

Statement for the Record

of

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Mr. Chairman, distinguished members of the Committee, I thank you for the opportunity to testify here today.

Speaking as a journalist, I would like to tell you that when I first began asking questions about Oil-for-Food, in 2002, it was not with the aim of uncovering a scam. I wished simply to understand what appeared to be a complicated relief effort -- complications which, as we have since learned, served to veil a multitude of misdeeds. With almost every new detail I learned about the structure of the program, my astonishment grew. Had the United Nations deliberately set out to design a program open to manipulation by Saddam Hussein's regime, it is hard to think how the U.N. could have improved upon the arrangement that was put in place.

There has been by now such abundant evidence of corruption within the United Nations Oil-for-Food program that today I will leave most of that detail—the more than \$10 billion in bribes, kickbacks, smuggling and so on—to others. I would like to focus, in brief, on why the staggering levels of corruption achieved by way of Oil-for-Food were not only possible, but were positively invited by the manner in which the UN operates. Unless these failings of structure and custom are remedied, there is every reason to expect further variations on the extravaganza of graft we have now begun to explore.

It bears noting upfront that the U.N. has no effective mechanisms of checks, balances, and disclosure. What finally began to bring some daylight to this program was certainly not any initiative on the part of the U.N. — where Secretary-General Annan and his senior staff at every turn sought to continue and expand Oil-for-Food. Nor was it any initiative of the Security Council—where the project of funneling relief through sanctions quickly became a rationale for huge flows of corruption-laden business between Iraq and such major UN players as France, Russia, and China. What finally flushed Oil-for-Food into the open was that Saddam's regime fell. It is obvious that there were many parties to Saddam's business who expected him to remain in power, protecting the confidential records of dirty deals; and it may be more than coincidence that some of his favored business partners—notably Russia and France, but also the UN Secretary-General himself (flush with its Oil-for-Food commissions and clout)--lobbied to keep Saddam in power.

There were immense conflicts of interest at work here. There was no effort on the part of the U.N. to inform the public of that fact—though the U.N., and the Secretariat in particular, had access to the financial details of Oil-for-Food, and the public did not. Notably, there was no word about these conflicts of interest from the Secretary-General. Mr. Annan was one of the chief negotiators in the mid-1990s of the terms of Oil-for-Food; he picked its Executive Director, Benon Sevan, who reported directly to him; and he was boss of the program from its second month in operation, January, 1997, until the

UN turned it over to the U.S.-led coalition in Baghdad in November, 2003. Mr. Annan's Secretariat collected fees of some \$1.4 billion over the course of the program to audit, monitor and administer the program, keep the records, and serve as the main interlocutor with Saddam (plus another \$500 million or so for weapons inspections). If anyone was precisely situated to call attention to the growing problems under Oil-for-Food of graft, smuggling, front companies, waste, abuse of public trust and disregard for the interest of the Iraqi people the program was supposed to serve--it was Mr. Annan.

The sums of money involved should have alerted the U.N. from the start that extraordinary vigilance was needed. In examining aid programs, we are accustomed to thinking in terms of millions of dollars, or hundreds of millions, perhaps. Oil-for-Food was designed to work on a scale of billions. Tens of billions. More than \$100 billion (\$101 billion if we use Secretary-General Kofi Annan's figures, though the numbers throughout the program have never been terribly consistent—and I note that the figures provided at the recent Senate hearing by Ambassador Negroponte were at variance with the UN's figures, and that the UN's figures have often been at variance with each other). In this context, a billion or so in bribes that may have gone to crucial political figures, or in payoffs to influence business lobbies, was treated as pocket change, or a rounding error—implying a degree of what we might most generously describe as carelessness unsuitable for an operation charged with containing the activities of an aggressive tyrant under U.N. sanctions.

It must also be kept in mind that once Saddam had done a tainted deal, delivered a bribe, received a kickback, given a gift of those now-infamous oil vouchers; he had the goods on the other party to the deal. Along with the graft came ample opportunity for blackmail, a danger to which the U.N. was also, apparently, indifferent. Very likely, Saddam's partners in graft had more to lose than he did—especially as the program proceeded, and Saddam's regime, having tested the U.N. envelope again and again, discovered it could game the system almost any way it chose. I refer you, for example, to the establishment in 1999 of the Dubai-based trading group, El Wasel & Babel, one of the UN-approved suppliers to Oil-for-Food, designated last Thursday by Treasury as a front company—engaged in procuring arms--for Saddam's own regime.

But amid all this, two features stand out, and it is to these that I would like to call your attention. The hallmarks of Oil-for-Food were:

- 1) Privilege
- 2) Secrecy

These are features usually associated not with open, honest systems, but with secret societies, closed systems, dictatorships. In combination, they tend to incubate corruption. And they did not originate with Oil-for-Food; they are also inherent to the current arrangement and practices of the UN itself.

Privilege was first and foremost what Oil-for-Food accorded to the tyrant Saddam himself. The U.N. allowed Saddam to pick his oil buyers and relief suppliers. The U.N. let Saddam draw up the shopping lists. The U.N. deferred to him as he assembled rosters of contractors that included, among the first 50 oil buyers, a full dozen based in Switzerland. The UN deferred as he added to the list a multitude of what clearly had to be middlemen in places such as Panama, Liechtenstein, and Cyprus, as well as oil-buyers from such oil-rich countries as Saudi Arabia, Nigeria and especially Russia. The surcharge-kickback scam, which made these choices all the more questionable, was by the year 2000 well known among those close to the program. The UN's response was not to shut down Saddam's sales, but to haggle with him. Indeed, it was Saddam who bargained by cutting off oil sales, leaving the UN desperate to continue the program—which was also paying the salaries of some 1,000 international UN staff, and another 3,600 in Iraq.

The UN's eagerness was in principle based on desire to provide for the needs of the Iraqi people. But under UN terms of Oil-for-Food, Iraq's 26 million citizens did not enjoy the kind of privileges the UN granted to the tyrant, Saddam. The Iraqi people had no say in who bought or sold goods for the program, in what was procured, or how it was distributed. They had no say in anything. Oil-for-Food was structured by the U.N. as a deal between Saddam and the U.N. The people of Iraq were treated merely as wards of this privileged partnership.

In fact, what we actually had here was the biggest venture in central planning launched in at least a generation or two. As far as I know, there was at no point any attempt by the U.N. to bargain for a greater say for the Iraqi people. Instead, it was considered an achievement—one boasted about at the end of the program by Mr. Annan and Mr. Sevan—that 60% of the population came to depend on the rationing cards of a totalitarian state. The U.N., in affirming and monitoring this arrangement made no visible attempt to push for greater freedom or latitude for the Iraqi people; the sole concern was to try to somewhat channel the prerogatives accorded to Saddam's regime.

For itself, the UN dipped a cup into Saddam's oil flows, apparently indifferent to the glaringly obvious conflict of interest that the Secretariat was getting paid by Saddam—on commission, no less—to monitor Saddam. This was Arthur Andersen monitoring Enron – with the difference to date that those who ran Arthur Andersen and Enron have been in one way or another held accountable.

Layered on top on the privilege, and dramatically compounding the opportunities for graft and theft, was U.N. secrecy. The UN's prime concern was to protect not the basic rights of Iraqis, but the privacy of the two main privileged parties under Oil-for-Food: Saddam (and his business partners) and the UN itself. The public was denied access to vital information about the \$100 billion-and-more worth of business (not to mention the dispensing by the highly opaque United Nations Compensation Commission, in Geneva, of another \$18.2 billion to largely confidential lists of claimants for damage done by Saddam in Kuwait). The UN treated as confidential such vital details as the identities of Oil-for-Food contractors, the price, quantity and quality of goods involved in the relief

deals, and the identities of the oil buyers and precise quantities they received. The bank statements, the interest paid, the transactions, all were secret.

In operating this way, the UN deprived itself of feedback, not only from the media, but from commercial competitors of Saddam's preferred clientele--from anyone, in fact, who might have had the expertise or interest to spot the strange pricing arrangements and peculiar contractors that came to pervade the program. Instead, we were all asked to trust the U.N. Those who persisted in asking questions were left to ponder such stuff as (and here I quote from a piece I wrote about Oil-for-Food for the New York Times, April 18, 2003):

*The quantities of goods involved in shipments are confidential, and almost all descriptions on the contract lists made public by the United Nations are so generic as to be meaningless. For example, a deal with Russia approved last Nov. 19 was described on the contract papers with the enigmatic notation: "goods for resumption of project." Who are the Russian suppliers? The United Nations won't say. What were they promised in payment? That's secret.*

Most egregious was that the Iraqi people, in whose name this entire vast program had been arranged, were denied any access to the Oil-for-Food information that was generated by, and routinely available to, the U.N. and Saddam's regime. To this day, the Iraqi people—not to mention the rest of us—have been denied access to anything even approaching the full official roster of contractors, payments, specific goods and terms of the deals. Surely a public accounting might help to shape a more accurately informed opinion, both in Iraq, and elsewhere, of just how competently the U.N. did--or did not--serve the interests of Oil-for-Food's intended beneficiaries and the world community.

There is no reasonable justification for such U.N. secrecy. It serves the interests not of world peace, or humanitarian relief, but of those UN member states, employees, and global officials, businessmen and others, with secrets to hide. In defending to me these policies of privilege and secrecy, one U.N. official after another has invoked the "sensitivities" of member states, or simply U.N. custom.

In this context, I would like to point to one illustration that may seem trivial, but is not: The case of Kofi Annan's son, Kojo Annan, working from February to early December, 1998, as a consultant, via Sutton Investments, for Cotecna Inspections, SA, during the period in which the UN would have been reviewing Cotecna's bid for the pivotal job of the U.N. inspections contract on Oil-for-Food. Kojo Annan's consultancy ended earlier in the same month that Cotecna, on Dec. 31, 1998, was awarded the U.N. contract. It was only after questions by the British press, in 1999, that the U.N. provided any information whatsoever on this matter, and—as is U.N. custom—apart from a denial of any wrongdoing, a few less than illuminating details, and a timetable finally provided to me in response to persistent questions this past March, the U.N. has released nothing more.

There is no reasonable basis for the public to make any informed judgment about how the UN arrived at its decision on the Cotecna contract. We are asked to rely on the integrity

of the same UN whose Office of Internal Oversight Services was evidently unable to spot or unable to stop the billions in graft under Oil-for-Food. We are asked to trust the same mechanisms of privilege and secrecy that produced fostered and protected Saddam's festival of corruption. This is a dreadful precedent, and at the very least the U.N. should be required to present to the public a full accounting in cases involving such potential conflicts of interest.

Instead, we are asked to defer to the U.N. practice of privilege and insistence on secrecy.

This is, to say the least, an unhealthy situation. It is further compounded by the desperate problem of lack of accountability at the UN, where responsibility gets bounced back and forth between the Security Council and the Secretariat. The buck stops no where. And though the UN holds votes on many matters—and did so repeatedly on Oil-for-Food—the U.N. is not a democratic institution. Many of its seats are occupied by despots whose interests are often at odds with those of the people they purport to represent, and whose activities under the U.N. roof are protected by those same features of privilege and secrecy.

It was under the banner of the “sovereignty” of Saddam's regime that the UN at times justified letting Saddam profoundly pervert the Oil-for-Food Program into what came to resemble more a BCCI than a relief effort. No one can pretend that such deference was a contribution to anything except perhaps Saddam, the UN Secretariat that received his commissions, and perhaps some of the officials worldwide who allegedly took bribes, and who are now likely to avail themselves of U.N. secrecy to lobby against anyone looking too hard or disclosing too much about what really happened.

Which brings me to the single most important reform that needs to come out of all this: An end to UN secrecy. The UN is an institution entrusted with fostering a peaceful, freer world. That mission has no chance as long as closet deals can be done with tyrants, and the records shrouded from public view. Had the UN been required to disclose the inner workings of Oil-for-Food from the start, there might have been no need for this hearing.

There are only two basic levers for this kind of change: shame and money. On the evidence, shame won't get you all that far. But this Congress appropriates the lion's share of U.N. funding. That is genuine leverage. If you want to stop the next Oil-for-Food, the deal you have to offer is U.N.-funding-for-Transparency. At the very least, what this scandal should suggest to American tax-payers is that before sending any more funds to the U.N.—home of privilege and secrecy—we need a new U.N. policy, of opening the books.