

**The United Nations Oil for Food Fraud:**  
**How the U.S. Should Respond**

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**House Committee on Government Reform:**  
**Subcommittee on National Security, Emerging Threats, and International Relations**

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 ten billion dollars 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 UN bureaucrats. The UN staff administering the program are accused of gross incompetence, mismanagement, and possible complicity in allowing the Iraqi regime to perpetrate the biggest scandal in UN history.

The Iraqi Governing Council (IGC) has already appointed 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 the private accounting firm KPMG International to sift through mountains of evidence and write a report summarizing its findings. Ambassador L. Paul Bremer, the Administrator of the Coalition Provisional Authority (CPA), has instructed all offices of the occupying authority to cooperate with the probe and preserve all paperwork related to the Oil for Food program.

Congress has also begun to investigate the Oil for Food Scam<sup>3</sup>, with initial hearings held by the Senate Foreign Relations Committee on April 7. Further hearings are

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<sup>3</sup> 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.  
<http://www.heritage.org/Research/InternationalOrganizations/wm438.cfm>

being held by the House International Relations Committee and the House Subcommittee on National Security, Emerging Threats and International Relations.

The hearings, combined with the IGC probe, have prompted UN Secretary General Kofi Annan to call for an 'independent' inquiry, appointed personally by Annan himself. The three-man commission is to be headed by former United States Federal Reserve Chairman Paul Volcker, who will be joined by South African Judge Richard Goldstone, and Swiss lawyer Mark Pieth. While this is a step in the right direction, there is no guarantee that this inquiry will be fully independent or impartial. Nor does it possess the power to press criminal charges or force the cooperation of UN member states. 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 UN resolution, with powers of criminal prosecution. In addition, the Bush Administration should launch its own investigation into the Oil for Food program, and link it to a sustained U.S.-led campaign to reform the United Nations.

- An independent investigation into Oil for Food must be appointed by the Security Council, and be completely independent of the UN bureaucracy, and staffed by non-UN personnel. Kofi Annan's hand-picked commission of inquiry, while led by distinguished figures, lacks real power and credibility. The UN 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 UN resolution calling for a Security Council-appointed investigation. France and Russia may initially try to block such a resolution, as politicians and businessmen from both nations are heavily implicated in the Oil for Food scandal. The U.S. is though likely to gain majority support in the Security Council, and Paris and Moscow will find it politically difficult to exercise their veto power.
- A leading international accounting firm with no previous ties to the UN should be hired to help conduct the investigation, alongside top criminal investigators. Investigators should be drawn from the FBI, Interpol, Scotland Yard and other leading criminal investigative units.
- If the Security Council investigation recommends that criminal charges be brought against UN employees, those identified should be suspended pending resolution of the charges and have their diplomatic immunity waived to permit trial. UN officials and individuals alleged by the investigation to have participated in criminal activity in relation to Oil for Food should then be extradited to face trial in Iraq. As the Iraqi people were the victims of the ruthless exploitation of the Oil for Food program, it is appropriate that the Iraqi legal system try and sentence those responsible. If convicted they should also have their UN employment 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 UN system, an annual external audit of the world body, and a Security Council-imposed code of conduct for all UN employees. Long-term U.S. funding of the United Nations should be made dependent upon widespread and satisfactory reform within the UN.

### **History of the Oil for Food Program**

The Oil for Food program was established by the United Nations Security Council through Security Council Resolution 986 in 1995 "as a temporary measure to provide for the humanitarian needs of the Iraqi people" while economic sanctions remained in place. 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 pointed out in *The Wall Street Journal*, the UN oversaw "a flow of funds averaging at least \$15 billion a year, more than five times the UN's core annual budget."<sup>4</sup> Oil for Food was administered by 10 UN agencies employing over 1,000 staff internationally and in New York, as well as 3,000 Iraqi nationals. The UN 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 a veil of 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 UN and a lucrative source of contracts for Russian and French companies. *The Times* of London has calculated that over the period 1996 to 2003, Russian companies received \$7.3 billion of business through Oil for Food; French firms earned \$3.7 billion.<sup>5</sup>

### **Oil for Corruption**

In the twelve months since the downfall of the Iraqi dictatorship, a clearer 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

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<sup>4</sup> Claudia Rosett, 'Oil, Food and a Whole Lot of Questions', *The New York Times*, April 18, 2003. [http://www.defenddemocracy.org/in\\_the\\_media/in\\_the\\_media\\_show.htm?doc\\_id=218141](http://www.defenddemocracy.org/in_the_media/in_the_media_show.htm?doc_id=218141)

<sup>5</sup> James Bone, 'Saddam's Billions From Oil for Food Corruption', *The Times of London*, April 23, 2003.

Nations sanctions.” In effect the program was little more than “an open bazaar of payoffs, favoritism and kickbacks.”<sup>6</sup>

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

The General Accounting Office (GAO) estimates that the Saddam Hussein regime generated \$10.1 billion in illegal revenues by exploiting the Oil for Food program. This figure includes \$5.7 billion from oil smuggling, and \$4.4 billion in “illicit surcharges on oil sales and after-sales charges on suppliers.”<sup>7</sup> 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 to 10 per cent of the commodity contract. A 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.<sup>8</sup>

### **An International Network of Beneficiaries**

A mosaic of international corruption is emerging in the patchwork of politicians and businesses across the world that benefited from the Oil-for-Food program and helped keep Saddam Hussein in power. The Iraqi Oil Ministry recently released a partially complete list of 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.<sup>9</sup>

The list of beneficiaries 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 (PLO), the Popular

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<sup>6</sup> See Susan Sachs, ‘Hussein’s Regime Skimmed Billions From Aid Program’, *The New York Times*, February 29, 2004. <http://www.nytimes.com/2004/02/29/international/middleeast/29FOOD.html>

<sup>7</sup> United States General Accounting Office, *Recovering Iraq’s Assets: Preliminary Observations on U.S. Efforts and Challenges*, Testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives, by Joseph A. Christoff and Davi M. D’Agostino, March 18, 2004. <http://www.gao.gov/highlights/d04579thigh.pdf>

<sup>8</sup> Ibid.

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

Kofi Annan's son Kojo also may 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 1990's and became a consultant to the company until shortly before it won the Oil for Food contract.<sup>10</sup> Cotecna, which reportedly had been implicated in earlier bribery scandals, did not disclose this potential conflict of interest, and nor did the United Nations.

### **Russia, France, and Saddam**

No less than 46 Russian and 11 French names appear on the Iraqi Oil Ministry list.<sup>11</sup> The Russian State 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 well have been an important factor in influencing their governments' decision to oppose the removal of Saddam Hussein from power. They also highlight the close working relationship between Moscow, Paris and Baghdad, and the huge financial interests which both France and Russia maintained in pre-liberation Iraq.

Prior to the regime change in Baghdad in April 2003, French and Russian oil companies possessed oil contracts with the Saddam Hussein regime which covered roughly 40 percent of the country's oil wealth. French oil giant Total Fina Elf had won contracts to develop southern Iraq's Majnoon and Nahr Umar oil fields, estimated to contain 26 billion barrels of oil, or 25 percent of Iraq's oil reserves. Russian company

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<sup>9</sup> The names were published in January in the Arabic Iraqi newspaper *Al Mada* and subsequently reported on by Therese Raphael in her article 'Saddam's Global Payroll', published in *The Wall Street Journal*, February 9, 2004.

<sup>10</sup> Claudia Rosett, 'Turtle Bay's Carnival of Corruption: Digging Deeper Into the Scandalous Oil for Food Program,' *National Review*, March 21, 2004.  
<http://www.nationalreview.com/comment/rosett200403212155.asp>

<sup>11</sup> For a full list of names by nationality, see Dr. Nimrod Raphaeli, *The Saddam Oil Vouchers Affair*, The Middle East Media Research Institute, February 20, 2004.  
<http://memri.org/bin/opener.cgi?Page=archives&ID=IA16404>

Lukoil had won the contract to develop the West Qurna field, also in southern Iraq, containing an estimated 15 billion barrels of oil.<sup>12</sup>

Political and military ties between Moscow and Baghdad were extensive. Documents found in the bombed-out headquarters of the former Iraqi intelligence service (Mukhabarat) in Baghdad reveal the full extent of intelligence co-operation 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.”<sup>13</sup>

The Russians are also believed to have illegally sold arms to Iraq right up until the outbreak of war with the United States in March 2003. The Bush Administration accused Russian arms dealers of selling thousands of night vision goggles, as well as anti-tank guided missiles and electronic jamming equipment to the Iraqis in open violation of UN sanctions.<sup>14</sup> During the course of his dictatorship, Russia reportedly provided Saddam with \$14 billion worth of arms shipments.<sup>15</sup>

Evidence has also come to light of intimate political co-operation 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 in the aftermath of the liberation of Iraq, and reported on by the London *Sunday Times*, reveal that “Paris shared with Baghdad the contents of private transatlantic meetings and diplomatic traffic from Washington.” 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.<sup>16</sup>

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<sup>12</sup> See Carrie Satterlee, *Facts on Who Benefits From Keeping Saddam Hussein in Power*, Heritage Foundation WebMemo No. 217, February 28, 2003. <http://www.heritage.org/Research/MiddleEast/wm217.cfm>

<sup>13</sup> David Harrison, ‘Revealed: Russia Spied on Blair for Saddam’, *The London Sunday Telegraph*, April 13, 2003. <http://www.telegraph.co.uk/news/main.jhtml?xml=/news/2003/04/13/wrus13.xml>

<sup>14</sup> Peter Slevin, ‘3 Russian Firms’ Deals Anger U.S.’, *The Washington Post*, March 23, 2003. <http://www.washingtonpost.com/ac2/wp-dyn/A13057-2003Mar23>

<sup>15</sup> Harrison, ‘Revealed: Russia Spied on Blair for Saddam’

<sup>16</sup> Matthew Campbell, ‘Dossier Reveals France Briefed Iraq on U.S. Plans’, *The London Sunday Times*, April 27, 2003.

### **A Security Council Investigation**

As the most powerful member of the UN 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 UN 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-UN 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 Federal Bureau of Investigation (FBI), the United States Department of Justice, and the U.S. Securities and Exchange Commission (SEC), as well as international bodies such as Interpol. Nations who are heavily implicated in the Oil for Food scandal should be excluded from contributing investigators.

### **Prosecution of UN Officials in Iraqi Courts**

After the handover of power takes place in Iraq on June 30, the Iraqi courts should be the appropriate venue for trying and sentencing those individuals found guilty of criminal wrongdoing by a Security Council appointed investigation.

The United Nations should suspend (and if convicted, terminate) the employment of its officials who are alleged to have received kickbacks from the Saddam Hussein regime. Those charged should be stripped of diplomatic immunity and be subject to extradition to Iraq, should the new Iraqi government request it. The Coalition Provisional Authority should work closely with the Iraqi Governing Council to prepare for possible trials. Anyone convicted should be stripped of all pension rights

The United States should press other governments to extradite their citizens who are guilty of criminal activity related to the Oil for Food program, to face trial in Iraq.

### **Reform the United Nations**

The Oil for Food scandal underlines the need for fundamental reform of the United Nations.<sup>17</sup> The investigation into the Oil for Food fraud should prompt major reform in terms of how the UN is managed, and how the United States funds the UN. A thorough

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<sup>17</sup> For information on the issue of UN reform, see Nile Gardiner and Baker Spring, *Reform the United Nations*, Heritage Foundation Backgrounder No. 1700, October 27, 2003.  
<http://www.heritage.org/Research/InternationalOrganizations/BG-1700.cfm>

external audit of the United Nations is needed. The UN must provide accountability, transparency and value for money.

No nation in the world contributes more to the work of the United Nations than the United States. Since its creation in 1945, the United States has been the world's biggest contributor to the United Nations. The U.S. currently contributes 22 percent of the UN'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 UN system in 2001 totaled \$3.5 billion, including \$612 million in assessed contributions to the UN regular budget, \$712 million towards UN peacekeeping, and \$2.2 billion in voluntary contributions.<sup>18</sup>

The United States should reconsider its level of funding for the United Nations, and link it directly to the pace of UN reform. The Bush Administration should call upon other leading member states, such as France, Russia and China, to make a greater contribution to the UN budget, with a larger share of the financial burden.

### **Key Recommendations**

- **A Security Council Resolution**  
In order to be effective, an independent investigation should be appointed by the Security Council. The U.S. and UK should put forward a joint resolution calling for an exhaustive 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 UN.
- **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 UN 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 debates over an Iraq resolution.
- **Opening of UN Accounts**  
UN Oil for Food accounts should be opened to full public scrutiny by private sector auditors in order to uncover possible financial and other irregularities. Measures should be taken against individuals and businesses that illegally profited from the Oil for Food program.
- **Investigation of UN Officials**  
Senior UN bureaucrats with responsibility for running the Oil for Food program should be investigated and held accountable for their actions. In particular, the

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<sup>18</sup>Figures cited by Vita Bite in *UN System Funding: Congressional Issues*, Congressional Research Service, September 10, 2003. Voluntary contributions go towards specialist UN programs such as the United Nations Children's Fund (UNICEF) and the United Nations Development Program (UNDP).

role played by Benon V. Sevan, executive director of the Office of Iraq Programs, should be carefully scrutinized. All UN officials found to be involved in criminal activity by special investigators should be suspended from employment from the world body, stripped of diplomatic immunity, subject to extradition and, if convicted, have their employment terminated without pension rights.

- **Extradition to Iraq**

The United States should press the Security Council to extradite UN officials found guilty of criminal wrongdoing to face trial in Iraq. The U.S. should also encourage individual governments to extradite to Iraq those of their citizens charged with crimes relating to the Oil for Food program.

- **The Role of Kofi Annan**

A Security Council-appointed investigation into Oil for Food should examine the role played by the UN Secretary General in overseeing the program, and his failure to halt its widespread abuse. Mr. Annan must bear ultimate responsibility for the program'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.

- **UN Reform**

The Congressional investigation into Oil for Food should act as a catalyst for long-overdue reform of the UN system. Future U.S. funding of the United Nations must be dependent upon substantial, not cosmetic, reform of the organization. Failure to prosecute UN officials found guilty of wrongdoing should also result in a potential reduction in U.S. funding.

- **Future Sanctions Regimes**

The mismanagement of the Oil for Food program raises serious doubts about the UN's ability to manage future programs of a similar scale. The United Nations should never again be placed in charge of the administration of an international sanctions regime.

- **A Code of Conduct for UN Officials**

The Oil for Food scandal reinforces the need for a Security Council imposed code of conduct for UN employees. The 'anything goes' approach which is pervasive across the UN system is unacceptable and should no longer be tolerated.

- **Limit the Role of the UN in Iraq**

The huge scandal surrounding the UN's handling of the Iraq Oil for Food program demonstrates clearly that the world body cannot be entrusted with a major management role in Iraq. The United States was right to exclude the UN from a key role in administering post-war Iraq – the UN was clearly incapable of performing such a function. A handover of political and military power to the United Nations would be a strategic disaster.

### **Conclusion**

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

Overall responsibility for the program's failure should lie with UN Secretary General Kofi Annan, who allegedly turned a blind eye to one of the biggest financial scandals of modern times. The UN's inability to successfully manage the Oil for Food program represents a spectacular failure of leadership on the part of Mr. Annan.

The links between Saddam Hussein's regime and leading European companies and politicians were extensive. A huge part of Saddam's strategy for staying in power involved the bribing of European political and business entities. The Pentagon was correct in its decision to bar companies from nations who 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 the point made by President Bush that the UN is in danger of becoming an irrelevance on the world stage. The United Nations continues to slowly decline as a credible international force, and will go the same way as the League of Nations unless it is radically reformed and restructured.

The UN's credibility as a global institution has been heavily scarred by both its handling of the Oil for Food program and by its failure to support the removal of Saddam Hussein 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 people, as well as that of the wider 'international community'.