Iskenderun / Zakho staff from yourself or the likes of Joe Saliba etc. A very poor state of affairs indeed.
- Finally, professionalism. I have been accused by my own staff back in Australia that I am, at times, a bit too professional in my work ethics and that I expect too much from staff, however, I have never in my entire 25 years as a Manager or CEO ever had a staff member resign for job dissatisfaction or lack of opportunities within those companies and organisations that I had responsibility for. In the last Government position I held, during the last 12 months of my tenure, everyone that was posted to my geographical area always requested that they wanted to work on my team. Not because I was a slack Manager but because I gave everyone the opportunity to achieve their full potential through the support and professional approach that I portrayed and expected of my staff. It was interesting to see, that on my last leave, when I visited the area that I was employed in, that 5 of the 6 Managers currently responsible for the Customs area at Perth International Airport came from my old team and each one thanked me for the professional way in which I trained, developed and encouraged each of them to change their outlook and become more professional in their dealings with staff and other major stakeholders. Unfortunately, Cotecna has no mission on that expertise and professionalism because of its lack of the same.

I believe that I am required to give 14 days notice of my intent to leave the Mission and I hereby do so. I am required to remain in Australia no later than the 15th of October for personal reasons regarding future employment opportunities and ask that I be released as soon as is practical.

Respectfully,



Arthur Ventham

378

12/11/98 09:04 FAX 2125648860

NEW YORK STATION

CHINESE MISSION 011

12/11/98 04:59
11/12 '98 FRI 15:41 FAX 2281

2281
FIRST DEPARTMENT

0038
38

**CONTRACT
FOR THE SUPPLY OF**

DIESEL DREDGERS

BETWEEN

**THE MINISTRY OF IRRIGATION
BAGHDAD, IRAQ**

&

**SHANGHAI MACHINERY
IMP & EXP (GROUP) CORP., LTD
CHINA**

456-38

Permanent Subcommittee on Investigations
EXHIBIT #48

12/11/98 09:04 FAX 2120949200
12/11/98 03:59
11/12 '98 FRI 15:41 FAX 2281
2281
FIRST DEPARTMENT
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**CONTRACT FOR THE SUPPLY OF DIESEL DREDGERS
ANNEX AGRI-7 , CODE NO. 05-07-00003
SECTOR AGRICULTURE , SUB-SECTOR : IRRIGATION,
APPENDIX-7**

CONTRACT NO : IRR (MOU/IV) /22 / 98
DATE : 12 / 11 / 1998
FIRST PARTY (BUYER) : MINISTRY OF IRRIGATION,
PLANNING AND FOLLOW UP OFFICE
PALASTINE ST ., BAGHDAD - IRAQ.
SECOND PARTY : SHANGHAI MACHINERY IMP & EXP (GROUP) CORP.,LTD
NO: 445,JIANG NING ROAD, SHANGHAI 200041,
TEL ; (021) 62711558 FAX : (021) 6275635
CHINA .

ACCORDING TO THE " MEMORANDUM OF UNDERSTANDING "
ENHANCED DISTRIBUTION PLANT (PHASE FOUR) BETWEEN THE
SECRETARIAT OF THE UNITED NATIONS AND THE GOVERNMENT OF IRAQ
ON THE IMPLEMENTATION OF SECURITY COUNCIL RESOLUTION NO
(1153-1998) , THE TWO PARTIES AGREED AS FOLLOWS :

ARTICLE (1) COMMODITY :

**DIESEL DREDGERS FOR RIVER DREDGING.
(DREDGER EQUIPMENTS FOR SEDIMENT REMOVAL FOR
RIVERS)WITH THEIR ACCESSORIES AND SPARE PARTS
AS THE ENCLOSURER .**

ARTICLE (2) SPECIFICATIONS : AS THE ENCLOSURER .



[Handwritten signatures and notes in Arabic]
1056-39
(1-17)

12/11/98 09:05 FAX 2125648860 NEW YORK STATION CHINESE MISSION 013
 12/11/98 04:00 2281
 11/12 '98 FRI 15:42 FAX 2281 FIRST DEPARTMENT 038

ARTICLE (3) PRICES :

THE PRICES OF THE DIESEL DREDGERS WHICH ARE SUBJECT OF THIS CONTRACT, HAVE BEEN FIXED BY SELLER AND ACCEPTED BY THE BUYER AS FOLLOWS :

ACCORDING TO ANNEX AGRI - 7, CODE NO. 05-07-00003 SECTOR AGRICULTURE SUBSECTOR IRRIGATION, APPENDIX -7

ITEM	CODE NO.	DESCRIPTION	QTY UNIT	UNIT PRICE USD	AMOUNT USD
1	05-07-00020	DIESEL DREDGER CUTTER SECTION DREDGER (500M3/H) WITH THEIR ACCESSORIES AND SPARE PARTS	4	1344000	5376000
2	05-07-00021	DIESEL DREDGER CUTTER SECTION DREDGER (1000 M3/H) WITH THEIR ACCESSORIES AND SPARE PARTS.	4	1749250	6997000

PRICES CIF UM QASSER PORT USD 12,973,000
 TWELVE MILLION AND THREE HUNDRED AND SEVENTY THREE THOUSAND US DOLLARS ONLY

ARTICLE(4) QUALITY :

- A- THE SELLER GURANTEES THAT ALL THE GOODS TO BE SUPPLIED UNDER THE TERMS OF THIS CONTRACT ARE NEW, UNUSED, NOT RECONDITIONED AND MANUFACTURED ACCORDING TO ENCLOSUER SPECIFICATIONS.
- B- TO BE FINAL ACCORDING TO THE CONFIRMATION OF THE SECRETARY GENERAL'S DESIGNEE AFTER ARRIVAL OF THE EXPORTED GOODS TO UM QASSER, IRAQ.
- C- A CERTIFICATE ISSUED BY CHINA IMPORT & EXPORT COMMODITY INSPECTION BUREA CONFIRMING QUALITY OF GOODS IN CONFORMITY WITH CONTRACTUAL CONDITIONS AND / OR ANY OTHER CERTIFICATE ISSUED ACCORDING TO INTERNATIONAL CLASSIFICATION CERTIFICATE IN CHINA (WHICH IS ISSUED BY CHINA CLASSIFICATION SOCIETY " CCS) FOR HULL OF DREDGER. BUILDING CERTIFICATE ISSUED BY THE MANUFACTURER ACCORDING TO CHINESE SHIPYARD DESIGN AND STANDARD (MARINE DESIGN & RESEARCH INSTITUTE OF CHINA

[Handwritten signatures and stamps]
 (2-17)

12/11/98 09:05 FAX 2125648560
12/11/98 04:01
11/12 '98 FRI 15:43 FAX 2281

NEW YORK STATION
2281
FIRST DEPARTMENT

0039

41

TEST WILL TAKE PLACE NEAR THE CHINESE SHIPYARD IN PRESENCE OF A REPRESENTATIVE OF THE OWNER (BUYER) ACCORDING TO CHINESE SHIPYARD DESIGN AND STANDARD . CHARGES TO BE ON SELLER'S ACCOUNT . THE SELLER WILL INFORM THE BUYER 60 DAYS BEFORE SHIPMENT DATE FOR INSPECTION , IF THE BUYER DOES NOT ARRIVE WITHIN THIS TIME , THE SELLER THEN WILL SHIP THE GOODS AS PER THE L/C.

ARTICLE (5) ORIGIN : CHINA - TIANGIN SHIPYARD OR DONGHAI SHIPYARD TO BE CHOSEN BY BUYER

ARTICLE (6) SHIPMENT :

ALL DREDGERS WILL BE COMPLETE WITHIN 20 MONTHS AFTER OPENING OF THE L/C ACCOUNT , WITHIN 12 MONTHS AFTER EFFECTIVNESS OF THE L/C ACCOUNT THE MINIMUM OF 4 UNITS WILL BE DELIVERD AND REMAINING DREDGERS TO BE DELIVERD IN THE FOLLOWING MONTHS .

ARTICLE (7) TOTAL CONTRACT VALUE :

US \$ 12373000 (TWELVE MILLION AND THREE HUNDRED AND SEVENTY THREE THOUSAND U.S DOLLARS ONLY) .

ARTICLE (8) PORT OF SHIPMENT : CHINA - TIANGIN OR SHANGHAI

ARTICLE (9) PORT OF DESTINATION : UM QASSER , IRAQ .

ARTICLE (10) TERMS OF PAYMENT :

IN CASH L/C (GOVERNED BY U.C.P. 1993 REVISION OF I.C.C. PUBLICATION NO. 500) OPENED BY BANQUE NATIONAL DE PARIS S.A. NEW YORK BRANCH (IRAQ ACCOUNT) ACCORDING TO THE REQUEST OF CENTRAL BANK OF IRAQ FOR THE BENEFIT OF THE SELLER PAYABLE FROM THE CASH COLLATERAL REQUIRED UNDER L/C AMOUNT AND IT'S FEES PURSUANT TO THE (M.O.U) AGREEMENT .

THE L/C SHALL BE OPENED FOR THE TOTAL VALUE , IRREVOCABLE , PERMITTING PARTIAL SHIPMENTS AND TRANSHIPMENTS . THE L/C SHALL BE VALID UNTIL PAYMENT OF THE TOTAL CONTRACT VALUE IS FULFILLED (THIRTY MONTHS) .

PAYMENT SHALL BE MADE IN INSTALLMENTS CORRESPONDING TO ACTUAL DELIVERIES OF EACH SHIPMENT TO IRAQ .

THE L/C SHALL BE PAYABLE FOR EACH SHIPMENT ACCORDING TO THE SUBMISSION OF THE FOLLOWING DOCUMENTS

[Handwritten signature]

[Handwritten signature]

[Handwritten signature]



- A. COMMERCIAL INVOICES , 3 ORIGINAL , 3 COPIES .
- B. CLEAN BILLS OF LADING , 3 ORIGINAL , 3 COPIES .
- C. CERTIFICATE OF ORIGIN , 1 ORIGINAL , 2 COPIES .
- D. PACKING LIST , 3 ORIGINAL , 4 COPIES .
- E. CERTIFICATE OF INSPECTION ISSUED BY CHINA IMPORT & EXPORT COMMODITY INSPECTION BUREAU , 1 ORIGINAL , 2 COPIES .
- F. A COPY OF THE 661 COMMITTEES LETTER STATING THAT THE EXPORTER (SELLER) IS ELIGIBLE FOR PAYMENT FROM THE UNITED NATIONS IRAQ ACCOUNT .
- G. A CONFIRMATION BY THE SECRETARY GENERAL'S DESIGNEE OF THE ARRIVAL OF THE EXPORTED GOODS IN IRAQ , PROVIDED THAT :
- g. THE BANK SHALL NOT BE REQUIRED TO MAKE ANY PAYMENT UNDER THE L/C UNLESS AND UNTIL THE UNITED NATION'S IRAQ ACCOUNT CONTAIN AN AMOUNT SUFFICIENT TO REIMBURSE THE BANK FOR SUCH PAYMENT AND ANY FEES RELATING THERETO
- h. THE BANK SHALL NOT MAKE ANY PAYMENT UNDER THE L/C UNLESS THE AUTHORIZED UNITED NATION'S OFFICIALS DESIGNATED AND HAVING APPROPRIATE AUTHORITY APPROVE SUCH PAYMENT .
- C. ALL REQUIRED DOCUMENTS LISTED ABOVE AND STIPULATED IN THE L/C ARE PRESENTED AND IN ORDER IN ADDITION TO THE TERMS AND CONDITIONS OF THE L/C ARE COMPLIED WITH .
- d. PARTIAL PAYMENTS CAN BE MADE CORRESPONDING TO ACTUAL DELIVERIES OF EACH SHIPMENT TO IRAQ .
- E. INSTALLMENTS DOCUMENTARY DISCREPANCIES CAN BE WAIVED ONLY BY SECRETARY GENERAL .
- F. AMOUNTS RELATED TO THE SETTLEMENT OF SHORTAGES , DAMAGES FOR EACH SHIPMENT (ACCORDING TO THE CONFIRMATION OF THE SECRETARY GENERAL 'S DESIGNEE WHICH SHOULD BE SENT TO THE SECRETARY GENERAL WITHIN 24 HOURS) SHALL BE REMITTED TO IRAQ ACCOUNT .

ARTICLE (11)

- A. COPIES OF EACH DOCUMENTS SHOULD BE SUBMITTED TO BUYER AS SOON AS SHIPMENT OF RELATIVE GOODS .
- B. ALL DOCUMENTS , INVOICES AND CORRESPONDANCES CONCERNING THIS CONTRACT MUST BEAR THE L/C NUMBER .

ARTICLE (12) TRANSPORT CONDITIONS:

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 456-42
 (4-17)



12/11/98 09:06 FAX 2125848860
12/11/98 04:02
11/12 '98 FRI 13:44 FAX 2281

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LATH

SELLER SHALL PROVIDE BUYER THE DETAILS LISTED BELOW 15 DAYS BEFORE ARRIVAL OF GOODS.

- DATE OF SHIPMENT.
- NAMES OF VESSELS WITH FULL DETAILS .
- VESSEL ARRIVAL (ETA) .



ARTICLE (13) SHIPPING MARKS:

MINISTRY OF IRRIGATION
CONTRACT NO.
NUMBER OF L/C.
GROSS AND NET WEIGHT .

ARTICLE (14) DISCHARGE CONDITIONS :

- A. BUYER SHALL ANNOUNCE ARRIVAL OF CARGO AND INSTRUCT UNDESIGNEE TO START INSPECTION OPERATION IMMEDIATELY AFTER CARGO'S ARRIVAL.
- B. IN THE ABSENCE OF ORIGINAL BILL OF LADING AT DISCHARGING PORT , CARGO TO BE DISCHARGED AGAINST LETTER OF UNDERTAKING BY BUYER'S REPRESENTATIVE . IF REQUIRED , SUCH LETTER OF UNDERTAKING SHALL BE ACCEPTABLE FOR NEGOTIATING RESPECTIVE L/C IN STEAD OF THE ORIGINAL BILL OF LADING .

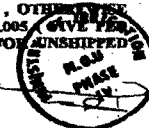
ARTICLE (15) AMENDMENTS OF THE L/C :

THE BUYER SHALL OPEN L/C IN ACCORDANCE WITH THE TERMS OF THIS CONTRACT . IF ANY DISCREPANCE IS FOUND , AMENDMENTS OF L/C SHOULD BE MADE IMMEDIATELY BY BUYER UPON RECEIPT OF THE SELLER'S ADVICE, FAILING WHICH BUYER SHALL BE HELD RESPONSIBLE FOR ANY LOSSES THUS INCURRED AS WELL AS FOR LATE SHIPMENT THUS CAUSED .
ALL EXPENSES RELATED TO L/C INSIDE IRAQ ON BUYER'S ACCOUNT , BUT OUTSIDE IRAQ ON SELLER'S ACCOUNT .

ARTICLE (16) PENALTY :

GOODS TO BE SHIPPED WITHIN THE AGREED PERIOD , OTHERWISE SELLER SHOULD PAY TO BUYER A PENALTY EQUAL 0.005 (FIVE PER THOUSAND) PER UNIT FOR EACH WEEK OF DELAY FOR UNSHIPPED

[Handwritten signatures and initials]



12/11/98 09:07 FAX 2125648860

NEW YORK STATION

CHINESE MISSION 011

12/11/98 04:03
11/12 '98 FRI 15:45 FAX 2281

2281
FIRST DEPARTMENT

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QUANTITY EXCEPT FORCE MAJEURE WHICH MUST BE PROVED BY THE SELLER AND DELAYS DUE TO CAUSES BEYOND SUPPLIER'S CONTROL ARE NOT LIABLE TO PENALTIES. THE TOTAL AMOUNT OF PENALTY WILL NOT EXCEED 10% (TEN PERCENT) OF VALUE OF UNSHIPED QUANTITY, AND TO BE DEPOSITED IN IRAQ ACCOUNT AT B.N.P. NEW YORK.

ARTICLE (17) WARRANTY:

SELLER GUARANTEE IT'S DIESEL DREDGER UNDER CORRECT USE AND FORMAL WORKING CONDITIONS AGAINST MANUFACTURER DEFECT FOR A PERIOD OF ONE YEAR FROM DATE OF ARRIVAL OR ONE THOUSAND WORKING HOURS WHICHEVER COMES FIRST.

THE GUARANTEE CANNOT BE CALLED IF THE FAILURE IS DUE TO USAGE NOT CONFORMING TO THE SPECIFICATIONS AND INSTRUCTIONS OF THE SELLER OR DUE TO CARELESSNESS OR NEGLIGENCE OR DUE TO AN ACCIDENT. SELLER WILL PROVIDE THREE TECHNICIANS FOR A PERIOD OF SIX MONTHS TO PERFORM START - UP OF EACH DREDGER'S SHIPMENT.

ARTICLE (18) NOTIFICATION OF SHIPMENT:

THE SELLER SHALL ADVISE THE BUYER ABOUT THE SHIPPING SCHEDULE AND ROUTES 10 DAYS BEFORE THE ARRIVAL TIME OF EACH SHIPMENT TO UM QASSER.

ARTICLE (19)

THIS CONTRACT IS SUBJECT TO THE APPROVAL OF THE 661 SECURITY COUNCIL COMMITTEE.

ARTICLE (20)

THE DETAILED TECHNICAL SPECIFICATIONS OF MARIC 90-3231 AND 90-3232 ARE CONFIRMED BY THE BUYER AND THE SELLER SHOULD BE AN INTEGRAL PART OF THIS CONTRACT TAKING INTO CONSIDERATION THE ATTACHED MODIFIED LIST.

ARTICLE (21)

THIS CONTRACT IS SIGNED IN BAGHDAD ON THE 12th OF NOVEMBER 1998

FIRST PARTY (BUYER)
FOR AND ON BEHALF OF
MINISTRY OF IRRIGATION
PLANNING & FOLLOW UP
OFFICE

[Signature]
M. J. ABDULGHANI

SECOND PARTY (SELLER)
FOR AND ON BEHALF OF
SHANGHAI MACHINERY
IMP & EXP (GROUP)
CORP., LTD.

[Signature]
WU LINMEI



101-109 (6-17)

12/11/98 09:07 FAX 2125548800

NEW YORK STATION

12/11/98 04:03
11/12 '98 FRI 15:46 FAX 2281

2281
FIRST DEPARTMENT

2043

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MODIFIED LIST

THE FOLLOWING ITEMS WHICH ARE MENTIONED IN THE
MARIC-98-3232 AND MARIC 98-3231 SHOULD BE
CHANGED AS FOLLOWS :-

ITEM NO.		THE REQUIRED SPECIFICATIONS
6	8	AMERICAN (CUMMINS) DIESEL ENGINE INSTEAD OF MWM FOR THE MAIN , SECONDARY AND PUSHER ENGINE.
6	9	THE MAIN HYDRAULIC PUMP FOR CUTTER HEAD SHOULD BE GERMAN INSTEAD OF CHINESE
1	16	THE MAIN AND SECONDARY GENERATOR SHOULD BE SIEMENS INSTEAD OF LANZO.
1	16	TEETH OF THE CUTTER HEAD SHOULD BE OF THE SORT THAT CAN BE REPLACED AND SHOULD BE OF GERMAN ORIGIN AS WELL AS BEARING.
1	16	THICKNESS OF THE PANTOON PLATE SHOULD BE IN ACCORDANCE WITH THE DIMENSIONS STATED IN THE COMPANY'S LETTER DATED 29-10-1998



[Handwritten signatures and initials]
 126-48 (7-17)

(ENCLOSURE)

CUTTER SUCTION DREDGER SIZE (1000 M³/H)

GENERAL SPECIFICATIONS :

DREDGER CONSTRUCTED ACCORDING TO (MARIC - 98-3231)
MAXIMUM DREDGING DEPTH : 14 M
MEAN DRAUGHT : WITH FULL BUNKERS APPROX 1.6 M
CAPACITY OUTPUT SOLID : 1000 M³/HR AT 500 ML DISCHARGE PIPE
MAXIMUM AMBIENT TEMPERATURE : 55c
MAXIMUM RIVER WATER TEMPERATURE : 32 c

CHARACTERISTICS AND TECHNICAL SPECIFICATIONS :

- DIESEL PORTABLE CUTTER SUCTION DREDGER DESIGNED TO DREDGE IN RIVER FOR DREDGING MEDIUM PLASTIC CLAY WITH NATURAL UNIT SAND.
- THE MANUFACTURE PROCEDURE OF DREDGER TO BE OF CHINESE SHIPYARD STANDARD AND IN ACCORDANCE WITH THE STANDARD OF CCS (CHINA CLASSIFICATION SOCIETY)
- THE DREDGER IS OF THE DISMOUNTABLE TYPE, NON PROPELLED .
- THE HEAVIEST DISMANTABLE PART OF THE DREDGER SHOULD NOT BE MORE THAN 70 TON.
- THE PUMP ROOM IN THE MAIN PONTOON IS EXECUTED AS A WATERTIGHT COMPARTMENT .
- THE HYDRAULIC DRIVEN CUTTER INSTALLATION IS MOUNTED ON THE FRONT SIDE OF THE CUTTER LADDER RENUABLE TEETH OF BOTH SOFT AND HARD CLAY AS WELL AS BEARING OF THE CUTTER HEAD ARE FROM GERMANY.
- THE DIESEL DRIVEN DREDGER PUMP IS MOUNTED IN THE PUMP ROOM OF THE MAIN PONTOON.
- THE GENERATION OF THE HYDRAULIC ENERGY FOR ALL MAIN DRIVES AND THE ELECTRICAL ENERGY FOR THE BOARD CIRCUIT IS PROVIDED BY AN AUXILIARY DIESEL ENGINE WHICH IS INSTALLED IN THE MAIN PONTOON .
- THE DREDGER IS EQUIPPED WITH OPERATORS CABIN MOUNTED ON THE MAIN PONTOON .

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486-46 (8-17)



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NEW YORK STATION
2281
FIRST DEPARTMENT

CHINESE MISSION @020

@045

47

ACCESSORIES

- 350 M FLOATING PIPE LINE (INCLUDING PONTONS AND FLEXIBLE HOSE AND 150M SHORE PIPE LINE . QUANTITY 4 SET (ONE FOR EACH DREDGER)
- THE PUSHER EQUIPED WITH DIESEL ENGINE AND CAN LOAD 5M3 OF FRESH WATER AND 5M3 FUEL OIL WITH PUMPS AND IT'S ACCESSORIES) QUANTITY : 3 UNIT ONLY (FOR 4 DREDGERS) WITH DIESEL ENGINE OF SUITABLE POWER TO DRIVE DREDGER AGAINST RIVER WATER STREAM. THE PUSHER IS EQUIPPED WITH 3 TON CRANE .
- SERVICE RUBBER BOAT (WITHOUT ENGINE) .
- QUANTITY : 4 UNIT (ONE FOR EACH DREDGER) .
- TOOLS , SPECIAL TOOLS AND ANY NECESSARY TOOLS FOR REPAIRING AND ADJUSTING , DISMOUNTLING THE PARTS OF THE DREDGER .
- QUANTITY : 4 SET (ONE SET FOR EACH DREDGER)

SPARE PARTS FOR EACH DREDGERS ACCORDING TO ATTACHED LIST

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FIRST DEPARTMENT

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48

- THE DREDGER IS EQUIPPED WITH LIVING ROOM FOR (10) WORKERS WITH IT'S FURNITURE KITCHEN AND AIR CONDITION .
- THE DREDGER IS EQUIPPED WITH ANCE OR BOOM DEVICE .
- THE DREDGER IS EQUIPPED WITH MAIN GENERATOR (SIEMENS) , PORT GENERATOR (15KVA) AND PORTABLE GENERATOR (5KVA) .
- THE DREDGER IS EQUIPPED WITH DECK CRANE SUITABLE FOR LIFTING DREDGER PUMP PARTS .
- THE TANK FOR OIL , WATER , USED OIL AND HYDRAULIC OIL ARE INTEGRATED IN THE SHIP'S CONSTRUCTION .
- MAIN ENGINE IS DIESEL ENGINE , COOLED WATER TYPE AMERICAN CUMMINS SUITABLE TO DRIVE THE DREDGE PUMP .
- MAIN BOARD SUPPLY VOLTAGE IS 3PH, 400/230V , 50HZ .
- AUXILIRAY DIESEL ENGINE TYPE : AMERICAN CUMMINS FRESH WATER COOLED .
- MAIN HYDRAULIC PUMP IS GENUINE PARTS (FROM GERMANY) .
- WATER COOLING SYSTEM : EACH DIESEL ENGINE IS CONNECTED TO THE COOLING WATER SYSTEM WITH GALVANISED BOX COOLER .

TESTING AND TRIALS

THE DREDGER WILL BE TESTED BEFORE DELIVERY.
THE TEST WILL TAKE PLACE NEAR THE YARD IN THE PRESENCE OF A REPRESENTATIVE OF THE OWNER.
TESTING IMPLIES :

SHORE TRIALS
FUNCTION TEST OF ALL EQUIPMENT.
INCLINING TEST REPORT .

DREDGING TRIALS
DREDGING TRIALS WILL BE CARRIED OUT WITH ALL DREDGING EQUIPMENT IN OPERATION.

CHECKING TRIALS
THE REASSEMBLING OF THE DREDGER AT IT'S WORKING SITE WILL BE CARRIED OUT UNDER SUPERVISION OF REPRESENTATIVE OF THE YARD .

48-48



(10-17)

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FIRST DEPARTMENT

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49

(ENCLOSURE)

CUTTER SUCTION DREDGER SIZE (500 M3/H)

GENERAL SPECIFICATIONS:

DREDGER CONSTRUCTED ACCORDING TO (MARIC - 98-3232)
MAXIMUM DREDGING DEPTH : NOT LESS THAN 8 M
MEAN DRAUGHT : WITH FULL BUNKERS APPROX 1.2 M
CAPACITY OUTPUT SOLID : 500 M3/HR AT 800 M.L. DISCHARGE PIPE.
MAXIMUM AMBIENT TEMPERATURE : 55c
MAXIMUM RIVER WATER TEMPERATURE : 32 c

CHARACTERISTICS AND TECHNICAL SPECIFICATIONS:

- DIESEL PORTABLE CUTTER SUCTION DREDGER DESIGNED TO DREDGE IN RIVER FOR DREDGING MEDIUM PLASTIC CLAY WITH NATURAL UNIT SAND.
- THE MANUFACTURE PROCEDURE OF DREDGER TO BE OF CHINESE SHIPYARD STANDARD AND IN ACCORDANCE WITH THE STANDARD OF CCS (CHINA CLASSIFICATION SOCIETY)
- THE DREDGER IS OF THE DISMOUNTABLE TYPE, NON PROPELLED .
- THE HEAVIEST DISMANTABLE PART OF THE DREDGER SHOULD NOT BE MORE THAN 70 TON .
- THE PUMP ROOM IN THE MAIN PONTOON IS EXECUTED AS A WATERTIGHT COMPARTMENT .
- THE HYDRAULIC DRIVEN CUTTER INSTALLATION IS MOUNTED ON THE FRONT SIDE OF THE CUTTER LADDER RENUABLE TEETH OF BOTH SOFT AND HARD CLAY AS WELL AS BEARING OF THE CUTTER HEAD ARE FROM GERMANY .
- THE DIESEL DRIVEN DREDGER PUMP IS MOUNTED IN THE PUMP ROOM OF THE MAIN PONTOON.
- THE GENERATION OF THE HYDRAULIC ENERGY FOR ALL MAIN DRIVES AND THE ELECTRICAL ENERGY FOR THE BOARD CIRCUIT IS PROVIDED BY AN AUXILIARY DIESEL ENGINE WHICH IS INSTALLED IN THE MAIN PONTOON .
- THE DREDGER IS EQUIPPED WITH OPERATORS CABIN MOUNTED ON THE MAIN PONTOON .
- THE DREDGER IS EQUIPPED WITH LIVING ROOM FOR (10) WORKERS WITH IT'S FURNITURE KITCHEN AND AIR CONDITION .

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FIRST DEPARTMENT

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- THE DREDGER IS EQUIPPED WITH ANCHOR BOOM DEVICE .
- THE DREDGER IS EQUIPPED WITH MAIN GENERATOR (SIEMENS), PORT GENERATOR (15KVA) AND PORTABLE GENERATOR (5KVA).
- THE DREDGER IS EQUIPPED WITH DECK CRANE SUITABLE FOR LIFTING DREDGER PUMP PARTS.
- THE TANK FOR OIL, WATER, USED OIL AND HYDRAULIC OIL ARE INTEGRATED IN THE DREDGER'S CONSTRUCTION .
- MAIN ENGINE IS DIESEL ENGINE, WATER COOLED TYPE AMERICAN CUMMINS SUITABLE TO DRIVE THE DREDGE PUMP.
- MAIN BOARD SUPPLY VOLTAGE IS 3PH, 400/230V, 50HZ.
- AUXILIARY DIESEL ENGINE TYPE : AMERICAN CUMMINS FRESH WATER COOLED .
- MAIN HYDRAULIC PUMP IS GENUINE PARTS (FROM GERMANY).
- COOLING WATER SYSTEM : EACH DIESEL ENGINE IS CONNECTED TO THE COOLING WATER SYSTEM WITH GALVANISED BOX COOLER .

TESTING AND TRIALS

THE DREDGER WILL BE TESTED BEFORE DELIVERY.
THE TEST WILL TAKE PLACE NEAR THE YARD IN THE PRESENCE OF A REPRESENTATIVE OF THE OWNER.
TESTING IMPLIES :

SHORE TRIALS
FUNCTION TEST OF ALL EQUIPMENT.
INCLINING TEST REPORT .

DREDGING TRIALS
DREDGING TRIALS WILL BE CARRIED OUT WITH ALL DREDGING EQUIPMENT IN OPERATION.

CHECKING TRIALS
THE REASSEMBLING OF THE DREDGER AT IT'S WORKING SITE WILL BE CARRIED OUT UNDER SUPERVISION OF REPRESENTATIVE OF THE YARD .

ACCESSORIES

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(12-17)



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FIRST DEPARTMENT

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- 350 M FLOATING PIPE LINE (INCLUDING PONTONS AND FLEXIBLE HOSE AND 150M SHORE PIPE LINE . QUANTITY 4 SET (ONE FOR EACH DREDGER)
- THE PUSHER IS EQUIPED WITH DIESEL ENGINE . CAN LOAD 5M3 OF FRESH WATER AND 5M3 FUEL OIL WITH PUMPS AND IT'S ACCESSORIES) QUANTITY : 3 UNIT ONLY (FOR 4 DREDGERS) WITH DIESEL ENGINE OF SUITABLE POWER TO DRIVE DREDGER AGAINST WATER RIVER STREAM . THE PUSHER IS EQUIPPED WITH 3 TON CRANE .
- SERVICE RUBBER BOAT (WITHOUT ENGINE) .
- QUANTITY : 4 UNIT (ONE FOR EACH DREDGER) .
- TOOLS , SPECIAL TOOLS AND ANY NECESSARY TOOLS FOR REPAIRING AND ADJUSTING , DISMOUNTING THE PARTS OF THE DREDGER . QUANTITY : 4 SET (ONE SET FOR EACH DREDGER)

SPARE PARTS FOR EACH DREDGERS ACCORDING TO ATTACHED LIST

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(13-17)

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SPARE PART LIST FOR EACH DREDGER

A CUTTER EQUIPMENT		
1	CUTTER HEAD	(1) UNIT
2	TEETH FOR BOTH OF SOFT & HARD CLAY TYPE	(8) SET
3	CUTTER BEARING WITH SEALS	(1) SET
B DREDGING PUMP		
1	PUMP HOUSING	(1)
2	IMPELLER	(2)
3	WEARING PLATE SUCTION SIDE	(4)
4	WEARING PLATE DISCHARGE SIDE	(4)
5	WEARING SLEEVE SUCTION INLET	(2)
6	COLLAR RING	(4)
7	BEARING UNIT COMPLETE	(2) SETS
8	SEALING SUCTION SIDE	(2) SETS
9	SHAFT SEALING COMPLETE	(4) SETS
C GEAR BOX		
1	BEARING	(1) SETS FOR EACH GEAR BOX
2	O RING	(4) SETS
1	FLEXIBLE COUPLING BETWEEN DREDGING PUMPS & ENGINE	(1) SET
2	FLEXIBLE COUPLING BETWEEN HYDRULIC PUMP GEARBOX & ENGINE	(1) SET
1	EXHAUST VALVE ASSEMBLY	(1) SET FOR EACH ENGINE
2	SCAVENGE VALVE ASSEMBLY	(1) SET FOR EACH ENGINE
3	STARTER ASSEMBLY	(1) SET FOR EACH ENGINE
4	FRESH WATER COOLING PUMP	(1) PC. ENGINE

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(14-17)

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PHASE IV

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NEW YORK STATION
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 FIRST DEPARTMENT

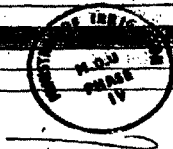
- CHINESE MISSION @026

@054

5	FRESH WATER COOLING PUMP R.KIT	(2) SETS FOR EACH ENGINE
6	LUBRICATION OIL PUMP R.KIT	(1) SET FOR EACH ENGINE
7	OIL PUMP COMPLETE	(1) PC FOR EACH ENGINE
8	CYLINDER LINER COMPLET WITH PACKING RING	(1) SET EACH ENGINE
9	CYLINDER COVER COMPLET	($\frac{1}{2}$) SET FOR EACH ENGINE
10	EXHUST VALVE	(1) SET FOR EACH ENGINE
11	VALVE GUIDE	(1) SET / ENGINE
12	IN TAKE VALVE	(1) SET / ENGINE
13	O-RING	(2) SETS / ENGINE
14	CYLINDER VALVE ASSEMBLY	(1) SET FOR EACH ENGINE
15	GASKET KIT	(2) SET FOR EACH ENGINE
16	MAIN BEARINGS COMPLET	1 SET FOR EACH ENGINE
17	PISTON ASSEMBLY CONSIST OF :	
18	PISTON	(1) SET / ENGINE
19	CONNECTION ROD	($\frac{1}{2}$) SET / ENGINE
20	PISTON RING	(2) SETS / ENGINE
21	BOLTS , NUTS & PISTON PIN	(1) SET FOR EACH ENGINE
22	CONNECTING ROD BEARING	(1) SET FOR EACH ENGINE
23	FUEL OIL PUMP ASSEMBLY	(1) SET FOR EACH ENGINE
24	INJECTION FULE PIPE WITH CONNECTIONS	(1) SET FOR TWO ENGINE
25	REPAIR KIT	(1) SET FOR EACH TURBO CHARGER
26	TURBOCHARGER COMPLETE	(1) PC FOR EACH ENGINE
1	BEARING	(1) SET FOR EACH ENGINE
2	PRINT CARD RELAY	(1) SET FOR EACH GENERATOR
1	THERMOMETER	(1) SET
2	PRESSURE GAUGES	(1) SET
1	GLAND PUMP ASSEMBLY	(1) PC
2	REPIAR KIT FOR GLAND PUMP	(2) SETS
1	FLUSHING PUMP ASSEMBLY	(1) PC
2	REPAIR KIT FOR FLUSHING PUMP	(2) SETS
1	HYDRAULIC PUMP ASSEMBLY	(3) SETS

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- CHINESE MISSION @027

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FIRST DEPARTMENT

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2	REPAIR KIT FOR HYDRAULIC MOTOR	(2) SETS /MOTOR
3	HYDRAULIC MOTER ASSEMBLY	(2) SETS FOR EACH TYPE
4	HYDRAULIC VALVE	(1) SET
5	SOLENOIDS	(2) SETS
6	HIGH PRESSURE HYDRAULIC HOSES	(4) PC _s FOR EACH TYPE
7	HYDROLIC CONNECTION	(1) SET
8	SEALING RINGS	(1) SET FOR EACH SPUD CYLINDER
9	WEARING PARTS FOR HYDRAULIC MOTOR	(1) SET FOR EACH MOTOR
10	HYDROLIC MOTOR BEARING	(2) SETS
ELECTRIC		
1	BEARING	(1) SET FOR EACH ELECTRIC MOTOR
2	SWITCHES	(1) SET
3	FUSES	(10) SETS
4	RELAY CONTACTORS	(5) PC _s
5	SWICH PUSHBUTTONS INDICATO - LAMP	(3) SETS
WIRE		
1	SWING WIRE	(4) PC _s
2	CUTTER LADDER HOISTING WIRE	(2) PC _s FOR EACH DREDGER
3	SPUD HOISTING WIRE	(4) PC _s
4	ANCKOR HOISTING WIRE	(4) PC _s FOR EACH
5	RUBBER HOSE	(5) PC _s FOR EACH LINE

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(16-17)



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FIRST DEPARTMENT

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SPARE PART FOR EACH PUSHER BOAT

NO.	DISCRIPTION	QUANTITY
1	ENGINE	
A	SPARE PART FOR OVERALL	(1) SET PER ENGINE
2	PUSHERS	
A	SPARE PART FOR OVERALL	(1) SET
B	IMPELLER	
3	STEERING SYSTEM REPAIR KIT	(1) SET
4	ELECTRICAL INSTALATION REPAIR KIT	(1) SET
5	OIL PUMP AND IT'S DRIVE REPAIR KIT	(1) SET
6	WATER PUMP AND IT'S DRIVE REPAIR KIT	(1) SET
7	DISCHARGE PIPE LINE	
A	RUBBER HOSE BETWEEN LADDER AND HULL	(1) SET

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(17-17)



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FIRST DEPARTMENT

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AGREEMENT BETWEEN
THE MINISTRY OF IRRIGATION
BAGHDAD - IRAQ
ASBUYER

SHANGHAI MACHINERY
IMP & EXP (GROUP)
CORP., LTD
CHINA
ASSELLER

THE TWO PARTIES AGREED UPON THE FOLLOWINGS :

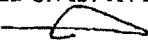
ARTICLE (1)

THE SELLER UNDERTAKES TO SUBMIT CONTRACT NO . IRR (MOU/4/22/98 TO THE UN COMMITTEE (661) THROUGH THE OFFICAL CHANNELS WITHIN A PERIOD NOT MORE THAN (3) THREE WEEKS FROM DATE OF SIGNING CONTRACT AND CONFIRM THAT TO BUYER BY SENDING COPY OF THE APPLICATION .

ARTICLE (2)

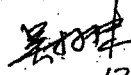
IN CASE SELLER FAILS TO ACT AS ABOVE ARTICLE , THE BUYER HAS THE RIGHT TO CANCEL THE CONTRACT .

SIGNED ON 12 / 11 / 1998 AT BAGHDAD


M.J. ABDULGHANI
THE BUYER

MINISTRY OF IRRIGATION
PLANNING AND FOLLOW UP OFFICE




12-11-1998
THE SELLER

SHANGHAI MACHINERY
IMP & EXP (GROUP)
CORP., LTD
CHINA.

95-56

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NEW YORK STATION

FEDERAL BUREAU OF INVESTIGATION

12/11/98 04:13
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FIRST DEPARTMENT

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TO THE SECURITY COUNCIL(661) COMMITTEE

**THIS IS TO CONFIRM THAT THE MINISTRY OF IRRIGATION, OF THE
REPUBLIC OF IRAQ , HAVE CONCLUDED THE FOLLOWING
CONTRACT**

- 1. CONTRACT** IRR (MOU/4) / 22 / 1998
- 2. CONTRACTING PARTY** MINISTRY OF IRRIGATION
REPUBLIC OF IRAQ
&
SHANGHAI MACHINERY
IMP & EXP (GROUP)
CORP .LTD. CHINA
- 3. TOTAL VALUE** US 12373000(UNITED STATE
TWELVE MILLION AND
THREE HUNDRED AND SEVENTY
THREE THOUSAND U.S DOLLARS
ONLY)
- 4. GOODS** DIESIL DREDGERS WITH
ACCESSORIES AND SPARE
PARTS.
- 5. CODE NO.** ACCORDING TO ANNEX 05-07-0003
ACCORDING TO APPENDIX 7 05-07-00020 & 05-07-00021
- 6. QUANTITY** (4) DIESIL DREDGERS (500m3/H)
(4) DIESIL DREDGERS (1000m3/H)
- 7. EXPORTING COUNTRY** CHINA
- 8. ENTRY POINT** UM QASSER PORT
IRAQ.

886-57

12-11-98

M.J. ABDEL-SHANI
DIRECTOR GENERAL



12/11/98 09:04 FAX 2125648860 NEW YORK STATION CHINESE MISSION @010
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FORM 1153

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661(1990)
 CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT
NOTIFICATION OR REQUEST TO SHIP GOODS TO IRAQ

16/12/98
~~4863~~ 50122 (TO BE COMPLETED BY THE SECRETARIAT)
 COMM No. REGISTRATION DATE DEADLINE FOR OBJECTIONS

(TO BE COMPLETED BY PROSPECTIVE EXPORTING COUNTRY or INTL ORG)
 1. MISSION OR INTERNATIONAL ORGANIZATION CERTIFYING SIGNATURE AND OFFICIAL SEAL
 Chinese mission to UN

2. DATE OF SUBMISSION *Dec. 11, 1998* 3. MISSION REFERRING No. *98131*

4a. SECTOR/ITEM CODE(S) (S986)	5. GOODS TO BE SHIPPED (Name and/or description. Attach additional sheet if necessary)	6. QUANTITY IN NUMBER	7. UNIT OF MEASUREMENT	8. VALUE PER ITEM	9. TOTAL VALUE	10. COMB. MERCH. NO. CODES
1a. 08-07-00020	Diesel Dredger Cutter Section Dredger(500M3/H) With Their Accessories and Spare Parts	4	PCE	1,344,000.-	5,376,000.-	USD
1b. 800410						
2a. 08-07-00021	Diesel Dredger Cutter Section Dredger(1000M3/H) With Their Accessories and Spare Parts	4	PCE	1,749,250.-	6,997,000.-	USD
2b. 800410						
Total Price CIF UM Qassar port					12,373,000.-	USD

11. EXPORTER Name and Address:
 SHANGHAI MACHINERY IMP. & EXP.(GROUP) CORP., LTD.
 SMREC Mansion, 445 Jiangning Road, Shanghai 200041, China
 TEL: 86 21 62711556 FAX: 86 21 62718664
 CABLE: MACHINIMPEX SHANGHAI
 TELEX: 33066 SHCMC CN

12. ORIGIN of GOODS (if different from applicant state)
 P. R. China

13. RECEIVING COMPANY/ORG. Name and Address
 The Ministry of Irrigation, Planning and Following Up Office, Palestine ST., Baghdad, Iraq

14. SHIPPING ARRANGEMENTS:
 a) Border point or port of entry into Iraq: UM-QABR

14.b) Means of transportation: SHIP 14.c) Other information (e.g. route, major port, etc.)
 From Chinese Main Port to UM Qassar

From the Iraq Account in accordance with SC resolution 986 (1995) (Relevant documentation including contract(s) must be attached) 15. METHOD OF PAYMENT By other arrangement (provide as many detail as possible)

16. ADDITIONAL INFORMATION:
 End-use: The dredger to be used for dredging the river, i.e. Euphrates, Tigris
 End-user: Local authority of the Ministry of Irrigation

IMPORTANCE NOTICE

1. Provide only one item per line in Box 5.
2. Sector/Item Codes (Box 4a) are mandatory, and are found in the Annexes to the Distribution Plan of SCR 986.
3. HS Tariff Codes (Box 4b), if used, must be 6 digit codes of the International Harmonized System of Tariff Nomenclature as determined by the Customs Co-Operation Council in Brussels, Belgium.
4. Information entered must match shipping documents presented to customs officials.
5. Incomplete, incorrect or illegible application will be returned by the Committee's Secretariat for completion.

486-37

**REPORT CONCERNING REQUEST TO SHIP GOODS TO IRAQ IN ACCORDANCE WITH
RESOLUTION 986 (1995)**

MISSION: CHINA

EXPORTER: SHANGHAI MACHINERY IMP&EXP. (GROUP) CORP., LTD.

RECEIVING COMPANY: THE MINISTRY OF IRRIGATION

GOODS: DIESEL DREDGERS WITH ACCESSORIES AND SPARE PARTS

.....
The application has been examined, taking into account paragraph 32, and in accordance with paragraph 33 of the Procedures to be employed by the Security Council Committee established by Resolution 661 (1990) concerning the situation between Iraq and Kuwait in the discharge of its responsibilities as requested by paragraph 12 of Security Council Resolution 986 (1995). Specifically, this application has been examined to establish whether the price and value is credible and whether the items to be exported are in the distribution plan annexes. Additionally, the application has been examined to determine whether all relevant details have been submitted with the application.
.....

GOODS ON THE DISTRIBUTION PLAN : Yes, and are within the quantities amounts requested.

PRICING: The item price and value have been examined as per paragraph 33 of the Procedures. Price evaluation for this commodity is rather difficult and the value compared to world market prices must be considered as high.

Comment: The Committee may wish to be informed that this contract application was originally received under Phase IV and assigned Comm # 4863. The Customs Officer's report was not issued due to pricing inquiries.
The GOI has subsequently requested that this contract be transferred to and funded from available, Phase V revenues.

DATE OF CUSTOMS OFFICER'S REPORT: 06/05/99

DATE SUBMITTED FOR CIRCULATION: 10/05/99

Reporting Officer : U. CHRISTEN

Check Officer: J. OWEN



CHART 1

500M ³ /H CUTTER SUCTION DREDGER PRICE BREAKDOWN						
ITEM	DESCRIPTION	COST (EX WORKS)	INSURANCE	FREIGHT (INCLUDING DISMANTLING, PACKING AND LIFTING)	UNIT PRICE (USD) CIF UN CASSEY PORT	
1	DIESEL DREDGER CUTTER SECTION DREDGER 500M ³ /H	801,130.00	5,820.00	63,650.00	970,000.00	
2	PIPE LINE (INCLUDING 360M FLOATING PIPE LINE AND 150M SHORE PIPE LINE)	125,415.00	810.00	8,775.00	135,000.00	
3	PUSHER SERVICE RUBBER BOAT (WITHOUT ENGINE)	120,770.00	780.00	8,450.00	130,000.00	
4		1,393.50	9.00	87.50	1,590.00	
5	SPEAR PARTS	102,180.00	860.00	7,150.00	110,000.00	
	TOTAL	1,250,888.50	8,079.00	87,522.50	1,346,500.00	

050129
27-11-22

上海机械公司对报价船公司
所做证明

CHART 2

1000M ³ /H CUTTER SUCTION DREDGER PRICE BREAKDOWN					
ITEM	DESCRIPTION	COST(EX WORKS)	INSURANCE	FREIGHT(INCLUDING DISMANTLING, PACKING AND LIFTING)	UNIT PRICE (USD) CIF UM QASSER PORT
1	DIESEL DREDGER CUTTER SECTION DREDGER 1000M ³ /H	1,205,377.50	7,785.00	84,337.50	1,297,500.00
2	PIPE LINE (INCLUDING 350M FLOATING PIPE LINE AND 150M SHORE PIPE LINE)	183,477.50	1,185.00	12,837.50	197,500.00
3	PUSHER	130,060.00	840.00	9,100.00	140,000.00
4	SERVICE RUBBER BOAT (WITHOUT ENGINE)	1,393.50	9.00	97.50	1,500.00
5	SPEAR PARTS	109,389.75	706.50	7,653.75	117,750.00
	TOTAL	1,629,698.25	10,525.50	114,026.25	1,754,250.00

050129

CHART 3

PRICE BREAKDOWN FOR DREDGER AND PUSHER BOAT (EX WORKS PRICE IN USD TERMS)							
CONTENTS	1000M ³ /H	500M ³ /H	PUSHER FOR 1000M ³ /H	PUSHER FOR 500M ³ /H	REMARKS (INCLUDING)		
1 MAIN RAW MATERIAL	130,000.00	100,000.00	24,000.00	23,500.00	steel, wood, cable, oil, painting		
2 DESIGN & YARD CHARGE	115,000.00	90,000.00	18,000.00	18,000.00	basic design, working & production design fee, lofting fee, berth fee, inclining test fee, insurance class fee		
3 OUTFITTING	42,000.00	34,000.00	2,500.00	2,400.00	anchor, anchor chain, steel wire, door, windows, manhole covers, work pile, sanitary installation, furniture and bed		
MACHINERY AND ELECTRIC EQUIPMENT	520,000.00	400,000.00	53,000.00	52,000.00	diesel engine, gearbox, oil pump, coupling, generators, water pump, oil separator, main switchboard, navigation & communication equipment, light, fans, dredger pump, cutter, winch, air-condition.		
4 LIFE SAVING & FIRE FIGHTING EQUIPMENT	1,500.00	900.00	500.00	500.00	life buoy, life jacket, extinguisher		
5 AUXILIARY MATERIALS	12,000.00	8,500.00	1,200.00	1,200.00	ore, gas, fastener		
6 LABOUR COST	259,877.50	177,730.00	30,860.00	23,170.00			
MISCELLANEOUS CHARGES	125,000.00	90,000.00			loan interests, local transportation, unforeseen fee		
TOTAL	1,205,377.50	901,130.00	130,060.00	120,770.00			

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**PERMANENT MISSION OF THE PEOPLE'S REPUBLIC OF CHINA
TO THE UNITED NATIONS**

OUTGOING FACSIMILE

YK/Jo/SW

DATE: 02 February 1999

TO: OIP	FROM: CONG GUANG Second Secretary
FAX NO: (212) <i>9634083</i>	FAX NO: 212-634-7625 TEL NO: 212-655-6182
ATTN: V.P. Kulyk	RE: Comm.4863
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 9	

Dear Mr. Kulyk,

I am enclosing herewith the additional information for the Chinese application with the Comm. No.4463.

Regards,


Cong Guang

price breakdown

ITEM	DESCRIPTION	QTY	UNIT PRICE (USD) CIF U/M QASBER PORT	TOTAL PRICE (USD) CIF U/M QASBER PORT	REMARK
1	DIESEL DREDGER CUTTER SECTION DREDGER 500M ³ /H PIPE LINE (INCLUDING 300M FLOATING PIPE LINE AND 150M SHORE PIPE LINE)	4	870,000.00	3,480,000.00	
2		4	135,000.00	540,000.00	
3	PUSHER	3	130,000.00	390,000.00	
4	SERVICE RUBBER BOAT (WITHOUT ENGINE)	4	1,500.00	6,000.00	
5	SPEAR PARTS	4	110,000.00	440,000.00	BREAKDOWN PRICE LIST FOR SPEAR PARTS AS PER ATTACHED
6	SERVICE CHARGE (3 TECHNICIAN/ MONTH)	-	-	120,000.00	
				GRAND TOTAL USD\$ 576,000.- CIF U/M QASBER PORT	

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500M³ SPARE PARTS LIST FOR EACH DREDGER

NO.	ITEM	QTY.	SUB TOTAL (USD)
A	CUTTER EQUIPMENT		
1	CUTTER HEAD	(1) UNIT	4,096.39
	TEETH FOR BOTH OF SOFT & HEAD		
2	CLAY TYPE	(8) SET	7,228.88
3	CUTTER BEARING WITH SEALS	(1) SET	150.48
B	MIXTURE SUCTION ROSE	(1) SET	481.93
C	DREDGING PUMP		
1	PUMP HOUSING	(1)	
2	IMPELLER	(2)	
3	WEARING PLATE SUCTION SIDE	(4)	
4	WEARING PLATE DISCHARGE SIDE	(4)	
5	WEARING SLAVE SUCTION INLET	(2)	
6	COLLAR RING	(4)	
7	BEARING UNIT COMPLETE	(2) SETS	
8	SEALING SUCTION SIDE	(2) SETS	
9	SHAFT SEALING COMPLETE	(4) SETS	
	GEARBOX FOR DREDGE PUMP & HYDRAULIC PUMPS:		
1	BEARING	(1) SETS FOR EACH GEAR BOX	387.59
2	O RING	(4) SETS	12.06
E	TRANSMISSION SYSTEM		
	FLEXIBLE COUPLING BETWEEN DREDGING PUMPS & ENGINE		
1	FLEXIBLE COUPLING BETWEEN HYDRAULIC PUMP GEARBOX & ENGINE	(1) SET	3,132.53
2	ENGINE	(1) SET	1,897.23
F	MAIN ENGINE & AUX. ENGINE		
1	EXHAUST VALVE ASSEMBLY	(1) SET FOR EACH ENGINE	
2	SCAVENGE VALVE ASSEMBLY	(1) SET FOR EACH ENGINE	518.07
3	STARTER ASSEMBLY	(1) SET FOR EACH ENGINE	
4	FRESH WATER COOLING PUMP	(1) FC. ENGINE	1,445.78

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5	FRESH WATER COOLING PUMP R KIT	(2) SETS FOR EACH ENGINE	
6	LUBRICATION OIL PUMP R KIT	(1) SET FOR EACH ENGINE	130.48
7	OIL PUMP COMPLETE	(1) PC FOR EACH ENGINE	2,638.80
	CYLINDER LINER COMPLETE WITH		
8	PACKING RING	(1) SET FOR EACH ENGINE	
9	CYLINDER COVER COMPLETE	(1/4) SET FOR EACH ENGIN	
10	EXHAUST VALVE	(1) SET FOR EACH ENGINE	
11	VALVE GUIDE	(1) SET FOR EACH ENGINE	2,409.64
12	IN TAKE VALVE	(1) SET/ENGINE	
13	O-RING	(2) SETS/ENGINE	
14	CYLINDER VALVE ASSEMBLY	(1) SET FOR EACH ENGINE	
15	GASKET KIT	(2) SET FOR EACH ENGINE	
16	MAIN BEARINGS COMPLETE	(1) SET FOR EACH ENGINE	1,204.62
17	PISTON ASSEMBLY CONSIST OF:		
18	PISTON	(1) SET/ENGINE	602.41
19	CONNECTION ROD	(1/2) SET/ENGINE	130.48
20	PISTON RING	(2) SETS/ENGINE	156.63
21	BOLTS, NUTS & PISTON PIN	(1) SET FOR EACH ENGINE	130.48
22	CONNECTING ROD BEARING	(1) SET FOR EACH ENGINE	130.48
23	FUEL OIL PUMP ASSEMBLY	(1) SET FOR EACH ENGINE	3,614.46
	INJECTION FLUB PIPE WITH		
24	CONNECTIONS	(1) SET FOR TWO ENGINE	240.96
		(1) SET FOR EACH TURBO	
25	REPAIR KIT	CHARGER	120.48
26	TURBOCHARGER COMPLETE	(1) PC FOR EACH ENGINE	2,168.67
G	GENERATOR:		
1	BEARING	(1) SET FOR EACH ENGINE	24.10
		(1) SET FOR EACH	
2	PRINT CARD RELAY	GENERATOR	24.10
H	VARIOUS		
1	THERMOMETER	(1) SET	130.48
2	PRESSURE GAUGES	(1) SET	130.48
I	GLAND PUMP		
1	GLAND PUMP ASSEMBLY	(1) PC	3,614.46
2	REPAIR KIT FOR GLAND PUMP	(2) SETS	130.48
J	FLUSHING PUMP		
1	FLUSHING PUMP ASSEMBLY	(1) PC	722.60
2	REPAIR KIT FOR FLUSHING PUMP	(2) SETS	130.48
K	HYDRAULIC INSTALLATION:		
1	HYDRAULIC PUMP ASSEMBLY	(2) SETS	3,978.90

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2	REPAIR KIT FOR HYDRAULIC MOTOR	(2) SETS/MOTOR	120.48
3	HYDRAULIC MOTOR ASSEMBLY	(2) SETS FOR EACH TYPE	7,890.38
4	HYDRAULIC VALVE	(1) SET	
5	SOLENOIDS	(2) SETS	
6	HIGH PRESSURE HYDRAULIC HOSES	(4) PCS FOR EACH TYPE	
7	HYDRAULIC CONNECTION	(1) SET	
8	SEALING RINGS	(1) SET FOR EACH SPUD CYLINDER	19,277.11
9	WEARING PARTS FOR HYDRAULIC MOTOR	(1) SET FOR EACH MOTOR	
10	HYDRAULIC MOTOR BEARING	(2) SETS	
L	ELECTRIC SYSTEM:		
1	BEARING	(1) SET FOR EACH ELE. MOTOR	
2	SWITCHES	(1) SET	
3	FUSES	(10) SETS	
4	RELAY CONTACTORS	(5) PCS	722.89
5	SWITCH PUSHBUTTONS INDICATE LAMP	(3) SETS	
M	STEEL WIRE:		
1	SWING WIRE	(4) PCS	843.37
2	CUTTER LADDER HOISTING WIRE	(2) PCS FOR EACH DREDGER	409.64
3	SPUD HOISTING WIRE	(4) PCS	313.25
4	ANCHOR HOISTING WIRE	(4) PCS FOR EACH	240.95
6	RUBBER HOSE	(5) PCS FOR EACH LINE	1,445.78
			104,874.70
500M ² SPARE PART FOR EACH PUSHER BOAT			
NO.	DESCRIPTION	QUANTITY	SUB TOTAL (USD)
1	ENGINE		
A	SPARE PART FOR OVERALL	(1) SET/ENGINE	
2	PUSHERS		
A	SPARE PART FOR OVERALL	(1) SET	
B	IMPELLER		
3	STEERING SYSTEM REPAIR KIT	(1) SET	
4	ELECTRICAL INSTALLATION REPAIR KIT	(1) SET	
5	OIL PUMP AND ITS DRIVE REPAIR KIT	(1) SET	5,325.30
6	WATER PUMP & ITS DRIVE REPAIR KIT	(1) SET	
7	DISCHARGE PIPE LINE		
A	RUBBER HOSE BETWEEN LADDER AND HULL	(1) SET	
		TOTAL:	110,000.00

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price breakdown

ITEM	DESCRIPTION	QTY	UNIT PRICE (USD) CIF UN CASSEY PORT	TOTAL PRICE (USD) CIF UN CASSEY PORT	REMARK
1	DIESEL DREDGER CUTTER SECTION DREDGER 100MM PIPE LINE (INCLUDING 350M FLOATING PIPE LINE AND 150M SHORE PIPE LINE)	4	1,297,500.00	5,190,000.00	
2		4	197,500.00	790,000.00	
3	PUSHER	3	140,000.00	420,000.00	
4	SERVICE RUBBER BOAT (WITHOUT ENGINE)	4	1,500.00	6,000.00	
5	SPEAR PARTS	4	117,750.00	471,000.00	BREAKDOWN PRICE LIST FOR SPEAR PARTS AS PER ATTACHED
6	SERVICE CHARGE 3 TECHNICIAN 6 MONTHS	-	-	120,000.00	
				GRAND TOTAL USD6,987,000.- CIF UN CASSEY PORT	

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1000M³ SPARE PARTS LIST FOR EACH DREDGER

NO.	ITEM	QTY.	SUB TOTAL (USD)
A	CUTTER EQUIPMENT		
1	CUTTER HEAD	(1) UNIT	4,457.83
2	TEETH FOR BOTH OF SOFT & HEAD CLAY TYPE	(8) SET	7,348.40
3	CUTTER BEARING WITH SEALS	(1) SET	180.48
B	MIXTURE SUCTION NOSE	(1) SET	602.41
C	DREDGING PUMP		
1	PUMP HOUSING	(2)	
2	IMPELLER	(2)	
3	WEARING PLATE SUCTION SIDE	(4)	
4	WEARING PLATE DISCHARGE SIDE	(4)	
5	WEARING SLEEVE SUCTION INLET	(2)	
6	COLLAR RING	(4)	
7	BEARING UNIT COMPLETE	(2) SETS	
8	SEALING SUCTION SIDE	(2) SETS	
9	SHAFT SEALING COMPLETE	(4) SETS	
	GEARBOX FOR DREDGE PUMP & HYDRAULIC PUMPS:		
1	BEARING	(1) SETS FOR EACH GEAR BOX	445.78
2	O RING	(4) SETS	34.10
E	TRANSMISSION SYSTEM		
1	FLEXIBLE COUPLING BETWEEN DREDGING PUMPS & ENGINE	(1) SET	3,253.01
2	FLEXIBLE COUPLING BETWEEN HYDRAULIC PUMP GEARBOX & ENGINE	(1) SET	1,897.23
F	MAIN ENGINE & AUX. ENGINE		
1	EXHAUST VALVE ASSEMBLY	(1) SET FOR EACH ENGINE	
2	SCAVENGE VALVE ASSEMBLY	(1) SET FOR EACH ENGINE	518.07
3	STARTER ASSEMBLY	(1) SET FOR EACH ENGINE	
4	FRESH WATER COOLING PUMP	(1) P.C. ENGINE	1,891.57

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5	FRESH WATER COOLING PUMP & KIT	(2) SETS FOR EACH ENGINE	
6	LUBRICATION OIL PUMP & KIT	(1) SET FOR EACH ENGINE	120.48
7	OIL PUMP COMPLETE	(1) PC FOR EACH ENGINE	3,180.72
8	CYLINDER LINER COMPLETE WITH PACKING RING	(1) SET FOR EACH ENGINE	
9	CYLINDER COVER COMPLETE	(1/4) SET FOR EACH ENGINE	
10	EXHAUST VALVE	(1) SET FOR EACH ENGINE	
11	VALVE GUIDE	(1) SET FOR EACH ENGINE	2,168.07
12	IN TAKE VALVE	(1) SET/ENGINE	
13	O-RINGS	(2) SET/ENGINE	
14	CYLINDER VALVE ASSEMBLY	(1) SET FOR EACH ENGINE	
15	GASKET KIT	(2) SET FOR EACH ENGINE	
16	MAIN BEARINGS COMPLETE	(1) SET FOR EACH ENGINE	1,304.82
17	PISTON ASSEMBLY CONSIST OF:		
18	PISTON	(1) SET/ENGINE	879.62
19	CONNECTION ROD	(1/2) SET/ENGINE	120.48
20	PISTON RING	(2) SETS/ENGINE	240.96
21	BOLTS, NUTS & PISTON PIN	(1) SET FOR EACH ENGINE	120.48
22	CONNECTING ROD BEARING	(1) SET FOR EACH ENGINE	240.96
23	FUEL OIL PUMP ASSEMBLY INJECTION PUMP PIPES WITH CONNECTIONS	(1) SET FOR EACH ENGINE	3,650.60
24	CONNECTIONS	(1) SET FOR TWO ENGINE	240.96
25	REPAIR KIT	(1) SET FOR EACH TURBO CHARGER	120.48
26	TURBO CHARGER COMPLETE	(1) PC FOR EACH ENGINE	1,680.27
27	GENERATOR:		
1	SHAKING?	(1) SET FOR EACH ENGINE	24.10
2	PRINT (CARD) RELAY	(1) SET FOR EACH GENERATOR	24.10
28	VARIOUS		
1	THERMOMETER	(1) SET	120.48
2	PRESSURE GAUGES	(1) SET	120.48
3	GLAND PUMP		
1	GLAND PUMP ASSEMBLY	(1) PC	3,373.40
2	REPAIR KIT FOR GLAND PUMP	(2) SETS	120.48
3	FLUSHING PUMP		
1	FLUSHING PUMP ASSEMBLY	(1) PC	722.80
2	REPAIR KIT FOR FLUSHING PUMP	(2) SETS	120.48
29	HYDRAULIC INSTALLATION:		
1	HYDRAULIC PUMP ASSEMBLY	(1) SETS	4,337.36

2	REPAIR KIT FOR HYDRAULIC MOTOR	(2) SET/MOTOR	120.48
3	HYDRAULIC MOTOR ASSEMBLY	(2) SETS FOR EACH TYPE	7,228.92
4	HYDRAULIC VALVE	(1) SET	
5	SOLENOIDS	(2) SETS	
6	HIGH PRESSURE HYDRAULIC HOSES	(4) PCS FOR EACH TYPE	
7	HYDRAULIC CONNECTION	(1) SET	
8	SEALING RINGS	(1) SET FOR EACH SPUD CYLINDER	20,722.89
9	WEARING PARTS FOR HYDRAULIC MOTOR	(1) SET FOR EACH MOTOR	
10	HYDRAULIC MOTOR BEARING	(2) SETS	
11	ELECTRIC SYSTEM:		
1	BEARING	(1) SET FOR EACH BLE MOTOR	
2	SWITCHES	(1) SET	
3	FUSES	(10) SETS	843.37
4	RELAY CONTACTORS	(5) PCS	
5	SWITCH PUSHBUTTONS INDICATE LAMP	(3) SETS	
M	STEEL WIRE:		
1	SWING WIRE	(4) PCS	1,120.48
2	CUTTER LADDER HOISTING WIRE	(2) PCS FOR EACH DREDGER	481.93
3	SPUD HOISTING WIRE	(4) PCS	240.96
4	ANCHOR HOISTING WIRE	(4) PCS FOR EACH	313.25
5	RUBBER HOSE	(5) PCS FOR EACH LINE	2,098.39
			111,674.70
100M ² SPARE PART FOR EACH PUMPER BOAT			
NO.	DESCRIPTION	QUANTITY.	SUB TOTAL (USD)
1	ENGINE		
A	SPARE PART FOR OVERALL	(1) SET/ENGINE	
2	PUMPER		
A	SPARE PART FOR OVERALL	(1) SET	
B	IMPELLER		
3	STEERING SYSTEM REPAIR KIT	(1) SET	
4	ELECTRICAL INSTALLATION REPAIR KIT	(1) SET	6,075.30
5	OIL PUMP AND IT'S DRIVE REPAIR KIT	(1) SET	
6	WATER PUMP & IT'S DRIVE REPAIR KIT	(1) SET	
7	DISCHARGE PIPE LINE		
A	RUBBER HOSE BETWEEN LADDER AND HULL	(1) SET	
	TOTAL:		117,750.00

Summary of the UN Oil-for-Food Program Audits Conducted by the Office of Internal Oversight Services

Source: Permanent Subcommittee on Investigations Majority Staff Analysis of OIOS Audits

KEY Reports:

No. 2 - Lloyd's inspection services

No. 14 - Saybolt oil inspection services

No. 19 - Cotecna inspection services

No. 58 - Draft Report of the Secretary General 2004

Monetary amounts in parentheses represent waste, abuse, loss and/or mismanagement

Report Number	Organization/ Subject	Principal Findings
1	United Nations Office of the Humanitarian Coordinator for Iraq (UNOHCI)	Procured computers, printers and vehicles that exceeded requirements. Purchased office furniture at "exorbitant" prices. Voice and facsimile charges were not justified (\$236,893). Paid for a communications line that was not needed (\$30,000). Delayed hiring local staff (\$67,000). Failed to review and maintain vehicular log sheets used to identify required staff reimbursements. Split purchase orders to circumvent financial procurement limits. Paid contractor 10 percent more than the local rate. Paid higher than necessary prices for specialized items such as medicine. Failed to identify and obtain reimbursement for personal telephone calls. Allowed Guard Contingent staff to take trips before they had been earned. Hired a staff member who had a personal relationship with the supervisor. Insured vehicles that were not operational (\$5,350). Overstated vehicles mileage so they could be written off and cannibalized for spare parts (\$601,210). Issued spare vehicular parts without adequate justification (\$71,738). Failed to recover funds owed by staff who had departed (\$43,701) Had not paid or properly monitored \$328,287 in outstanding obligations. Failed to properly maintain inventory records and account for inventory (\$100,994).
2	Office of the Iraqi Program (OIP)/ Lloyd's Inspection Services	Paid for services of inspectors who were not at their designated sites (\$1.38 million). Paid for on-site verification that was not performed. Prepared flawed contract that allowed the deployment of inspectors 3 months before humanitarian goods were imported (\$1.97 million). Failed to timely submit contract renewals. Paid an excessive daily contractor rate. Failed to adequately supervise contractor resulting in: 1) an "inordinate delay" in obtaining results of samples taken from consignments; 2) a lack of independent verification to determine the quality of medicines and vaccines; 3) a failure to adequately verify bulk cargo weight; and (4) the release of goods before sample results were received, despite findings that some "goods were unfit for human consumption."

Permanent Subcommittee on Investigations

EXHIBIT #49

3	UNOHCI	Failed to provide adequate evaluation procedures for proposed, current and completed projects. Failed to develop consistent policies on procurement, salaries and subsistence allowances. Procured 6 diesel generators for use in an area where "diesel fuel is not readily available" and would cost about \$10 million to supply. Constructed a health facility below ground level thus rendering it subject to flooding.
4	UNOHCI	Failed to effectively use staff, resulting in 48 of 151 observers stationed in Iraq performing administrative tasks that were inconsistent with their duties as observers.
5	UNOHCI	Failed to follow financial and procurement rules including inadequate documentation to justify purchases including the acquisition of \$566,025 in "winter items" that were of inferior quality and excessively priced (\$97,000). Obligating \$414,808 to reserve funds from a prior financial period for subsequent use in a later financial period. Inadequate security procedures for transporting and storing cash. Lacked formal bidding procedures for acquisitions over \$20,000. Assets could not be located (\$430,000). Paid for services in Amman, Jordan that were not used. (\$61,000) Purchased 50 tents that were "useless" and of poor quality. Failed to monitor the use of leased vehicles that were found to be "used for various activities not consistent with the lease agreement."
6	OIP/United Nations Guard Contingent in Iraq (UNGCI)	Breaches of security procedures including UN staff not responding promptly to radio checks and contractors working on UN premises without identification. A random radio check found that 84 of 124 staff did not timely respond.
7	UNOHCI	Travel authorizations were in some cases prepared after travel had commenced. Hazard pay was not always disbursed on a regular monthly basis but, in some cases, after two or more months. Payroll for local staff was prepared without certified time sheets, and some personnel were paid who had been on leave for extended periods of time and were not entitled to be paid.
8	UNOHCI	Cash operations were carried out without the required approval of the UN Controller. Cashier handled about \$60,000 per month in excess of the ceiling imposed by the UN Controller. The cashier's office failed to keep specific records for cash transactions. The exchange rates used for conversion between US Dollars and Old Iraqi Dinars were "ad-hoc" and "not based on any scientific or logical analysis."
9	UNOHCI	Failed to establish guidelines on the expenditures that could be charged to petty cash and did not record disbursements by the petty cash custodian.
10	UNOHCI	Failed to record the costs of individual medical evacuations, as required. Made payment to an employee without adequate documentation. Failed to properly account for medical inventory.

11	UNOHCI	Failed to develop comprehensive project plans. Project documentation was inconsistent and varied in quality, detail and justification.
12	UNOHCI	Failed to establish a succession plan to provide for the replacement of key personnel. Procedures for inter-agency coordination in project planning had not been established. Housing beneficiaries were not identified before projects were started.
13	UNOHCI	Requisitions allowed for designating specific vendors, brand name and model number in contravention of the UN's competitive bidding process. Vendor bids were not safeguarded. Data in two separate procurement databases was not reconciled. Procurement receipt and inspection duties were not separated.
14	OIP Saybolt Oil Inspection Services	Failed to obtain adequate justification for contractor payments for on site staffing (\$186,238). Failed to identify overbilling for transportation and housing accommodations (\$471,000). Paid contractor for audit visits without documentation (\$270,000). Paid contractor invoices for a survey of the Iraqi oil industry without documentation that the survey was performed (\$235,350). Let the survey contract without evaluating the reasonableness of the proposal. Failed to establish procedures to monitor contractor performance. Contractor equipment costs were excessive (\$1.2 million). Contractor was paid for 31 days in June, which has only 30 days. Paid the contractor for staff who were not on site and for excess staff (\$370,000). Failed to recover contractor staff's cost for personal telephone calls (\$12,150). Amended the contract to provide computers and vehicles that had already been provided for in the original contract (\$66,800). Failed to realize cost savings by purchasing 2 white vehicles (\$10,000). Fees for experts and transportation were excessive. Failed to recover costs for services provided to the contractor.
15	OIP/UNGCI	UNOHCI failed to adequately coordinate budgeting, expenditure and procurement decisions with UNGCI. UNGCI failed to track whether UN staff had received a security briefing. Failed to develop procedures for unannounced radio checks. Emergency preparedness guidelines lacked adequate controls.
16	UNOHCI	Due to inefficient processing, travel claims were not always paid in a timely manner.
17	UNOHCI	The roles of OIP, UNOHCI and Controllers' Office were not clearly defined or documented resulting in "the budget process not being effectively organized and carried out." Internal auditing was not adequately provided for. Budget submissions were not always submitted in a timely manner. Financial statements did not provide verification of expenditures and were not always audited. Interest amounts on advanced funds were not documented and could not be verified. Administrative offices in Amman constituted a duplication of tasks and an unnecessary expense (\$270,000). UN staff situated outside of Iraq at a cost of \$4,708,922 was not justified in budget submissions.

18	UNOHCI	Failed to align communications and technology staffing with workload with 62% of staff serving 36% of clients. Did not develop a policy for password usage for IT systems. Blocked "undesirable" internet sites only during working hours. Security and management procedures for email accounts and servers were inadequate. Failed to develop procedures to recover the cost of personal telephone calls. Failed to develop a uniform policy for the issuance of cordless telephones.
19	OIP Cotecna Inspection Services	Failed to adequately oversee contractor performance. For example, did not determine that the contractor lacked the equipment needed to perform the inspection tasks required in the contract. Substantial discrepancies between the goods reported as arrived and the goods reported as inspected were not resolved. Contractor attendance records used to justify payments were not verified. Failed to take remedial action when it learned that the contractor was staffed at less than the contract requirement and was not staffing all locations 24/7 as required. Inappropriately increased the per man day fee from \$499 to \$600. Failed to choose the most economical method to rehabilitate camps (\$700,000). Residual value of equipment was not recovered as required (\$95,000) Inappropriately added \$356,000 to contract communication and operating costs. Contract provisions failed to tie costs to workload. Failed on several occasions to pay contractor invoices in a timely manner (\$52,067). Failed to recover from the contractor UN-provided service costs for medical services and office space. Failed to appoint an on site contract manager to ensure contractor performance.
20	OIP	Failed to develop adequate expertise in procurement and contract negotiation and development. Failed to issue guidelines to UN agencies for amending contracts.
21	OIP	<p>Failure of the Executive Director:</p> <ul style="list-style-type: none"> • to effectively integrate the Program Analysis, Monitoring and Support Division (PAMSD) into the Office of Iraqi Programs. • over a 3-year period to comment on or approve work plans thus precluding the development of a strategic plan. • to approve the PAMSD reorganization plan. • over a 1-year period to conduct regular management meetings. • to reply to written communications and papers submitted by PAMSD. • to ensure that major policy directives were finalized on a timely basis. • to develop a detailed liquidation plan. • to develop key performance indicators to assess PAMSD operations. <p>Inappropriate transfer of assets to local authorities (\$99 million).</p>

22	OIP/Department of Economic and Social Affairs (DESA)	Failed to establish an adequate monitoring and evaluation system for OIP funded projects to ensure that expenditures translated into results. Project funds were inappropriately used for administrative expenses (\$500,000).
23	DESA	Electricity projects in Northern Iraq encountered significant delays because of; 1) insufficient equipment specifications, 2) ineffectiveness of the procurement process, 3) inadequate project approach, and 4) insufficient managerial, administrative and technical resources. "DESA should have...concluded that the project was not feasible under the existing terms and conditions..."
24	OIP/ Treasury	OIP violated UN investment policies by exceeding the 5% of total capital investment limit per institution for UN controlled funds. For example, the investment limit for BNP Paribas was \$60 million while the funds on deposit were \$3.37 billion. Failure to diversify collateral funds and investments exposed the escrow account to an unacceptable level of risk. Further, a database administrator whose position was funded entirely by Oil-for Food funds spent over 25 percent of his time on activities that were not related to the Oil-for-Food Program.
25	OIP/Treasury	Two days prior to the end of the oil-for food program the UN Treasury had not: <ul style="list-style-type: none"> • reconciled all approved and funded humanitarian goods and supplies contracts against outstanding letters of credit, • reconciled all approved and funded contracts for the UN administrative and operational costs account against outstanding letters of credit, or • collateralized \$2 billion in outstanding letters of credit. Almost two years after the prior audit of the escrow account, the UN Treasury had still not adequately diversified collateral funds, thus continuing the exposure of the escrow account to an unacceptable level of risk. Funds on deposit with BNP Paribas increased from 50 to 72 percent of the total funds in the account and banks with deposits decreased from five to four. The UN Controller established and deposited funds into a "special account" without documenting the basis for its establishment (\$390,000)
26	Centre for Human Settlements (UN-Habitat)	Failed to: <ul style="list-style-type: none"> • adequately segregate procurement duties thus exposing the organization to potential fraud, waste or abuse. • evaluate the competence of contractors before awarding them contracts. • develop standard operating procedures for procurement. • adequately segregate inventory responsibilities thus exposing the organization to potential fraud, waste or abuse, and • perform regular inventory counts. Duplicated procurements to expedite projects, resulting in excess and unused inventory. Paid building inspectors who provided no service or support (\$500,000).

27	UN-Habitat	Failed to assess penalties against contractors who did not complete their project on time. (\$49,806). Failed to establish procedures to evaluate the reasonableness of the causes cited for construction delays. Included currency fluctuation clauses in construction contracts even though all contracts were based on US dollars. Failed to develop construction cost estimates that could be verified. Contract procurement procedures lacked clear written guidelines, did not provide for the segregation of duties and were based on competition from an insufficient number of contractors. Overpaid and did not collect reimbursement for unauthorized hazard pay (\$45,000). Over one year after a prior audit recommendation to increase the security of cash management procedures, the recommendation had not been implemented. Paid rental costs for office equipment that exceeded the purchase price.
28	UN-Habitat	Fifty-one of sixty-seven generators were stored and not used (\$670,821). Procurement documentation did not associate the procured items with their intended project use. Twelve generators were inappropriately converted to UN-Habitat use. (\$155,138) Extended construction contracts without evaluating contractor performance. Overpaid contractors by failing to withhold contract retention fees which represented a performance bond (\$10,128) Procured items without first determining whether funds were available for obligation. Undermined the bidding process by specifying specific brands and models. Failed to ensure timely procurement with the average time from requisition to receipt being 16.75 months. Failed to develop a system to track the status of procured items. Failed to adequately document the receipt of procured items before authorizing payment.
29	UN-Habitat	Failed to implement 34 of 45 previous audit recommendations, including not removing a currency fluctuation clause from construction contracts (\$1.7 million); continuing to pay individuals who were not employed by or providing services to UN-Habitat (\$625,519) and not justifying the need to hire 100 assistant field engineers (\$470,000). Failed to obtain approval to hire summer students for training (\$17,550). Constructed 3,200 houses that were not occupied for extended periods because essential services, such as water and sanitation, had not been provided.
30	UN-Habitat	The database for tracking invoices was inaccurate and incomplete. Contract retention fees were not withheld from contractor payments as required (\$6,438). Contract retention fees of \$256,420 were not timely refunded to contractors.
31	UN-Habitat	Failed to develop a detailed strategy for the termination of procurement activities, develop policy guidelines, document the assignment of overall responsibilities for liquidation, prepare an overall liquidation schedule and assess staff needs required for liquidation.

32	UNOHCI	Liquidation plans were incomplete. They had no “discernable function links,” did not provide human resource requirements or timeframes and omitted program staff. Four months after the termination of monitoring and observation activities, 55 staff or 80 percent had not been released and their retention was not justified. Failed to evaluate the performance of the Chief Financial Officer before assigning him to another peacekeeping mission. It was reported that the CFO “did not properly conduct his work responsibilities and had poor relations with both the administrative and Mission’s personnel.”
33	UNOHCI	Failure to establish a Liquidation Task Force caused downsizing plans to be “independently prepared without discernable functional links between the components.” Management reports of liquidation progress were not clear due to the use of “ambiguous terminology.” The Weekly Implementation Report lacked key performance indicators needed by management to effectively monitor the liquidation’s progress.
34	UNOHCI	The Procurement Section’s Liquidation Work-Plan lacked workload requirements and their associated timeframes. Paid vendor \$79,359 or 87 percent of the contract’s value prior to completion of the project, in violation of the contract’s terms. Paid vendor without receiving required documentation (\$3,335) Failed to obtain reimbursement from a contractor who was overpaid (\$19,475). Paid contractor for cleaning and maintenance services at the full rate when over 80 percent of the work was no longer being performed (\$11,356). Failed to timely terminate lease agreements (\$11,500). Paid excessive prices for communications equipment (\$5,000). Failed to monitor vehicle storage and transportation, resulting in avoidable costs (\$39,143). Failed to enter about 200 purchase orders into the automated database.
35	UN-Habitat	Property inventory lists were not complete and accurate. The diversion of \$172,171 for generators, identified in a previous audit, had not been corrected. Property lists did not always provide actual equipment values thus precluding the verification of inventory value. Failed to dispose of or repair equipment valued at \$62,032, including vehicles that had been stored for over three years. Although assets in the 13 percent fund were valued at about \$24 million and were directed by the Secretary General to be turned over to the Coalition Provisional Authority “for the benefit of the people of Iraq,” only \$1.71 million of these assets were proposed for turnover to CPA. (\$22.3 million).
36	UNOHCI	Failed to recover overpayments and salary advances to staff (\$27,146). Accounts receivable balances were not fully reconciled. Accounts payable were overstated by \$147,537.

37	United Nations Compensation Commission (UNCC)	Cites the lack of needed accounting and loss adjusting expertise to evaluate claims and a need to improve information technology systems. Further, the strategy of relying extensively on external consultants to quantify losses is "seriously flawed" because UNCC does not have the resources to effectively identify, direct and evaluate consultants.
38	UNCC	Failed to maintain adequate documentation of the claims and payment process. Failed to conduct quality assurance and functionality/performance reviews of the Claim Payment and Management System prior to implementation. Cites the need to improve information technology management including; 1) senior management approval of IT plans, 2) integration of the control, documentation and quality assurance programs; 3) integration of claim and payment data, 4) formulation of contingency plans in the event of major data loss or hardware failures, and (5) hiring required IT staff.
39	UNCC	Failed to develop clear criteria for evaluating contract proposals and to involve accounting and loss adjusting expertise in assessing those proposals.
40	UNCC	Inconsistency in applying UN regulations, rules and procedures, the slow recruitment process, and a lack of transparency in promotion and grading processes led to high staff turnover and low morale. Promotion opportunities were not equitable and primarily benefitted legal officers. Staff were graded on an arbitrary basis without regard to their professional qualifications. Changed the responsibilities of paralegal assistants and registry clerks without providing them with adequate training for their new responsibilities. Newly hired staff were not provided with the information needed to ship their personal effects. Failed to grade secretaries at a level that would attract qualified applicants. Did not establish a roster of job applicants. Failed to conduct exit interviews with departing staff.
41	UNCC	Progress to implement the Integrated Database is progressing satisfactorily but has taken longer than expected. Commends the Information Services Section for their appropriate and effective approach in implementing phases I and II.
42	UNCC	Current budgetary procedures comply with UN regulations, rules and instructions.
43	UNCC	Certain governments did not promptly report 587 claim payments valued at \$1,457,484 and did not reimburse the Compensation Fund for undistributed funds (\$1,609,550). Failed to require governments and other paying agents to provide independent audit certificates for payments to claimants.

44	UNCC	Failed to establish clear criteria for bids and their evaluation, and did not evaluate consultants' performance. Low bidders were disqualified without being afforded an opportunity to revise their bids (\$579,107). Consultant experts' credentials were not verified. Additional work not called for in the consultancy contracts was added (\$2,414,857). Amounts invoiced and paid to consultants in payment records were not consistent.
45	UNCC	Failed to follow policies for filing late claims and responding to claim queries. Failure to establish a formal mechanism to plan and monitor the implementation of the phase out and to develop a document retention strategy for archival purposes. Failed to implement a plan to assess facility and equipment requirements.
46	UNCC	Claim files were not always complete and did not always provide the detail needed to support the accuracy of the award. Valuation scores were not properly applied resulting in the overpayment of 3 claims (\$489,108) and the underpayment of \$10,061 on one claim.
47	UNCC	Failed to appropriately apply the methodology for estimating Jordan's camp preparation and health service costs for humanitarian relief provided to evacuees from Kuwait and Iraq (\$43.2 million)
48	UNCC	Quality control to ensure the correct application of valuation methodologies was not independent of the Claims Processing Division and lacked the time needed to perform the work.
49	UNCC	One claim was deemed to be excessive because Governing Council decisions were circumvented. (\$225,000) Recommended claim amounts exceeded the amounts sought by the claimants (\$20,078). One claim was inappropriately increased after the stipulated deadline.
50	UNCC	Internal controls to prevent employee fraud were marginal and the risk of employee fraud was significant. Payment processing controls were inadequate.
51	UNCC	Overpaid claimant for losses that were not adequately justified (\$3.6 million).
52	UNCC	Some claims had inappropriate and incorrect valuations, did not provide for residual value, overlapped other claims and did not provide adequate evidence. Provided compensation to Israel (\$72.3 million), Egypt (EGP 4,830,701) and Iran (\$7.87 million, \$265,000, \$218,904 and \$275,000 = \$8.6 million) without adequate justification.

53	UNCC	<p>Failed to properly value and verify claims, resulting in overpayments (\$419,206,000) Problems included:</p> <ul style="list-style-type: none"> • overlapping claims for similar items resulting in double compensation; • failure to consider cost-savings; • currency exchange errors; • calculation errors; • prices for compensation exceeding claimed amount; • claim compensation based on insufficient evidence; • inadmissible claims; and • inconsistent application of recommended adjustments. <p>Failed to adequately monitor consultants' work. Failed to provide requested documentation to auditors. UNCC also failed to respond to all audit recommendations and questioned OIOS authority to review the validity of compensation awards.</p>
54	UNCC	<p>Inappropriate currency conversion practices resulted in overpayments (\$2,170,951). Inadequate internal controls to mitigate the risk of overcompensation, inconsistent practices and inadequate procedures. Failed to provide requested documentation to auditors. UNCC also failed to respond to all audit recommendations and questioned OIOS authority to review the validity of compensation awards.</p>
55	UNCC	<p>Failed to award the "lowest replacement value in 1990" for claims relating to high value or unique personal property, leading to overcompensation (\$860,000). Took no action against a claimant whose claim was determined to be fraudulent. Quality assurance checks were not fully documented. Conversion rates for claims filed in other than US dollars were not consistently applied.</p>
56	OIP/UNOHCI	<p>OIP and UNOHCI failed to exercise adequate oversight over UN-Habitat projects. Restates the findings of a prior UN-Habitat audit and recommends intervention by OIP and UNOHCI to resolve audit findings such as reviewing the legality of payments to local authority personnel and formulating project selection and post-implementation evaluation guidelines.</p>
57	Office of Internal Oversight Services (OIOS)	<p><u>Report of the Secretary-General on the activities of the Office of Internal Oversight Services</u> (April 4, 2002) - Provides a summary of OIOS audit activities and provides major findings of prior audit reports related to the oil for food program. Report concludes that "the overall implementation rate of (OIOS) critical recommendations has been satisfactory."</p>

58	OIOS	<p><u>Report of the Secretary-General on the activities of the Office of Internal Oversight Services (Draft)</u> - "It is OIOS view that the overall management of the (oil for food program) was not fully satisfactory." and "no allegations were brought to OIOS' attention...by third parties... of irregular activities involving (oil for food program) personnel." Principal areas of concern included:</p> <ul style="list-style-type: none"> • inadequate contractual management; • poor coordination and monitoring of program activities in northern Iraq; • inadequate diversification of investments and banks used to issue humanitarian letters of credit; • failure to follow investment guidelines pertaining to escrow account funds in the UN Treasury, and • serious deficiencies in internal controls for the procurement of construction contractors in northern Iraq. <p>Further, the UNCC had overcompensated claimants by \$557 million and failed to address recommendations relating to \$553.7 million in overcompensation.</p>
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Financial Losses Resulting from Waste, Abuse or Mismanagement Identified by OIOS Audits

Source: Permanent Subcommittee on Investigations Majority Staff Analysis of OIOS Audits

Office of the Iraqi Program

Audit 2

Paid for services of inspectors who were not at their designated sites	\$ 1,380,000
Flawed contract deployment terms	\$ 1,970,000

Audit 14

Inadequate justification for contractor payments for on site staffing	\$ 186,238
Overbilling for transportation and housing accommodations	\$ 471,000
Paid contractor for audit visits without documentation	\$ 270,000
Paid contractor invoices without documentation	\$ 235,350
Contractor equipment costs were excessive	\$ 1,200,000
Paid the contractor for staff who were not on site and for excess staff	\$ 370,000
Failed to recover contractor staff's cost for personal telephone calls	\$ 12,150
Improper contract amendment for computers and vehicles	\$ 66,800
Failed to realize vehicular cost savings	\$ 10,000

Audit 19

Failed to choose the most economical method to rehabilitate camps	\$ 700,000
Residual value of equipment was not recovered as required	\$ 95,000
Failed to timely pay contractor invoices	\$ 52,067

Audit 21

Inappropriate transfer of assets to local authorities	\$ 99,000,000
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Audit 25

Controller improperly established a "special account"	\$ 390,000
	\$106,408,605

Subtotal

\$106.4 million

Office of the Humanitarian Coordinator in Iraq

Audit 1

Voice and facsimile charges were not justified	\$ 236,893
Communications line that was not needed	\$ 30,000
Delayed hiring local staff	\$ 67,000
Insured vehicles that were not operational	\$ 5,350
Improperly wrote off and cannibalized vehicles	\$ 601,210
Issued spare vehicular parts without adequate justification	\$ 71,738
Failed to recover funds owed by staff who had departed	\$ 43,701
Failed to properly maintain inventory records and account for inventory	\$ 100,994

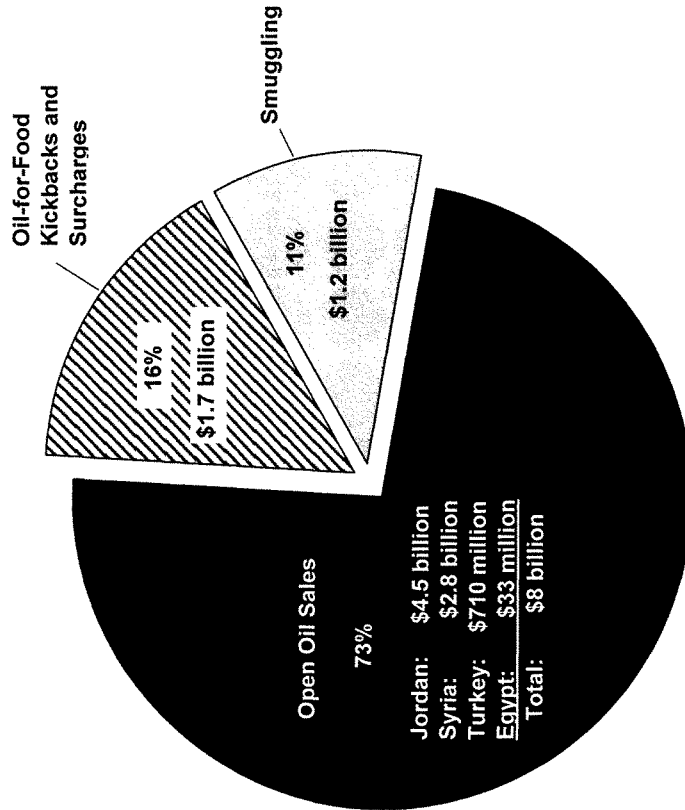
Audit 5

Purchased "winter items" of inferior quality and excessively priced	\$ 97,000
Assets could not be located	\$ 430,000
Paid for services in Amman, Jordan that were not used	\$ 61,000

<i>Audit 17</i>	
Administrative offices in Amman constituted a duplication of tasks	\$ 270,000
<i>Audit 34</i>	
Paid vendor without having received required documentation	\$ 3,335
Failed to obtain reimbursement from a contractor who was overpaid	\$ 19,475
Paid for cleaning and maintenance services that were not performed	\$ 11,356
Failed to timely terminate lease agreements	\$ 11,500
Paid excessive prices for communications equipment	\$ 5,000
Failure to monitor vehicle storage and transportation costs	\$ 39,143
<i>Audit 36</i>	
Failed to recover overpayments and salary advances to staff	\$ 27,146
	\$ 2,131,841
Subtotal	\$ 2.1 million
<u>Centre for Human Settlements (UN-Habitat)</u>	
<i>Audit 26</i>	
Paid building inspectors who provided no service or support	\$ 500,000
<i>Audit 27</i>	
Failed to assess penalties against contractors	\$ 49,806
Overpaid and did not collect reimbursement for unauthorized hazard pay	\$ 45,000
<i>Audit 28</i>	
Fifty-one of sixty seven generators were stored and not used	\$ 670,821
Twelve generators were inappropriately converted	\$ 155,138
Failed to withhold contract retention fees	\$ 10,128
<i>Audit 29</i>	
Currency fluctuation clauses in construction contracts	\$ 1,700,000
Paying individuals who were not employed by or providing services	\$ 625,519
Not justifying the need to hire 100 assistant field engineers	\$ 470,000
Failure to obtain approval to hire summer students for training	\$ 17,550
<i>Audit 30</i>	
Contract retention fees were not withheld from contractor payments	\$ 6,438
<i>Audit 35</i>	
Only \$1.71 of \$24 million were to be turned over to the CPA	\$ 22,300,000
	26,509,400
Subtotal	\$ 26.5 million
<u>United Nations Compensation Commission</u>	
<i>Audit 43</i>	
Certain governments did not reimburse undistributed funds	\$ 1,609,550
<i>Audit 44</i>	
Disqualified low bidders without an opportunity to revise their bids	\$ 579,107
Additional work not called for in the consultancy contracts was added	\$ 2,414,857
<i>Audit 46</i>	
Overpayment of 3 claims	\$ 489,108
<i>Audit 47</i>	
Improper valuation of camp preparation and health service costs	\$ 43,200,000
<i>Audit 49</i>	

Governing Council decisions were circumvented	\$ 225,000
Recommended claim amounts were exceeded	\$ 20,078
<i>Audit 51</i>	
Overpaid claimant for losses that were not adequately justified	\$ 3,600,000
<i>Audit 52</i>	
Compensation to Israel not justified	\$ 72,300,000
Compensation to Egypt not justified (EGP 4,830,701)	Not converted
Compensation to Iran not justified	\$ 8,600,000
<i>Audit 53</i>	
Improper claims valuation and verification	\$ 419,206,000
<i>Audit 54</i>	
Inappropriate currency conversion practices	\$ 2,170,951
<i>Audit 55</i>	
Failure to award the "lowest replacement value in 1990"	<u>\$ 860,000</u>
	\$555,274,651
Subtotal	\$555.3 million
<u>Department of Economic and Social Affairs</u>	
<i>Audit 22</i>	
Project funds were inappropriately used for administrative expenses	<u>\$ 500,000</u>
Subtotal	\$ 500,000
TOTAL	\$690,824,497
TOTAL (rounded)	\$690.8 million

Illicit Iraqi Revenue 1991-2003



Permanent Subcommittee on Investigations
EXHIBIT #51

Data Source: ISG Report
Chart prepared by Minority Staff,
Senate Permanent Subcommittee on Investigations

2/11/2005

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[World](#)

[Business](#)

[Sci/Tech](#)

[Sport](#)

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[World News](#)

[in Audio](#)

[On Air](#)

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Wednesday, March 25, 1998 Published at 15:13 GMT

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.

«»

The UN's Stafford Clary tells Paul Adams the Kurdish region could blossom (1.05)

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.

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

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

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

In this section

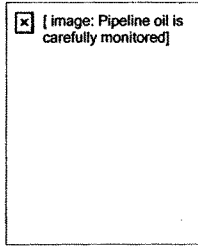
[Historic day for East
Timor](#)

[Despatches Contents](#)

Permanent Subcommittee on Investigations

EXHIBIT #52

2/11/2005

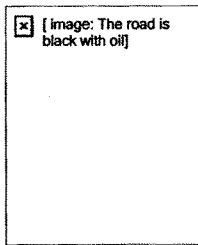


Pipeline oil is carefully monitored

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.



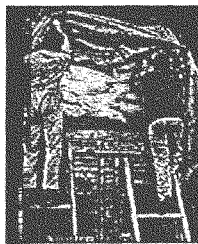
The road is black with oil

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.

FEB. 14. 2005 10:42AM ODIN MARINE INC [REDACTED]

NO. 298 P. 2

Message Printed on 2/14/2005 10:29:35 AM by DEY RefNum:DEY2127867

From/To: Silver Line Limited
 Msg Recvd/Delivered: 2/28/2003 7:58:06 PM
 ATTN: David Milligan
 SUBJ: ARCADIAN 1 / MILLENIUM

[REDACTED] = Redacted by the Permanent
 Subcommittee on Investigations

REF: MHR2127867

FROM: ODIN MARINE, INC. - LARGE TANKER DEPARTMENT
 DATE: 2/28/2003
 TIME: 7:58:04 PM

ATTN: David Milligan
 SUBJ: ARCADIAN 1 / MILLENIUM

ARCADIAN 1 / MILLENIUM

FOLLOWING HAS BEEN RECEIVED THIS EVENING FROM THE CHRTS WHICH THEY
 HAVE ASKED MUST BE KEPT STRICTLY PRIVATE AND CONFIDENTIAL AS PER THE
 CONFIDENTIALITY AGREEMENT :-

STRICTLY PRIVATE & CONFIDENTIAL

Per your telephone conversation with Mr. Khaled Shaheen regarding the
 situation of the vessels where he briefed you about the legal basis
 for Jordan's imports of Iraqi oil. The following, in no doubt, will
 explain the platform on which the Government of the Hashemite Kingdom
 of Jordan provided Millennium with the Power of Attorney to act on its
 behalf and enter into contractual relationships with the owners and
 lift crude oil from Iraq.

As stated on numerous occasions, neither the Government of Jordan nor
 Millennium engaged in any transaction that is characterized as
 disreputable or lacking a legitimate cover. Although some media
 reports raised some questions, we reaffirm once again that those
 reports are baseless, lack legitimacy, and more importantly driven by
 journalistic sensation.

Our continuous reluctance and hesitation to divulge more details about
 the operation were due to reasons that concern the Jordanian
 Government and other international concerned parties. Although we
 have verbally explained to Odin Marine the details and proxies of this
 transaction, we cannot further compromise the confidentiality of this
 operation. This has been the *raison d'être* for our insistence that
 the owners and broker sign a confidentiality agreement in order to
 maintain the privacy of the crude oil lifting. HAVING SAID THAT, WE
 ARE COMPELLED TO REEMPHASIZE ONCE AGAIN THAT THE SAME REASONS STILL
 APPLY AND EVEN A HIGHER LEVEL OF CONFIDENTIALITY MUST BE MAINTAINED
 CONSIDERING THE INFORMATION WE ARE ABOUT TO STATE.

Jordan's interest in and relation with Iraqi oil has been ongoing for
 the past 13 years and after sanctions were imposed on Iraq and
 consequently the Oil for Food Program was put in place. The facts are
 as follows:

1. Article 50 of the UN Charter provides a provision for any country
 that is adversely affected by the imposition of UN sanctions
 against another country, to appeal for a waiver from those
 sanctions and maintain their dealings with the sanctioned country.
2. The Government of Jordan has invoked Article 50 and continues to

Message Continues...

Permanent Subcommittee on Investigations

EXHIBIT #53

import all of its crude oil from Iraq without any interruption since 1990 according to a special protocol taking place bilaterally between the Iraqi and Jordanian Governments rather than through the Memorandum of Understanding Program with the knowledge and consent of the UN. The fact that Jordan receives the oil at a discounted price and pays for it at its own discretion either through providing Jordanian goods in return or by writing off debts owed to Jordan by Iraq only means that is solely left to the Jordanian Government to agree on the commercial terms with the Iraqi Government and how to structure their protocols.

3. The above has been approved by the UN in general and by the UN Sanctions Committee in particular; i.e. approved in line with the Oil for Food Program though in practical terms it is not hermetically governed by this Program. Although this is public information, very few parties are aware of it and it is of great importance to Jordan and other concerned parties not to highlight these facts.
4. Despite the fact that United States Laws prevent the US from providing foreign aid to any country that does not comply with sanctions against Iraq, the US Administration routinely waives sanctions in order to provide aid to Jordan, the third largest recipient of US foreign aid, with the approval of the United States Congress. This undoubtedly demonstrates the full endorsement of both the Executive and Legislative branches of the United States Government of Jordan's exemption regarding the importation of Iraqi crude oil and its approval of the special arrangements between the Iraqi and Jordanian Governments.

All these facts are available for the concerned parties to retrieve in Washington DC and are contained in a report issued by the Foreign Affairs, Defense, and Trade Division of the Congressional Research Service at the Library of Congress and can be obtained through them directly using the Order Code IS92117. For your easy reference, we will fax a copy of the page of the above mentioned report that concerns Jordan and talks about the same subject.

In conclusion, Jordan has a blanket cover from the UN and standby approval for continuous importation of Iraqi crude oil directly and according to whatever commercial and other terms they may agree on with the Iraqi Government and in line with UN regulations and in particular sanctions imposed on Iraq. Lifting places are amongst other things left to Jordan and Iraq to decide on.

Based on all the above, the Jordanian Government through the Ministry of Energy and Mineral resources, which is responsible for all oil related issues, empowered Millennium to conduct this transaction on their behalf as already provided to Brokers/Owners in February 2003.

Finally, those are the merits of the special arrangements we have been referring to all along. All actions taken on the ground recently, including but not limited to, the safe passage of the vessels going in and out loaded with Iraqi crude oil are a reflection of the legitimacy of our transaction based on all the facts stated above.

We hope we made all the facts clear and available to all parties concerned. Once again we reiterate the importance of maintaining the confidentiality of this matter for reasons already explained to Odin Marine.

Best Regards

Ahmed M. Sukhon
Vice President & Assistant to the Chairman
Shaheen Business & Investment Group
Tel: [REDACTED]
Fax: [REDACTED]
Mobile: [REDACTED]

REGARDS

Message Continues...

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

Message Printed on 2/13/2005 7:08:08 PM by DEY RefNum:DEY2130763

From/To: Jaffe, Howard/HOME
Msg Recvd/Delivered: 3/3/2003 6:57:20 PM
SUBJ: FROM MICHAEL RICHARDS

[REDACTED] = Redacted by the Permanent Subcommittee on Investigations

01/03/2003 02:00 SBIG-CHAIRMAN & CED OFFICE + [REDACTED] NO.271 001

DH Mc. Mobile R. Lewis
DOEN HOME INC.

IB92117 05-29-01

the reasons for this regional resistance are discussed below. See also CRS Report RL30472.
Iraq: Oil-for-Food Program.

Jordan. Since 1992, and despite Jordan's economic dependence on Iraq, the United States has considered Jordan's compliance with the U.N. sanctions regime on Iraq satisfactory, even though Jordan, under King Hussein and his successor, King Abdullah, advocates U.S. engagement with Baghdad and has become increasingly vocal in advocating easing of sanctions. Recognizing Jordan's economic need, the Sanctions Committee "takes note" of Jordan's purchases of discounted Iraqi oil and oil products, which is exchanged for Jordanian goods (approved under the oil-for-food program) and write-downs in Iraqi debt to Jordan. This relationship was renewed in November 2000 at a level of about \$450 million for the year, which translates into about 105,000 barrels per day of Iraqi oil exports to Jordan. Every year since FY1994, foreign aid appropriations laws (P.L. 103-87, P.L. 103-306, P.L. 104-107, P.L. 104-208, P.L. 105-118, P.L. 105-277, P.L. 106-113, and P.L. 106-439), have denied U.S. aid to any country that does not comply with the sanctions against Iraq, though these laws do not mention Jordan specifically. The Administration has routinely waived sanctions in order to provide aid to Jordan, a key U.S. ally in the Middle East peace process, and Congress has not objected to that waiver.

In October 2000, Jordan dismissed Lloyd's International from its role as inspector of goods bound for Iraq and arriving in Jordan at the port of Aqaba, a role enshrined in an agreement between Jordan and the United States in 1993. Since September 2000, Jordan has also become increasingly bold in sending flights to Iraq, including those carrying relief supplies, officials, and even paying passengers (November 30, 2000). Secretary of State Powell has pressed Jordan not to proceed with a planned "free trade agreement" with Iraq that, some fear, could increase the flow of unapproved civilian goods to Iraq, although virtually all trade with Iraq is, in practice, duty free. (See CRS Issue Brief IB93085, *Jordan: U.S. Relations and Bilateral Issues*).

Turkey. Turkey estimates that it has lost \$35 billion as a result of the sanctions. The Turkish government now regulates and taxes the illicit importation of about \$200 million per year in Iraqi energy products by Turkish truck drivers (about 450 trucks per day) returning from Iraq. U.S. sanctions against Turkey for this trade have routinely been waived. In April 2000, Iraq and Turkey reached agreement to increase bilateral trade twelve fold, to about \$2.5 billion per year, roughly pre-war levels. In May 2001, rail services between Iraq and Turkey resumed.

Iran/Persian Gulf States/Smuggling. In enforcing the embargo, two U.S. ships lead a Multinational Interdiction Force (MIF) that conducts maritime searches in the Persian Gulf to prevent the smuggling of oil and other high-value exports. The United States has asserted that Iraq's Revolutionary Guards has been helping Iraq smuggle out the oil exports in exchange for "protection fees," although Iran did stop some illicit shipments in March, April, and again in late June 2000, earning some U.S. praise. Despite these exceptions, Iran's cooperation helped Iraq's illicit exportation reach a high in mid-2000 of about \$40 million per month, and Iraq reportedly earned a net of about \$600 million for all of 2000, according to British military officials. It should be noted that Iraq receives only half the export value after paying off Iranian Revolutionary Guards and smugglers. Iraq openly stated in July 2000 that it will continue to export "extra" (smuggled) oil products. The U.S. Ambassador to the UAE

----- End of Message -----

FEB.14.2005 10:43AM ODIN MARINE INC [REDACTED]

NO.29B P.4

=====

Message Printed on 2/13/2005 6:57:59 PM by DEY RefNum:DEY2119531

From/To: Michael Richards
 Msg Recvd/Delivered: 2/25/2003 2:11:17 PM
 SUBJ: Conference call

=====

[REDACTED] = Redacted by the Permanent
 Subcommittee on Investigations

From: "Millannium" <jsayegh@sbigoldings.com>
 To: <MHR@odingroup.com>
 Subject: Conference call
 Date: Tue, 25 Feb 2003 20:30:15 +0200
 Message-Id: <FC1876CEBD085847E213148B8E7ED4BD33F9@hqmail.sbig.com>

God day Michahel

Reference is made to the conference call that just took place between Mr. Khaled Shaheen, your good self, Mr. David Young, in the presence of Mr. Ahad Sukhon and myself. The following was agreed to in the conference call:

1. All chartered vessels coming into Khawr Amaya to provide the UN Naval check point with the name of the vessel, name of Charterer, and name of loading port. This communication to take place between the Master of the concerned vessel and whichever UN Naval ship on duty in the vicinity.
2. Upon completion of loading and while approaching the UN Naval check point, the Master to contact the UN Naval ship on duty at that time and give them all the details including quantity loaded, name of Charterer, the terminal of loading and then get the necessary clearance accordingly.
3. At anchorage, Master will contact Commander Harry French and get the NO OBJECTION message from him. Mr. Young of Odin Marine to contact Commander French as well in order to verify and confirm the communication between the Master and Commander French. Mr. Young will seek the NO OBJECTION message in the text and format agreed between us.
 - A. It is worthwhile noting the following:
 - A. It had been passed on to Charterers that Commander French has been showered by various faxes and e-mails from the Owners. Kindly ask all Owners to refrain from doing so.
 - B. Mr. Young and the ship Master are the only parties entitled to contact Commander French.
 - C. The message that should be sent by either the ship master or Mr. Young is the following: "We are loading crude oil from the terminal at Khawr Amaya for Millennium; do you have any objection?" It is very advantageous that Mr. Young served in the Coast Guard as he can relate to and understand the situation and how officers feel uncomfortable about going through unnecessary extended communications

I am very happy that we have reached a stage where we can go back to concentrate on the business at hand and everyone obtains the comfort they seek.

Charterers kindly ask the Brokers as well as Owners to refrain from giving any statements to the media as it only adds more fuel to current situation. All parties concerned (Charterers, Owners, Brokers) should simply state that they have signed a confidentiality agreement and they are bound by it.

Received: from MAIL.sbig.com ([194.165.153.115])

Message Continues...

JAN-12-1999 01:41P FROM:Howard Jaffe, ESQ [REDACTED]

TO: [REDACTED]

P:1/1

Page 1 of 1

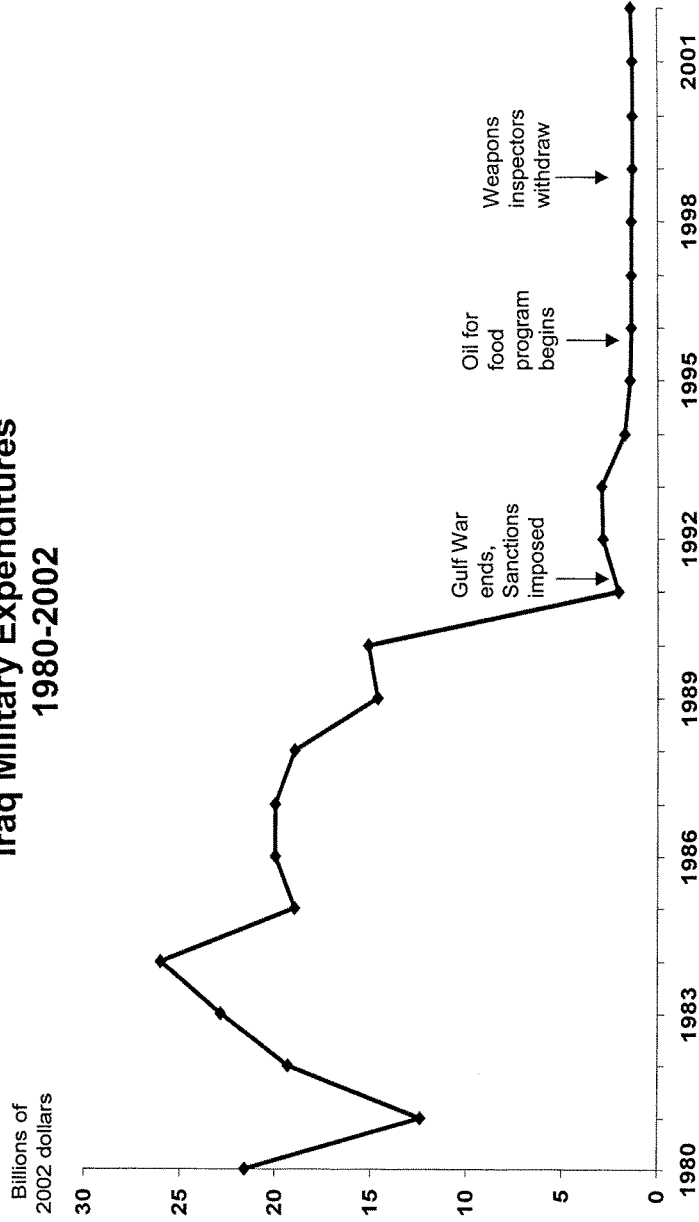
Subj: **Millenium Purchase for Government of Jordan.**
Date: 3/4/2003 3:55:13 PM Eastern Standard Time
From: HJaffeESQ
To: Mrichards@Odin.com

[REDACTED] = Redacted by the Permanent
Subcommittee on Investigations

Dear Michael: I called the U.S. Commerce Department to ascertain their position on Millenium's charter activities and carriage of Iraqi oil to Jordan's port for the Jordanian government. I was referred to Share Lustenow at the Office of the Middle East at 202 482 4442. The number I had called at Commerce was for the promotion not restriction on trade. Ms. Lustenow referred me to The Office of Foreign Assets Control of the Treasury Department (website www.treas.gov/ofac) and referred me to Ms. Amy Schedlebauer (pronounced Shuttlebauer) or Ms. Susan Sierra at 202 622 2480. I explained the situation to Ms Schedlebauer including the fact that the Charter Party required compliance with UN and International Law and that the Owners could be advised to call a default and cease performance. She responded that she would have to get back to me. She called back in about 2 hours and said that her office was "AWARE OF THE SHIPMENTS AND HAS DETERMINED NOT TO TAKE ACTION". She did not add "at this time". I noted that a further shipment was sought by Millenium and did she have any advice on that. She repeated the quoted response and would say no more. I asked her to contact me if there was any change in position as my client's wished to act in the best interests of the U.S. It appears that they do not want to harm Jordan by interfering with its quest for oil before the impending conflict by seizing it. Let us discuss this further with Even.

Regards, Howard

Iraq Military Expenditures 1980-2002



Permanent Subcommittee on Investigations
EXHIBIT #54

Source: Department of State, World Military Expenditures and Arms Transfers, (forthcoming preliminary data)
Chart format by GAO, prepared by PSI Minority Staff

SUPPLEMENTARY SUBMISSION
OF
ARTHUR VENTHAM
Former Inspector – Cotecna Inspections S.A.

SUPPLEMENTARY SUBMISSION INTO COTECNA INSPECTIONS
S.A.
OIL FOR FOOD PROGRAM
IRAQ

1. Introduction:

Mr. Chairman and Members of the Subcommittee:

At your request, I appeared before the esteemed Subcommittee on Tuesday 15th February 2005 and gave testimony, under oath, as to my experiences as an Inspector with Cotecna Inspections S.A., the independent inspection and authentication contractor for the United Nations "Oil For Food" Program. Also on that Panel was Mr. Robert Massey, Chief Executive of Cotecna Inspections S.A.

At the conclusion of the Panel, Mr. Robert Massey made some derogatory comments in relation to my appearance and the fact that I was a "disgruntled former employee" who had been dismissed from the Mission.

Mr. Chairman, I respect the right of Mr. Massey to make comments to the Subcommittee however, I would like to put before the Subcommittee the true facts in relation to my employment and resignation from Cotecna Inspections S.A.

2. Response to Comments Made:

I would like to start by saying that my intent for testifying before the Subcommittee was not motivated by ill-feelings towards Cotecna Inspections S.A. In fact, I began my testimony at the hearing by pointing out that "I am here at your request to testify about my experiences as an inspector." In addition, I emphasized that "my intent is not to denigrate my fellow inspectors employed at Cotecna Inspections but to provide insight into what occurred on the ground in Iraq." I want to make clear by emphasizing again that I came at the request of the Subcommittee with the intent and purpose of sharing my experiences and simply providing insight into what occurred on the ground in Iraq as an inspector.

Since appearing before the Subcommittee I have read where Cotecna Inspections S.A. stated that:

- a. I was dismissed from the Mission because I was undisciplined, argumentative and not a team player; and my contract was not reviewed because of my inability to perform;
- b. I resigned from the Mission because I was refused a pay raise, demoted and transferred from Zakho Iraq to Aqaba Jordan; and finally
- c. My testimony at the hearing was absurd and unsubstantiated.

None of the above are correct, in fact both the Team Leader and Deputy Team Leader have stated that:

Romilo Obra – Team Leader – Iskenderun and Zakho:

- Arthur is a very dedicated and hard working individual who gives of himself more than 100% effort at all times, regardless of the situation or amount of stress, anxiety or confusion that may arise.
- He is a natural leader, who is able to implement the aims and objectives of the organisation with little or no recourse from his Managers or staff.
- His administrative and organisational skills are of a very high calibre as are his financial and auditing skills.

- He is able to communicate effectively with people from a variety of cultures and backgrounds and is mindful of the various different ethnic cultures and nuances associated with different nationalities and is able to build rapport with international staff at all times.
- Arthur is an honest and dedicated member of our team and is always prepared to go the extra mile when needed to ensure that timeframes and deadlines need to be met.

Ron Neufeld – Deputy Team Leader – Iskenderun and Zakho:

- Arthur's professionalism and wide variety of skills, combined with very positive "can do" attitude, were all welcomed assets to the team. A few months after our arrival, the Team Leader and I had occasion to decide which team member should be promoted to the vacant position of Assistant Deputy Team Leader. Without much discussion, we quickly discovered that we were both of the opinion that Arthur was the obvious choice. Needless to say, Arthur's appointment to the position proceeded rapidly.
- Shortly thereafter, I was the Acting Team Leader for a period of approx 2 months, with Arthur as my Acting Deputy. During this period in particular, I needed to rely on Arthur assistance extensively, and did so without hesitation. He performed far above expectations, doing all that I required of him no matter what it was, plus took care of other matters on his own initiative while keeping me informed of his actions in a timely manner.
- I consider myself extremely fortunate to have had a person of Arthur's calibre as the sole other member of the management team during this period. I would not hesitate to work with him again, and also do not hesitate to recommend him to any possible employer on the highest possible terms.

The above comments were provided in written references during my time with the Mission and as recently as one month ago and are indicative of the commitment and professionalism that I took to Cotecna Inspections S.A. during my time in Iraq.

Whilst it is true that I was removed from Zakho to Aqaba it was not for any other reason than a personality conflict with the Human Resource Manager at that time, namely Mr. Joe Saliba.

With regard to the comment made that I resigned because I was refused a pay raise is quite extraordinary as just prior to this event, in July or August 2003, I received a letter from Mr. Andre Pruniaux stating that:

- a. I was being given a \$300.00 per month pay raise;
- b. That Cotecna were extremely pleased with my attitude and commitment to the Mission; and
- c. They were extremely happy with my performance as Site Leader at Zakho during "these difficult times".

My work ethic and commitment to the job at hand has always been a professional one where I have endeavoured to perform above expectations, as many of my previous employers will testify to.

During my time with the Mission I made many friends from various countries and those friendships were based on mutual respect for a job well done. The majority of Inspectors were dedicated and hard working individuals who took pride in their work and who gave 100% effort at all times. Unfortunately there were one or two that let the side down and these tended to be favoured by Cotecna for positions as Team Leader and Deputy Team Leader at one site in particular.

I enjoyed my time with the Mission and worked diligently to ensure that the job was done as professionally as it could be by providing training to staff whenever appropriate and looking after the interests of staff during times of anxiety and stress.

If the above is deemed to be "undisciplined", "argumentative" and "not a team player" then I plead guilty.

3. *Reasons for Resignation:*

My reasons for resigning from the Mission were as follows:

- In June 2003 I was approached by an Australian political party and asked if I was interested in being their nomination for the Australian Senate at the next Federal Election, which was to be held in 2004.

After discussing it with my family I accepted the nomination and was formally notified by the party in August 2003 that I was their Senate Candidate for the 2004 election.

- In July 2003 I conducted an investigation into a missing consignment of power house equipment valued at US\$2.0 million (+) that was claimed to have been imported into Iraq during the hostilities when no Customs or Cotecna staff were present.

After conducting my investigation I was unconvinced that the shipment had in fact been delivered and consequently refused to sign off the Comm: for authentication despite a request from the OIP to do so. I believe that my refusal to comply with this request upset Cotecna Management (not Team Leader) and was the beginning of the end.

- In September 2003 I was approached by staff at Zakho who were concerned about their security whilst working in Zakho, in particular the insurance coverage provided by Cotecna.

After discussing this with Romilo Obra, and after he gave me permission, I wrote to Cotecna (copy to Romilo) asking for clarification of the insurance coverage as well as requesting an allowance for working in a dangerous area (as Iraq was quickly becoming).

The outcome of this letter was that Inspectors were granted a \$30.00 per day "Security Allowance" as well as a confirmation from Cotecna that the insurance coverage was valid whilst working in Iraq, even though there was civil unrest.

- Late in September 2003 Romilo Obra attended a Team Leaders meeting in Amman Jordan where he was told that I was to be removed from the site for the following reasons:

- ✓ It was felt that he was unable to control me as I was sending letters to Cotecna without his knowledge. When he told them that he saw

everything that I sent they stated that there was no record of me sending it to him. It did not show on the emails because I included him as a Bcc recipient.

- ✓ That I was "acting" more like a Team Leader than an Inspector or ADTL; and
 - ✓ They were concerned that my Customs qualifications, experience and knowledge were far in excess of what they really required in an Inspector's role.
- When I was moved from Zakho to Aqaba I spent the next three days either on the beach, shopping in town, in my room watching TV or on the computer. There was no work to be done even though I volunteered to do whatever there was to be done.

As a result of all the above I spoke to my wife and decided that:

1. I felt guilty receiving over US\$4500.00 per month and not doing anything for it; and
2. I could not continue in Mission if I was not doing something constructive.

Consequently I resigned from the Mission and flew home in early October 2003.



Arthur W. Ventham RFD MBA AFAM CD

January 14, 2005

To Whom It May Concern:

RE: Personal Reference – Arthur Ventham

I had the pleasure of living and working along side of Arthur while we were both under contract to Cotecna Inspections S.A. of Geneva which had been contracted by the United Nations as an independent Inspection Agency providing authentication and verification of arrival to Iraq of goods and services under the "Oil for Food Program".

I worked closely with Arthur while I was Deputy Team Leader of the Inspection Team deployed to Turkey after the war for a period of approximately 8 or 9 months. Due to the nature of the deployment, the multi-national team members constantly lived, worked and socialized together as a unit.

Working in a foreign seaport where the vast majority of the residents spoke only Turkish and not accustomed to seeing "outsiders" in their midst presented daily challenges to maintain a fully functional operational environment. Even more challenging was the need to ensure harmonious interpersonal relations among this highly diverse multi-cultural team living and working together full-time for months at a time under very challenging conditions. Team size varied from approx 16 – 20 professionals, many from Eastern Europe, South East Asia and Africa. Arthur functioned very well in this environment, and always acted in an appropriate manner when dealing with other team members and the local community.

Arthur's professionalism and wide variety of skills, combined with very positive "can do" attitude, were all welcomed assets to the team. A few months after our arrival, the Team Leader and I had occasion to decide which team member should be promoted to the vacant position of Assistant Deputy Team Leader. Without much discussion, we quickly discovered that we were both of the opinion that Arthur was the obvious choice. Needless to say, Arthur's appointment to the position proceeded rapidly.

Shortly thereafter, I was the Acting Team Leader for a period of approx 2 months, with Arthur as my Acting Deputy. During this period in particular, I needed to rely on Arthur assistance extensively, and did so without hesitation. He performed far above expectations, doing all that I required of him no matter what it was, plus took care of other matters on his own initiative while keeping me informed of his actions in a timely manner.

I consider myself extremely fortunate to have had a person of Arthur's caliber as the sole other member of the management team during this period. I would not hesitate to work with him again, and also do not hesitate to recommend him to any possible employer on the highest possible terms.

If there is any further information I can provide, please do not hesitate to contact me.



Ron Neufeld
Saskatoon Canada
rneufeld@yahoo.ca

Permanent Subcommittee on Investigations

EXHIBIT #56

**Responses to Supplemental Questions for the Record
of
JOSEPH A. CHRISTOFF
Director – International Affairs & Trade
Governmental Accountability Office**

According to the State Department, Iraq's estimated annual military expenditures averaged more than \$18.8 billion between 1980 and 1990 (in constant 2001 dollars) but dropped after sanctions were imposed in 1991.¹ From 1995 to 2002, military expenditures remained flat, averaging an estimated \$1.4 billion annually. In September 2004, the Central Intelligence Agency's Iraq Survey Group (ISG), headed by Charles Duelfer, estimated that the budget for the Military Industrialization Commission (MIC) had increased from \$7.8 million in 1996 to \$350 million in 2002.² GAO was asked the following questions:

- (1) Are the two estimates consistent? Please explain how and the extent to which the two estimates can be reconciled.

State's estimate is for Iraq's total military spending. The estimate includes salaries and pensions; unit maintenance and training; military equipment and repairs; weapons and equipment procurement; and construction. The estimate was developed annually based on information obtained from sources, such as the International Monetary Fund and the Central Intelligence Agency. However, according to State, estimating Iraq's military expenditures based on these sources was difficult and subject to underestimation.

The ISG estimate is for the MIC budget. According to the ISG report, the MIC was established in 1987 and was directly subordinate to the office of the presidency. It oversaw Iraq's military and industrial infrastructure, including chemical and biological agents and missile delivery systems. The MIC budget estimate included procurement of prohibited items for the military and other ministries, operations of front companies that procured illicit goods, salaries of MIC employees, and construction of training centers. The budget data in the ISG report are derived from an interview with a high-level MIC official, limiting the ISG assessment to the perspective of this individual. Moreover, because the State and ISG estimates are not itemized it is unclear if the MIC budget or

¹GAO, *Weapons of Mass Destruction: U.N. Confronts Significant Challenges in Implementing Sanctions against Iraq*, GAO-02-625 (Washington, D.C.: May 23, 2002).

²Central Intelligence Agency, *Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD*, (Washington, D.C.: Sept. 30, 2004).

parts of its budget could be components of the total military expenditures estimated by State. As a result, we cannot determine whether the two estimates are consistent or the extent to which they can be reconciled.

- (2) If possible, please identify the source of income for the increase in the MIC budget as identified in the Duelfer Report.

According to the ISG report, the primary sources for the increase in the MIC budget between 1996 and 2002 were the revenue generated by oil smuggling, including trade with Jordan and Turkey outside the Oil for Food program, and illicit surcharges on oil sales. In addition, the ISG reported that MIC covered its operating costs with revenues from front companies that were formed to bypass UN sanctions and supply the Iraqi government with prohibited conventional weapons and dual-use materials.
