

Background

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Investigate the United Nations Oil-for-Food Fraud

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There is mounting evidence that the United Nations Oil-for-Food program, originally conceived as a means of providing humanitarian aid to the Iraqi people, was subverted by Saddam Hussein's regime and manipulated to help prop up the Iraqi dictator. Saddam's dictatorship was able to siphon off an estimated \$10 billion from the Oil-for-Food program through oil smuggling and systematic thievery, by demanding illegal payments from companies buying Iraqi oil, and through kickbacks from those selling goods to Iraq—all under the noses of U.N. bureaucrats. The members of the U.N. staff administering the program have been accused of gross incompetence, mismanagement, and possible complicity with the Iraqi regime in perpetrating the biggest scandal in U.N. history.

The Iraqi Governing Council (IGC) has already started its own investigation into the United Nations' handling of Oil-for-Food, headed by Claude Hanks-Drielsma, a British businessman and political adviser. Hanks-Drielsma has commissioned KPMG International, a private accounting firm, to sift through the mountains of evidence and report its findings. Ambassador L. Paul Bremer, Administrator of the Coalition Provisional Authority (CPA), has instructed all CPA offices to cooperate with the probe and preserve all Oil-for-Food paperwork.

The U.S. Congress has also begun to investigate the Oil-for-Food scam.¹ The Senate Foreign Relations Committee held initial hearings on April 7. The House International Relations Committee and the House Subcommittee on National Security, Emerging

Talking Points

- The U.S. and the U.K. should introduce a joint Security Council resolution calling for an exhaustive investigation into the U.N.'s handling of the Oil-for-Food program. The Security Council should appoint an international team of criminal investigators to head the inquiry.
- U.N. officials implicated in criminal wrongdoing related to Oil-for-Food should face trial in Iraq.
- Secretary General Kofi Annan must bear the ultimate responsibility for Oil-for-Food's massive failings. The United States should call for Annan to step down from his post if he is found to have deliberately turned a blind eye to corruption and criminal activity.
- Handing political and military power over to the United Nations in Iraq would be a huge strategic error. The U.N.'s handling of the Oil-for-Food program demonstrates that the world body cannot be entrusted with a major management role in the country.

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Threats, and International Relations will also hold hearings.

The hearings, combined with the IGC probe, have prompted U.N. Secretary General Kofi Annan to call for an “independent” inquiry, appointed by Annan himself. He has appointed a three-man commission headed by former U.S. Federal Reserve Chairman Paul Volcker, with South African Judge Richard Goldstone and Swiss lawyer Mark Pieth as the other two members.

While this is a step in the right direction, however, there is no guarantee that this inquiry will be fully independent or impartial. Nor will the commission have the power to bring criminal charges or force U.N. member states to cooperate. It bears all the hallmarks of an elaborate paper tiger with no real teeth.

What is required is a Security Council–appointed investigation mandated by a U.N. resolution, with powers of criminal prosecution. In addition, the Bush Administration should launch its own investigation of the Oil-for-Food program and link it to a sustained U.S.-led campaign to reform the United Nations.

Specifically:

- The Security Council should appoint an independent investigation into Oil-for-Food, completely separate from the U.N. bureaucracy and staffed by non-U.N. personnel. Kofi Annan’s handpicked commission of inquiry, while led by distinguished figures, lacks real power and credibility. The U.N. Secretary General should not be in a position to select members of a commission investigating allegations against his own organization.
- The United States and Great Britain should take the lead by putting forward a U.N. resolution calling for a Security Council–appointed investigation. France and Russia may initially try to block such a resolution, since French and Russian politicians and businessmen have been heavily implicated in the Oil-for-Food scandal. However, the U.S. is likely to gain majority support in the Security Council: France and Russia

will find it politically difficult to exercise their veto power.

- A leading international accounting firm with no previous ties to the U.N. should be hired to help conduct the investigation, alongside top criminal investigators. Investigators should be drawn from the Federal Bureau of Investigation (FBI), Interpol, Scotland Yard, and other leading criminal investigative units.
- If the Security Council investigation recommends that criminal charges be brought against U.N. employees, those identified should be suspended pending resolution of the charges and have their diplomatic immunity waived to permit trial. U.N. officials and individuals implicated with criminal activity in the Oil-for-Food fraud should then be extradited to face trial in Iraq. Since the Iraqi people were the victims of the Oil-for-Food scam, it is appropriate that the Iraqi legal system try to sentence those responsible. If convicted, their U.N. employment should be terminated.
- The Bush Administration, backed by Congress, should launch its own separate investigation into the United Nations’ handling of the Oil-for-Food program. The United States should call for fundamental reform of the U.N. system, an annual external audit of the world body, and a Security Council–imposed code of conduct for all U.N. employees. Long-term U.S. funding of the United Nations should be made dependent upon widespread and satisfactory reform within the U.N.

History of the Oil-for-Food Program

The Security Council established the Oil-for-Food program in 1995 “as a temporary measure to provide for the humanitarian needs of the Iraqi people” while economic sanctions remained in place.² Of Iraq’s population of 24 million, 60 percent were dependent on food shipments administered through Oil-for-Food.

Oil-for-Food was the United Nations’ biggest program anywhere in the world. As Claudia Rosett

1. For background, see Nile Gardiner, Ph.D., and James Phillips, “The UN Oil for Food Scam: Time for Hearings,” Heritage Foundation *WebMemo* No. 438, March 1, 2004, at www.heritage.org/Research/InternationalOrganizations/wm438.cfm.

2. U.N. Security Council Resolution 986, April 14, 1995, at daccess-ods.un.org/TMP/6252784.html.

pointed out in *The Wall Street Journal*, the U.N. oversaw “a flow of funds averaging at least \$15 billion a year, more than five times the U.N.’s core annual budget.”³ Oil-for-Food was administered by 10 U.N. agencies employing over 1,000 staff internationally and in New York, as well as 3,000 Iraqi nationals. The U.N. collected a 2.2 percent commission on every barrel of oil sold, generating more than \$1 billion in revenue.

Until 2001, all Iraqi oil revenues were held in an escrow account run solely by Banque Nationale de Paris. The money was later kept by several unnamed international banks, all approved by Saddam’s regime.

The program was shrouded in secrecy, with little transparency or public accountability. There was no system of external auditing or publishing of accounts. The identity of the banks holding the Iraqi funds was kept secret. Oil-for-Food became a cash cow for the U.N. and a lucrative source of contracts for Russian and French companies. The *Times* of London calculated that from 1996 to 2003, Russian companies received \$7.3 billion of business through Oil-for-Food, and French firms earned \$3.7 billion.⁴

Oil for Corruption

In the 12 months since the fall of the Iraqi dictatorship, a clear picture has emerged of how Saddam Hussein abused the United Nations’ Oil-for-Food program. The Iraqi Governing Council has begun to release critical information detailing how, in the words of *The New York Times*, “Saddam Hussein’s government systematically extracted billions of dollars in kickbacks from companies doing business with Iraq, funneling most of the illicit funds through a network of foreign bank accounts in violation of United Nations sanctions.” In effect the

program was little more than “an open bazaar of payoffs, favoritism and kickbacks.”⁵

Between 1997 and 2002, the Oil-for-Food program generated over \$67 billion in revenues for the Iraqi regime. With little U.N. oversight, the Iraqi dictatorship was able to circumvent and exploit the program. It is suspected of selling Iraqi oil at bargain basement prices that benefited numerous middlemen while overpaying for various imports, which rewarded suppliers. The Iraqis then demanded kickbacks from both groups. The program was officially ended in November 2003.

The U.S. General Accounting Office (GAO) estimates that the Saddam Hussein regime generated \$10.1 billion in illegal revenues by exploiting the Oil-for-Food program, including \$5.7 billion from oil smuggling and \$4.4 billion in “illicit surcharges on oil sales and after-sales charges on suppliers.”⁶ The scale of the fraud was far more extensive than the GAO had previously estimated.

According to the GAO, the oil was smuggled by pipeline into Syria, by ship through the Persian Gulf, and by truck across the borders of Turkey and Jordan. Oil purchasers were charged a surcharge of up to 50 cents per oil barrel, with an added commission of 5 percent to 10 percent of the commodity contract. A U.S. Department of Defense study cited by the GAO evaluated 759 contracts administered through the Oil-for-Food program and found that nearly half had been overpriced by an average of 21 percent.⁷

An International Network of Beneficiaries

Emerging from the evidence is a mosaic of international corruption involving a patchwork of politicians and businesses across the world that benefited from the Oil-for-Food program and helped to keep Hussein in power. The Iraqi Oil Ministry recently released a

3. Claudia Rosett, “Oil, Food and a Whole Lot of Questions,” *The New York Times*, April 18, 2003, at www.defenddemocracy.org/in_the_media/in_the_media_show.htm?doc_id=218141.

4. James Bone, “Saddam’s Billions from Oil for Food Corruption,” *The Times* (London), April 23, 2003.

5. See Susan Sachs, “Hussein’s Regime Skimmed Billions from Aid Program,” *The New York Times*, February 29, 2004, at www.nytimes.com/2004/02/29/international/middleeast/29FOOD.html.

6. Joseph A. Christoff and Davi M. D’Agostino, “Recovering Iraq’s Assets: Preliminary Observations on U.S. Efforts and Challenges,” testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, U.S. House of Representatives, March 18, 2004, at www.gao.gov/highlights/d04579thigh.pdf.

7. *Ibid.*

partial list of beneficiaries: 270 names of individuals, political entities, and companies from across the world who received oil vouchers from Saddam Hussein's regime, allegedly at below-market prices.⁸

The list includes former French Interior Minister Charles Pasqua, the "director of the Russian President's office," the Russian Communist Party, the Ukraine Communist Party, the Palestine Liberation Organization, the Popular Front for the Liberation of Palestine, the son of Lebanese President Emile Lahud, the son of Syrian Defense Minister Mustafa Tlass, and George Galloway, a British Member of Parliament.

Ominously, the list also implicates U.N. Assistant Secretary General Benon V. Sevan, executive director of the Oil-for-Food program, who has stringently denied any wrongdoing. Sevan, a longtime U.N. bureaucrat with close ties to Kofi Annan, has taken an extended vacation, pending retirement later this month.

Kofi Annan's son Kojo may also be implicated in the mushrooming scandal. Kojo Annan had ties to Cotecna Inspection SA, a Swiss-based company that received a contract for inspecting goods shipped to Iraq under the Oil-for-Food program. The younger Annan worked for Cotecna in the mid-1990s and became a consultant to the company until shortly before it won the Oil-for-Food contract.⁹ Cotecna, reportedly implicated in earlier bribery scandals, did not disclose this potential conflict of interest, and neither did the United Nations.

France, Russia, and Saddam

No fewer than 46 Russian and 11 French names appear on the Iraqi Oil Ministry list.¹⁰ The Russian government is alleged to have received an astonishing \$1.36 billion in oil vouchers from Saddam Hussein.

The close ties between French and Russian politicians and the Iraqi regime may have been an impor-

tant factor in influencing their governments' decision to oppose Hussein's removal from power. They also highlight the close working relationships between Moscow and Baghdad and between Paris and Baghdad, and the huge French and Russian financial interests in pre-liberation Iraq.

Prior to the regime change in April 2003, French and Russian oil companies possessed oil contracts with the Saddam Hussein regime that covered roughly 40 percent of the country's oil wealth. French oil giant Total Fina Elf had won contracts to develop the Majnoon and Nahr Umar oil fields in southern Iraq, which contain an estimated 26 billion barrels of oil (25 percent of Iraq's oil reserves). Russian company Lukoil had won the contract to develop the West Qurna field, also in southern Iraq, which has an estimated 15 billion barrels of oil.¹¹

Political and military ties between Moscow and Baghdad were extensive. Documents found in the bombed-out headquarters of the Mukhabarat (the Iraqi intelligence service under Hussein) reveal the full extent of intelligence cooperation between the Russian and Iraqi governments. According to reports in the London *Sunday Telegraph*:

Russia provided Saddam Hussein's regime with wide-ranging assistance in the months leading up to the war, including intelligence on private conversations between Tony Blair and other Western leaders. Moscow also provided Saddam with lists of assassins available for "hits" in the West and details of arms deals to neighbouring countries.¹²

The Russians are also believed to have sold arms to Iraq illegally right up until the outbreak of war with the United States in March 2003. The Bush Administration has accused Russian arms dealers of selling anti-tank guided missiles, electronic jamming equip-

8. The names were published in January in the Arabic Iraqi newspaper *Al Mada* and subsequently reported on in Therese Raphael, "Saddam's Global Payroll," *The Wall Street Journal*, February 9, 2004.

9. Claudia Rosett, "Turtle Bay's Carnival of Corruption: Digging Deeper into the Scandalous Oil for Food Program," *National Review*, March 21, 2004, at www.nationalreview.com/comment/rosett200403212155.asp.

10. For a full list of names by nationality, see Dr. Nimrod Raphaeli, *The Saddam Oil Vouchers Affair*, Middle East Media Research Institute, February 20, 2004, at memri.org/bin/opener.cgi?Page=archives&ID=IA16404.

11. See Carrie Satterlee, "Facts on Who Benefits from Keeping Saddam Hussein in Power," Heritage Foundation *WebMemo* No. 217, February 28, 2003, at www.heritage.org/Research/MiddleEast/wm217.cfm.

12. David Harrison, "Revealed: Russia Spied on Blair for Saddam," *The Sunday Telegraph* (London), April 13, 2003, at www.telegraph.co.uk/news/main.jhtml?xml=/news/2003/04/13/wrus13.xml.

ment, and thousands of night vision goggles to the Iraqis in open violation of U.N. sanctions.¹³ During Hussein's dictatorship, Russia reportedly provided him with \$14 billion worth of arms shipments.¹⁴

Evidence has also come to light of intimate political cooperation between Paris and Baghdad in the period leading up to the U.S.-led war against Saddam Hussein. Documents found in the wreckage of the Iraqi Foreign Ministry reveal that "Paris shared with Baghdad the contents of private transatlantic meetings and diplomatic traffic from Washington."¹⁵

Officials in the French Foreign Office reportedly shared information with their Iraqi counterparts on a sensitive meeting between former French Foreign Minister Hubert Vedrine and U.S. Secretary of State Colin Powell following the terrorist attacks on September 11. Details of talks between French President Jacques Chirac and President George W. Bush were also reportedly passed on to the Iraqi Foreign Ministry by the French ambassador in Baghdad.

A Security Council Investigation

As the most powerful member of the U.N. Security Council, the United States, together with its closest ally, the United Kingdom, should call for a wide-ranging and in-depth independent investigation into the way in which the U.N. handled the Oil-for-Food program.

The investigation should be appointed by the Security Council but should be completely independent of the United Nations and made up of non-U.N. employees. Great care should be exercised by the United States and Great Britain to prevent such an investigation from being unduly influenced by other Security Council members who may have a vested interest in protecting their own officials.

The Security Council should appoint an international team of special criminal investigators to head the inquiry. They should work alongside a specialist team of auditors drawn from a leading accounting

firm without ties to the United Nations. The team of special investigators should be drawn from the FBI, the U.S. Department of Justice, the U.S. Securities and Exchange Commission, and international bodies such as Interpol. Nations that are heavily implicated in the Oil-for-Food scandal should be excluded from contributing investigators.

Prosecution of U.N. Officials in Iraqi Courts

After the handover of power in Iraq on June 30, the Iraqi courts would be the appropriate venue for trying and sentencing individuals found to have been implicated in criminal wrongdoing by a Security Council-appointed investigation. The United Nations should suspend—and, if they are convicted, terminate the employment of—U.N. officials who are alleged to have received kickbacks from the Saddam Hussein regime.

Those charged should be stripped of diplomatic immunity and subject to extradition to Iraq, upon request of the new Iraqi government. The Coalition Provisional Authority should work closely with the Iraqi Governing Council to prepare for possible trials. Anyone convicted should be stripped of all U.N. pension rights.

In addition, the United States should press other governments to extradite their citizens who are guilty of criminal activity related to the Oil-for-Food program so that they may face trial in Iraq.

Reform the United Nations

The Oil-for-Food scandal underlines the need for fundamental reform of the United Nations.¹⁶ The investigation into the Oil-for-Food fraud should prompt major reform in how the U.N. is managed and how the United States funds the U.N. A thorough external audit of the United Nations is needed. The U.N. must provide accountability, transparency, and value for money.

Since the creation of the United Nations in 1945, the United States has been the biggest contributor

13. Peter Slevin, "3 Russian Firms' Deals Anger U.S.," *The Washington Post*, March 23, 2003, at www.washingtonpost.com/ac2/wp-dyn/A13057-2003Mar23.

14. Harrison, "Revealed: Russia Spied."

15. Matthew Campbell, "Dossier Reveals France Briefed Iraq on U.S. Plans," *The Sunday Times* (London), April 27, 2003.

16. For information on the issue of U.N. reform, see Nile Gardiner and Baker Spring, "Reform the United Nations," Heritage Foundation *Background* No. 1700, October 27, 2003, at www.heritage.org/Research/InternationalOrganizations/BG-1700.cfm.

to the U.N. The U.S. currently contributes 22 percent of the U.N.'s regular budget. In contrast, France contributes 6.4 percent, Britain 5.54 percent, China 1.53 percent, and Russia 1.2 percent. Total U.S. contributions to the U.N. system in 2001 totaled \$3.5 billion, including \$612 million in assessed contributions to the U.N. regular budget, \$712 million toward U.N. peacekeeping, and \$2.2 billion in voluntary contributions.¹⁷

The United States should reconsider its level of U.N. funding and link it directly to the pace of U.N. reform. The Bush Administration should call upon other leading member states, such as France, Russia, and China, to bear a larger share of the financial burden.

What the U.S. Should Do

The U.S. should push for action in 10 areas:

- **A Security Council resolution.** In order to be effective, an independent investigation should be appointed by the Security Council. The U.S. and the U.K. should put forward a joint resolution calling for an exhaustive independent investigation into the Oil-for-Food scandal. France and Russia should be shamed into supporting such a resolution. Washington and London should closely coordinate their strategy at the U.N.
- **No *quid pro quo*.** The Bush Administration will be under heavy pressure from some Security Council members to back away from calling for a more in-depth investigation in return for a new U.N. resolution supporting U.S.–British plans for the handover of power in Iraq. The United States must stand firm on the Oil-for-Food issue and separate it from the debate on an Iraq resolution.
- **Opening of U.N. accounts.** U.N. Oil-for-Food accounts should be opened to full public scrutiny by private-sector auditors in order to uncover possible financial and other irregularities. Individuals and businesses that profited illegally from the Oil-for-Food program should be held responsible.
- **Investigation of U.N. officials.** Senior U.N. bureaucrats with responsibility for running the Oil-for-Food program should be investigated and held accountable for their actions. In particular, the role played by Benon V. Sevan, executive director of the Office of Iraq Programs, should be carefully scrutinized. All U.N. officials implicated in criminal activity by special investigators should be suspended, stripped of diplomatic immunity, subjected to extradition, and have their employment terminated without pension rights if they are convicted.
- **Extradition to Iraq.** The United States should press the Security Council to recommend waiving diplomatic immunity for certain crimes involving the Oil-for-Food program. The U.S. should also encourage individual governments to extradite to Iraq those of their citizens who have committed crimes relating to the Oil-for-Food program, to the same extent they would extradite citizens for any other serious crime.
- **The role of Kofi Annan.** A Security Council–appointed investigation into Oil-for-Food should examine the Secretary General's role in overseeing the program and his failure to halt the widespread abuse. Annan must bear ultimate responsibility for the program's massive failings. If he is found to have deliberately turned a blind eye to the corruption and criminal activity, the United States should call for his resignation.
- **U.N. reform.** The congressional investigation into Oil-for-Food should act as a catalyst for long-overdue reform of the U.N. system. Future U.S. funding of the United Nations must be dependent on substantial, not cosmetic, reform of the organization. Failure to prosecute U.N. officials implicated in wrongdoing should also result in reduced U.S. funding.
- **Future sanctions regimes.** The mismanagement of the Oil-for-Food program raises serious doubts about the U.N.'s ability to manage future programs of a similar scale. The United Nations should never again administer an international sanctions regime.
- **A code of conduct for U.N. officials.** The Oil-for-Food scandal reinforces the need for the

17. Figures cited in Vita Bite, *UN System Funding: Congressional Issues*, Congressional Research Service, September 10, 2003. Voluntary contributions go toward specialist U.N. programs such as the United Nations Children's Fund and the United Nations Development Program.

Security Council to impose a code of conduct on U.N. employees. The “anything goes” approach that is pervasive across the U.N. system is unacceptable and should no longer be tolerated.

- **Limit the role of the U.N. in Iraq.** The huge scandal surrounding the U.N.’s handling of the Oil-for-Food program clearly demonstrates that the U.N. cannot be entrusted with a major management role in Iraq. The United States was right to exclude the U.N. from a key role in administering post-war Iraq—the U.N. was clearly incapable of performing such a function. Handing political and military power over to the U.N. in Iraq now would be a huge strategic error.

Conclusion

The abuse of the Oil-for-Food program was the result of a staggering management failure by the United Nations and has raised troubling questions about the U.N.’s credibility and competence. The Oil-for-Food debacle reinforces the need for sweeping reform of the U.N. bureaucracy and the need for an annual external audit of its accounts.

Overall responsibility for one of the biggest financial scandals of modern times should lie with U.N. Secretary General Kofi Annan. The U.N.’s inability to manage the Oil-for-Food program successfully is a spectacular failure of his leadership.

The links between Saddam Hussein’s regime and leading European companies and politicians were extensive. The Pentagon was correct to bar companies from countries that had opposed regime change in Iraq, such as France and Russia, from bidding for U.S.-funded contracts for the rebuilding of Iraq. Russian and French companies, in particular, benefited from the exploitation of the Oil-for-Food program.

The Oil-for-Food fiasco reinforces President Bush’s point that the U.N. is in danger of becoming an irrelevance on the world stage. The United Nations continues to decline as a credible international force and will go the way of the League of Nations unless it is radically reformed and restructured.

The U.N.’s reputation has been heavily scarred by its handling of the Oil-for-Food program and its failure to support Saddam Hussein’s removal from power. The United Nations as an organization will have to work extremely hard in the coming years to mend its battered image and restore the faith of both the Iraqi and American peoples, as well as that of the wider international community.

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