STATEMENT OF SENATOR CARL LEVIN

BEFORE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

ON

HOW SADDAM HUSSEIN ABUSED

THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

November 15, 2004

Today the Permanent Subcommittee on Investigations is conducting the first of several hearings examining efforts by Saddam Hussein to undermine the United Nations Oil-for-Food program and misuse its humanitarian aims to obtain illicit revenues.

The United Nations, with the support of the United States and other Security Council members, established the Oil-for-Food program in 1996, as a means to continue the economic sanctions imposed on Iraq after Iraq invaded Kuwait in 1990, while alleviating the humanitarian crisis within Iraq that those sanctions had created. The U.N. sanctions regime was a critical component of a global effort to prevent Saddam Hussein from developing weapons of mass destruction and re-building Iraq's conventional military forces. The Oil-for-Food program provided that Iraq could use the proceeds from the sale of its oil to buy humanitarian supplies, such as food and medicine, while the U.N. sanctions regime continued to bar all other trade with Iraq. The Oil-for-Food program became the largest humanitarian relief effort ever managed by the U.N.

It is important that we take the time to understand what worked and what didn't work; how the program succeeded and how it failed; and how Saddam Hussein worked to undermine the sanctions. Sanctions are a club which can have an impact, as they are apparently doing today in Iran. It is useful to learn from the Iraqi experience, in which sanctions basically achieved their goals but were weakened in a number of ways, so that we can make sanctions work as effectively as possible. The Subcommittee's investigation can contribute to that learning process.

Much of the testimony today will concern how Saddam Hussein attempted to circumvent the U.N. sanctions program to obtain revenues that helped perpetuate his regime's iron grip on power in Iraq. A major focus of today's hearing will be the Report of the Special Advisor to the Director Of Central Intelligence on Iraq's Weapons of Mass Destruction, otherwise known as the Duelfer Report. This report provides extensive detail on how Saddam Hussein "gamed the system," including by using so-called trade protocols, oil vouchers, contract awards, surcharges, and kickbacks in an attempt to undermine the sanctions, while simultaneously obtaining illicit revenues and prohibited military equipment.

The objective of the U.N. sanctions was to prevent Saddam Hussein from developing weapons of mass destruction and rebuilding Iraq's conventional military forces. The sanctions were not intended to stop all international trade with Iraq, but to prevent Iraq from re-arming and threatening regional stability.

While Saddam had some success in circumventing sanctions, for the most part, the U.N. sanctions achieved their intended objective of preventing Saddam from re-arming and developing weapons of mass destruction.

In testimony before the Senate in 2001, Secretary of State Colin Powell described the objectives of the U.N. sanctions as follows:

> "It has nothing to do with regime change. . . . The purpose of these sanctions was to go after weapons of mass destruction." [Testimony Before Senate Foreign Relations Committee, March 8, 2001].

Secretary Powell testified that the sanctions had been "successful" and should be continued. He explained:

> "Saddam Hussein has not been able to rebuild his army, notwithstanding claims that he has. He has fewer tanks in his inventory today than he had 10 years ago. Even though we know he is working on weapons of mass destruction, we know he has things squirreled away, at the same time we have not seen that capacity emerge to present a full-fledged threat to us."

Referring to the sanctions, Secretary Powell added, "So I think credit has to be given … for putting in place a regime that has kept him pretty much in check."

And earlier this year, our new Ambassador to Iraq and former U.S. Ambassador to the U.N., John Negroponte testified before the Senate that the sanctions had largely achieved their purpose:

> "The United States Government supported the program's general objective of creating a system to address the humanitarian needs of the Iraqi civilian population while maintaining strict sanctions enforcement of items that Saddam Hussein could use to re-arm or reconstitute his WMD program. We believe the system the [Security] Council devised by and large met those objectives." [Testimony Before Senate Foreign Relations Committee, April 7, 2004].

Most recently, the Duelfer Report provided a detailed analysis of how U.N. sanctions constrained Saddam's efforts to rearm. The Duelfer Report states:

> "Sanctions imposed constraints on potential WMD programs through limitations on resources and restraints on imports. The sanctions forced Iraq to slash funding that might have been used to refurbish the military establishment and complicated the import of military goods. Rebuilding the military, including any WMD capability, required an end to sanctions." [Duelfer Report at 46.]

The Duelfer Report also found that sanctions had prevented Iraq from significantly rebuilding its conventional forces, confirming Secretary Powell's 2001 assessment as well as a report by the General Accounting Office in 2002. The GAO report stated the following:

> "According to U.S. and U.N. officials . . . there is no indication that Iraq has purchased large-scale weapons systems, such as aircraft, ships, or armor. Iraq's conventional rearmament efforts are limited to purchases of small arms and spare parts to keep weapons and vehicles not destroyed during the Gulf War operational. Most importantly, according to State Department arms experts, conventional weapons systems, such as aircraft and ships, are expensive and U.N. controls have limited the amount that Iraq can spend on arms." [GAO-02-265 at 14.]

This chart, which was compiled from data recently updated by GAO, shows how effective the U.N. sanctions were in reducing Iraq's ability to develop weapons of mass destruction and large-scale conventional forces. The data shows that Iraq's military spending after sanctions were imposed in 1991, fell to a small fraction of what it had been prior to the sanctions. It indicates that, despite Saddam Hussein's relentless efforts to circumvent the sanctions, once they were imposed, Iraq's military spending plummeted.

The fact that the sanctions were basically meeting their objective was the main reason that Saddam Hussein tried so hard to get around them. The Duelfer Report surmises that, had Saddam Hussein succeeded in ending the sanctions, he would likely have resumed re-arming Iraq with potentially dangerous results. Whether Saddam Hussein would have succeeded in ending sanctions will never be known. What we do know is that the sanctions, in fact, largely prevented Iraq from rearming.

We also know that the Oil-for-Food program weakened the sanctions by allowing Saddam to pick the winners of the contracts issued under the program. The proceeds from the oil sales went into an escrow account for humanitarian use. But Saddam repeatedly inflated the dollar amount of the humanitarian contracts and obtained kickbacks from these contracts and the oil sales to the tune of at least $1.7 billion.

Saddam's abuse of the Oil-for-Food program, however, provided only a fraction – about one-sixth -- of Iraq's total illicit income. According to the Duelfer Report, the vast majority – nearly three-quarters – of Saddam's illicit income during the sanctions period was generated through publicly disclosed trade agreements, called "protocols," to sell Iraqi oil to its neighbors: primarily Jordan, Syria, and Turkey. Those protocols constituted a far greater subversion of the sanctions because Iraq, instead of the U.N., controlled the estimated $8 billion in proceeds. The world, including the U.S. knew of these contracts between Iraq and its neighbors but winked at them, even though they represented the vast majority of Saddam Hussein's illicit income.

This chart, which uses the data in the Duelfer Report, depicts the amounts and types of illicit income earned by Iraq during the sanctions period. It shows that the trade agreements, which were not part of the Oil-for-Food Program, were the largest single source -- 75% -- of Iraq's illicit income, generating $8 billion out of a total that was estimated in the Duelfer Report to be $10.7 billion. According to the Duelfer Report, the Oil-for-Food program, which began in 1996, generated about $1.7 billion through kickbacks and surcharges to Saddam, or about 16% of Iraq's total illicit income during the sanctions period.

The trade protocols began in 1991, and continued over the next 12 years, in clear violation of the U.N. sanctions. Under these protocols, Iraq sold oil at a discount to its neighbors, in return for cash or credits to be used to purchase just about anything they wanted in those countries.

Iraq used the trade protocols not only to obtain illicit income, but also military items prohibited by the U.N. sanctions. The Duelfer Report provides extensive information about how Iraq used the protocols to obtain equipment for its conventional military forces, including missile, jet engine, and radar components. Indeed, it appears from the Duelfer Report that the vast majority of Iraq's illegal military equipment was procured through the trade protocols rather than through abuse of the Oil-for-Food program.

Iraq's ongoing oil sales to its neighbors was no secret. Both the United Nations and the United States knew of it and deliberately let the trade continue, presumably to maintain the support of Iraq's neighboring countries for the overall sanctions regime and to attain other foreign policy objectives.

In the United States, successive Administrations explicitly acknowledged the existence of the Jordanian and Turkish trade deals and routinely waived provisions of U.S. law that would have prohibited U.S. foreign aid to these countries for violating the sanctions on Iraq. According to the Duelfer Report, Jordan and Syria were the major sources of illicit income for Iraq during the sanctions regime, and the major sources of prohibited military equipment as well.

The failure of U.S. Administrations to take forceful action to stop Iraq's illicit dealings with Syria – a nation branded by the State Department as a major sponsor of terrorism – is the most troubling. The illicit oil trade between Iraq and Syria began in late 2000, with the opening of a pipeline and quickly expanded. In February 2001, Secretary of State Powell said he had obtained personal assurances from the Syrian President that he would place the Syrian-Iraqi trade under the U.N. Oil-for-Food program. According to a contemporaneous press report:

> "Mr. Powell said he had won agreement from Syria to place into a United Nations escrow account revenues that Mr. Hussein was receiving from oil flowing through Syrian pipelines. In the last few months, those revenues have been going into Mr. Hussein's pockets, illustrating the fraying of sanctions. The commitment from the Syrian was so firm – [President] Assad stated it three times during the meeting, General Powell said – that the secretary said he had telephoned President Bush to tell him." [New York Times, February 27, 2001].

But Syria not only failed to keep its promise, it increased its oil trade with Iraq, paying Saddam more than $1 billion annually. This trade continued right up until the outbreak of war, when the U.S. military finally cut off the illegal flow of oil from Iraq to Syria.

Iraqi oil sales to Syria supplied Saddam Hussein with billions of dollars in illicit revenue, yet the United States and other nations apparently did little to stop it. In February 2002, the Washington Post reported: "U.S. officials have applied little direct pressure on Damascus . . . even though this revenue is one of the few ways Iraqi President Saddam Hussein can pay to maintain his military and finance any efforts to acquire weapons of mass destruction." It quoted an Administration official who acknowledged the trade but expressed little, if any, determination to curtail it: "Make no mistake about it, the pipeline issue is a serious topic and a point of contention. Are we willing to make it a sticking point so that it affects the relationship between our two countries? No. We have to be pragmatic."

The bottom line is that the United States and other nations tolerated the trade protocols and Iraqi oil sales which, according to the Duelfer Report, produced billions of dollars in unaccounted revenue for Saddam as well as prohibited military equipment for Iraq. Evaluating whether this policy of acquiescence was the right course of action is a key issue not only in drawing lessons from the Iraqi sanctions, but also in designing future international sanctions programs.

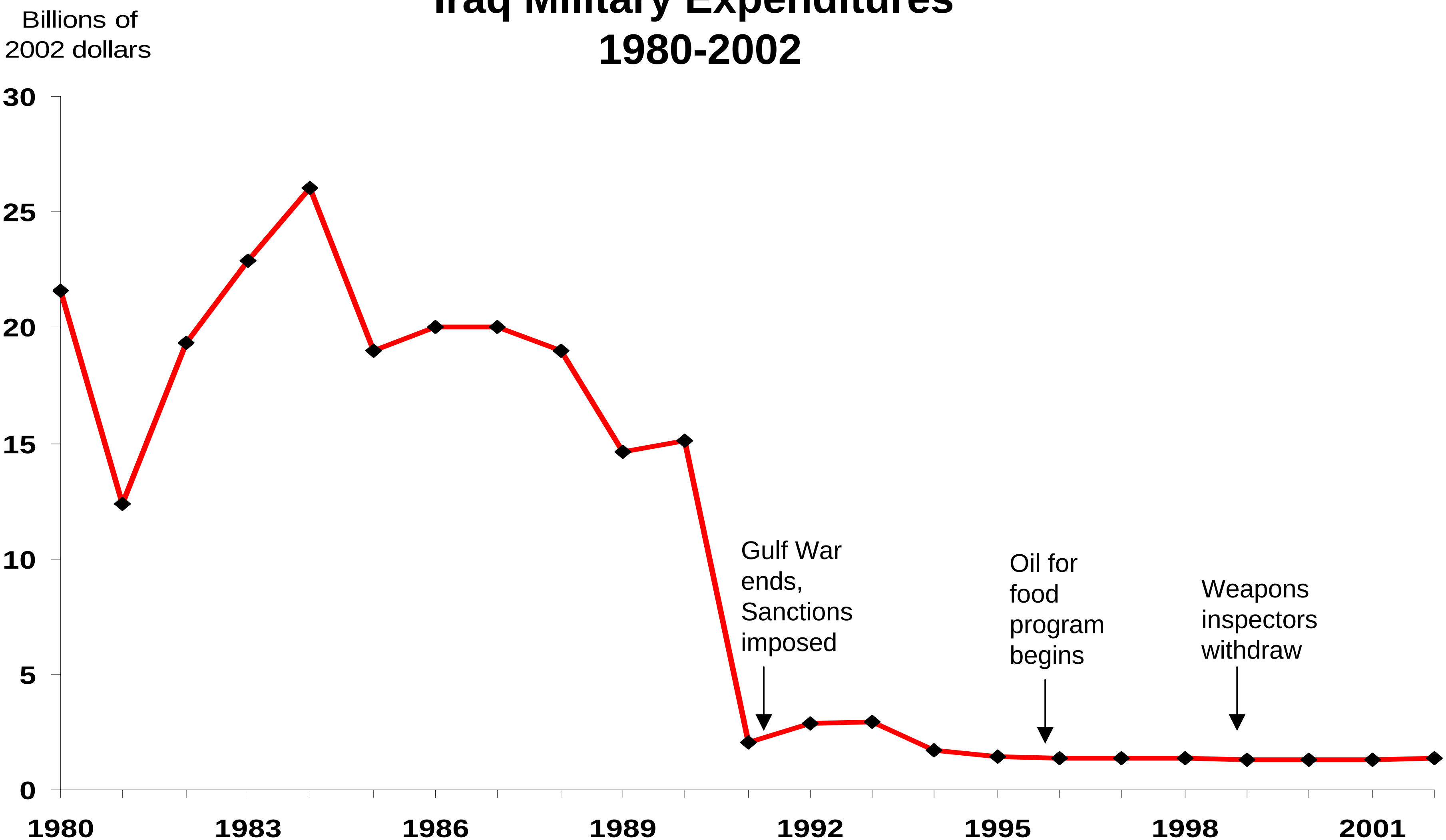
The Oil-for-Food program abuses were not presumably acquiesced in. These abuses included awards of oil vouchers and allocations to curry favor, contract surcharges to generate kickbacks, and the use of front companies and bank accounts in countries with corporate and bank secrecy laws. We will hear not only about Saddam Hussein's demands for corrupt payments, but also about the willingness of some companies and individuals to go along with those demands.

We will hear, for example, about a publicly traded company that agreed to inflate a contract price to include a surcharge demanded by the Iraqi government, wire transferred the specified sum to a Swiss bank account, and over time took the same actions with respect to 16 Oil-for-Food contracts, paying $8 million in kickbacks. We will hear about a journalist who appears to have accepted an Iraqi oil allocation, sold the rights to the oil to an energy company, and pocketed the profit while making public statements critical of the U.N. sanctions. We will see an excerpt from a 20-page list kept by Iraq of companies which had agreed to pay kickbacks on oil contracts to the Iraqi government. Today's hearing presents a sordid tale, not only about Iraq, but about the willingness of too many companies, too many individuals, and too many banks to participate in corruption.

Oversight was supposed to be provided not only by the United Nations Security Council and its 661 Committee, but also by the United States which took on the responsibility of reviewing Oil-for-Food contracts, licensing U.S. companies to do business with Iraq, and monitoring Iraq's compliance with the U.N. sanctions. We need to examine the shortcomings in oversight with the same goal of ensuring that future sanctions regimes will be tighter and more effective.

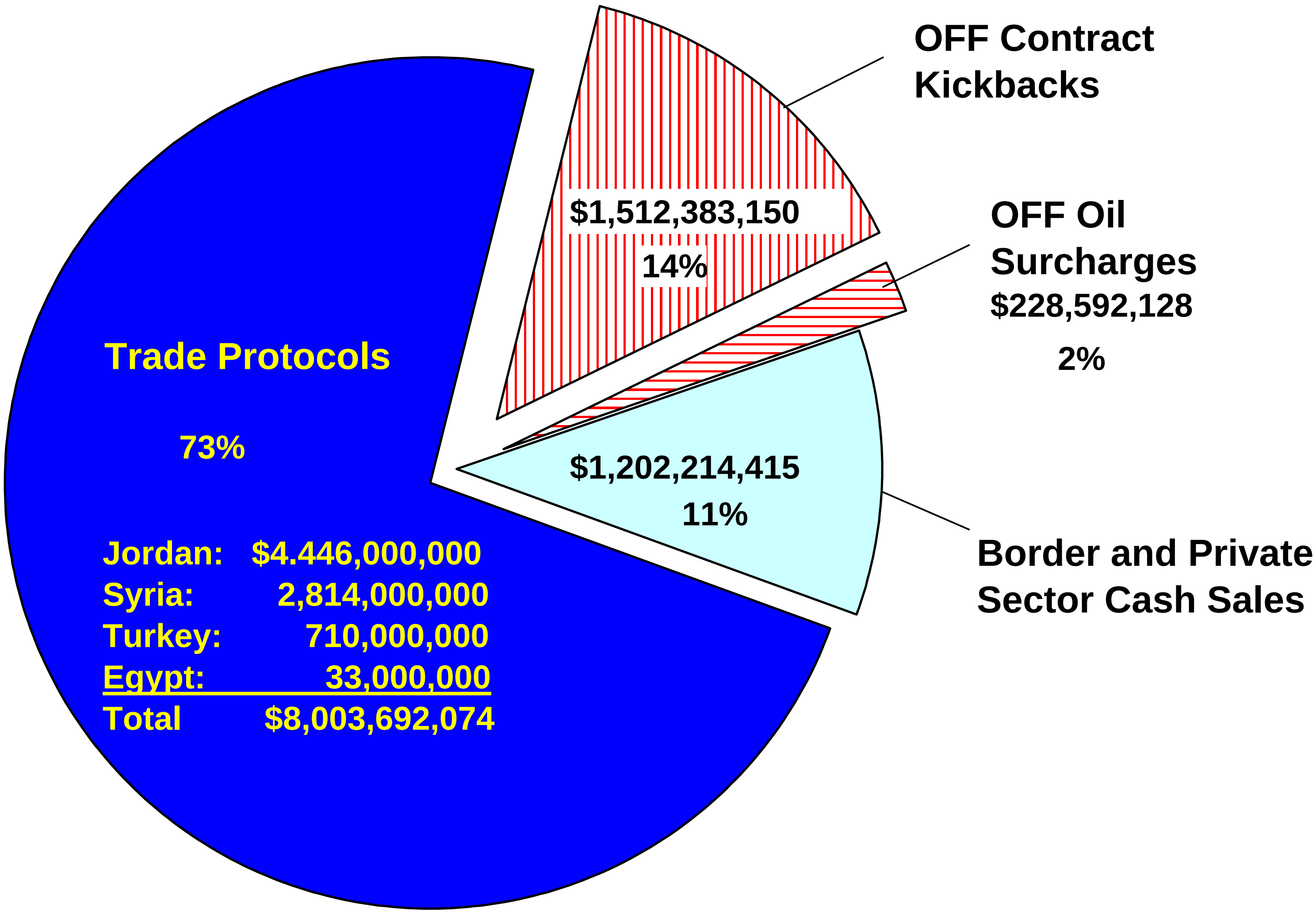
That's what this hearing and subsequent hearings before this Subcommittee are about: helping the world design more effective international sanctions. I commend Chairman Coleman for his strong leadership in this effort.

Iraq Military Expenditures
1980-2002



Source: Department of State, World Military Expenditures and Arms Transfers, (forthcoming preliminary data)
Chart format by GAO, prepared by PSI Minority Staff

Illicit Iraqi Revenue During Sanctions
1991 - 2003



Data source: Duelfer Report, Annex E, Fig.17
Chart prepared by PSI Minority Staff