

**THE U.N. OIL FOR FOOD PROGRAM: CASH COW
MEETS PAPER TIGER**

HEARING

BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY,
EMERGING THREATS AND INTERNATIONAL
RELATIONS

OF THE

**COMMITTEE ON
GOVERNMENT REFORM**

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

OCTOBER 5, 2004

Serial No. 108-286

Printed for the use of the Committee on Government Reform



Available via the World Wide Web: <http://www.gpo.gov/congress/house>
<http://www.house.gov/reform>

THE U.N. OIL FOR FOOD PROGRAM: CASH COW MEETS PAPER TIGER

THE U.N. OIL FOR FOOD PROGRAM: CASH COW MEETS PAPER TIGER

HEARING

BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY,
EMERGING THREATS AND INTERNATIONAL
RELATIONS

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

OCTOBER 5, 2004

Serial No. 108-286

Printed for the use of the Committee on Government Reform



Available via the World Wide Web: <http://www.gpo.gov/congress/house>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

20-052 PDF

WASHINGTON : 2005

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON GOVERNMENT REFORM

TOM DAVIS, Virginia, *Chairman*

DAN BURTON, Indiana	HENRY A. WAXMAN, California
CHRISTOPHER SHAYS, Connecticut	TOM LANTOS, California
ILEANA ROS-LEHTINEN, Florida	MAJOR R. OWENS, New York
JOHN M. McHUGH, New York	EDOLPHUS TOWNS, New York
JOHN L. MICA, Florida	PAUL E. KANJORSKI, Pennsylvania
MARK E. SOUDER, Indiana	CAROLYN B. MALONEY, New York
STEVEN C. LATOURETTE, Ohio	ELIJAH E. CUMMINGS, Maryland
DOUG OSE, California	DENNIS J. KUCINICH, Ohio
RON LEWIS, Kentucky	DANNY K. DAVIS, Illinois
TODD RUSSELL PLATTS, Pennsylvania	JOHN F. TIERNEY, Massachusetts
CHRIS CANNON, Utah	WM. LACY CLAY, Missouri
EDWARD L. SCHROCK, Virginia	DIANE E. WATSON, California
JOHN J. DUNCAN, JR., Tennessee	STEPHEN F. LYNCH, Massachusetts
NATHAN DEAL, Georgia	CHRIS VAN HOLLEN, Maryland
CANDICE S. MILLER, Michigan	LINDA T. SANCHEZ, California
TIM MURPHY, Pennsylvania	C.A. "DUTCH" RUPPERSBERGER, Maryland
MICHAEL R. TURNER, Ohio	ELEANOR HOLMES NORTON, District of Columbia
JOHN R. CARTER, Texas	JIM COOPER, Tennessee
MARSHA BLACKBURN, Tennessee	BETTY MCCOLLUM, Minnesota
PATRICK J. TIBERI, Ohio	
KATHERINE HARRIS, Florida	BERNARD SANDERS, Vermont
MICHAEL C. BURGESS, Texas	(Independent)
ERIC CANTOR, Virginia	

MELISSA WOJCIAK, *Staff Director*

DAVID MARIN, *Deputy Staff Director/Communications Director*

ROB BORDEN, *Parliamentarian*

TERESA AUSTIN, *Chief Clerk*

PHIL BARNETT, *Minority Chief of Staff/Chief Counsel*

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS AND INTERNATIONAL
RELATIONS

CHRISTOPHER SHAYS, Connecticut, *Chairman*

MICHAEL R. TURNER, Ohio	DENNIS J. KUCINICH, Ohio
DAN BURTON, Indiana	TOM LANTOS, California
STEVEN C. LATOURETTE, Ohio	BERNARD SANDERS, Vermont
RON LEWIS, Kentucky	STEPHEN F. LYNCH, Massachusetts
TODD RUSSELL PLATTS, Pennsylvania	CAROLYN B. MALONEY, New York
ADAM H. PUTNAM, Florida	LINDA T. SANCHEZ, California
EDWARD L. SCHROCK, Virginia	C.A. "DUTCH" RUPPERSBERGER, Maryland
JOHN J. DUNCAN, JR., Tennessee	JOHN F. TIERNEY, Massachusetts
TIM MURPHY, Pennsylvania	DIANE E. WATSON, California
KATHERINE HARRIS, Florida	

EX OFFICIO

TOM DAVIS, Virginia

HENRY A. WAXMAN, California

LAWRENCE J. HALLORAN, *Staff Director and Counsel*

THOMAS COSTA, *Professional Staff Member*

ROBERT A. BRIGGS, *Clerk*

ANDREW SU, *Minority Professional Staff Member*

CONTENTS

	Page
Hearing held on October 5, 2004	1
Statement of:	
Kennedy, Ambassador Patrick F., U.S. Representative to the United Nations for U.N. management and reform, U.S. mission to the United Nations, U.S. Department of State	56
Smith, David L., Director, Corporate Banking Operations, BNP Paribas; Peter W.G. Boks, managing director, Saybolt International B.V; and Andre E. Pruniaux, senior vice president, Africa and Middle East, Cotecna Inspection S.A	97
Letters, statements, etc., submitted for the record by:	
Boks, Peter W.G., managing director, Saybolt International B.V, prepared statement of	156
Kennedy, Ambassador Patrick F., U.S. Representative to the United Nations for U.N. management and reform, U.S. mission to the United Nations, U.S. Department of State, prepared statement of	62
Maloney, Hon. Carolyn B., a Representative in Congress from the State of New York, prepared statement of	32
Pruniaux, Andre E., senior vice president, Africa and Middle East, Cotecna Inspection S.A, prepared statement of	324
Ruppersberger, Hon. C.A. Dutch, a Representative in Congress from the State of Maryland, prepared statement of	40
Shays, Hon. Christopher, a Representative in Congress from the State of Connecticut:	
Prepared statement of	3
Prepared statement of Christine Grenier, First Secretary, Political Section, French Embassy	50
Smith, David L., Director, Corporate Banking Operations, BNP Paribas, prepared statement of	101
Watson, Hon. Diane E., a Representative in Congress from the State of California, prepared statement of	18
Waxman, Hon. Henry A., a Representative in Congress from the State of California:	
E-mail dated October 4, 2004	47
Prepared statement of	8

THE U.N. OIL FOR FOOD PROGRAM: CASH COW MEETS PAPER TIGER

TUESDAY, OCTOBER 5, 2004

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING
THREATS AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:25 a.m., in room 2154, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Turner, Duncan, Murphy, Lantos, Sanders, Lynch, Maloney, Sanchez, Ruppertsberger, Tierney, Watson, and Waxman [ex officio].

Also present: Representative Ose.

Staff present: Lawrence Halloran, staff director and counsel; J. Vincent Chase, chief investigator; R. Nicholas Palarino, senior policy advisor; Thomas Costa and Kristine McElroy, professional staff members; Robert A. Briggs, clerk; Hagar Hajjar, intern; Phil Barnett, minority staff director; Kristin Amerling, minority deputy chief counsel; Karen Lightfoot, minority communications director/senior policy advisor; David Rapallo, minority counsel; Andrew Su, minority professional staff member; Early Green, minority chief clerk; and Jean Gosa, minority assistant clerk.

Mr. SHAYS. A quorum being present, the Subcommittee on National Security, Emerging Threats and International Relations hearing entitled, "The U.N. Oil-for-Food Program: Cash Cow Meets Paper Tiger," is called to order.

The United Nations Oil-for-Food Program was mugged by Saddam Hussein. Through cynical, yet subtle manipulation, he, and an undeclared Coalition of the Venal on the Security Council, exploited structural flaws in the program and institutional naivete at the U.N. to transform a massive humanitarian aid effort in a multibillion dollar sanctions-busting scam.

How did it happen? How was a well-intentioned program designed and administered by the world's preeminent multinational organization so systematically and so thoroughly corrupted?

The answers emerging from our investigation point to a debilitating combination of political paralysis and a lack of oversight capacity, allowed to metastasize behind a veil of official secrecy. Acceding to shameless assertions of Iraqi sovereignty, sovereignty already betrayed by Saddam's brutal willingness to starve the Iraqi people, the U.N. gave the Hussein regime control over critical aspects of the program. Saddam decided with whom to do business and on

what terms. While Chinese, French, and Russian delegates to the Security Council's Sanctions Committee deftly tabled persistent reports of abuses, the contractors hired to finance and monitor the program had only limited authority to enforce safeguards.

We will hear from these contractors today. BNP Paribas, the international bank retained by the U.N. to finance oil and commodity transactions through letters of credit, describes its functions as purely nondiscretionary. Saybolt International, responsible for verifying oil shipments, faced physical and political constraints on performance of their work. Additionally the firm Cotecna Inspection was given only a limited technical role in authenticating shipments of humanitarian goods into Iraq.

The U.N. appears to have assumed that the rigor of commercial trade practices would protect the program, while the contractors took false comfort in the assumption the U.N. would assure the integrity of this decidedly noncommercial enterprise. Once it became clear the Security Council was politically unable to police the program, no one had any incentive to strengthen oversight mechanisms that would only be ignored.

As this and other investigations got underway, the companies expressed their willingness to provide detailed information on their Oil-for-Food activities but confidentiality provisions in U.N. agreements prevented their coming forward until the committee's "friendly" subpoenas trumped those contractual restraints. Since then, they have provided thousands of pages and gigabytes of data which we and other committees are reviewing.

Today we are releasing some of those documents because, apart from any findings or recommendations we might adopt, a major goal of this investigation is to bring transparency to secretive U.N. processes and to put information about this highly important international program in the public domain. The documents provide the first detailed glimpse into the structural vulnerabilities and operational weaknesses exploited by Saddam and his allies.

From what we have learned thus far, one conclusion seems inescapable: The U.N. sanctions regime against Iraq was all but eviscerated, turned inside out by political manipulation and financial greed. Saddam's regime was not collapsing from within; it was thriving. He was not safely contained, as some contend, but was daily gaining the means to threaten regional and global stability again, once sanctions were removed.

Testimony from our witnesses today will contribute significantly to our ongoing oversight and to the public understanding of the United Nations Oil-for-Food Program. We sincerely thank them for their participation today and we look forward to their continued cooperation in our work.

At this time the Chair would recognize the ranking member of the full committee, Mr. Waxman who is an ex officio member.

[The prepared statement of Hon. Christopher Shays follows:]

TOM DAVIS, VIRGINIA,
CHAIRMAN
DAN BURTON, INDIANA
CHRISTOPHER SHAYS, CONNECTICUT
ILEANA ROS-LEHTINEN, FLORIDA
JOHN M. McHUGH, NEW YORK
JOHN L. MICA, FLORIDA
MARK E. SOULER, INDIANA
STEVEN C. LAFOURETTE, OHIO
DOUG OSE, CALIFORNIA
RON LEWIS, KENTUCKY
JE ANN DAVIS, VIRGINIA
TODD RUSSELL PLATTS, PENNSYLVANIA
CHRIS CANNON, UTAH
ADAM H. PUTNAM, FLORIDA
EDWARD L. SCHROCK, VIRGINIA
JOHN J. DUNCAN, SR., TENNESSEE
NATHAN DEAL, GEORGIA
CANDICE MILLER, MICHIGAN
TIM MURPHY, PENNSYLVANIA
MICHAEL R. TURNER, OHIO
JOHN R. CARTER, TEXAS
MARSHA BLACKBURN, TENNESSEE
PATRICK J. TIBERI, OHIO
KATHERINE HARRIS, FLORIDA

ONE HUNDRED EIGHTEEN CONGRESS
Congress of the United States
House of Representatives

COMMITTEE ON GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6143

MAJORITY (202) 225-6074
FACSIMILE (202) 225-3874
MINORITY (202) 225-5081
TTY (202) 225-4862
www.house.gov/reform

HENRY A. WAXMAN, CALIFORNIA,
RANKING MINORITY MEMBER
TOM LANTOS, CALIFORNIA
MAJORITY R. OWENS, NEW YORK
EDDOLPHUS TOWNS, NEW YORK
PAUL E. KANDOLSKI, PENNSYLVANIA
CAROLYN B. MALONEY, NEW YORK
ELLIAN E. CLAWSON, MARYLAND
DENNIS J. RUCINICH, OHIO
DANNY K. DAVIS, ILLINOIS
JOHN F. TERRELL, MASSACHUSETTS
WAL LACY CLAY, MISSOURI
DANE E. WATSON, CALIFORNIA
STEPHEN F. LYNCH, MASSACHUSETTS
CHRIS VAN HOLLEN, MARYLAND
LINDA T. SANCHEZ, CALIFORNIA
D.A. DALTON RUFFERSBERGER,
MARYLAND
ELEANOR HOLMES NORTON,
DISTRICT OF COLUMBIA
JIM COOPER, TENNESSEE
BETTY MCCOLLUM, MINNESOTA
BERNARD SANDERS, VERMONT,
INDEPENDENT

SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS,
AND INTERNATIONAL RELATIONS
Christopher Shays, Connecticut
Chairman
Room B-372 Rayburn Building
Washington, D.C. 20515
Tel: 202 225-2548
Fax: 202 225-2302

Statement of Rep. Christopher Shays
October 5, 2004

The United Nations Oil-for-Food Program (OFFP) was mugged by Saddam Hussein. Through cynical yet subtle manipulation, he and an undeclared Coalition of the Venal on the Security Council exploited structural flaws in the program and institutional naiveté at the UN to transform a massive humanitarian aid effort into a multi-billion dollar sanctions-busting scam.

How did it happen? How was a well-intentioned program, designed and administered by the world's preeminent multinational organization, so systematically and thoroughly corrupted?

The answers emerging from our investigation point to a debilitating combination of political paralysis and a lack of oversight capacity, allowed to metastasize behind a veil of official secrecy. Acceding to shameless assertions of Iraqi sovereignty - sovereignty already betrayed by Saddam's brutal willingness to starve the Iraqi people - the UN gave the Hussein regime control over critical aspects of the program. Saddam decided with whom to do business and on what terms. While Chinese, French and Russian delegates to the Security Council's Sanctions Committee deftly tabled persistent reports of abuses, the contractors hired to finance and monitor the program had only limited authority to enforce safeguards.

*Statement of Rep. Christopher Shays
October 5, 2004
Page 2 of 2*

We will hear from those contractors today. BNP Paribas, the international bank retained by the UN to finance oil and commodity transactions through letters of credit, describes its functions as purely "non-discretionary." Saybolt International, responsible for verifying oil shipments, faced physical and political constraints on performance of their work. And the firm Cotecna Inspection was given only a "limited, technical role" in authenticating shipments of humanitarian goods into Iraq.

The UN appears to have assumed the rigor of commercial trade practices would protect the program; while the contractors took false comfort in the assumption the UN would assure the integrity of this decidedly non-commercial enterprise. Once it became clear the Security Council was politically unable to police the program, no one had any incentive to strengthen oversight mechanisms that would only be ignored.

As this and other investigations got underway, the companies expressed a willingness to provide detailed information on their Oil-for-Food activities. But confidentiality provisions in UN agreements prevented their coming forward until the Committee's "friendly" subpoenas trumped those contractual restraints. Since then, they have provided thousands of pages, and gigabytes of data, which we and other committees are reviewing.

Today we are releasing some of those documents because, apart from any findings or recommendations we might adopt, a major goal of this investigation is to bring transparency to secretive U.N. processes and put information about an important international program in the public domain. The documents provide the first detailed glimpse into the structural vulnerabilities and operational weaknesses exploited by Saddam and his allies.

From what we have learned thus far, one conclusion seems inescapable: The UN sanctions regime against Iraq was all but eviscerated, turned inside out by political manipulation and greed. Saddam's regime was not collapsing from within. It was thriving. He was not safely contained, as some contend, but was daily gaining the means to threaten regional and global stability again once sanctions were removed.

Testimony from our witnesses today will contribute significantly to our ongoing oversight, and to public understanding of the United Nations Oil-for-Food Program. We thank them for their participation today and we look forward to their continued cooperation in our work.

Mr. WAXMAN. Thank you, Mr. Chairman.

Today the committee is holding the fifth congressional hearing to investigate allegations of mismanagement in the U.N. Oil-for-Food Program. This humanitarian effort was established in 1995 to provide for the basic needs of Iraqis while U.N. sanctions were in effect. Recently there have been serious allegations of corruption, overpricing and kickbacks under this program.

And I want to make it clear that I believe it is appropriate for Congress to investigate these allegations in an evenhanded manner and follow the evidence wherever it leads.

My complaint is that our scope is too narrow. If we are going to look at how Iraq's oil proceeds have been managed, we have an obligation to examine not only the actions of the U.N. but also our own actions. In fact, I would argue that our first priority should be to investigate our own conduct.

The United States controlled Iraq's oil proceeds from the fall of Baghdad in May 2003 until June 2004. Yet Congress has not held a single hearing to examine the evidence of corruption, overpricing and lack of transparency in the successor to the Oil-for-Food Program, the Development Fund for Iraq—which was run by the Bush administration when the United States exercised sovereignty over Iraq.

Here are the facts. When the Bush administration took over in Iraq, it received \$20.6 billion through Iraqi oil proceeds, repatriated funds, and foreign donations. Halliburton was the single largest private recipient of these funds, receiving \$1.5 billion under its contract to run Iraq's oil fields.

This money belongs to the Iraqi people. It is not a slush fund. The Security Council directed the administration to use these funds in a transparent manner for the benefit of the Iraqi people. The Security Council passed Resolution 1483 which set up the International Advisory and Monitoring Board to make sure the Bush administration lived up to its obligations.

But the Bush administration has not complied with this resolution. Reports from auditors at KPMG, an independent certified public accounting firm, as well as the Coalition Provisional Authority's own inspector general, have found that the Bush administration failed to properly account for Iraqi funds.

KPMG said the Bush administration had inadequate accounting systems, inadequate recordkeeping, and inadequate controls over Iraqi oil proceeds. It reported that the administration's entire accounting system consisted of only one contractor maintaining excel spread sheets. That is one person for \$20 billion.

Likewise, the inspector general concluded that the Bush administration had no effective contract review tracking and monitoring system and that it failed to demonstrate the transparency required.

These actions merit a full congressional investigation. They are compounded by evidence that the Bush administration is now actively blocking efforts to account for these funds.

For 6 months, the Bush administration has been withholding documents from international auditors charged by the Security Council to oversee the administration's actions. In particular, the Bush administration is withholding documents about Halliburton's receipt of \$1.5 billion in Iraqi oil proceeds.

The auditors have made seven distinct requests for this information, including a letter from the Controller of the United Nations directly to Ambassador Bremer. But the administration has repeatedly refused to provide the documents, and continues to do so today.

Three months ago, the international auditors ordered a special audit of the contract with Halliburton, but again the Bush administration has obstructed their work. Administration officials have refused to approve the audit's statement of work and refused to issue a request for proposal. The special audit has simply languished inside the Department of Defense.

At this committee previous hearing, Mr. Claude Hanks-Drielsma, an advisor to the Iraqi Governing Council, testified that the Bush administration was not properly accounting for Iraqi funds. Ambassador Kennedy, who is here again today, could not explain why the Bush administration failed to follow its own rules and hire an accounting firm to manage the Iraqi oil proceeds. And the administration failed to adequately respond to the questions for the record we sent jointly regarding the DFI.

These actions are hypocritical, they are arrogant, they breed resentment in the Arab world and they further deteriorate our global alliances, but most of all they undermine our efforts in Iraq because they reinforce the image that our primary objective in Iraq was to seize control of the country's oil wealth.

If we are going to examine how Iraq's oil money has been spent, which I believe we should, we need to proceed in a fair and transparent way; and if we refuse to ask tough questions about the conduct of our own government officials, our efforts will have little credibility in the eyes of the world.

After the opening statements today, I am going to make a motion for subpoenas so that we can continue the investigation of the success or failure of the U.N. Oil-for-Food Program which was run by the United States. I am going to ask for subpoenas, which we asked for, by the way, when subpoenas were issued for this investigation. We asked for subpoenas on the same basis that we needed a subpoena, for example, for the corporate banking operations of BNP Paribas to give us the documents which the chairman is going to make public today. Those documents would not be turned over without a subpoena.

Documents will not be turned over to us from the Federal Reserve Bank on the same basis. We need a subpoena to get them. We need further subpoenas as well, and I will be making a motion for both subpoenas to be issued so that while we have our hearing today, we can be prepared to do the full investigation of what happened to the oil money after we took over.

We want to know what happened when the U.N. was running it; if there was corruption, if there was fraud, if there was a lack of transparency. But we have a special obligation to know what happened to that money when we took it over, if there was corruption, if there was fraud, if there was a lack of transparency. And so far the Bush administration is refusing to help in this investigation to know what happened after they ran those funds.

So I know, Mr. Chairman we are going to have the opening statements from the Members first. Before we then proceed to the first

witness, I will make my motion for subpoenas. And as I understand it, you are going to ask that vote be held later, after the witnesses have testified, presumably because we have done too good a job of getting the Democrats here to vote, and the Republicans, unaware that the vote would be taking place, are not here in sufficient numbers. I understand that is in the chairman's discretion.

I want to vote. If it is a bipartisan vote, that would be great. I think we ought to have a bipartisan vote to get these subpoenas. If it is a partisan vote, well, I think the American people ought to know that the Republicans are going to vote to stop a real investigation of the actions of the Bush administration with regard to the use of those funds and particularly because of the Halliburton involvement.

[The prepared statement of Hon. Henry A. Waxman follows:]

**Statement of
Rep. Henry A. Waxman, Ranking Minority Member
Committee on Government Reform
Before the
Subcommittee on National Security, Emerging
Threats, and International Relations
Hearing on The Iraq Oil-for-Food Program:
Cash Cow Meets Paper Tiger**

October 5, 2004

Today, this committee is holding the fifth congressional hearing to investigate allegations of mismanagement in the U.N. Oil for Food Program. This humanitarian effort was established in 1995 to provide for the basic needs of Iraqis while U.N. sanctions were in effect. Recently, there have been serious allegations of corruption, overpricing, and kickbacks under this program.

I want to make clear that I believe it is appropriate for Congress to investigate these allegations in an even-handed manner and follow the evidence wherever it leads.

My complaint is that our scope is too narrow. If we are going to look at how Iraq's oil proceeds have been managed, we have an obligation to examine not only the actions of the U.N., but also our own actions. In fact, I would argue that our first priority should be to investigate our own conduct.

The United States controlled Iraq's oil proceeds from the fall of Baghdad in May 2003 until June 2004. Yet Congress has not held a single hearing to examine the evidence of corruption, overpricing, and lack of transparency in the successor to the Oil for Food program – the Development Fund for Iraq – which was run by the Bush Administration when the United States exercised sovereignty over Iraq.

Here are the facts. When the Bush Administration took over in Iraq, it received \$20.6 billion through Iraqi oil proceeds, repatriated funds, and foreign donations. Halliburton was the single largest private recipient of these funds, receiving \$1.5 billion under its contract to run Iraq's oil fields.

This money belongs to the Iraqi people. It is not a slush fund. The Security Council directed the Administration to use these funds in a transparent manner for the benefit of the Iraqi people. The Security Council passed Resolution 1483, which set up the International Advisory and Monitoring Board to make sure the Bush Administration lived up to its obligations.

But the Bush Administration has not complied with this resolution. Reports from auditors at KPMG, an independent certified public accounting firm, as well as the Coalition Provisional Authority's own Inspector General, have found that the Bush Administration failed to properly account for Iraqi funds.

KPMG said the Bush Administration had "inadequate accounting systems," "inadequate record keeping," and "inadequate controls" over Iraqi oil proceeds. It reported that the Administration's entire accounting system consisted of only one contractor maintaining excel spreadsheets. That's one person for \$20 billion.

Likewise, the Inspector General concluded that the Bush Administration had no “effective contract review, tracking, and monitoring system,” and that it failed to “demonstrate the transparency required.”

These actions merit a full congressional investigation. They are compounded by evidence that the Bush Administration is now actively blocking efforts to account for these funds.

For six months, the Bush Administration has been withholding documents from international auditors charged by the Security Council to oversee the Administration’s actions. In particular, the Bush Administration is withholding documents about Halliburton’s receipt of \$1.5 billion in Iraqi oil proceeds.

The auditors have made seven distinct requests for this information, including a letter from the Controller of the United Nations directly to Ambassador Bremer. But the Administration has repeatedly refused to provide the documents, and continues to do so today.

Three months ago, the international auditors ordered a special audit of the contract with Halliburton. But again the Bush Administration has obstructed their work. Administration officials have refused to approve the audit's statement of work and refused to issue a request for proposal. The special audit has simply languished inside the Department of Defense.

At this Committee's previous hearing, Mr. Claude Hanks-Drielsma, an advisor to the Iraqi Governing Council, testified that the Bush Administration was not properly accounting for Iraqi funds. Ambassador Kennedy, who is here again today, could not explain why the Bush Administration failed to follow its own rules and hire an accounting firm to manage Iraqi oil proceeds. And the Administration

failed to adequately respond to the questions for the record we sent jointly regarding the DFI.

These actions are hypocritical, they are arrogant, they breed resentment in the Arab world, and they further deteriorate our global alliances. But most of all, they undermine our efforts in Iraq, because they reinforce the image that our primary objective in Iraq was to seize control of the country's oil wealth.

If we are going to examine how Iraq's oil money has been spent – which I believe we should – we need to proceed in a fair and transparent way. And if we refuse to ask tough questions about the conduct of our own government officials, our efforts will have little credibility in the eyes of the world.

Mr. SHAYS. I thank the gentleman. I also thank him for letting me know that he was going to make this motion, but I did not know in time to tell the Members. This is a hearing and I don't think they thought there would be votes, so I appreciate his letting us know.

At this time, the Chair would recognize the vice chairman, Michael Turner.

Mr. TURNER. Thank you, Chairman Shays, for holding this hearing and for continuing your efforts to continue to examine the Oil-for-Food Program.

In our first hearing, we explored the accountability and integrity issues with the program. We discovered a lack of transparency and little accountability. Except for the actions of the United States and the United Kingdom, it appears that no one was bringing to light the corruption in the program.

The Oil-for-Food Program at its creation was poised for corruption. The U.N. allowed Iraq to select not only the suppliers of food and medicine but also the buyers of Iraqi oil. The mechanisms established by the U.N. for controlling Oil-for-Food contracts were inadequate. Transparency was nonexistent, and an effective internal review of the program did not occur. We do not know if members of the Security Council were involved in any of the corruption, but enough ancillary information exists to question the objectiveness and credibility of the Security Council and the United Nations.

Mr. Chairman, I appreciate your continued leadership on this important issue. I appreciate your continued leadership on the issue of our continuing involvement in Iraq and its transition to democracy.

Thank you, Mr. Chairman.

Mr. SHAYS. I thank the gentleman.

At this time the Chair would recognize Mr. Tierney.

Mr. TIERNEY. Mr. Chairman, thank you. I share your concern about the diversion of Iraqi oil proceeds through graft, kickbacks, and other schemes designed to line the pockets of corrupt Iraqi leaders.

If I may, I would like to read an account about the corruption that occurred in Iraq under the management previously in charge. Mr. Said Abdul Kassam was the Iraqi official in charge of withdrawals at the Iraq central bank. He reported that there was no need to rob the bank in a daring heist with guns and masks, because the bank was robbed every day by the directors of the Iraqi ministries.

According to Mr. Kassam, they use up all the money they want to withdraw. If it's a big amount they can get it in big bags. If it's a small amount they get it in a box. But the directors general are those people who are withdrawing the money. They can take the money immediately from the bank and put it in their pockets.

Mr. Chairman, I regret to say that this didn't happen under the Oil-for-Food Program; it happened under the Development Fund for Iraq. When I mentioned the previous management, I was talking about this country, the U.S. administration. The account was from an NPR series called "Spoils of War" and it highlights just how dysfunctional the Bush administration's management of DFI funds actually was. There was virtually no monitoring of what hap-

pened to Iraqi funds once they left the hands of this administration's officials.

Indeed, according to the Wall Street Journal article published on September 17, the Coalition Provisional Authority's own inspector general has now completed a report finding that the Bush administration, "hasn't demonstrated it kept much control over any of the assets it seized following the war."

In particular, the IG study reportedly concludes that the Bush administration failed to account for \$8.8 billion in DFI funds that were transferred to Iraqi ministries. According to the general report, the occupation government was unable to say for sure whether the money it disbursed was spent properly, or even spent at all.

It is amazing that we have held hearing after hearing about the United Nations; management of the Oil-for-Food Program, which I agree we should. I think you are on the right track, and that is necessary. But we have not held even one hearing on this administration's mismanagement of Iraqi oil proceeds, and I agree with Mr. Waxman that is equally as important to the credibility of this country if we are going to really look at the situation and have the respect of the world, knowing that we are trying to be transparent and get to the bottom of how these moneys were expended.

How can we expect the rest of the world to follow this administration's example? How can we expect them to comply with Security Council resolutions when the Bush administration ignores them?

Mr. Chairman, we do no service to the administration by allowing them to proceed in this manner. I urge the committee to immediately address these issues and exercise meaningful oversight as well as continue our hearing process on the U.N. Oil-for-Food Program, but we must be resolute about all of the improprieties or lapses.

Thank you. I yield back.

Mr. SHAYS. I thank the gentleman.

At this time the Chair would recognize Mr. Duncan.

Mr. DUNCAN. Thank you very much, Mr. Chairman.

A few years ago, 60 Minutes did a report on the scandalously high level of waste, fraud, and abuse occurring at the United Nations, much of it with American money. But this Oil-for-Food Program scandal really takes the cake, and so I appreciate very much your continuing to look into this situation and hold these hearings.

Through this program, Saddam Hussein obtained \$10.1 billion in illegal revenues. I remember hearing a talk a few months ago by Charlie Cook, the very respected political analyst, and he said that people really can't comprehend a figure over \$1 billion. And it is difficult to think of how much money \$10.1 billion is. This money was mostly squandered on Hussein's palaces, luxury cars, and lavish lifestyle that he and his family were living. This theft was made possible, apparently, by surcharges, illegal kickbacks, and abuse by U.N. personnel and by the lackadaisical and inept attitude of—and greedy attitude, really, of some of the companies involved that we will hear from today.

The Wall Street Journal reported in an editorial what a lot of business the U.N. did. Mr. Annan, Kofi Annan's Secretariat and his staff collected more than \$1.4 billion in commissions on these sales.

But during this time the U.N. was doing almost nothing to really push weapons inspections and other things that they should have been doing in Iraq.

The U.N. Oil-for-Food Program was the largest humanitarian effort in U.N. history. Unfortunately, it has now become the shining example of everything that is wrong with this organization. The United States pays one-fourth of the operating expenses of the United Nations, one-third of the money to many of the other U.N. programs, and mostly as much as 90 or 95 percent on most of the U.N. peacekeeping operation. If the U.N. cannot provide any better oversight than what we see through this program, then surely our tax dollars can be spent better elsewhere, particularly at a time when we have a \$7½ trillion national debt, and deficits running in the \$400 to \$500 billion range.

Thank you, Mr. Chairman.

Mr. SHAYS. Thank the gentleman.

And the Chair at this time would recognize Ms. Watson.

Ms. WATSON. Mr. Chairman, thank you. I think it is critical for Congress to address the serious questions surrounding the Bush administration's deficit management of Iraqi oil proceeds and other funds in the Development Fund for Iraq.

We made a commitment to the Iraqi people, a promise that we would spend their money for their benefit, and we do have to remember that it is their money. We also promised to spend it in a transparent manner so the entire world would know that we were managing their funds properly and are not allowing graft, corruption, and mismanagement to infiltrate our mission there.

Unfortunately, Mr. Chairman, it appears that the Bush administration has failed to live up to those commitments. Auditors at the CPA's own Inspector General's Office have issued a report that is extremely critical of the administration's management of Iraqi funds in the Development Fund for Iraq. In particular, the inspector general's report criticizes actions by the administration's contracting activities office in Iraq.

If I may, I would like to read just a short portion of the report. The CPA contracting activity had not issued standard operating procedures or developed an effective contract review tracking and monitoring system. In addition, contract files were missing or incomplete. Further, contracting officers did not always ensure that contract prices were fair and reasonable, contractors were capable of meeting delivery schedules, and payments were made in accordance with contract requirements.

This occurred because the CPA contracting activity did not provide adequate administrative oversight and technical supervision over the contracting actions completed by procuring contracting officers as required. As a result, the CPA contracting activity was not accurately reporting the number of contracts actually awarded by the CPA contracting activity. This hindered the CPA contracting activity's ability to demonstrate the transparency required of the CPA when it awarded contracts using DFI funds.

Mr. Chairman, this is an indictment of the administration's entire management approach to the funds of the Iraqi people.

The inspector general went on to warn that because contract files were not adequately maintained, they cannot be relied upon to en-

sure compliance or to be used as a source for congressional reporting.

How are we in Congress supposed to be able to conduct our oversight responsibilities when the information is not reliable? The inspector general's report found that of the contracts they analyzed, 67 percent had incomplete or missing documentation. Sixty-seven percent, Mr. Chairman. This is a horrendous record.

Finally, the inspector general provided its fundamental conclusion about the administration's stewardship of these Iraqi funds. The inspector general reported we do not believe that transparency can be achieved when pertinent data is unavailable or inaccurate.

Mr. Chairman, this is an embarrassment to our country. The Bush administration has failed to comply with Security Council Resolution 1483 and we need to take action.

Thank you Mr. Chairman.

Mr. SHAYS. I thank the gentlelady.

[The prepared statement of Hon. Diane E. Watson follows:]

Iraq Oil-for-Food Mismanagement

Subcommittee on National Security, Emerging Threats and International Relations

"The UN Oil-for-Food Program: Cash Cow Meets Paper Tiger"

Congresswoman Diane E. Watson

October 5, 2004

Mr. Chairman, I think it is critical for Congress to address the serious questions surrounding the Bush Administration's deficient management of Iraqi oil proceeds and other funds in the Development Fund for Iraq.

We made a commitment to the Iraqi people, a promise, that we would spend their money for their benefit – and we do have to remember that it is THEIR MONEY. We also promised to spend it in a transparent manner so the entire world would know

Iraq Oil-for-Food Mismanagement

that we were managing their funds properly and not allowing graft, corruption, and mismanagement to infiltrate our mission there.

Unfortunately, Mr. Chairman, it appears that the Bush Administration has failed to live up to these commitments.

Auditors at the CPA's own Inspector General's office have issued a report that is extremely critical of the Administration's management of Iraqi funds in the Development Fund for Iraq.

Iraq Oil-for-Food Mismanagement

In particular, the Inspector General’s report criticizes actions by the Administration’s “Contracting Activity” office in Iraq.

If I may, I would like to read just a short portion of this report. It states:

‘The CPA Contracting Activity had not issued standard operating procedures or developed an effective contract review, tracking, and monitoring system. In addition, contract files were missing or incomplete. Further, contracting officers

did not always ensure that contract prices were fair and reasonable, contractors were capable of meeting delivery schedules, and payments were made in accordance with contract requirements. This occurred because the CPA Contracting Activity did not provide adequate administrative oversight and technical supervision over the contracting actions completed by procuring contracting officers as required As a result, the CPA Contracting Activity was not accurately reporting the number of

Iraq Oil-for-Food Mismanagement

contracts actually awarded by the CPA Contracting Activity. This hindered the CPA Contracting Activity's ability to demonstrate the transparency required of the CPA when it awarded contracts using DFI funds."

Mr. Chairman, this is an indictment of the Administration's entire management approach to the funds of the Iraqi people.

The Inspector General went on to warn that because "contract files were not adequately

Iraq Oil-for-Food Mismanagement

maintained,” they “could not be relied upon to ensure compliance . . . or be used as a source for Congressional reporting.”

How are we in Congress supposed to be able to conduct our oversight responsibilities when the information is not reliable, Mr. Chairman?

The Inspector General’s report found that, of the contracts they analyzed, “67 percent . . . had incomplete or missing documentation.”

67%, Mr. Chairman! That is a horrendous

Iraq Oil-for-Food Mismanagement

record.

Finally, Mr. Chairman, the Inspector General provided its fundamental conclusion about the Administration's stewardship of these Iraqi funds. The Inspector general reported:

"We do not believe that transparency can be achieved when pertinent data is unavailable or inaccurate."

Mr. Chairman, this is an embarrassment to our country. The Bush Administration has failed to

Iraq Oil-for-Food Mismanagement

**comply with Security Council Resolution 1483. And
we need to take action.**

Mr. SHAYS. At this time the Chair would recognize Mr. Murphy.
Mr. MURPHY. Thank you, Mr. Chairman.

The focus of today's hearing is really twofold. First, to investigate the structural weaknesses that made the Oil-for-Food Program vulnerable to diversion and exploitation; and second, to determine the steps Oil-for-Food Program manager and contractors took to prevent abuse.

Now, we could spend all day just on point No. 1, but sadly I think the answer is staring us all in the face. The evidence uncovered over the last year by several different investigations cast little doubt that one of the fundamental problems with the U.N. Oil-for-Food Program was that the U.N. was running it, fueled by the greed and complicity of other countries.

Despite repeated criticisms and questions of concern, U.N. member countries and U.N. personnel continually turned a blind eye to the corruption of a program designed to get humanitarian assistance to the people living under one of the most corrupt regimes in the world. We knew Saddam Hussein was corrupt, and his tactics of ruthless violence were a way of life. One would think the U.N. would be aware of this and structure the program in such a way so as to guard against it. One would think that attempts by Hussein to evade the sanctions through this program would be anticipated, and thus steps taken to counter his money-making scheme from the beginning, rather than trying to put out fires after the fact.

Rather, it appears as if the Oil-for-Food Program went out of its way to encourage scandal and the illicit use of humanitarian contracts to line the pockets of Saddam Hussein and his cronies.

Now, the United States gave millions in lives to France in World War I, World War II, and Vietnam. Yet they turned their backs on us when faced with Hussein's ever-increasing threat to the international community.

France and Russia had two choices: Help us militarily, or intervene directly with Saddam Hussein to cooperate with weapons inspectors and stop his murderous regime. They did neither. Why didn't these countries step forward? Perhaps it had something to do with the fact that evidence suggests Russia was the recipient of 1.366 billion barrels of oil through Hussein's voucher scheme. And French companies close to President Chirac also benefited from Saddam's power. They were up to their ears in corruption, and the financial benefit of keeping Saddam Hussein in power weigh more heavily than their friendship with the United States.

Corruption in the Oil-for-Food Program enriched Hussein to the tune of \$10.1 billion, enough to buy and build more weapons, more clandestine activity and further undermine the entire U.N. sanctions program.

There was one line in the subcommittee's background memo that really sums up the problem with the program, "The Oil-for-Food Program was essentially run by Saddam Hussein."

How is it that the U.N. could allow the terms of a program meant to punish a tyrannical leader, while offering assistance to the very people that suffered under him to be dictated by that very tyrant? It is because the current nature of the U.N. is to be soft on terrorism and the world leaders that support it.

The spineless U.N. produced paper tigers in the form of resolutions that had no teeth. Time and again, the U.N. told Saddam Hussein and terrorists that the U.N. was all talk and no follow-through. And the world has reaped the grim harvest of that approach: more terrorists emboldened by the U.N.'s weaknesses.

According to classified documents reviewed by the subcommittee, the U.N. created and encouraged an environment whereby Russia, France, China, and Syria, all nations standing to gain financially by the continued support of Saddam's government, continually blocked efforts by the United States and the United Kingdom to maintain the integrity of the Oil-for-Food Program. And all of those countries sat on the U.N. Security Council.

The contractors responsible for inspecting shipments coming in and out of Iraq were also undermined by the U.N. Oil-for-Food Program policies. If the obstacles by Iraqi personnel were not enough, the U.N. denied the contractors the staff and the authority necessary to enforce inspection standards. One example given was an instance in which Saybolt was unable to prevent the transfer of oil onto a ship with expired letters of credit. If the inspectors had no enforcement powers, why have inspectors at all?

Now, some may question why Congress is so interested in this issue. Our interest in the U.N.'s involvement in Iraq goes far beyond the Oil-for-Food Program. As the United States continues to fight terrorists in Iraq, our level of cooperation with the U.N. has been called into question. Yet, if France and Russia and the U.N. knowingly undermined the mission of the Oil-for-Food Program and knowingly undermined the efforts to stop Saddam Hussein, this Congress has a responsibility to ask who our allies are and who the U.N. is supporting.

When some critics of the Iraq war claim our actions did not pass a global test, we must remember what interests the global community truly values. As I said before, we have given the French millions of our soldiers' lives, and they have given us the cold shoulder. France has repeatedly turned to us for help. In response, they have turned their back on us. The Oil-for-Food corruption scandal may be the answer of why.

When the United States continues to foot the bill for U.N. peacekeeping missions, when the U.N. is unwilling to support us in our efforts to protect our own citizens, if winning the approval of the European countries of the U.N. for U.S. policy is the global test, maybe we should reconsider and question the reliability and supposed altruism of those sitting in judgment.

I yield back my time, Mr. Chairman.

Mr. SHAYS. Thank the gentleman.

At this time, the Chair would recognize the distinguished gentleman from Vermont, Mr. Sanders.

Mr. SANDERS. Thank you very much, Mr. Chairman.

I don't think there is any disagreement on this committee about the importance of investigating the U.N. Oil-for-Food Program. It is important to know how American dollars being contributed to the U.N. were spent and how the corrupt Saddam Hussein regime ended up stealing money that should have gone to hungry people in Iraq. So I have no objection about investigating that important issue.

But I think it is equally important not only that we investigate what the U.N. does with American taxpayer money, it is equally important to investigate what the Bush administration and the U.S. Government does with American taxpayer moneys.

You know, Mr. Chairman, I have been on this committee for more than a few years, and I can recall very clearly that during the Clinton administration this committee held dozens upon dozens of hearings to investigate every single allegation relating to the Clinton administration, no matter how off-the-wall those allegations were. We investigated the Vince Foster suicide. We investigate the Monica Lewinski, so-called Travelgate, Whitewater, ad infinitum, on and on and on. However, rather amazingly, during the Bush administration this committee has not held one substantive hearing to investigate any serious allegation against the Bush administration. And why is that important? It is important because we have a Republican administration. We have a Republican Senate. We have a Republican House. And it is the moral obligation under the Constitution of the United States that the Congress provide oversight to any administration; otherwise the government doesn't work.

Yes, it is easy to beat up an administration from another party. We all know that. But we as Members of Congress have the responsibility to take a hard look at what any administration does, regardless of what party they are. And all over this country I think there is a growing concern, that the U.S. Congress has abdicated its oversight responsibility.

All over America people are asking, why did we in fact go to war? And I know there are two sides to the issue. This committee hasn't looked at the rationale for going to war in Iraq. We haven't looked at the leak of the names of CIA agents. We haven't looked at the fact that the Medicare actuary was threatened with being fired if he actually told Members of Congress the truth about how much money the prescription drug program would cost. We haven't taken a look at the Cheney energy task force.

Especially when we come to issues like Halliburton, we have a double responsibility. Everybody here knows that the Vice President of the United States used to be the CEO of Halliburton. Now, I am not casting any aspersions on what has happened. But all over this country people want to know, did Halliburton get a special deal? How come they got no bid contracts? How come billions of dollars went to Halliburton? Now, how come we are not looking at that issue?

So, Mr. Chairman, what I would simply say is, yeah, let's take a hard look at what the U.N. did. And while I know it is easy to beat up on France and Germany, it might be a little bit more difficult but may be of more interest to the American people to take a hard look at what goes on at the Bush administration.

I yield back.

Mr. SHAYS. I thank the gentleman.

At this time the Chair would recognize Mr. Lynch from Massachusetts.

Mr. LYNCH. Thank you, Mr. Chairman.

I too believe that there is a very strong need to carry out a thorough investigation into the circumstances. I would like to focus on,

however, with the Ambassador's cooperation, the facts that led us to this point. Now, here we have a situation where this Oil-for-Food Program was established back in 1995, after we had fought the first Gulf war, and it was established specifically because Saddam Hussein had run that country into the ground. He had failed to address the infrastructure needs and the humanitarian needs of his own people. He had used the country's natural resources as his own slush fund. He had used the basic funds that were in the treasury, the national treasury, at his own pleasure. He had ignored the basic health and welfare of his citizens in favor of a military buildup.

Saddam Hussein waged wars against Iran and invaded Kuwait. He had fired SCUD missiles into the civilian populations of Israel. And we fought a war to remove him from power, to remove him from Kuwait initially. And even with the evidence of his own atrocities and the evidence of the corrupt activities between him and his son, squandering the wealth of that country and abusing its citizens, after the United States took a leadership role in establishing this fund, in deciding who would contract for the Iraqi people, with this fund of \$20 billion, after that worldwide search for who would negotiate and who would control the terms for the Iraqi people, the responsibility was given to those same people: Saddam Hussein and his thugs, his family, the people that have been abusing that country for the previous 40 years. That was the colossal failure here, that we allowed Saddam Hussein to call the terms of that agreement, and he had the support of some of our international neighbors in getting the most favorable terms, having a private bank handle this.

We could not get information under the arrangement that was agreed to between the United Nations, Kofi Annan, Secretary General, and Saddam Hussein and his regime. How did we ever allow ourselves to be put in this position? How did we allow the victims here—and there are three sets of victims—one, the Iraqi people. This was their national wealth. This was their country, their resources; the American taxpayer footing the bill again; and also the credibility of the United Nations.

There are great misgivings here because of what has gone on. There is a definite—I haven't been on this committee that long. I have come to this committee recently. I have been here, this will be almost 3 years I have been on this committee. But I can tell you there is a definite reluctance on this committee to investigate anything.

I am still waiting, after three meetings with the Defense Department, to get the names of some Halliburton individuals whom they have removed for bribery and corrupt practices with individuals in Iraq and in the Middle East. On an investigatory committee in the Congress, and we can't get the names of our own people when they have conceded that they were involved in bribery and corrupt practices in which the taxpayers' funds have disappeared in the millions.

We need to do our job here, and I believe we will get to it eventually. But there has been tremendous wrongdoing here, and we have to step up to the plate and do what the American people have asked us to do: Get to the bottom of this.

I yield back Mr. Chairman. Thank you.

Mr. SHAYS. I thank the gentleman very much.

And, Mrs. Maloney, you're next.

Mrs. MALONEY. Thank you. Thank you very much, Chairman Shays, and I thank also Ranking Member Waxman for your holding this important hearing. And welcome, Ambassador Kennedy. It's good to see you again.

I think that we learned a great deal last April at our hearing, but since the appointment of Paul Volcker and the independent inquiry of the Oil-for-Food Program, there is much, much more to understand. I do believe that it is very important that we as an oversight body in Congress look at the U.N. and their financing, but we must also look at the finances and how we as a government handled the funds. We need to look at that equally. And I have some grave concerns that some of my colleagues have raised today in their testimony of the stewardship of the Iraqi oil proceeds and the successor to the Oil-for-Food Program, the Development Fund for Iraq which we created.

As was mentioned, on May 22, 2003, after the United States took control of Iraq, the U.N. Security Council passed Resolution 1483, formally transferring the Oil-for-Food assets to a new Development Fund for Iraq, and placing them under the authority of the Coalition Provisional Authority which was headed by Bremer. Resolution 1483 directed the Bush administration to spend these funds on behalf of the Iraqi people. The Security Council also imposed other restrictions, and I think these restrictions are important. And in the testimony today, I want to know why we didn't follow them.

And I will give several examples:

The Security Council required the administration to deposit all oil-sale proceeds into the Development Fund for Iraq, which is held by the central bank of Iraq at the Federal Reserve Bank of New York.

The Security Council required that all deposits to and spending from the Development Fund of Iraq be done, "in a transparent manner."

And the Security Council required that the administration ensure that the Development Fund for Iraq funds were used to meet the humanitarian needs of the Iraqi people, and for other purposes benefiting the people of Iraq.

To ensure that the administration complied with these requirements, the Security Council created the International Advisory Monitoring Board to oversee these actions, the IAMB board. The Board was envisioned as the primary vehicle for guaranteeing the transparency of Iraqi funds. When the Bush administration assumed responsibility for these funds, it explicitly agreed to these terms.

On August 19, 2003, Ambassador Bremer issued a memorandum stating as follows, "As steward for the Iraqi people, the CPA will manage and spend Iraqi funds which belong to the Iraqi people for their benefit. They shall be managed in a transparent manner that fully comports with the CPA's obligations under international law, including Resolution 1483 of the United Nations."

But, Mr. Chairman, the administration has not complied with the resolution and I do not believe that the requirements were very

strict. The administration took in, as Mr. Waxman noted, a total of \$20.6 billion while it controlled this Development Fund in Iraq. On July 15, 2004, the oversight board issued its first audit report on the administration's stewardship of Iraqi funds, and this report was conducted by KPMG, which happens to be headquartered in the district I represent, the same international certified public accounting firm reviewing the Oil-for-Food Program. So we had the same auditor for both programs.

KPMG criticized the administration for, "inadequate accounting systems, inadequate recordkeeping, inadequate controls over Iraqi oil proceeds. On the most basic level, KPMG found that the administration failed to follow its own policy, to hire a certified public accounting firm. According to the KPMG report, the CPA was required to obtain the services of an independent certified public accounting firm to assist in the accounting function of the Development Fund of Iraq. But our administration, the current administration never did so. In addition, the sum total of the accounting system used by the administration consisted of—this is directly out of the KPMG report, "excel spread sheets and pivot tables maintained by one individual."

The KPMG report concluded as follows: "the CPA senior advisor to the Ministry of Finances, who is also chairman of the Program Review Board, was unable to acknowledge the fair presentation of the statement of cash receipts and payments, the completeness of significant contracts entered into by the DFI and his responsibilities for the implementation and operations of accounting and internal control systems designed to prevent detect fraud and error."

I believe these are very serious findings. They basically say that the United States has failed to comply with the transparency and accountability requirements set forth by the United Nations in the Security Council Resolution 1483.

So I look forward to the opportunity to question Ambassador Kennedy about these serious problems. Truly having accountable and transparency over money is a very important role of government. We try to do this in our own government, and we certainly should bring the same standards to moneys that we oversaw in Iraq.

So, again, I thank the chairman and the ranking member for their continued oversight. It is important, and I look forward to the opportunity to question Mr. Kennedy.

Mr. SHAYS. I thank the gentlelady.

[The prepared statement of Hon. Carolyn B. Maloney follows:]

Statement by Congresswoman Carolyn B. Maloney
Government Reform Subcommittee on National Security, Emerging Threats and
International Relations
Hearing: "The UN Oil-for-Food-Program: Cash Cow Meets Paper Tiger"
October 5, 2004
2154 RHOB

I'd like to thank Congressman Shays
and Ranking Member Kucinich
for holding this important hearing today.

I think we learned a great deal
last April, but since the appointment
of Paul Volcker and the Independent
inquiry of the Oil-For-Food Program (OFFP)
there is much more to understand.

It's important that look at the UN but we must
also look at ourselves.

Mr. Chairman, I too have grave concerns about
the Bush Administration's poor stewardship of
Iraqi oil proceeds in the successor to the Oil for
Food program, the Development Fund for Iraq.

As mentioned, on May 22, 2003, after the United States took control of Iraq, the U.N. Security Council passed Resolution 1483, formally transferring the Oil for Food assets to a new Development Fund for Iraq and placing them under the authority of the Coalition Provisional Authority.

Resolution 1483 directed the Bush Administration to spend these funds on behalf of the Iraqi people. The Security Council also imposed other restrictions. For instance:

- The Security Council required the Administration to deposit all oil sale proceeds into the DFI, which is held by the Central Bank of Iraq at the Federal Reserve Bank of New York;
- The Security Council required that all deposits to, and spending from, the DFI be done “in a transparent manner;” and

- The Security Council required the Administration to ensure that DFI funds were used “to meet the humanitarian needs of the Iraqi people . . . and for other purposes benefiting the people of Iraq.”

To ensure that the Administration complied with these requirements, the Security Council created the International Advisory and Monitoring Board (IAMB) to oversee your actions.

This Board was envisioned as the primary vehicle for guaranteeing the transparency of Iraqi funds. When the Bush Administration assumed responsibility for these funds, it explicitly agreed to these terms. On August 19, 2003, Ambassador Bremer issued a memorandum stating as follows:

“As steward for the Iraqi people, the CPA will manage and spend Iraqi Funds, which

belong to the Iraqi people, for their benefit . . . [T]hey shall be managed in a transparent manner that fully comports with the CPA's obligations under international law, including Resolution 1483."

But Mr. Chairman, the Administration hasn't complied with the resolution.

The Administration took in a total of \$20.6 billion while it controlled the DFI. On July 15, 2004, the IAMB issued its first audit report on the Administration's stewardship of Iraqi funds. This report was conducted by KPMG, the same international certified public accounting firm reviewing the Oil for Food program.

KPMG criticized the Administration for "inadequate accounting systems," "inadequate record keeping," and "inadequate controls" over Iraqi oil proceeds.

On the most basic level, KPMG found that the Administration failed to follow its own policy to hire a certified public accounting firm.

According to the KPMG report, “the CPA was required to obtain the services of an independent, certified public accounting firm to assist in the accounting function of the DFI.” But it never did so.

In addition, the sum total of the “accounting system” used by the Administration consisted only of “excel spreadsheets and pivot tables maintained by one individual.”

The KPMG report concluded as follows:

The CPA Senior Advisor to the Ministry of Finance, who is also Chairman of the Program Review Board (PRB), was unable to acknowledge the fair presentation of the statement of cash receipts and payments, the

completeness of significant contracts entered into by the DFI and his responsibilities for the implementation and operations of accounting and internal controls systems, designed to prevent and detect fraud and error.

Mr, Chairman, these are serious findings. They basically say that the United States, the Bush Administration, has failed to comply with the transparency and accountability requirements set forth in Security Council Resolution 1483.

I look forward to asking Ambassador Kennedy about these serious problems.

Mr. SHAYS. And at this time, the Chair would recognize Mr. Ruppertsberger.

Mr. RUPPERSBERGER. Sure. Mr. Chairman, I come to this hearing today with many concerns. My first concern is about the allegations that have been made and the way they are being investigated.

There are three main charges that have been levied: overpricing by the Saddam regime; kickbacks made by the companies contracting with Saddam through the program, and what Saddam used that money for; and three, corruption within the U.N. itself in running the Oil-for-Food Program.

These are all very serious allegations, and if any or all of them are proven to be true, those individuals proven to be guilty of illegalities and wrongdoing should be brought to full and complete justice. On that I believe we can all agree.

I have serious concerns about the number of investigations occurring, the leaks to the media, the potential of mishandling of valuable evidence, and the use of the court of public opinion, the media and others, rather than allowing the Paul Volcker investigation to complete its work.

When we last met in April to discuss the same issue, Members of both sides of the aisle praised the unprecedented commissioning of an independent investigation by Kofi Annan and the appointment of Mr. Volcker. Since then, Mr. Volcker has had to assemble a staff, enter into the memorandums of agreement with multiple investigations, assemble and review a decade worth of documents, and all the while answer to U.N. member states, all with vested interests, including the United States. And that is no easy task.

I am concerned that the current investigations are being politicized and the evidence submitted is being leaked before it is ever vetted, authenticated, or corroborated.

I am concerned that this is turning out to be an inductive investigation rather than a deductive investigation. And I know that is the wrong way to conduct a credible investigation.

I urge caution as we proceed further. Let's consider a few facts: The first, the Oil-for-Food Program is no longer in existence and therefore the rush to judgment may do more harm than good.

Second, Mr. Volcker has promised a full and complete investigation report to member states by mid-2005, and we should allow that investigation to conclude before condemning a report that has yet to be written.

Three, we are fighting a global war on terrorism that requires international involvement, including the U.N. damaging the reputation of any politician, national leader, ally, or international institution at this time, this delicate time, without a full vetting of the facts is simply premature and dangerous. We must follow the facts, and I am glad to see that the chairman has called these witnesses to deal with two of the three main allegations head on.

I would hope that the same will be done with the allegations resting on the al-Mada, which is the Iraqi newspaper-published list, and all who possess or witnessed those documents at one time. And I would like to hear from the al-Mada editor-in-chief, from KPMG, Patton Boggs, Fresh Fields, Bucas Derringer, Paul Bremer, Claude Hanks-Drielsma, to address those documents which are the starting point of this scandal.

I also think it would be useful to bring an authentication expert before this committee to discuss authentication and how it is done and what it means and why it is so important. Ultimately, I think we must allow Mr. Volcker to carry out this investigation, to look at the facts and evidence, to look at his conclusions, and then decide as a Nation what is our best interest to do next.

Thank you, Mr. Chairman.

Mr. SHAYS. I thank the gentleman.

[The prepared statement of Hon. C.A. Dutch Ruppertsberger follows:]

Congressman C.A. Dutch Ruppertsberger
*Subcommittee on National Security, Emerging Threats,
and International Relations Hearing*
The UN Oil-For-Food Program: Cash Cow Meets Paper Tiger
Opening Remarks
10.05.04

Thank you Mr. Chairman. I come to this hearing today with many concerns. My first concern is about the allegations that have been made and the way they are being investigated. There are three main charges that have been levied:

1. Overpricing by the Saddam regime
2. Kickbacks made by the companies contracting with Saddam through the program and what Saddam used that money for
3. And corruption within the UN itself in running the Oil for Food program.

These are all very serious allegations and, if any or all of them prove to be true, those individuals proven to be guilty of illegalities and wrongdoing should be brought to full and complete justice. On that, I believe we can all agree.

I have serious concerns about the number of investigations occurring, the leaks to the media, the potential of mishandling valuable evidence, and the use of the court of public opinion by the media and others rather than allowing the Paul Volcker investigation to complete its work.

When we last met in April to discuss this same issue, members on both sides of the aisle praised the unprecedented commissioning of an independent investigation by Kofi Annan and the appointment of Mr. Volcker. Since then, Mr. Volcker has had to assemble a staff, enter into Memorandums of Agreement with multiple investigations, assemble and review a decade worth of documents – and all the while answer to UN Member States all with vested interests including the United States. That is no easy task.

I am concerned that the current investigations are being politicized and the evidence submitted is being leaked before it is ever vetted, authenticated, or corroborated. I am concerned that this is turning out to be an inductive investigation rather than a

deductive one and I know that is the wrong way to conduct a credible investigation.

I urge caution as we proceed further. Let's consider a few facts.

1. First, the Oil For Food program is no longer in existence and therefore the rush to judgment may do more harm than good.
2. Second, Mr. Volcker has promised a full and complete investigation report to Member States by mid 2005 and we should allow that investigation to conclude before condemning a report that has yet to be written.
3. Third, we are fighting a global war on terrorism that requires international involvement including the UN. Damaging the reputation of any politician, national leader, ally or international institution at this delicate time without a full vetting of the facts is simply premature and dangerous.

I have always said we must follow the facts and I am glad to see that the chairman has called these witnesses to deal with two of the three main

allegations head on. I would hope that the same will be done with the further allegations resting on the Al Mada published lists and all who possesses or witnessed those documents at one time.

I would like to hear from the Al Mada editor and Chief, from KPMG, Patton Boggs, Freshfields Bruckhaus Deringer, Paul Bremer and Hanks Claude Drielsma to address those documents – which are the starting point of this scandal. I also think it would be useful to bring an authentication expert before this committee to discuss authentication, how it is done, what it means, and why it is so important.

Ultimately, I think we must allow Mr. Volcker to carry out his investigation – to look at his facts and evidence – to look at his conclusions – and then decide as a nation what is in our best interest to do next.

Thank you Mr. Chairman

Mr. SHAYS. At this time I would like to make a unanimous consent that Doug Ose, a member of the full committee and chairman of the Regulatory Affairs Subcommittee be allowed to participate in this hearing. Without objection, so ordered, and at this time I would welcome any statement that Mr. Ose would like to make.

Mr. OSE. Thank you, Mr. Chairman. I was listening with particular attention to Mr. Ruppertsberger's remarks about this being an inductive investigation as opposed to a deductive investigation. It seems like we have had a lot of rhetoric today about, you, know who is guilty and who is not.

I just want to go back to a couple of uncontested facts. The Oil-for-Food Program was established in April 1995 pursuant to U.N. Security Council Resolution 986. And the food actually started to flow in December 1996. So there was about a year-and-a-half drag between the time it was authorized and the time it was actually implemented. And interestingly enough, the first known request for any examination of the program in terms of fraud or lack of transparency occurred in the first few days of March 2001.

So for 5 years, from December 1996—4½ years, from December 1996 to March 2001, this program just sailed along without oversight interest or monitoring.

Pursuant to the request in early March 2001 that the 661 committee actually look at this issue, on March 7, 2001 Kofi Annan actually sent a notice to Iraq, saying they have to clean up their act. Again, from the time of December 1996 to March 2001, nobody paid any attention. The perpetrators of the scam set the rules. The U.N. signed off on it, and the administration turned a blind eye.

However, in early March 2001 that changed. Finally somebody in the administration did something and brought to the attention of the 661 committee allegations that fraud and lack of transparency were occurring. I think the record needs to be very clear on this issue. But the only thing, this fraud that was taking place—excuse me—that's inductive. The only time that we finally got around to examining whether fraud was taking place was in March 2001. The people who approved the program in the mid-nineties turned a blind eye to it. The Security Council's 661 committee, they just said, just do it; don't bother us with the details.

But in March 2001, somebody finally started asking the hard questions. What changed? I hope we examine that issue. What changed from the mid-nineties to March 2001, so that the questions finally started getting asked? I think that is a central question to this thing, because you cannot uncover fraud. You cannot reverse years and years of practice by snapping your fingers or standing up here beating your chest. This culture got set up, it got established, it got ignored. And in March 2001, we finally called them on it.

Mr. Chairman, I hope we get to the bottom of this.

Mr. SHAYS. Thank the gentleman.

I ask unanimous consent that all members of the subcommittee be permitted to place an opening statement in the record and the record will remain open for 3 days for that purpose. And, without objection, so ordered.

I would ask further unanimous consent that all Members be permitted to include their written statement in the record, and, without objection, so ordered.

We have a representative of the French Embassy, but I think we will have to just make a statement and leave a document. But I think I will first ask Mr. Waxman to make his motion and then we will put that on the table.

Mr. WAXMAN. Thank you, Mr. Chairman. I have two separate motions for subpoenas. The first one is a subpoena under House rule 11(2)(k)(6). On July 8 this committee issued a subpoena to the French bank, BNP Paribas, which was responsible for maintaining the Oil-for-Food escrow account controlled by the U.N. When the committee issued the subpoena, the argument by the chairman and others was that a subpoena was necessary because the bank could not legally cooperate with this committee's inquiries unless it had the legal protection afforded by a subpoena. In other words, they wanted to cooperate, we were told, but they needed to have the subpoena for legal reasons.

Mr. Chairman, my subpoena is for the Federal Reserve Bank of New York. This is the bank that maintains the Development Fund for Iraq which was run by the Bush administration from May 2003 to June 2004. Just as you asked the French bank for documents relating to the inflow and outflow of funds under the Oil-for-Food Program, we ask for identical documents from the Federal Reserve Bank.

In fact, the language of my subpoena tracks the broad language of your subpoena almost word for word, substituting references to the Oil-for-Food program with references to Development Fund for Iraq.

In making this motion, I want the record to reflect that the Federal Reserve Bank has expressed the exact same policy as the French bank. With respect to cooperating with this committee, they cannot respond to a simple letter of request, but they are more than willing to respond to a friendly subpoena, and I want to submit for the record an e-mail received from the counsel and vice president of the Federal Reserve Bank dated October 4, 2004.

It states as follows: "with respect to providing DFI account information to the Congress, we concluded as long as we are acting pursuant to a subpoena, we can provide DFI account information for the period that the DFI was operated by Ambassador Bremer without violating our contractual obligation to the Central Bank of Iraq."

Mr. Chairman, we have an exactly parallel situation. We are talking about the same funds, the Iraqi oil proceeds, which were supposed to be used for the humanitarian benefit of the Iraqi people. We are talking about the financial institutions responsible for maintaining these funds, and we are talking about serious allegations of mismanagement. The only difference is that the United Nations controlled one set of funds, and the Bush administration controlled the other. I believe this committee's legitimacy will be judged by how it treats these two cases. We can choose to treat them equally in an even-handed manner, properly exercising our congressional oversight responsibilities or Mr. Chairman, you and your colleagues can attempt once again to use procedural machina-

tions to shield the Bush administration from embarrassment, and more importantly, from accountability.

My first motion is for the committee to issue a subpoena to Mr. Timothy Geithner, the president of the Federal Reserve Bank of New York, to produce the documents relating to the development fund for Iraq.

I ask unanimous consent that the e-mail be part of the record.

Mr. SHAYS. Without objection, the e-mail will be part of the record.

[The information referred to follows:]

Rapallo, David

-----Original Message-----

From: David Rapallo
Sent: Monday, October 04, 2004 7:43 PM
To: Rapallo, David
Subject: Re: Inquiry re Development Fund for Iraq

David:

Apologies that we could not connect by phone today.

I consulted with senior management today and we concluded that the DFI has had two rather distinct phases of operation. The first phase was from the inception of the DFI until sovereignty was returned to interim government of Iraq. The second phase is the period since sovereignty was returned to the Iraqis. Pursuant to international law and Presidential executive orders, Ambassador Bremer and the CPA controlled the DFI during the first phase of its operations. However, since the return of sovereignty, the DFI has been operated just like any other foreign official account our books - which is to say it has been controlled exclusively by the account holder, in this case the Central Bank of Iraq.

With respect to providing DFI account information to the Congress, we concluded that - as long as we are acting pursuant to a subpoena - we can provide DFI account information for the period that the DFI was operated by Ambassador Bremer without violating our contractual obligation to the Central Bank of Iraq to hold its account information in confidence or chilling the inclination of foreign countries to hold their international dollar reserves at the NY Fed. However, the situation is more complicated for the second phase of the DFI's operation.

The NY Fed holds more than \$1 trillion in assets belonging to over 200 foreign governments and central banks. The United States derives many benefits from the fact that so many countries choose to hold so much of their international dollar reserves as deposits at the NY Fed. Providing Congress with information concerning those assets could have implications for the willingness of foreign countries to hold their international dollar reserves at the NY Fed and might also be violative of our contractual obligations to our foreign customers to hold their account information confidential. We are hopeful that this is not an issue for the Committee because our working assumption is that the Committee is only interested in reviewing the conduct of the USG and the CPA (as a de-facto extension of the USG) with respect to the DFI and does not intend to review the sovereign actions of Iraq with respect to the DFI following June 30th. However, if the Committee does in fact intend to review the sovereign acts of Iraq since June 30th and to request DFI account information from the NY Fed in order to conduct that review, we would very much appreciate an opportunity to discuss that intent with the Committee staff in person at your earliest convenience. We would of course come to you.

Please don't hesitate to respond with any questions or comments. We look forward to working with the Committee.

Regards,
Mike

Michael F. Silva
Counsel & Vice President
Federal Reserve Bank of New York
Tel: (212) 720-8193
Fax: (212) 720-1530

Mr. SHAYS. The motion offered by Mr. Waxman is in order under House rule 11, clause 2(k)(6). That rule states, "The Chairman shall receive and the committee shall dispense with requests to subpoena additional evidence." Pursuant to that rule, the chairman may determine the timing of the consideration of such request. At this time the motion shall be considered as entered and the committee will consider the motion offered by the gentleman from California at 2:45 today.

Would you like to make a separate—

Mr. WAXMAN. I offer them separately because I can see no opposition to the first one.

Mr. SHAYS. Would you like me to comment on your motion?

Mr. WAXMAN. If you would.

Mr. SHAYS. The Chair reserves the time to speak, and I just say that conceptually I think, while I do not agree with the arguments on why this information is needed and that there is wrongdoing that requires it, I do think that there is merit in getting this information. So my interest is in getting this information. My inclination is always to write a letter first. In this instance a letter may not be required with the documentation that you have, and so I want to consider that. I will reserve judgment, frankly, on that motion.

Mr. WAXMAN. Mr. Chairman, I think that is a reasonable position. As you think about it between now and 2:45, I hope you make the decision to support the subpoena.

My second motion is for a subpoena under House rule 11, clause 2(k)(6). As I said in my opening statement, the Bush administration is grossly mismanaging Iraqi oil proceeds and other funds in the Development Fund for Iraq. There have been multiple reports about the administration failing to manage these funds in an open, transparent and accountable manner as required by the Security Council resolution 1483. In addition, the administration is now withholding documents from the international auditors charged by the U.N. Security Council to monitor its stewardship of these funds. I think a subpoena is necessary at this point because the administration has refused requests to voluntarily turn over this information.

Indeed, Mr. Chairman, you issued a press release on June 23 of this year condemning the administration for failing to provide information to this subcommittee regarding both the Oil-for-Food Program and the Development Fund for Iraq. This is what you said about the administration's reply. "the response is incomplete. There is still an insufficient accounting of relevant documents in custody. Several questions and requests are simply unanswered."

The committee still has not received the information we requested on May 21. After the administration rejected the subcommittee's request for information, I wrote to Congressman Davis, the chairman of the full committee, on July 9 and asked that he subpoena the documents. In my request, I tracked exactly the language and format he used to subpoena the French bank handling the Oil-for-Food account.

On July 12, Chairman Davis wrote back refusing to issue the subpoena. He said it was premature, that he preferred to send a letter requesting the information. Well, I wrote to him again on

July 15 attaching a draft letter for him to sign and send out but he never did and he just ignored my request entirely.

I wrote again on July 29 repeating my request. To this day he has failed to respond to my multiple requests to do so. Now that these voluntary efforts have failed, it is clear we have exhausted all our options. We have no choice but to issue an subpoena. In light of these numerous failures to provide information to the United Nations and the U.S. Congress, I move that the committee subpoena Defense Secretary Donald Rumsfeld to produce these specified documents, including records of receipts and disbursements, sole source contracts and other listed materials.

I understand, Mr. Chairman, it is always preferable to send a letter requesting the information, but if we cannot even get the chairman of the committee requesting it, and we have no response to our letters requesting the information directly from DOD, it seems to me that we have no other course but to go ahead with the subpoena. To date, we still have not received these documents. It is clear that we need to move to a subpoena. I urge support for the subpoena.

Mr. SHAYS. Thank you. We will take that up after we discuss the first one and I will reserve judgment as well on this, and we will have dialog before we have that vote. We will have a 5-minute dialog on each of those subpoenas on each side so there will be a 10 minute debate on each motion before we vote.

Let me just say that I see Mr. Lantos is here.

Mr. Lantos, would you like to make a statement on the Oil-for-Food Program, or we will get right to our hearing.

Mr. LANTOS. I will defer.

Mr. SHAYS. The French embassy has asked a representative, Ms. Christine Grenier, to provide some information to the subcommittee. Without objection, I would like to recognize her for a brief statement.

Mr. OSE. Mr. Chairman, I know it is our normal practice to swear in our witnesses.

Mr. SHAYS. How brief is your statement? It is very short, a paragraph, so we are not swearing in this witness.

Ms. GRENIER. Thank you, Mr. Chairman, and distinguished members of the committee, my name is Christine Grenier. I am First Secretary in the Political Section at the French Embassy. Allegations have been voiced on the role of France in the Oil-for-Food Program. The French Embassy will prepare a written statement in response to these unjustified allegations, and I would appreciate your allowing this statement to be included in the hearing record. Thank you, Mr. Chairman.

Mr. SHAYS. Thank you very much. We appreciate you honoring the committee with your presence. We will be happy to insert the statement into the record. Without objection that will happen. Thank you very much.

[The information referred to follows:]

*Ambassade de France
aux Etats-Unis*

L' Ambassadeur
N° 2483

Washington, October 8, 2004

Dear Mr. Chairman,

I respectfully submit the following statement for the hearing record of the Subcommittee on National Security, Emerging Threats and International Relations October 5 hearing on the United Nations Oil for Food Program. During the hearing, France's policy and conduct regarding this program were unfairly criticized.

As was agreed at the hearing on October 5, please find below the response of the French Government to these unjustified allegations.

1 - Background

A. All member states of the United Nations, particularly those on the 661 Committee, had a central responsibility in the implementation of the sanctions decreed in 1990 and in management and follow-up of the "oil-for-food" program after it was set up in 1995/1996.

It goes without saying that the United Nations cannot be satisfied with a situation in which the embargo against Iraq was repeatedly circumvented over the years. That concern existed moreover from the outset of the program established in SCR 986 of April 14, 1995 on the basis of a US draft. The monitoring mechanism was not agreed until over a year later, in May 1996, in the form of a memorandum of agreement. It required many working meetings for the missions of member states of the 661 Committee, including the US mission which succeeded in getting almost all its demands met, to arrive at a memorandum of understanding between the UN and Iraq and an extremely detailed and restrictive procedural document, endorsed by Washington.

The Honorable Christopher Shays
Chairman
House National Security Subcommittee
Committee on Government Reform
B-372 Rayburn House Office Building
Washington DC 20515
Fax : 202 225 2382

B. Although it was not a top priority, the 661 Committee was committed to preventing financial fraud that was difficult or even impossible to identify. UN scrutiny of contracts prior to being forwarded to the 661 Committee included inter alia analysis by a customs expert, who was, for a moment, a British national, whose task was to verify in particular the honesty of the prices. Certainly at the time, attention, especially in the 661 Committee, was focused as a matter of priority on eventual dual-use goods supplied to Iraq in the context of the program (or that Baghdad sought to obtain outside that framework).

Even though during the embargo financial fraud by Saddam Hussein's regime was under surveillance (especially as the money siphoned off could be used for the acquisition of military or dual-use goods), it should be borne in mind that no contract was rejected by the Committee solely on the basis of any financial irregularities. The delays and other rejections, usually the action of a single state on the Committee (the United States), were nonetheless sufficiently significant to represent a total value of \$5 billion in May 2002. In fact, over-billing for goods was practically and technically difficult to identify.

We should all acknowledge that many allegations of fraud were discussed but to date no irrefutable proof has been produced. A case in point, the Essex tanker affair (one of the few cases to have been specifically discussed in the Committee) : the culpability of the various protagonists has never been proved.

In any case, each of the contracts that went forward under the program had the consent of all the member states on the 661 Committee, including therefore the United States (and the United Kingdom).

C. The "oil-for-food" program did not produce smuggling. While the transactions agreed under the program served as "support" for embezzlement and criminal offenses in violation of resolutions, such actions existed before the program was established and continued to exist outside it.

The legitimate and important question raised by the Subcommittee on National Security, Emerging Threats and International Relations (i.e., What were the structural weaknesses of the program which allowed Baghdad to get around the embargo?) has many other dimensions in addition to the implementation of the program. The General Accounting Office report mentions the figure of over \$10 billion in illegal revenue. It should be noted, however, that nearly \$6 billion came from oil smuggled out of Iraq, which happened outside the UN program and the responsibility of the Office of Iraq Program.

In mistaking the target, one limits the scope of answers to questions that the international community must ask about the best way to put an embargo in place, to ensure compliance by member states and to make it an effective political instrument for the attainment of collectively defined goals.

2 – France's role in the Oil for Food Program

A. France continually monitored compliance with the sanctions.

France cannot leave unanswered the direct and repeated charges made against it. Without proof, through conflation and insinuation, France is accused of letting mercantile interests influence its position on the program's management and, beyond that, on the entire question of Iraq, and also of having covered up criminal actions by French companies.

In a national capacity, the French authorities always paid attention to applying UN sanctions and the legal framework of SCR 986 (1995) for transactions that took place under the oil-for-food program. Steps were swiftly taken to monitor compliance. Stringent measures were put in place, and special units set up in the ministries concerned, with the Permanent Mission of France to the United Nations acting as a filter in the forwarding of contracts to the Office of Iraq Program.

More broadly, the legal framework arising from the resolutions (and European Union regulations adopted to this end) was recalled both at trade meetings in which officials of the state participated and also through letters to importers and exporters, especially under the responsibility of the Ministry of Economy and Finance.

In the same spirit the French authorities always gave a positive answer to any request for cooperation in the context of customs inquiries into any violations of the UN-imposed embargo between 1990 and 2003.

This firmness was not just general and a matter of principle; it was applied in practice. In the case of the Essex affair, France, in a national capacity, chose, in spite of the absence of proof, to quickly remove from the list of companies authorized to make approved purchases of Iraqi oil a company allegedly implicated in a violation. It also shared the initial results of the inquiry with the customs authorities concerned (specifically American) and with the members of the Committee. On the contrary, still on this dossier, another intermediary (British) implicated in the same affair was not suspended from the list of buyers; meanwhile the request for explanation sent by the 661 Committee to the US (since the cargo's final destination was an American buyer and the US market), went unanswered.

B. France sought better monitoring of compliance with the embargo by UN member states.

While many have suggested that Washington and London were the sole capitals interested in compliance with the embargo, France consistently floated compromise proposals and sought to promote balanced solutions, taking into account the need to ensure compliance with the sanctions, the humanitarian situation in Iraq and the negative effects of a strategy bent on limiting to the maximum the possibility of implementing the program. This was the case especially in the dossier on setting oil prices (cf. below). To that end, France helped maintain the integrity of the "oil-for-food" program.

That was the spirit in which France approached the discussions in both the sanctions committee, as the reports of the official meetings show, and the Security Council. For instance, France promptly expressed support for the ideas of the US Secretary of State for "smart sanctions" and during the discussions encouraged a consensus in the Security Council to permit the unanimous adoption of SCR 1409 based on a US draft.

With regard to oil prices, France thought that the retro-pricing imposed by Washington and London automatically led to a drop in Iraq oil exports, and therefore to gradually squeezing the humanitarian program at a time when oil market prices were volatile (as they were during 2002). France repeatedly indicated to its partners its willingness to discuss a new mechanism and floated several ideas for this: shortening the validity period of UN-imposed prices, the obligation to pick up the cargo designated in the contract; criteria for reputation and integrity that would allow authorized buyers to be selected to take part in the oil-for-food program.

C. Steady Decline in French-Iraqi Trade

First, the proportion of French contracts in the program fell steadily; it was only 6% in the second half of 2000, no more than 2.5% the following year, and less than 2% in 2002. In 2001 our trade with Iraq represented only 0.2% of French exports, and 0.3% of imports. So we dispute critics claiming that, as the program developed, France stood to gain from maintaining the status quo; neither our share of imports from Iraq nor what this trade represented to our economy supports that argument.

As for exports of Iraqi oil, for reasons having to do with refining techniques in France, a very small percentage of oil from Iraq was destined for France, whereas almost half went to North American markets and buyers.

D. American companies involvement

A distinction should be made in considering these contracts between those signed by French companies, those signed by subsidiaries of foreign companies in France that preferred to operate from France, and those dealing with the resale of goods produced abroad. Many American companies followed that practice, such as Flowserve Pumps (formerly Ingersoll Dresser Pumps), Dresser Rand, Fisher Rosmount, Baker International in the oil-related sector, and General Electric. All in all, such contracts add up to \$552 million (including \$130 Million for Halliburton and its subsidiaries). See list of companies attached.

3 - The Volcker Commission will clear up the allegations surrounding the program and the United Nations.

It is not the place of the French authorities to comment on the repeated charges leveled against the United Nations. We observe, however, that a high-level independent commission of inquiry, led by a former chairman of the Board of Governors of the Federal Reserve Bank of the United States, was appointed by the UN Secretary General in order to get to the bottom of what are at this stage simple allegations.

France supported the initiative, and said it would cooperate fully with the commission. Mr. Volcker was received in Paris on October 7 and all the officials he met confirmed to him that his aides would have access to classified documents regarding the management of the program and could meet with French diplomats directly responsible for the dossier at our permanent mission in New York, as the commission had requested.

4 - Additional comments

- the rule of unanimity, sharply criticized by some as an obstacle to the adoption of US proposals also served the US, for example for delaying contracts (Cf. above) and imposing the mechanism of retroactive oil pricing;

- the action of the multinational interception force, the fleet placed under US command tasked with monitoring maritime traffic in the Gulf to prevent smuggling, also monitored traffic linked to the implementation of the program. France, several times, suggested it should be coordinated with the UN (661 Committee and the Office of the Iraq Program) under whose authority it was placed under SCR 665. These requests were not acted on. France also regretted that its activity should be concentrated on the southern shore of Iran, to the detriment of the rest of the area.

- BNP Paribas, or rather its US subsidiary, subject to OFAC control and responsible for 59% of the funds, was not the only bank involved in the management of the program. JP Morgan Chase Bank managed the rest of the oil revenues, of which 13% was intended for implementation of the program in the three provinces in the North (beyond Saddam Hussein's control) and in which a number of problems were apparently observed. 25% of the oil revenues was earmarked for the UN-run compensation process (in the framework of which a number of errors and duplications were committed which could also legitimately raise questions of an ethical and accounting nature).

- an examination of the oil-for-food program, to be complete, should also focus on the period after November 21, 2003, the date on which the UN entrusted its responsibilities to the Coalition Provisional Authority responsible for the management of the Development Fund for Iraq. In fact, a recent audit by the firm KPMG on behalf of the International Advisory and Monitoring Board (in which are represented such major institutions as the UN, IMF and World Bank: cf. WWW.IAMB.info) revealed many cases of poor management: on the credit side (inadequate controls on oil production, unequal application of procedures for signing contracts, high personnel turnover) and under debits (inadequate accounting procedures, barter operations, failure to respect bidding procedures).

I sincerely hope that these facts clearly answers the questions raised about France's policy and attitude regarding the United Nations Oil For Food program.

With my respectful regards,

Sincerely,



Jean-David LEVITTE

American participation in the Oil For Food Program

French subsidiaries of American companies or companies having exported American goods to Iraq (PHASE I – XII)	AMOUNT USD
AGCO	113 491 600
BAKER	10 611 624
BECTON DICKINSON	4 611 828
BOSTON SCIENTIFIC	315 911
CAMERON	5 764 117
CASE FRANCE	32 418 805
DOSAPRO	1 199 904
DOW AGROSCIENCE	3 856 741
DRESSER INTERNATIONAL / DRESSER RAND	16 136 532
ENVIROTECH	76 372 954
FISHER ROSEMOUNT	9 846 413
FLOWERVE	19 772 973
FMC EUROPE	3 327 597
GENERAL ELECTRIC	1 181 594
GROVE	9 556 000
HEXACORP	5 072 602
IBEX	32 595 435
INGERSOLL	62 105 914
KEMA-PROSER	7 598 562
LUXOR	17 265 777
MARSONEILAN	40 480
PUROLITE / BAKER	357 833
SANCHEZ	2 046 178
SIEMENS S.A.S.	82 283 149
TOEKHEIM	829 229
TOEKHEIN	1 234 696
TOSSCO	3 025 489
TROUVAY & CAUVIN / MANDREL	20 625 320
WEMCO / ENVIROTECH	9 064 142
WYETH / LEDERLE	101 849
TOTAL	552 711 248

Mr. SHAYS. At this time the Chair would note that we have Ambassador Patrick F. Kennedy, U.S. representative to the United Nations for U.N. management and reform, U.S. mission to the United Nations, U.S. Department of State. At this time the Chair will swear in the witness.

[Witnesses sworn.]

Mr. SHAYS. I note for the record our witness has responded in the affirmative. I thank the witness for his patience.

Mr. Ambassador, I thank you for your presence and statement. You have the floor.

STATEMENT OF AMBASSADOR PATRICK F. KENNEDY, U.S. REPRESENTATIVE TO THE UNITED NATIONS FOR U.N. MANAGEMENT AND REFORM, U.S. MISSION TO THE UNITED NATIONS, U.S. DEPARTMENT OF STATE

Ambassador KENNEDY. Mr. Chairman, distinguished members of the committee, I welcome the opportunity to appear before you again to discuss what is commonly known as the United Nations Oil-for-Food Program.

Mr. Chairman, recent allegations of corruption and mismanagement under the Oil-for-Food Program have been targeted not only at the Saddam regime but also at companies and individuals doing business under the program and at U.N. personnel and contractors. We believe that every effort should be made to investigate these allegations seriously and to determine the facts in each case.

As you are aware, there are currently several congressional investigations looking into the question of Oil-for-Food. The independent inquiry committee headed by Paul Volcker and the Iraqi board of Supreme Audit in Baghdad are also conducting their investigations. As these inquiries go forward, you have my assurance, and that of my staff, to cooperate fully with you and your colleagues on other committees and provide all possible additional information and assistance. I welcome the opportunity today to answer your questions relating to these investigations on how the program was created and operated. At the outset, Mr. Chairman, I want to reiterate several points I made here previously in April.

First, I want to emphasize that the establishment of the Oil-for-Food Program was the result of difficult and arduous negotiations among 15 Security Council members, a number of whom advocated a complete lifting of sanctions against Iraq. The Oil-for-Food Program was in no way perfect, but it was, at the time, the best achievable compromise to address the ongoing humanitarian crisis in Iraq in the mid 1990's, while maintaining effective restrictions on Saddam's ability to rearm. 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 represented an important tool in our efforts.

Mr. Chairman, given this general context, I would now like to outline some of the details of how the program worked, how it was created, by whom and how it was operated and was monitored. A comprehensive sanctions regime was established under U.S. Security Council resolution 661 in August 1990 after the Saddam Hussein regime invaded Kuwait. The council's unanimity on the issue of Iraq eroded as key council delegations became increasingly con-

cerned over the negative impact of sanctions on the Iraqi population, the lack of food supplies and the increase in mortality rates were worldwide news.

The concept of a humanitarian program to alleviate the suffering of the people of Iraq was initially considered in 1991 with U.N. Security Council resolutions 706 and 712, but the Saddam regime rejected those proposals. The council eventually adopted U.N. Security Council resolution 986 in 1995, which provided the legal basis for what became known as the Oil-for-Food Program. While council members were the drafters and negotiators of this text, the memorandum of understanding signed between the U.N. and the former government of Iraq was negotiated between Iraqi government officials and representatives of the Secretary General, in particular his legal counsel, on behalf and at the request of the Security Council.

Under provisions of resolution 986 and the MOU, the Iraqi government, as a sovereign entity, retained the responsibility for contracting with buyers and sellers of Iraq's choosing and the responsibility to distribute humanitarian items to the Iraqi population. This retention of Iraqi authority was insisted upon by Saddam and was supported by a number of Security Council members, as well as other U.N. member states. The exception to this was for the three northern Governorates of Iraq where the U.N. agencies, at the request of the Council, served as the de facto administrative body that contracted for nonbulk goods and distributed the monthly food ration.

The sanctions committee was established under resolution 661 in 1990, also known as the 661 committee, monitored member state implementation of the comprehensive sanctions on Iraq, and also was authorized to monitor the implementation of Oil-for-Food Program after its inception.

The 661 committee, like all sanctions committees, operated as a subsidiary body of the Security Council and was comprised of representatives from the same 15 member nations as the council. The committee was chaired by the Ambassador of one of the rotating 10 elected members of the council. The committee, during its life span, was chaired by the Ambassadors of Finland, Austria, New Zealand, Portugal, Netherlands, Norway and Germany.

Decisionmaking in the committee was accomplished on a consensus basis. All decisions taken by the committee required the agreement of all its members. This procedure is used in all subsidiary sanctions committees of the Security Council.

In providing oversight and monitoring of the sanctions, the committee and each of its members, including the United States, was responsible for reviewing humanitarian contracts, oil spare parts contracts, and oil pricing submitted on a regular basis by Iraq to the U.N. for approval. The committee was also responsible for addressing issues related to noncompliance and sanctions busting. In my previous testimony and statement for the record, I have provided an explanation of what we knew about issues relating to noncompliance, what we did to address them and the degree of success we had in addressing these issues within the confines of the 661 committee.

When the United States became aware of issue related to noncompliance or manipulation of the Oil-for-Food Program by the

Saddam regime, we raised these concerns in the committee, often in concert with our U.K. counterparts. At our request, the committee held lengthy discussion and debate over for example allegations of oil pricing manipulation, kickbacks on contracts, illegal smuggling and misuse of ferry services. To provide the 661 committee with additional insight on issues related to noncompliance, we also organized outside briefings by the commander of the Multilateral Interception Force and other U.S. agencies. Our success in addressing issues of noncompliance was directly related to the willingness of other members of the committee to take action.

Given the consensus rule for decisionmaking in the committee, the ability of the United States and the U.K. to take measures to counter or address noncompliance was often inhibited by other Members' desire to ease sanctions on Iraq. As reflected in many of the 661 committee records which have been shared with your committee, the atmosphere within the committee, particularly as the program evolved by the late 1990's was often contentious and polemic, given the fundamental political disagreement between member states over the Security Council's imposition and continuance of comprehensive sanctions, a debate exacerbated by the self-serving national economic objectives of certain key member states.

Mr. Chairman, you have recently been to Baghdad and know that the voluminous Oil-for-Food documents are now being safeguarded for use by the board of supreme audit in their investigation. The American Embassy in Baghdad is currently working on a memorandum of understanding between the United States and the government of Iraq regarding access to these documents. We will keep this committee updated on the status of these negotiations. Mr. Chairman, as you and your fellow distinguished committee colleagues continue your review of the Oil-for-Food Program, key issues in your assessment likely will be whether the program achieved its overall objectives and whether the program could have been better designed at its inception to preclude what some have suggested were fundamental flaws in its design.

In retrospect, had the program been constructed differently, perhaps by eliminating Iraqi contracting authority and the resulting large degree of autonomy afforded to Saddam to pick suppliers and buyers, then the allegations currently facing the program might not exist. One can postulate the elimination of this authority and the establishment of another entity to enter into contracts on behalf of the former government of Iraq, and this entity might have had tighter oversight of financial flows, thus inhibiting Saddam Hussein's ability to cheat the system through illegal transaction.

The problem is, of course, that these specific decisions to allow the government of Iraq to continue to exercise authority, to let Saddam Hussein continue to determine who he could sell oil to and purchase goods from were all done in the larger context of a political debate on Iraq. It was reluctantly accepted to ensure that the significant sanctions program would remain in place, thus achieving a U.S. goal.

Mr. Chairman, I want to reiterate a point that I made earlier on the issue of sovereignty. While we opposed the authoritarian leadership of the former Saddam Hussein regime, Iraq was, and is, a sovereign nation. Sovereign nations are generally free to determine

to whom they will sell their national products, and from whom they purchase supplies. Members of the Security Council, as well as other member states, insisted on upholding this aspect of Iraq's sovereign authority.

These were the arrangements that prevailed under the Oil-for-Food Program given this reality. Could alternate arrangements have been devised, such as authorizing the United Nations or some other entity to function as the contracting party representing the people of Iraq in oil sales, and humanitarian goods procurement? The answer, given that there was not the political will in the Security Council to use its authorities to take charge of Iraq's oil sales and humanitarian goods procurement depended on the Iraqi regime's agreeing. And it did not.

Mr. SHAYS. Ambassador, I am going to have you summarize when we get back. We have a vote now, and I am going to go to that vote, so we are going to recess.

[Recess.]

Mr. SHAYS. Ambassador Kennedy, there is going to be another vote, but just complete your statement. We will put your statement on the record.

Ambassador KENNEDY. Thank you, Mr. Chairman.

The Security Council's original scheme for the Oil-for-Food Program outlined in resolution 706 and 712 in 1991 were for a program that would utilize the revenue derived from the sale of Iraqi oil to finance the purchase of humanitarian supplies for use by the Iraqi people. It was repeatedly rejected by the Saddam government. Even after the council adopted resolution 986 on April 14, 1995, the resolution that established the Oil-for-Food Program, it took more than 13 months of protracted negotiations before Saddam Hussein finally agreed to proceed, a considerable delay given the ongoing and urgent needs of the Iraqi people.

Mr. Chairman, any plan that would have denied the authority of the Iraqi government to select its own purchasers of Iraqi oil and suppliers of humanitarian products would have been rejected by a number of other key Security Council member states. You and your committee colleagues will recall that most, if not all, of the resolutions concerning Iraq adopted by the Security Council reaffirmed Iraq's sovereignty and territorial integrity. It would not have been possible politically to win support from various U.N. member states for any arrangement that denied Iraq its fundamental authorities as a sovereign nation and that would have endangered the durability of the sanctions regime that helped Saddam's access to war materials.

Finally, Mr. Chairman, I want to underscore the obligations of all U.N. member states to implement and enforce the comprehensive multilateral sanctions imposed by the Security Council under resolution 661. It was not possible for the sanctions to be effective, nor to prevent Saddam Hussein from evading the sanctions through the smuggling of oil, and the purchase of prohibited goods without the full cooperation of other states. I appreciate that this committee is carefully reviewing this matter and I would encourage you to consider the actions of other states in the context of the Oil-for-Food Program.

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 member states will accept and carry out the decisions of the Security Council in accordance with the charter. In this regard, the effectiveness of the Oil-for-Food Program as well as the larger comprehensive sanctions regime against Iraq, largely depended on the ability and willingness of U.N. member states to implement and enforce sanctions. In the 661 committee, the subsidiary body of the Security Council tasked with monitoring sanctions compliance, sanctions violations could be addressed only if there was collective will and consensus to do so.

As you review the effectiveness of the Oil-for-Food Program, and the sanctions against Iraq in general, I encourage you to keep in mind that a decision to take effective action to address noncompliance issues required consensus in the 661 committee, a consensus that repeatedly proved elusive. And in reviewing the effectiveness of the U.N. secretariat, it may be relevant to recall that the staff and contractors are hired to implement the decisions of the member states. They operate within the mandates given to them.

In this regard, resolution 986 and the May 1996 memorandum of understanding between the United Nations and the former government of Iraq defined the mandate governing the work of the independent inspection agents, appointed by the Secretary General, who authenticated the arrival in Iraq of goods ordered under approved Oil-for-Food contracts. Lloyds Registry of the United Kingdom initially performed this function on behalf of the U.N. When the Lloyds contract expired, the Swiss firm Cotecna was hired by the U.N. to continue this authentication function. As defined in resolution 986 and the subsequent MOU, the independent inspection agents, Lloyds and then Cotecna, were tasked with inspecting only those shipments of humanitarian supplies ordered under the Oil-for-Food program.

Lloyds Registry and Cotecna agents were not authorized by the Security Council to serve as Iraq's border guards or customs officials. They lacked authority to prevent the entry into Iraq of non-Oil-for-Food goods. That function and responsibility belonged solely to Iraqi border and Customs officers, given Iraq's sovereignty and to every U.N. member state given the sanctions in place. The United Nations and its agents Lloyds Registry, Cotecna and Saybolt were not responsible for enforcing sanctions compliance. In May 2001, the United States and U.K. delegations circulated a draft resolution to other Security Council members that would have tightened border monitoring by neighboring states as part of a smart sanctions approach to Iraq. Certain council members as well as representatives of Iraq's neighbors, strongly opposed the United States-U.K. text, and the draft resolution was never adopted.

Resolution 986 and the May 1996 memorandum of understanding also called for monitoring by outside agents of Iraq's oil exports the Dutch firm Saybolt performed this function under the Oil-for-Food Program. Saybolt representatives oversaw oil loadings at the Mina al-Bakr loading platform and monitored the authorized out-bound flow of oil from Iraq to Turkey. Saybolt monitors were not authorized by the Security Council to search out and prevent illegal oil shipments by the former Iraqi regime. This was the primary

responsibility of each member state. The multi national maritime interception force operating in the Persian Gulf also was tasked with preventing Iraq's illegal oil smuggling.

Mr. Chairman, now that the Oil-for-Food Program has ended, questions concerning the efficacy of the program have arisen in light of the appearance of the documents belonging to the former Iraqi regime. These documents were never publicly shared during Saddam Hussein's rule with the Security Council or the 661 committee.

A fair question to pose is what might have happened had the Oil-for-Food Program never been established. While any response is purely conjecture. It is fair to assume that the humanitarian crisis besetting the people of Iraq in the mid 1990's would have only worsened over time, given the impact of the comprehensive sanctions on Iraq and Saddam Hussein's failure to provide for the needs of his own civilian population.

A deteriorating humanitarian situation among the Iraqi people would have increased calls among more and more nations for a relaxation and/or removal of the comprehensive sanctions restrictions on Iraq, thereby undermining ongoing United States and U.K. efforts to limit Saddam's ability to rearm. While the United States and U.K. may have succeeded in formally retaining sanctions against Iraq, fewer and fewer nations would have abided by them in practice given the perceived harmful impact such measures were thought to be having on Iraqi civilians. This would have given Saddam even greater access to prohibited items with which to pose a renewed threat to Iraq's neighbors and to the region.

Did the Oil-for-Food Program help to relieve the humanitarian crisis in Iraq and the suffering of the Iraqi people? Despite what might in the end be identified as inherent flaws, the Oil-for-Food Program did enjoy measurable success in meeting the day-to-day needs of Iraqi civilians. Could the program have been designed along lines more in keeping with the U.S. Government competitive bidding and procurement rules? Only if other council members and the former Iraqi government itself had supported such a proposal. In the end, the Oil-for-Food Program reflected three merged concepts: 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, efforts by commercial enterprises and a number of states to pursue their own national economic and financial interests despite the interests of the international community to contain the threat posed by Saddam's regime.

Mr. Chairman, thank you for the opportunity to appear again before this committee. I now stand ready to answer whatever questions you or your fellow committee members may wish to post.

[The prepared statement of Ambassador Kennedy follows:]

FINAL

STATEMENT BY
AMBASSADOR PATRICK F. KENNEDY
U.S. REPRESENTATIVE FOR UN MANAGEMENT AND REFORM
UNITED STATES MISSION TO THE UNITED NATIONS
ON THE
UNITED NATIONS OIL-FOR-FOOD PROGRAM
BEFORE THE
COMMITTEE ON GOVERNMENT REFORM,
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS
AND INTERNATIONAL RELATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

OCTOBER 5, 2004

Mr. Chairman, distinguished members of the Committee, I welcome the opportunity to appear before you again to discuss what is commonly known as the United Nations Oil-for-Food (OFF) Program.

Mr. Chairman, recent allegations of corruption and mismanagement under the Oil-for-Food Program have been targeted not only at the Saddam regime, but also at companies and individuals doing business under the program, and at UN personnel and contractors. We believe that every effort should be made to investigate these allegations seriously and to determine the facts in each case.

As you are aware, there are currently several Congressional investigations looking into the question of Oil-for-Food. The Independent Inquiry Committee headed by Paul Volcker, and the Board of Supreme Audit (BSA) in Baghdad are also conducting their own investigations. As these inquiries go forward, you have my assurance, and that of my staff, to cooperate fully with you and your colleagues on the other Committees, and provide all possible additional information and assistance. I welcome the opportunity today to answer your questions relating to these investigations on how the program was created and operated.

At the outset, Mr. Chairman, I want to reiterate several points I made here previously in April. First, I want to emphasize that the establishment of the Oil-for-Food Program was the result of difficult and arduous negotiations among 15 Security Council members, a number of whom advocated the complete lifting of sanctions against Iraq. The Oil-for-Food Program was in no way perfect – but it was, at the time, the best achievable compromise to address the ongoing humanitarian crisis in Iraq in the mid-1990's, while maintaining effective restrictions on Saddam's ability to re-arm. 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 represented an important tool in our efforts.

Mr. Chairman, given this general context, I would now like to outline some details on how the Program worked – how it was created, by whom, and how it operated and was monitored.

A comprehensive sanctions regime was established under UNSC Resolution 661 in August 1990 after the Saddam Hussein regime invaded Kuwait. The Council's unanimity on the issue of Iraq eroded as key Council delegations became increasingly concerned over the negative impact of sanctions on the

Iraqi population. The lack of food supplies and the increase in mortality rates were world-wide news.

The concept of a humanitarian program to alleviate the suffering of the people of Iraq was initially considered in 1991 with UNSC Resolutions 706 and 712, but the Saddam regime rejected these proposals. The Council eventually adopted UNSC Resolution 986 in 1995 which provided the legal basis for what became known as the Oil-for-Food Program. While Council members were the drafters and negotiators of this text, the Memorandum of Understanding (MOU) signed between the UN and the former Government of Iraq was negotiated between Iraqi Government officials and representatives of the Secretary-General, in particular his Legal Counsel, on behalf of and at the request of the Security Council.

Under provisions of Resolution 986 and the MOU, the Iraqi Government, as a sovereign entity, retained the responsibility for contracting with buyers and sellers of Iraq's choosing, and the responsibility to distribute humanitarian items to the Iraqi population. This retention of Iraqi authority was insisted upon by Saddam and was supported by a number of Security Council members as well as by other UN member states. The exception to this was

for the three Northern Governorates of Iraq, where the UN agencies, at the request of the Council, served as the de-facto administrative body that contracted for non-bulk goods and distributed the monthly food ration.

The Sanctions Committee that was established under Resolution 661 in 1990 – also known as the 661 Committee – monitored member state implementation of the comprehensive sanctions on Iraq – and also was authorized to monitor the implementation of the Oil-for-Food Program after its inception.

The 661 Committee – like all sanctions Committees – operated as a subsidiary body of the Security Council and was comprised of representatives from the same fifteen nations as the Council. The Committee was chaired by the Ambassador of one of the rotating ten elected members of the Council. The Committee during its lifespan was chaired by the Ambassadors of Finland, Austria, New Zealand, Portugal, Netherlands, Norway, and Germany. Decision-making in the Committee was accomplished on a consensus basis – all decisions taken by the Committee required the agreement of all its members. This procedure is used in all subsidiary sanctions committees of the Council.

In providing oversight and monitoring of the sanctions, the Committee, and each of its members, including the U.S., was responsible for reviewing humanitarian contracts, oil spare parts contracts, and oil pricing submitted on a regular basis by Iraq to the UN for approval. The Committee was also responsible for addressing issues related to non-compliance and sanctions busting. In my previous testimony and statement for the record, I have provided an explanation of what we knew about issues related to non-compliance, what we did to address them, and the degree of success we had in addressing these issues within the confines of the 661 Committee.

When the U.S. became aware of issues related to non-compliance or manipulation of the Oil-for-Food Program by the Saddam regime, we raised these concerns in the Committee, often in concert with our UK counterparts. At our request, the Committee held lengthy discussion and debate over, for example, allegations of oil pricing manipulation, kickbacks on contracts, illegal smuggling, and the misuse of ferry services. To provide the 661 Committee with additional insight on issues related to non-compliance we also organized outside briefings by the Commander of the Multilateral Interception Force (MIF), and other U.S. agencies. Our success in

addressing issues of non-compliance was directly related to the willingness of other members of the Committee to take action.

Given the consensus rule for decision-making in the Committee, the ability of the U.S. and UK to take measures to counter or address non-compliance was often inhibited by other members' desire to ease sanctions on Iraq. As reflected in many of the 661 Committee records that have been shared with your Committee, the atmosphere within the Committee, particularly as the program evolved by the late 90s, was often contentious and polemic, given the fundamental political disagreement between member states over the Security Council's imposition and continuance of comprehensive sanctions, a debate exacerbated by the self-serving national economic objectives of certain key member states.

Mr. Chairman, you have recently been to Baghdad and know that the voluminous Oil-for-Food documents are now being safeguarded for use by the Board of Supreme Audit (BSA) in their investigation. The American Embassy in Baghdad is currently working on a Memorandum of Understanding between the U.S. and the Government of Iraq regarding

access to these documents. We will keep this Committee updated on the status of these negotiations.

Mr. Chairman, as you and your fellow distinguished Committee colleagues continue your review of the Oil-for-Food Program, key issues in your assessment likely will be whether the Program achieved its overall objectives, and whether the Program could have been better designed at its inception to preclude what some have suggested were fundamental flaws in its design.

In retrospect, had the program been constructed differently, perhaps by eliminating Iraqi contracting authority and the resulting large degree of autonomy afforded to Saddam to pick suppliers and buyers, then the allegations currently facing the program might not exist. One can postulate the elimination of this authority and the establishment of another entity to enter into contracts on behalf of the former government of Iraq, and this entity might have had tighter oversight of financial flows, thus inhibiting Saddam Hussein's ability to cheat the system through illegal transactions.

The problem is, of course, that these specific decisions – to allow the

government of Iraq to continue to exercise authority -- to let Saddam Hussein continue to determine who he could sell oil to and purchase goods from -- were all done in the context of the larger political debate on Iraq. It was reluctantly accepted to ensure that a significant sanctions program would remain in place -thus achieving a U.S. goal

Mr. Chairman, here I want to reiterate a point that I made earlier on the issue of sovereignty. While we opposed the authoritarian leadership of the former Saddam Hussein regime, Iraq was, and is, a sovereign nation. Sovereign nations are generally free to determine to whom they will sell their national products, and from whom they purchase supplies. Members of the Security Council, as well as other member states, insisted on upholding this aspect of Iraq's sovereign authority.

These were the arrangements that prevailed under the Oil-for-Food Program given this reality. Could alternate arrangement have been devised, such as authorizing the United Nations or some other entity to function as the contracting party representing the people of Iraq in oil sales, and humanitarian goods procurement? The answer, given that there was not the political will in the Security Council to use its authorities to take charge of

Iraq's oil sales and humanitarian goods procurement, depended on the Iraqi regime's agreeing. And it did not.

The Security Council's original scheme, outlined in Resolutions 706 (1991) and 712 (1991), for a program that would utilize the revenue derived from the sale of Iraqi oil to finance the purchase of humanitarian supplies for use by the Iraqi people, was repeatedly rejected by the Saddam government. Even after the Council adopted Resolution 986 on April 14, 1995, the resolution that established the OFF Program, it took more than thirteen months of protracted negotiations with the UN before Saddam Hussein finally agreed to proceed with the Program – a considerable delay given the ongoing and urgent needs of the Iraqi people.

Mr. Chairman, any plan that would have denied the authority of the Iraqi Government to select its own purchasers of Iraqi oil and suppliers of humanitarian products would have been rejected by a number of other key Security Council states. You and your Committee colleagues will recall that most, if not all, of the resolutions concerning Iraq adopted by the Security Council reaffirmed Iraq's sovereignty and territorial integrity. It would not have been possible, politically, to win support from various UN member

states for any arrangement that denied Iraq its fundamental authorities as a sovereign nation. And that would have endangered the durability of the sanctions regime that helped deny Saddam access to war materials.

Finally, Mr. Chairman, I want to underscore the obligations of all UN member states to implement and enforce the comprehensive multilateral sanctions imposed by the Security Council under Resolution 661 (1990). It was not possible for the sanctions to be effective, nor to prevent Saddam from evading the sanctions through the smuggling of oil, and the purchase of prohibited goods, without the full cooperation of other states. I appreciate that this Committee is carefully reviewing this matter, and I would encourage you to consider the actions of other states in the context of the Oil-for-Food Program. 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 member states will accept and carry out decisions of the Security Council in accordance with the Charter. In this regard, the effectiveness of the Oil-for-Food Program, as well as the larger comprehensive sanctions regime against Iraq, largely depended on the ability and willingness of UN member states to implement and enforce the sanctions. In the 661 Committee, the subsidiary body of the

Security Council tasked with monitoring sanctions compliance, sanctions violations could be addressed only if there was a collective will, and consensus, to do so. As you review the effectiveness of the Oil-for-Food Program, and the sanctions against Iraq in general, I encourage you to keep in mind that a decision to take effective action to address non-compliance issues required consensus in the 661 Committee, a consensus that repeatedly proved elusive. And in reviewing the effectiveness of the UN Secretariat, it may be relevant to recall that the staff and contractors are hired to implement the decisions of the member states. They operate within the mandates given to them.

In this regard, Resolution 986 (1995) and the May 1996 Memorandum of Understanding between the United Nations and the former Government of Iraq defined the mandate governing the work of the independent inspection agents, appointed by the Secretary-General, who authenticated the arrival in Iraq of goods ordered under approved Oil-for-Food contracts. Lloyds Registry of the United Kingdom initially performed this function on behalf of the UN. When the Lloyds contract expired, the Swiss firm Cotecna was hired by the UN to continue this authentication function.

As defined in Resolution 986 (1995) and the subsequent MOU with the former Iraqi Government, the independent inspection agents, Lloyds Registry and Cotecna, were tasked with inspecting only those shipments of humanitarian supplies ordered under the Oil-for-Food Program. Lloyds Registry and Cotecna agents were not authorized by the Security Council to serve as Iraq's border guards or customs officials. They lacked authority to prevent the entry into Iraq of non-Oil-for-Food goods. That function and responsibility belonged solely to Iraqi border and customs officers, given Iraq's sovereignty, and to every UN member state, given the sanctions in place. The United Nations, and its agents, Lloyds Registry, Cotecna, and Saybolt, were not responsible for enforcing sanctions compliance.

In May 2001, the U.S. and UK delegations circulated a draft resolution to other Security Council members that would have tightened border monitoring by neighboring states as part of a "smart sanctions" approach to Iraq. Certain Council members, as well as representatives of Iraq's neighbors, strongly opposed the U.S.-UK text, and the draft resolution was never adopted.

Resolution 986 (1995) and the May 1996 Memorandum of Understanding also called for monitoring by outside agents of Iraq's oil exports. The Dutch firm, Saybolt, performed this function under the Oil-for-Food Program. Saybolt representatives oversaw oil loadings at the Mina al-Bakr loading platform and monitored the authorized outbound flow of oil from Iraq to Turkey (Ceyhan). Saybolt monitors were not authorized by the Security Council to search out and prevent illegal oil shipments by the former Iraqi regime. This was the primary responsibility of each member state. The Multinational Maritime Interception Force (MIF), operating in the Persian Gulf, also was tasked with preventing Iraq's illegal oil smuggling.

Mr. Chairman, now that the Oil-for-Food Program has ended, questions concerning the efficacy of the Program have arisen in light of the appearance of documents belonging to the former Iraqi regime. These documents were never publicly shared during Saddam Hussein's rule with the Security Council or the 661 Committee.

A fair question to pose is what might have happened had the Oil-for-Food Program never been established. While any response is purely conjecture, it is fair to assume that the humanitarian crisis besetting the people of Iraq in

the mid-1990's would have only worsened over time, given the impact of the comprehensive sanctions on Iraq, and Saddam's failure to provide for the needs of his civilian population.

A deteriorating humanitarian situation among the Iraqi people would have increased calls among more and more nations for a relaxation and/or removal of the comprehensive restrictions on Iraq, thereby undermining ongoing U.S. and UK efforts to limit Saddam's ability to re-arm. While the U.S. and UK may have succeeded in formally retaining sanctions against Iraq, fewer and fewer nations would have abided by them in practice given the perceived harmful impact such measures were thought to be having on Iraqi civilians. This would have given Saddam even greater access to prohibited items with which to pose a renewed threat to Iraq's neighbors, and to the region.

Did the Oil-for-Food Program help to relieve the humanitarian crisis in Iraq and the suffering of the Iraq people? Despite what might in the end be identified as inherent flaws, the Oil-for-Food Program did enjoy measurable success in meeting the day-to-day needs of Iraqi civilians. Could the Program have been designed along lines more in keeping with U.S.

Government competitive bidding and procurement rules? Only if other Council members and the former Iraqi government itself had supported such a proposal. In the end, the Oil-for-Food Program reflected three merged concepts: a collective international desire to assist and improve the lives of Iraq's civilian population; a desire by the U.S. and others to prevent Saddam from acquiring materials of war and from posing a renewed regional and international threat; and, efforts by commercial enterprises and a number of states to pursue their own national economic and financial interests despite the interests of the international community to contain the threat posed by Saddam's regime.

Mr. Chairman, thank you for this opportunity to appear again before this Committee. I now stand ready to answer whatever questions you and your fellow Committee members may wish to pose.

Mr. SHAYS. Thank you, what I will do since we have a vote, I will go back to the vote and then we will just start with questioning. The committee stands in recess.

[Recess.]

Mr. SHAYS. I call the hearing back to order.

I thank you, Mr. Kennedy. I also want to apologize to the second panel for all of the delays.

I would like to start by responding to your closing that suggests that, and let me be clear you accept this point, Ambassador Kennedy, basically you are saying because Saddam and Iraq were a sovereign nation, and because he was not willing to abide by a stricter Oil-for-Food Program, that we, the United Nations, conceded in allowing him to pretty much write his own ticket and that the alternative was, what? That is what I do not understand. In other words, are you suggesting that the sanctions worked?

Ambassador KENNEDY. Mr. Chairman, we do not believe that we permitted Saddam Hussein to write his own ticket. I think that is evident from the fact that it took almost 15 months between the time that resolution 986 was passed by the Security Council and the end of the negotiations to formulate the MOU. Saddam Hussein was obviously interested in achieving the maximum amount of flexibility that he could. The United States, the United Kingdom and others were interested in putting the maximum number of constraints on Saddam Hussein. We had a goal, Saddam Hussein had goals. All of these goals were in the context of other member states of the Security Council, and additionally, other member states of the United Nations, who have very different views on sanctions, some of them philosophical, some related to Saddam Hussein. The United States, United Kingdom and others pushed very, very hard to get the maximum amount of oversight of the sanctions regime. Those activities were resisted by others.

What I am suggesting is that although the program certainly was not perfect, as the work that you and your committee members have done amply demonstrate, I am suggesting, though, that in the absence of these sanctions, we would have probably had a very, very less fulsome situation.

I might note in 2002 the United States and the United Kingdom were holding, meaning denying permission, to over \$5.4 billion in contracts that Saddam Hussein wished to execute. So it was a balance. The need to alleviate the horrible suffering of the Iraqi people, suffering brought on by Saddam Hussein, at the same time to put into effect the most rigorous sanctions regime that we could politically establish.

Mr. SHAYS. I have to say you take my breath away. I feel like you are digging into a hole that I am sorry you are going into because it sounds to me like some critics' concern about the State Department's double speak. It sounds to me like double-speak, and let me explain why.

The sanctions did not work, but we had this program to what, save face for the United States or whatever? We had a program that allowed Saddam to sell oil at a price below the market and get kickbacks and we had a program that allowed him to buy commodities above the price and get kickbacks. He had the capability to now take this illegal money in addition to the leakage that they

had. We are looking at the Oil-for-Food Program as a \$4.4 billion rip-off to the Iraqi people going to Saddam and then the \$5.7 billion of illegal oil being sold through Jordan and Syria and Turkey. But let us just focus on the \$4.4 billion. In addition within that Oil-for-Food Program, he had what was considered legitimate money that he could then pay for commodities and bought things that he was not what he was supposed to be purchasing.

You need to tell me how those sanctions worked if he could do that. I don't know how you can tell me that they worked when that happened.

Are you disputing that \$4.4 billion was basically ripped off and ended up in his hands?

Ambassador KENNEDY. No, sir, I am not.

Mr. SHAYS. Are you in agreement this is not the Oil-for-Food Program, but it was the sanctions, are you in disagreement that he did not filter about \$5.7 billion of oil sales illegally through the neighboring states?

Ambassador KENNEDY. Saddam Hussein engaged in oil smuggling which was not part of the Oil-for-Food Program. I think we all agree that Saddam Hussein was an evil man who attempted to manipulate any opportunity.

Mr. SHAYS. I don't want to go down whether he is evil or not. I want to go back over how you can defend these sanctions. Why did you go in that direction?

Ambassador KENNEDY. I think, Mr. Chairman, that the sanctions enabled Saddam Hussein to be deprived of weapons of war and dual-use items.

Mr. SHAYS. Is it your testimony and your comfort level that \$10.1 billion was not used to purchase weapons?

Ambassador KENNEDY. No, sir. I am saying that the sanctions regime assisted. I said in my testimony that it is not a perfect system. He attempted to purchase materials under the sanctions through the U.N. Oil-for-Food process. We put holds on those. We stopped his purchasing of materials overtly, such as dual-use items. He attempted to purchase for example dump trucks and heavy equipment transporters. Dump trucks are easily convertible into rocket launchers because of the hydraulic mechanisms on the back. And a heavy equipment transporter that can move a bulldozer or a crane is the same piece of equipment, essentially, that you use to move tanks.

Mr. SHAYS. Is it your testimony that you know what he bought? Are you comfortable with the documents that came from Saybolt and Cotecna? Are you testifying that when they testify and basically come before us and say that he was not abiding by the sanctions, bought material he should not have, are you saying that he bought material that he should have? You can't be saying that.

Ambassador KENNEDY. No, sir. What I am saying is the contracts that ran through the Oil-for-Food Program ran through the 661 committee. When the United States, using the example of our own Nation, received those contract proposals, those contracts were vetted by any number of Washington agencies that were specialists in that regard. They vetted those contracts to make sure that none of the material included therein were weapons of war or potential dual-use items.

Mr. SHAYS. Is it your testimony that you in fact believe those documents?

Ambassador KENNEDY. I believe that the United States reviewed contracts and held on contracts that would have been given Saddam Hussein weapons of war and dual-use materials, yes.

Mr. SHAYS. I am not asking that. What I am asking is: So you stopped some transactions, but are you testifying as a representative of the United States that this system, which this subcommittee certainly believes is a paper tiger, was not a paper tiger. Do you believe that Cotecna and Saybolt had the power to properly monitor?

I want to say it again. Representing the United States of America, you come before this committee under oath, are you telling us that this system worked and that both companies were able to verify and properly manage this program? That is the question I am asking you. I want you to think long and hard before you answer it.

Ambassador KENNEDY. I think, Mr. Chairman, that you are conducting an investigation, an investigation we welcome. If Saddam Hussein was moving materials into Iraq outside of those which were contracted for under the Oil-for-Food Program, he and someone else were engaged in smuggling sanctions.

Mr. SHAYS. That is a no-brainer statement, but it is not answering my question. I want you to answer my question. I want you to think a second and answer the question.

Is it your testimony representing the State Department, and representing the administration, that this program, that the way this program was set up, that these two companies were able to properly enforce the sanctions? That is the question. Were they given the power necessary? Were you given the cooperation necessary with the other members of the Security Council, the 661 committee?

Ambassador KENNEDY. Absolutely not. Absolutely not.

Mr. SHAYS. Let us work with that. You are digging yourself out of a hole right now. The bottom line is they were not, correct?

Ambassador KENNEDY. That is correct.

Mr. SHAYS. Tell me in your words what was the problem with the program?

Ambassador KENNEDY. The problem was in the negotiating process that takes place in the international arena all of the time, the ultimate resolution passed by the Security Council, which was a process of negotiation, did not authorize either Cotecna or Saybolt or X or Y or Z, or anyone, to become all encompassing sanctioned enforcement agents.

Mr. SHAYS. That is the extreme they did not do. Tell me the minimum that they did? What power did these companies have?

Ambassador KENNEDY. They were empowered under the resolution to validate goods that were being shipped into Iraq that were declared to be part of the Oil-for-Food Program.

Mr. SHAYS. You are familiar with this program?

Ambassador KENNEDY. Yes, sir.

Mr. SHAYS. Were they able to do that? This is an investigation to know, and I want to know if my own government that is supposed to be overseeing this, that I frankly thought had problems

with this program, I want to know if they were properly able to oversee this program? It is a simple and very clear answer. I want to make sure under oath you are stating it clearly, not something you want me to believe, but I want to know the truth and the committee wants to know the truth. I want to have some confidence that my government that was overseeing it knew what the heck was going on.

Were they able to properly oversee this program?

It is a simple answer.

Ambassador KENNEDY. Because of the efforts of Saddam Hussein, in that sense, no, sir, they were not.

Mr. SHAYS. In any sense they were not able to. The reasons why we will explore later. But were they able to properly oversee this program? You do know they are testifying afterwards?

Ambassador KENNEDY. Yes, sir.

Mr. SHAYS. And you are aware of the complaints they had, I hope?

Ambassador KENNEDY. Yes, sir.

Mr. SHAYS. Even before this hearing, correct?

Ambassador KENNEDY. Absolutely.

Mr. SHAYS. Were they properly able to fulfill their responsibilities and oversee this program?

Ambassador KENNEDY. Up to a point yes; and beyond that, no.

Mr. SHAYS. You are going to have to tell me yes, up to what point and after what no. You tell me up to what point were they able to?

Ambassador KENNEDY. They were empowered by the resolution of the Security Council to authenticate materials that were arriving. They authenticated those materials.

Mr. SHAYS. Wait a second. Are you saying that they authenticated these materials? Are you saying they had a theoretical power to do it or are you saying they actually were able to do it? There is a difference.

Ambassador KENNEDY. It was their mission—

Mr. SHAYS. I want to know if they were able to.

Ambassador KENNEDY. I was not at every border station, sir. They authenticated the materials and submitted documents to the United Nations saying they had authenticated material.

Mr. SHAYS. Isn't it a fact that they said they didn't always have the people? Isn't it a fact that they said sometimes they couldn't even look, that is, in terms of Saybolt, sometimes they could not even be there, and when they left, isn't it a fact that they had suspicious?

Ambassador KENNEDY. Absolutely. And we have testified to that effect.

Mr. SHAYS. That is what is frustrating me. And you are someone who was in Iraq, a friend, and someone I have awesome respect for. What concerns me is you are giving a party line that even you do not believe. I feel very awkward having this public dialog with you, but it is so logical it is almost frightening to me that we cannot at least have the truth and then work from that as to what. I don't want to know why they were not able to authenticate the fact that this happened. I want to know if they did. Then we will explore why they couldn't.

Ambassador KENNEDY. Mr. Chairman, I have tried to answer the question the best I can. And I appreciate the compliment you just paid me. I believe that Cotecna and Saybolt attempted to carry out the functions that they had.

Mr. SHAYS. We agree. They attempted to do that. On one level we are in agreement. The question is could they? The answer is a simple one.

Ambassador KENNEDY. Absolutely. The results were not perfect.

Mr. SHAYS. I did not say perfect. Perfect is too much discretion. Perfect may mean 99 percent, and I don't think it was even close to 50 percent. I don't think they had the power and I don't think anyone who has looked at this program believes they had the power, and I think they are going to testify they did not have the power. What concerns me is you were basically trying to give the impression they were not perfect but, and I think that is misleading to the committee. I think it does not do you credit.

I don't want you to say anything you do not believe. I just do not want you to speak in words that do not frankly help us. I want you to be more precise.

Were they able to make sure that oil sales were actually the oil sales they were and that commodities that were purchased were actually what was bought to the amounts that were bought, the quality and so on? Were they? Maybe you can look at that note and hopefully somebody else is telling you to say no.

Ambassador KENNEDY. It was the position of the United States and joined by the United Kingdom that we wanted a more robust inspection regime. We wanted more robust inspections. Obviously, I think I am trying to answer your point. I am saying yes, there were restraints inherent in the program that prevented Cotecna and Saybolt, and Lloyds before that.

Mr. SHAYS. The problem with the word "robust" is like your word "perfect." It was not robust, so to say that you wanted it to be more is almost meaningless in my judgment as I have looked at this. This was a program that was basically not working. I want you to start us off explaining why it was not working. You have given a justification as to why we basically allowed for this program to go forward even though it was not working. So you have given a lot of people cover, but you have not helped us understand whether you, the government, the State Department, this administration, felt this program worked. You are trying to give us the impression that it was working, but not perfect; that it was robust, but it could be more robust. That to me is misleading. That is what I am wrestling with, and I am trying to understand why. Why do you want me to have this impression?

Ambassador KENNEDY. Mr. Chairman, I grant you, and I am looking for another word other than "perfect."

Mr. SHAYS. Have you been instructed to say that this program worked when it did not work?

Ambassador KENNEDY. No, sir.

Mr. SHAYS. Was there any meeting did you had before that said under no circumstances are you supposed to agree that the program did not work?

Ambassador KENNEDY. No, sir.

Mr. SHAYS. Was the program working?

Ambassador KENNEDY. The program accomplished some of its goals, as I have said.

Mr. SHAYS. What were the goals?

Ambassador KENNEDY. The goals of the Oil-for-Food Program were to relieve the humanitarian crisis of the Iraqi people and retain a sanctions regime on Saddam Hussein that would assist in restricting his desire to rearm. He had other means of attempting to rearm, as you rightly pointed out, sir. He attempted and he did utilize those means, but the program did deliver food and medicine and other supplies and equipment to the Iraqi people.

Mr. SHAYS. That part we concede. I'm going to concede that part. Because we knew that Iraqis were starving and we knew they weren't getting medicine and we knew that Saddam Hussein was willing to starve and kill his people and deprive them of medicine, we decided to cave in and accept a program that simply on the face looked like we hadn't caved in, looked like there were sanctions, but in fact it was about as leaky as it could get. And I wanted to understand if you understood that it was very leaky. Instead you used words, I wanted it to be more robust and I want it to be perfect.

But it wasn't perfect and it wasn't more robust. The bottom line was almost every transaction, it appears, may have been a rip-off, may have been a transaction that compromised the United Nations, compromised other people, and allowed Saddam Hussein to make money illegally without the world community having to agree that he was. That's the way I look at it. Tell me what's wrong with my picture.

Ambassador KENNEDY. Your picture is absolutely correct. Saddam Hussein—you mentioned earlier, sir, in our discussion that you take Saddam Hussein. He was sanction-busting from 1991 until the Oil-for-Food Program started in 1995—1996. He was sanction-busting. The Oil-for-Food Program was put into place. He attempted to get around the sanctions regime at every possible opportunity—

Mr. SHAYS. And the irony is—

Ambassador KENNEDY. He priced—

Mr. SHAYS. Go on.

Ambassador KENNEDY. He attempted to write contracts for oil where he priced the oil below the market rate and attempted to pocket that premium. We discovered that, and the United States and the U.K. raised that in the 661 committee, and then halted all price-setting under the old scheme until we achieved putting a new system into place which set the oil price retroactively after the sale; in other words, stopping him from getting a surcharge.

Having blocked him in that regard, he then moved to another aspect which was kickbacks after sales. We attempted to block that. So it was almost—and I hate to say this—a chess game. He attempted to maneuver and we attempted with certain allies, but not enough of them, to seize and block his activities.

And so I am agreeing that sanctions are leaky. The sanctions regime did not work as it was intended; i.e., to have 100 percent effectiveness.

Mr. SHAYS. No, don't say 100 percent, because I'm not even sure you had 50 percent. So don't say 100 percent. No, I mean, if the

truth comes out, whatever the truth is, it may embarrass the United States. It may embarrass someone else. It may embarrass Congress. But it will be the truth. And from the truth we can learn from it.

And my problem right now is what you are suggesting is that basically Saddam was willing to kill his people by not getting the food and not getting medicine and he wasn't willing to do an Oil-for-Food Program that we wanted, so ultimately we did a program that he wanted. He was able to buy or sell in euros. He was able to undersell his oil. He was able to overpay for commodities. He was able to get kickbacks. He was basically able to tell Cotecna and Saybolt basically they had no authority. He was basically able to ignore them. He was basically able to have more transactions than they could even handle so that they weren't even aware of some transactions. And he did this with the assistance of our allies.

And it's not a bad thing that Americans and the world community have to contend with this because it suggests that even before a decision to go into Iraq, it suggests frankly to me that we didn't have the support of our allies, that President Clinton didn't have the support of our allies, and that it was somewhat of a joke. And that when you had a President finally trying to say, you know, we've got to make this program work and we also have to look at a regime change if he doesn't cooperate, and we still don't have the assistance of our allies, it says to me, well, what's new? What's new about it?

Are you saying to us that the allies cooperated? No, your testimony was the reverse. Isn't it true that you said the allies did not cooperate and enable us to have a sanctions system that is working? Is that a fair statement?

Ambassador KENNEDY. I totally agree sir. As I testified, we sought a sanction regime and we were unable to get the sanction regime we wanted, yes, sir because of the lack of willingness on the part of other members of the Security Council and other nations to agree to that sanction regime.

Mr. SHAYS. OK. And so they didn't agree with it. And then we had a sanction that Saddam basically could live with; and isn't it true that on occasion, the United States protested some of the transactions?

Ambassador KENNEDY. We contested many of the transactions. We were holding at one point, as I mentioned, sir, \$5.4 billion worth of proposed transactions.

Mr. SHAYS. Well, but isn't it true that there were actually transactions that happened that you objected to?

Ambassador KENNEDY. No, sir the system operated on the consensus basis, and if any member of the 661 committee representing the member states of the Security Council, if any member objected to a transaction, that transaction was held—

Mr. SHAYS. OK. Why didn't you object to the fact that Saybolt and Cotecna did not have enough manpower and were not given the authority they needed to make sure that they were actually documenting the actual transactions? Why didn't the United States protest their inability to accurately document transactions?

Ambassador KENNEDY. For example, sir, when we learned that—using the Essex case, the oil tanker in which—it was topped off

after it had been loaded—we did raise that in the 661 committee. We insisted that additional personnel, additional technical matters, whatever, we demanded to the 661 committee.

Mr. SHAYS. And it didn't happen. And why didn't it happen?

Ambassador KENNEDY. Some of it happened, some of it didn't, because it was resisted by other members of the 661 committee.

Mr. SHAYS. Most of it didn't. Most of it did not happen. And it didn't happen because it just took one member to object, correct?

Ambassador KENNEDY. Correct.

Mr. SHAYS. OK. So you could theoretically prevent a transaction from happening that you knew about, but you couldn't make sure that Cotecna and Saybolt had the authority, the personnel, to make sure that they were properly running this program.

Ambassador KENNEDY. The mandate to the companies came from Security Council resolution and from the 661 committee.

Mr. SHAYS. Is that yes or a no?

Ambassador KENNEDY. The answer is that their mandate was governed by the consensus requirements. And, yes, a member state could hold on that consensus and that would have the effect that you outlined.

Mr. SHAYS. Why can't you say that the bottom line to it was that because member states would object if you wanted Saybolt or Cotecna to have more authority, more personnel and so on, because they objected to it, they didn't get it; and because they didn't get it, they couldn't do their job properly? Why is that so hard to say?

Ambassador KENNEDY. Phrased that way, sir, I have no—

Mr. SHAYS. Well, why don't you say it?

Ambassador KENNEDY. The mandate to Cotecna, to Saybolt, was governed from the original Security Council resolution and then implemented in the memorandum of understanding and in the 661 committee. Efforts to achieve our goals on sanctions were blocked by other member states.

Mr. SHAYS. That's not the same thing that I said, which you agreed with. What I wanted to know from you is whether you could say this. And if you can't, because you don't believe it, then tell me you don't believe it. But don't agree with my statement and then tell me something else in your answer.

What I said was because a member state could block the United States or Great Britain from wanting Saybolt or Cotecna to have enough authority and enough personnel to properly document transactions because member states could veto that—any one state, and did—that they did not have enough personnel and they did not and were not able to properly document transactions.

What you said to me was you agree with that statement, but you can't say it in your own words, and I just don't understand why it's hard for you to say it in your own words that way.

Ambassador KENNEDY. I guess, sir, because I think—the only distinction I am trying to draw, if I might, is that there were transactions outside the scope of the Oil-for-Food Program.

Mr. SHAYS. We have put those aside. We're just focused on the Oil-for-Food.

Ambassador KENNEDY. All right. Then, yes, Cotecna and Saybolt and their predecessor in one case did not always have the resources they needed to do their job, yes.

Mr. SHAYS. Or the authority?

Ambassador KENNEDY. Yes.

Mr. SHAYS. Yes, what?

Ambassador KENNEDY. Yes, they did not have the full authority to do their job because the mandate from the Security Council was not as broad as we wished it would have been.

Mr. SHAYS. Wished it would have been. As it should have been; correct?

Ambassador KENNEDY. Should have been, yes. It was our goal, as I said, to have a more robust sanctions regime. That's—

Mr. SHAYS. Don't say more robust. It was not robust at all. It was a paper tiger, it was a leaky sieve, it enabled Saddam to get \$4.4 billion. It was a joke. And you don't have to say it was a joke. I can say it was a joke. But you and I can certainly agree it wasn't robust. Was it a robust program?

Ambassador KENNEDY. No, sir, it was not a robust program.

Mr. SHAYS. OK. Was it close to being a robust program?

Ambassador KENNEDY. I think I'm—

Mr. SHAYS. Was it close to being a robust program?

Ambassador KENNEDY. No, it was not close to being a robust program.

Mr. SHAYS. OK. Well let's leave it right there.

Mr. Waxman.

Mr. WAXMAN. Mr. Chairman, earlier today at this hearing I moved for two subpoenas, and we held off any vote on them. As I understand it, you're willing to issue the first subpoena to the Federal Reserve Bank in New York to get the information that we have requested; and rather than issue a second subpoena, you've suggested that you and I write a letter to the Department of Defense requesting the information that we wanted and would have subpoenaed.

I want to thank you for your suggestion of resolving these subpoena questions in that way. I think it will be very helpful for us to issue the letter to Secretary Rumsfeld, insisting he comply with this request. And, of course, I take you at your word that the committee will followup aggressively if the Pentagon fails to provide the documents we have requested.

I think this is a reasonable way to proceed, and rather than have a vote on it, I would like to have this understanding memorialized at this point in the hearing so that we can go ahead with the one subpoena and issue a joint letter from the two of us in lieu of the second subpoena.

Mr. SHAYS. Thank you. I appreciate the gentleman's, one, effort and interest in this issue. I think he is correct in wanting to get these documents. I do totally agree that the Bank needs a subpoena, and I also want to say to you that we've asked for 12 documents, records—more than 12—but we have made 12 specific requests that are quite extensive, and it is my expectation that the Secretary will provide these documents, and if he doesn't then we need to followup with the subpoena.

Mr. WAXMAN. Well, I thank you very much. I certainly agree with you, and I think it's a reasonable way for us to proceed, to have all of the information which our committee ought to have as we do the investigation and in all respects.

Mr. SHAYS. Thank you very much.

Mr. WAXMAN. Thank you.

Mr. SHAYS. Thank you. Thank you for being here.

Mr. SHAYS. Thank you. Mr. Murphy, you have the floor.

Mr. MURPHY. Thank you, Mr. Chairman. I just have a couple of questions here that I—and I apologize if some of these were covered while I was on the floor of the House.

But, Ambassador, I thank you for being here, and I wanted to know where do we stand with the status of gaining access to the United Nations Oil-for-Food Program documents for Congress now and—can you give me some background with where we stand right now?

Ambassador KENNEDY. The State Department has asked Chairman Volcker of the independent investigating committee for the release of the documents, and up to this point he has declined, saying that he is using the documents and he intends to conduct his investigation. And he has declined to release them, sir.

Mr. MURPHY. Those would just be documents, official U.N. documents; is that what you're saying?

Ambassador KENNEDY. Yes, sir.

Mr. MURPHY. Is anyone trying to pursue documents from any other country, too? Is there any attempt to do that?

Ambassador KENNEDY. Yes, sir. Before I left Baghdad in August, I had presented to the acting chair of the Board of Supreme Audit a proposed memorandum of understanding between the United States and Iraq to release for use of government of Iraqi documents. And I understand that work is continuing and we hope to have a resolution to that request in the very near future. I checked with Baghdad just the other day and I am expecting those—

Mr. MURPHY. So those documents are being scanned now.

Ambassador KENNEDY. We are attempting to make an arrangement between various parties to scan those documents.

Mr. MURPHY. Now, how about the reverse? We have access to the Iraqi documents. Those will be released soon.

Ambassador KENNEDY. The request has been made, sir, yes.

Mr. MURPHY. The request has been made. How about the reverse? Is there any attempts to obtain documents from some of these other countries that are part of this scandal: Russia, France, China, Syria?

Ambassador KENNEDY. I believe that the request to other nations for their documents is within the jurisdiction of the independent investigating commission, Mr. Volcker's commission.

Mr. MURPHY. Are those nations cooperating?

Ambassador KENNEDY. That is a question that would have to be posed to the independent investigating commission, sir.

Mr. MURPHY. Let me ask about another area here. When it became apparent—and it was some years ago—that the issue, the question of some corruption in this Oil-for-Food scandal began to take some legs on it, what was the responsibility of the U.N. Office of Iraqi Programs to maintain the integrity of this program, and did they act within the scope of their responsibility at that time?

Ambassador KENNEDY. That is a question, sir, that is actually part of the investigation that is going on now by the Independent Investigations Commission. We are aware of information that did

come to the attention of the United States, including some from the Office of Iraqi Programs; which then as a member state, as a member of the 661 committee, the United States, the United Kingdom, did follow up on.

If there is other information that came into their possession that they should have followed up on that we are unaware of, of course we are unaware of that information, and that is one of the charges that was given to Chairman Volcker and his colleagues on the Independent Investigations Commission, to find out if there was any malfeasance, misfeasance. And I am not a lawyer, so I may not be using the appropriate words on the part of U.N. employees, but that is one of the mandates of the IIC, to look and see if U.N. employees conducted themselves as appropriate—

Mr. MURPHY. But it appears that there is some lack of cooperation in releasing doubts that would help us know this.

Ambassador KENNEDY. Chairman Volcker has indicated to me that his investigation is ongoing and he intends to get to the bottom of it and then file a full and complete report. I can only report, sir, what he has said to me.

Mr. MURPHY. Does he feel that he is getting cooperation from the member nations and from the U.N. itself, fully?

Ambassador KENNEDY. He has indicated he is getting full cooperation from the United Nations Secretariat. I have not posed the question about discussions with other nations.

Mr. MURPHY. Also in the historical time line of this, what was the year in which the concerns about corruption first began to surface?

Ambassador KENNEDY. First of all, corruption only within the Oil-for-Food Program itself, or issues about Saddam Hussein's sanctions-busting in general? I mean, the fact that he was engaged in oil smuggling came to our knowledge, you know, in 1991–1992. That's outside of the Oil-for-Food Program. And efforts were made then by the United States and others, and it led to the establishment of the multinational interdiction—maritime interdiction force, which were United States and other nations' naval assets deployed in the Shatt al Arab and the Gulf to seize that. We first, I think, became aware of his schemes related to oil, the premium on oil pricing, in July 2000, which is where he was—

Mr. MURPHY. Did the involvement of other countries and the Oil-for-Food corruption continue after July 2000? So even after the United States became aware, did it continue?

Ambassador KENNEDY. We began pushing for a system to bring this under control. It was resisted by other nations. We were challenged. We said, do you have hard evidence? Do you have—

Mr. MURPHY. Wait. Who was asking for the hard evidence?

Ambassador KENNEDY. Other nations.

Mr. MURPHY. Which nations were they?

Ambassador KENNEDY. I would have to go back and read the exact text again.

Mr. MURPHY. France.

Ambassador KENNEDY. France.

Mr. MURPHY. Germany.

Ambassador KENNEDY. France, Russia, and China would be the—

Mr. MURPHY. Syria.

Ambassador KENNEDY. Syria was on the committee at one point. I mean, over the course of the 13 years, there were many nations on the—and in 2000 when this first came to our attention—

Mr. MURPHY. So the very nations that are—

Ambassador KENNEDY. The nations changed every year.

Mr. MURPHY. I want to make sure I understand what you're saying. So the nations that the allegations are against now, at that time were saying you don't have any evidence on us?

Ambassador KENNEDY. Yes, sir. They were saying, do you have hard proof? And we said, we are getting these stories, its being reported in industry trade publications, it's being reported elsewhere. This must be addressed.

We pushed and we pushed and met a lot of resistance, and since we were meeting this resistance, if I might for a moment, sir, the program then was to set the oil price at the beginning of the month. And then what Saddam was playing off of was the volatility of the oil market where the price would move 10, 15, 20, 50 cents a barrel over the course of the month, and then he would sell at one price and sell to a favored supplier and say, I'm going to sell to you at the peg price of \$20.50, but now that the price for the rest of the month is \$20.75, you keep the nickel and you kick me back 20 cents. When we saw that this is what he was doing, and then we met the resistance from others to our activities, what the United States and the United Kingdom then did was to refuse to set an oil price at the beginning of the month. So there was no oil price. Oil sales went on, but there was no price.

We then agreed to an oil price at the end of the month that would then deprive Saddam Hussein of playing with the volatility of the market. And by setting a retroactive price, we believe that from the oil overseers—which were the professionals who had been engaged—that still he was potentially making something, but it might have been on the order of 3 to 5 cents a barrel as opposed to on the order of 25 to 50 cents a barrel simply because of the movements over the course of the month.

Mr. MURPHY. And what countries were involved with that after the United States has worked to deal with oil prices at the end of the month? What countries were still purchasing oil and giving him a kickback at that time?

Ambassador KENNEDY. We do not know which country. That is part of the investigation now. I do not have in front of me a confirmed list of what countries were engaged in that. I should say these were national—these were companies that were purchasing the oil and giving kickbacks, not nations themselves.

Mr. MURPHY. Well that's an important distinction. Was there any role or awareness, for example, of the French, the Russian, Chinese governments of these kickbacks going on?

Ambassador KENNEDY. We informed their members of the 661 committee.

Mr. MURPHY. So they were informed. Back in what year? Mid-nineties?

Ambassador KENNEDY. In 2000, sir, when it came to our attention. It was first raised, I believe, in the July 13, 2000 meeting of the 661 committee on oil price.

Mr. MURPHY. So that's the definite date by which we know that those member nations were notified. And I'm assuming that in the U.N. investigation we may find that those member nations knew something prior to that, but we don't know.

Ambassador KENNEDY. That would be speculation, sir, that I cannot comment on.

Mr. MURPHY. But they were notified at least in the year 2000, and yet the Oil-for-Food purchasing continued on after this. It didn't end in 2000. It continued on; am I correct?

Ambassador KENNEDY. We believe that because of the steps we took to put this retroactive pricing, that we drove the premium or surcharge down from, you know, multiple cents a barrel to 2 or 3 cents a barrel. But I cannot say that we ended it entirely, because Saddam Hussein was always looking for some way to get around the sanctions.

Mr. MURPHY. Mr. Chairman, I'm not sure. Could I have 2 more minutes or 1 more minute?

Let me shift to a different line of questioning here. The total amount of money that I understand Saddam Hussein received from this Oil-for-Food corruption was of the nature of \$10 billion, am I correct, \$10.1 billion? In the whole package of things here.

Ambassador KENNEDY. He achieved much more than that if you count in the oil smuggling that took place outside the scope of the Oil-for-Food Program, and it is very difficult to get an exact estimate. But I'm in no position to challenge the figure that we are talking about that was provided by the Government Accountability Office. I have every reason to believe that figure is probably in the ball park.

Mr. MURPHY. So it's probably in the ball park. It may be more.

Ambassador KENNEDY. Could be a little more, a little less. Yes, sir.

Mr. MURPHY. OK. And what did he do with the money?

Ambassador KENNEDY. He did a wide variety of things, I'm sure. Some of the sumptuous palaces that are extant in Baghdad at this time are undoubtedly built with that money. And he may well have done other things, but I don't have direct and confirmed information about that.

Mr. MURPHY. Will we have information from these investigations with regard to what he spent that money on? For example, did he purchase weapons on a black market or directly with that money?

Ambassador KENNEDY. I do not believe that is going to be the subject of the Volcker or the IIC investigation. That may come out through other U.S. Government channels, sir.

Mr. MURPHY. As we connect the dots, the thing that worries me intensely on this is not only the oppression Saddam Hussein kept his people under, the tortures and the murders, the killing fields which continued on at that time, but also it kept his regime going, much of it in sumptuous palaces which I have seen in Iraq. But the third, it kept his military going.

And I would hope that somebody would find in this—I'm sure, Mr. Chairman, this is some of your concerns as well—that if one penny of that was used to buy any bullets or bombs or grenade launchers or anything else, I suspect on the black market, because he's not permitted to purchase them overtly—and this is where we

have to also connect the dots to find if those companies within those member nations of the U.N. have blood on their hands against our soldiers.

And I would hope that is part of what this investigation brings out; that those nations who acted holier than thou in saying, you don't have any evidence, you don't know anything about what's going on, but also saying stay away from Iraq, they're nice people, leave them alone, could very well be—and this is the crux of what we have to find out from this investigation—if they were sending the money to Saddam Hussein which he used to arm his soldiers against the world.

Ambassador KENNEDY. I agree. That is something that is absolutely abhorrent; absolutely, sir.

Mr. MURPHY. And I hope the world is paying attention to that, because all this time that people are looking at let's ask the United Nations, they're not an altruistic system. Let's ask other member nations to come out and somehow decide what is best for the United States. The fact is no Ambassador from another country is given a mission of deciding what's best for the United States. They're all supposed to represent their own nation. And I hope that people pay attention to this; that when you have this sort of absolute power to spend and to find that kind of money, that nations and the businesses that operate within them are not pure. And we may like to think about perhaps these other nations may have some pure motives, but quite frankly, there's too much in the negative column to suggest otherwise.

And I would hope that the investigation of this committee, led by the chairman and by the United Nations, would give us that answer. I wish we could get that answer soon. But as it is, I go back to my opening statement, too, that it concerns me deeply that these nations which have been very quick to ask us for help when they needed it, when we ask them for help—if they knowingly participated, if it was active or passive participation in sending money to this murderer Saddam Hussein, which he then used to keep his military regime in power, which was then used against our own soldiers and citizens is disgusting.

Thank you, Mr. Chairman.

Mr. SHAYS. I'll allow counsel to ask a few questions, and then I'll have a few more, Ambassador, and then we'll be all set.

Mr. HALLORAN. Thank you, Mr. Chairman.

Ambassador Kennedy, two areas. First, much of the document, many of the documents the State Department has provided are marked sensitive or classified because of their foreign origin, I believe. In particular, there has been recent media reference to a document produced by the Iraqi Oil Ministry soon after the Governing Council and the CPA was in place, characterizing in detail the Oil-for-Food Program and abuses. That report is marked sensitive and classified and not for distribution.

I'm wondering what the process is for the U.S. Government to request or accomplish the declassification and public release of such a report.

Ambassador KENNEDY. Let me find out those exact parameters and get back to the committee for the record.

Mr. HALLORAN. Thank you.

The other area I want to explore is this concept of sovereignty, and try to plumb the depths and the parameters of that concept. It struck me in your testimony that it is not an absolute, that I— if you could describe other situations in which sovereignty has been described or observed differently in other U.N. regimes; that it's struck us in the documents that Saddam simply waited out those who had the most expansive view of sovereignty possible, but that other formulations of this problem were possible within a plausible concept of sovereignty for a nation that was already under an oppressive sanctions regime, that had already been documented as trying to avoid that sanctions regime. So, in one sense, the sovereignty had already been severely mortgaged.

Could you describe those negotiations a little more, please?

Ambassador KENNEDY. I will first plead that I am not an international lawyer and I am not qualified to provide you with a textbook definition of sovereignty. What I believe we are talking about here is, I will call it a political definition of sovereignty. The United States, the United Kingdom, other allies, sought to put into place, and did in 1990 after the invasion of Kuwait, a complete embargo on the movement of goods and services into Iraq. And then it was later amended to permit certain donations of food and medicines.

But as we saw over the course of the years between 1991 and 1995, you know, the mortality rate; the ability of the Iraqis to get basic nutrition, was just simply collapsing because of Saddam Hussein's own unwillingness to treat his people in a humane sense. This built political pressure on those nations who were in favor of sanctions. And we did not wish to see that sanctions regime end, because of our goal of doing whatever possible to restrict the movement of materials of war to Saddam Hussein so he could re-arm.

So taking the political aspect of trying to keep the sanctions in place, but seeing the resistance, a series of negotiations took place within and among member states at the United Nations to formulate a new regime that eventually led to the Security Council resolution that established the Iraq program.

Did we want a program that had more teeth in it than that? Absolutely. Could we get other nations to agree to that fully and completely? Could we get Saddam Hussein to tell the other nations that he was willing to accept that? The answer was no. Why—

Mr. HALLORAN. So we can conclude there is another formulation of the Oil-for-Food arrangement that would give Saddam less control but still observe the concept of the sovereignty.

Ambassador KENNEDY. As I said in my testimony, yes, one could have had such another activity. However, in the negotiations that took place in the 661 committee and in the Security Council, we did not achieve that consensus on a regime with more teeth.

Mr. HALLORAN. Thank you.

Mr. SHAYS. Thank you, Ambassador. Let me ask you, how many months were you in Iraq?

Ambassador KENNEDY. I was in Iraq for 6 months in 2003 and then I went back again for another 3 months' assignment in 2004, sir.

Mr. SHAYS. Was that a classified assignment, then, or can you tell us, bottom line, what you were involved in?

Ambassador KENNEDY. No, sir. I can tell you. For the first 6 months in 2003, I was the chief of staff of the Coalition Provisional Authority, and then when I went back in 2004, I was the chief of staff of a small unit that was working on the transition from CPA to American Embassy and the transition logistically from the Iraqi Governing Council to the Iraqi Interim Government.

Mr. SHAYS. Well, we know those were not easy assignments, and we sincerely appreciate what you did during that time. I would like you to describe to me the Clovely incident, C-L-O-V-E-L-Y, the ship. Are you familiar with it?

Ambassador KENNEDY. No, sir. I am aware of the Essex incident that took place several years ago, but, Mr. Chairman, I will be glad to research that and provide you information for the record. I apologize. I am unaware of such.

Mr. SHAYS. You don't need to. If you don't know of the incident, I'd just as soon you not respond to it.

When I listened to your statement, and I really—you know, we don't usually allow someone to speak for more than 10 minutes. I wanted to hear your whole statement. I think why I get uneasy is certain things seem so simple to me, and then they are the hard things. And then I think you have a big dialog about the hard things.

The easy things are that it's clear Saddam starved his people and deprived them of medicine and would have continued to do that unless we had some way to allow him to get food and medicine for his people. And we basically decided to let him determine, really, how the program should function. He decided it was in euros, not dollars. He decided who could buy oil. He decided who he would buy commodities from. He basically set the price of oil. He set the price of commodities. He undersold his oil. No reason to do that. He overpaid for commodities. No reason to do it, unless he did what he did. And that was, he got kickbacks in both ways.

And it seems very evident to me that both Saybolt and Cotecna did not have the capability, either in personnel or authority, to prevent bad things from happening in this program. And so they happened routinely, not on occasion. It seemed to me we could have just had a quick dialog. What is of concern to me, is there anything that I just said that you would disagree with?

Ambassador KENNEDY. No, sir. If I do, is that one that neither Saybolt nor Cotecna set the price of oil or set the price of commodities.

Mr. SHAYS. No, they didn't.

Ambassador KENNEDY. No, sir.

Mr. SHAYS. So everything I said was pretty accurate from your standpoint.

Ambassador KENNEDY. Except, sir, that he proposed the price of oil.

Mr. SHAYS. He being—

Ambassador KENNEDY. Saddam Hussein. He proposed the price of oil, but the price of oil was then set by the 661 committee, not by Saddam Hussein. He—

Mr. SHAYS. And in some cases set it below market price.

Ambassador KENNEDY. When it was set at the beginning of the month, when the market moved, it ended up being below market

price, which is why the United States and the United Kingdom moved to set the price at the end of the month so that he could not take advantage of the natural market shifts. Yes, sir.

Mr. SHAYS. And so I'm getting to my point. What concerns me is that you basically have described to me the reality that our allies who didn't support the embargo were pretty much shaping it, and that was the reality of this program; and that it was more important to have the program happen, even though it wasn't working properly. In other words, having the program and not having it work properly was better than not having the program at all. I conclude from that, because you felt the only alternative was that we would continue to see Iraqis starve and they wouldn't get the medicine. And I guess that's the conclusion of the State Department.

Ambassador KENNEDY. I think, sir, if there had been massive starvation in Iraq, I think the belief at that time—and I was not there—was that the entire sanction regime totally would have collapsed, and then Saddam Hussein would have had no sanction regimes to have to deal with at all, and that free rein would have been not in the U.S. national interest.

Mr. SHAYS. OK. But the bottom line is as a result, we had Saddam able to make a fortune in kickbacks. That was basically the compromise. And it is a fact that the United States knew this was happening.

Ambassador KENNEDY. Every time, sir, that we saw him move to abuse the system—pricing oil, kickbacks—we moved to try to counter that in the 661 committee; and, as you have rightly noted earlier, sir, met resistance from other member states.

Mr. SHAYS. Who could veto.

Ambassador KENNEDY. Yes, sir. The way the Security Council procedures work, yes, sir.

Mr. SHAYS. Ambassador, are you set to ask questions? Would you like to ask some questions?

Ms. WATSON. Yes.

Mr. SHAYS. Thank you. We have two Ambassadors here.

Ms. WATSON. I am a bit confused—thank you, Mr. Chairman—because I just heard you say that every time you saw something appeared abusive, that there would be some response. However, we have been told how Saddam Hussein had taken the money intended for the people and food, and built magnificent palaces. It seems to me that this would be the time that some action should have been taken. Can you respond, please?

Ambassador KENNEDY. There is no doubt, Madam Ambassador, that Saddam Hussein received kickbacks. That is a fact. We moved to counter those kickbacks, but during this period of time while he was making kickbacks, and as I testified before this committee several months ago, what he did was on very large quantities of goods, and he—remember, he was feeding a nation of some 23 to 25 million people—he would attempt to get very small kickbacks on very large sums. But the sums mount up over that kind of volume. He was receiving those funds. Yet the medicines and the foodstuffs were still going in.

I am not defending what he was doing by any means. What he was doing is wrong. But the food and medicines were going in, and he was getting the kickbacks while we and our United Kingdom al-

lies moved to cutoff either his attempt to manipulate oil prices or attempt to add surcharges or attempt to add after-sales service contracts. And so we took steps to block him as soon as we discovered it. And as we have discussed earlier, we were not successful in blocking all his activities.

Ms. WATSON. And I know, Mr. Ambassador how difficult this is. I have been there, too. However, I think you're the only one that can help our understanding of what went wrong so wrong. And so I understand that the Oil-for-Food Program helped provide food for 27 million Iraqi residents. It prevented malnutrition. It reduced communicable diseases. It eradicated polio, and was a major success for a period of time. We're focusing on \$4.4 billion of a \$67 billion humanitarian success story.

So do you believe that this program met its objectives, and do you believe that we as the United States, and the monitors who were participating, were on the job? I need to know out in the field what it was that was lacking and how we lost so much of the fund to corruption. What was it that should have been done beyond what you've just described?

Ambassador KENNEDY. The Oil-for-Food Program had multiple objectives. One objective was to ensure that foods, medicine, and other essential human needs of the Iraqi people were met. And so to that extent, it met its objective by ensuring that the infant mortality rate and maternal mortality rate, which had gone up, went back down.

The nutrition was achieved by the Iraqi people. So yes, it met that objective. But in terms of being a sanctioned regime that stopped any attempt by Saddam Hussein to bust the sanction regime and keep him from cheating on the sanctions regime, busting it and then potentially using those funds to get other materials, it was not a total success. But—

Mr. SHAYS. Would the gentlelady suspend for a second?

Ms. WATSON. Certainly.

Mr. SHAYS. When you say "any attempt" and "it was not a total success" as it relates to that part of it, you seem to be going back and suggesting that the abuses were infrequent. Is it your testimony that the abuses were infrequent?

We've already conceded that people are going to get aid. They are going to get money and medicine. But on the other side of the equation, is it your testimony that it was just any attempt, we didn't succeed in any attempt? Where the abuse is more frequent, happened more than less? I want to know which way you see it.

Ambassador KENNEDY. The abuses, Mr. Chairman, were continuous. But they were, if I might, sir, they were different abuses each time. I mean, he abused it with oil smuggling outside of program. He abused it with kickbacks. He abused it with premiums on oil. He took different steps, so continuous abuse, different tools that he used each time to cause the abuses, sir.

Mr. SHAYS. Thank you. Thank you.

Ms. WATSON. If I might continue—and if you want to continue to respond to my last question, fine—but let me raise another issue. What other U.N. bilateral or multilateral mechanism besides the 661 committee could the United States have utilized to publicize and put an end to these practices? I'm concerned that too

much of the oil moneys were diverted in other directions, and those who suffered were the Iraqi people. With the Coalition, what could have been done to end this misuse?

Ambassador KENNEDY. With Saddam Hussein as the figure here, I don't know that anything would have stopped Saddam Hussein from attempting to get around any activities.

Ms. WATSON. Well let me just ask you this, then. What would have stopped the flow of funds into the program Oil-for-Food?

Ambassador KENNEDY. The only thing that would have stopped it would have been if you had had a different sanctions regime. But the sanction regime that was put into place was the one that was the result of long, extensive, and arduous negotiations with other member states to achieve that sanctions regime. If you had had a regime in which, again, hypothetically a company had pumped all the oil, sold all the oil, and bought all the goods and sent them in, then there might not have been any leakage as you described. However, there was not the political will on the part of nations to impose that kind of a sanctions regime.

Ms. WATSON. What of our political will here? Did we make a strong enough effort, Security Council in the United Nations, to bring their attention and get a focus on possibly changing the kind of structure that we had? What was being done from within?

Ambassador KENNEDY. I only arrived at the U.S. mission to the United Nations in the fall of 2001. But my preparation for this, my reading of the very extensive record, indicate that the U.S. Government made extensive efforts to get the most teeth into sanctions that it could, and met resistance from other member states who are unwilling to accept that.

Ms. WATSON. I understand how difficult it is when you're coming in and programs like this have been running. That is the reason why we were concerned on this committee with our oversight, and we wanted to see what records, what documents, documentation, what facts there are held by other departments and branches. I understand that there were 60 staffers and five different U.S. agencies who reviewed each of the Oil-for-Food contracts. If we had that information, then my questions might be answered.

And I want to thank you for your service, and I want to thank you for coming here and being on the hot seat. But I think there should be some others that are on the hot seat so we can find where we went wrong, where it went wrong.

We know that Saddam Hussein was wrong. But that doesn't excuse this whole thing. And so we would just like to get to the bottom of it. I appreciate your service and I thank you so much for trying to explain what happened before your duties started. But we are trying to seek truth.

Thank you, Mr. Chairman.

Mr. SHAYS. Thank you.

Just very briefly, Ambassador, do you feel this story should come out?

Ambassador KENNEDY. Absolutely.

Mr. SHAYS. Do you feel this story should come out, even if it embarrasses our allies?

Ambassador KENNEDY. Absolutely.

Mr. SHAYS. Do you believe it should come out, even if it embarrasses some allies and makes it more difficult to get their cooperation in Iraq?

Ambassador KENNEDY. Absolutely.

Mr. SHAYS. Thank you. Thank you very much.

We are going to go to our next panel. Thank you.

Our next panel, our last panel, and many hours later, David Smith, director, Corporate Banking Operations, BNP Paribas; Peter W.G. Boks, managing director, Saybolt International B.V.; and Andre Pruniaux, senior vice president, Africa and Middle East, Cotecna Inspection SA.

If you would all stay standing, we will swear you in. If there is someone else who might respond to a question, I would like them to be able to be sworn in as well.

So we have David Smith, Peter Boks, and Andre Pruniaux. Thank you. And we swear in all our witnesses. If you'd raise your right hands, please.

[Witnesses sworn.]

Mr. SHAYS. Note for the record, our witnesses have responded in the affirmative. Gentlemen, thank you so much for your patience. And also, thank you for your cooperation. You all have been very cooperative. You all have tried to be consistent with your obligations that enable us to do our job as well, and we thank you for that.

David Smith, we are going to have you go first. I'll just go down and you'll need to bring that mic closer to you. Please bring it down a little further. And the lights on means your mic is on. Do you want to just tap it just to see? Thank you.

So what we'll do is, you have the floor for 5 minutes, and then we roll it over for another 5 minutes. After 10, I'd ask you to stop.

Mr. SMITH. Thank you Mr. Chairman.

Mr. SHAYS. Thank you.

STATEMENTS OF DAVID L. SMITH, DIRECTOR, CORPORATE BANKING OPERATIONS, BNP PARIBAS; PETER W.G. BOKS, MANAGING DIRECTOR, SAYBOLT INTERNATIONAL B.V; AND ANDRE E. PRUNIAUX, SENIOR VICE PRESIDENT, AFRICA AND MIDDLE EAST, COTECNA INSPECTION S.A

Mr. SMITH. Chairman Shays, members of the committee, I request that my written statement be submitted for the record.

Mr. SHAYS. And it will, without objection.

Mr. SMITH. Thank you. Before responding to any particular inquiries members of this committee may have, I would like to make a brief statement which summarizes the key points of my written statement to the committee.

My name is David Smith. Since September 2001, I have been employed by BNP Paribas, North America, where I serve as director of Corporate Banking Operations. In that capacity I have been responsible for overseeing the Bank's letter-of-credit processing operations, including those operations as they pertain to the Bank's agreement to provide banking services to the United Nations for the U.N. Oil-for-Food Program.

First, as to the selection of BNP, according to a report of the General Secretary dated November 25, 1996, the selection process

for the holder of the U.N. Iraq account began with the preparation of, "a working list of major banks in all parts of the world with the necessary credit quality ratings, strong capital positions, and capabilities to provide the services necessary for the account."

The report indicates that a short list of those banks, including BNP, were asked in June 1996 to submit written proposals to the U.N. for the provision of the required banking services. The U.N.'s request for proposals sought certain pricing information from each bank and inquired into each bank's capabilities to handle the business of the program's size.

The Bank understands that four major international banks submitted formal offers in response to the RFP. The General Secretary reported in 1996 that, "After careful consideration of the proposals received," BNP was selected on June 18, 1996 to be the holder of the U.N. Iraq account. Accordingly, a banking services agreement was executed by BNP and the United Nations after several weeks of negotiations.

The Bank believes that several factors resulted in BNP's selection by the United Nations, including the following: one, its large international presence; two, its significant position in the commodities trade finance business; three, its high credit rating; four, its strong capital position; five, its willingness to assume the credit risk of other banks by confirming the oil letters of credit to be issued for the benefit of the program; six, its competitive pricing; and seven, its substantial trade finance support operation, located in New York City, where the U.N. is headquartered.

Second, as to the services the Bank has provided to the United Nations, the role of the Bank under the banking services agreement has consisted of delivering nondiscretionary banking services to its customer, the United Nations. These services have related to both the oil and the humanitarian sides of the program. Generally on the oil side of the program, those services have involved the confirmation of letters of credit issued on behalf of U.N.-approved purchases of Iraq oil. Those letters of credit were issued by various banks for the benefit of the U.N. Iraq account.

When a bank confirms a letter of credit, it takes upon itself the obligation to pay the beneficiary, here the U.N. The Bank's confirmation of the oil letters of credit was done at the request of the U.N. It was performed in accordance with standard banking practices, letters of credit practices, with several additional controls imposed by the United Nations, as described in my written statement.

On the humanitarian side of the program, the Bank's services have involved the issuance of letters of credit at the direction of the U.N. for the benefit of U.N.-approved suppliers of goods to Iraq. Those letters of credit provided the necessary assurance to suppliers that they would receive payment for their goods once they had been delivered to Iraq in accordance with their contractual obligations.

The processing by the Bank was performed in accordance with standard letter-of-credit practice, with a number of additional controls, again as detailed in my written statement.

Significantly, the Bank has had no discretion over how money has been spent or invested under the program. The Bank did not

select the buyers of the oil, sellers of the goods, or the goods to be supplied.

Third, as to the Bank's legal and ethical obligations, the Bank's provision of services pursuant to the banking services agreement was licensed by the U.S. Department of Treasury, Office of Foreign Asset Control [OFAC]. Moreover, all services provided by the Bank under the agreement were performed within a framework designed by the U.N. under the agreement, the United Nations, a universally known international organization of sovereign states, was the Bank's sole customer.

As I have stated, all aspects of the transaction under the program, including the purchases of oil and the supplies of goods, as well as the nature, amount, and pricing of goods involved, were approved by the U.N. All letters of credit confirmed or issued by the Bank under the banking services agreement were governed by the Uniform Customs and Practices for Documentary Credits, a set of detailed procedures for letters of credit published by the International Chamber of Commerce.

Program transactions were also subject to U.S. regulatory requirements, including in particular the screening of any program participants against lists of specially designated nationals published by OFAC. There also were, as described in my written statement, a number of additional controls imposed by the U.N. that were unique to the program.

Notably, an article in Saturday's New York Times purports to quote from a briefing paper provided to members of this committee that suggests that the Bank was remiss because it "never initiated a review of the program or the reputation of those involved."

Any such suggestion misunderstands the nature of the Bank's role under its banking services agreement with the U.N. Under that agreement, the U.N. was the Bank's sole customer. The Bank reasonably relied upon the sanctions committee of the Security Council for its review and approval of both purchases of oil and the suppliers of goods. The Bank provided specified nondiscretionary services to the U.N. under the banking services agreement, and it was not the Bank's place to substitute its judgment for that of the sanctions committee regarding who would be approved by the U.N. to participate in the program.

Fourth, as to the unique challenges of the program, from a banking perspective the program has represented an enormously challenging and unique undertaking involving the process of over 23,000 letters of credit and the disbursement of billions of dollars for investment purposes at the direction of the U.N. Those investments have generated in excess of \$2.7 billion for the benefit of the program.

With the exception of a temporary backlog in processing of humanitarian letters of credit in mid-2000, the Bank believes that it has done a good job in handling the highly demanding banking assignment under a program of unprecedented scope and magnitude.

Finally, as to the design of the program, the Bank believes that the use of letters of credit provided the correct banking framework for the program. Although outside the scope of our responsibilities it appears, with the benefit of hindsight, that the program might have been better structured in other respects to minimize the risk

of abuse. In this regard, a well-managed competitive bidding process, both for the purchase of oil and for the sale of goods, might have been substituted for what was essentially a sole-source procurement process. This would have eliminated the Government of Iraq in the selection of prospective counterparties for U.N. approved Oil-for-Food transactions, and would have provided greater transparency regarding program participants. It might also have reduced the possibility that the program might not always have received the most favorable pricing.

On behalf of BNP Paribas, I thank the committee for this opportunity to provide this statement. I would be happy to respond to any questions members of the committee may have.

Mr. SHAYS. Thank you, Mr. Smith.

[The prepared statement of Mr. Smith follows:]

**BEFORE THE SUBCOMMITTEE ON NATIONAL SECURITY,
EMERGING THREATS, AND INTERNATIONAL RELATIONS
OF THE HOUSE COMMITTEE ON GOVERNMENTAL REFORM**

**Statement by David Smith on Behalf of BNP Paribas Regarding
The Bank's Role In The UN Oil-For-Food Program**

My name is David Smith. Since September 2001, I have been employed by BNP Paribas North America, where I serve as the Director of Corporate Banking Operations. In that capacity, I have been responsible for overseeing the Bank's letter of credit processing operations, including those operations as they pertain to banking services provided by the Bank to the United Nations in respect of the UN's Oil-For-Food Program. This statement responds to questions posed by Chairman Shays in his letter to the Bank dated September 23, 2004.

1. How Was BNP Selected by the United Nations?

The following is my understanding of how BNP was selected by the UN to provide banking services for the Oil-For-Food Program. You may recall that Resolution 986 of the UN Security Council gave the Secretary-General of the UN the responsibility of establishing a bank account for the deposit of funds generated by the sale of oil by Iraq. Notably, all of those oil sales were subject to the prior approval of the so-called "661" or "Sanctions" Committee of the Security Council. The account also was to be used for the payment for the purchase of goods by Iraq, which likewise

were subject to the prior review and approval of the Sanctions Committee. Pursuant to the Resolution, the Secretary-General was to select an international bank and negotiate the terms of the account pursuant to the Memorandum of Understanding between the UN and the Government of Iraq.

According to a report of the Secretary-General dated November 25, 1996, the selection process for the holder of the UN Iraq account began with the preparation of a "working list of major banks in all parts of the world with the necessary credit quality ratings, strong capital positions, and the capabilities to provide the services necessary for the account." The Report indicates that a short-list of those banks, including BNP, were asked in June 1996 to submit written proposals to the UN for the provision of the required banking services. The UN's Request For Proposals ("RFP") sought certain pricing information from each bank, and inquired into each bank's capabilities to handle business of the Program's size. The Bank understands that four major international banks submitted formal offers in response to the RFP.

The Secretary-General reported in 1996 that, "after careful consideration of the proposals received," BNP was selected on June 18, 1996 to be the holder of the UN Iraq Account. The Bank believes that several factors resulted in BNP's selection by the UN, including the following: (i) its large international presence; (ii) its significant position in the commodities trade finance business; (iii) its high credit

rating; (iv) its strong capital position; (v) its willingness to assume the credit risk of other banks by confirming the oil letters of credit to be issued for the benefit of the Program; (vi) its competitive pricing; and (vii) its substantial trade finance support operation located in New York City, where the UN is headquartered. Accordingly, after several weeks of negotiations, an agreement to provide banking services for the Program was signed by the UN and BNP on September 12, 1996.

2. What Has Been the Role of the Bank?

The role of the Bank under the Banking Services Agreement has consisted of delivering non-discretionary banking services to its customer, the UN. Those services have related both to the oil and humanitarian sides of the Program.

Generally, on the oil side of the Program, those services have involved the confirmation of letters of credit issued by various banks on behalf of UN-approved purchasers of Iraqi oil. When a bank confirms a letter of credit, it takes upon itself the obligation to pay the beneficiary, here the UN Iraq Account. The Bank's confirmation of the oil letters of credit thus allowed the UN to rely solely upon the credit quality of the Bank for payment.

The oil letters of credit under the Program conformed with standard practices governing letters of credit, with the following additional controls imposed by the UN: (i) each contract between the Iraqi State Oil Marketing Organization, or "SOMO," and a buyer had to be approved by the UN; (ii) the price of the oil was

established by a process approved by the UN; and (iii) the loading of the oil was supervised by an independent company appointed by the UN to ensure that the correct volume and grade of oil was loaded. At the payment stage, all shipping documents were presented to the Bank by the UN.

On the humanitarian side of the Program, the Bank's services to the UN under the Banking Services Agreement have involved the issuance of letters of credit at the direction of the UN for the benefit of UN-approved suppliers of goods to Iraq. Those letters of credit provide the necessary assurance to suppliers that they will receive payment for their goods once they have been delivered to Iraq in accordance with their contractual obligations.

As previously noted, the contract approval process took place under the supervision of the UN Sanctions Committee, on which all members of the Security Council were represented. A request by the Central Bank of Iraq for the issuance of a letter of credit could be processed by the Bank only after the UN had given its approval. Generally, the goods then would be shipped by the exporter. Once the goods arrived in Iraq, they were inspected by the independent inspectors appointed by the UN. The payment for these goods then could be processed by the Bank if the following three conditions were satisfied: (i) the shipping documents provided to the Bank under the letter of credit complied with the requirements of the letter of credit; (ii) the UN had produced a certificate confirming the arrival of the

goods in proper order, based upon the independent inspector's report; and (iii) the UN had approved the specific payment after notification from the Bank that proper documentation had been presented to it. The second and third of these controls went beyond standard practices for the handling of letters of credit, and were additional safeguards developed and implemented by the UN for the protection of the Program.

Significantly, the Bank has had no discretion over how money has been spent or invested under the Program. The Bank has had no involvement in arranging the relationship between the oil buyers and SOMO. Similarly, the Bank did not approve the supplies being purchased, the list of suppliers, or the supply contracts themselves.

It is important to point out that the Bank is not the only institution that has held funds for the Program. Other banks have been involved in holding such funds from the outset of the Program. Although 100% of the proceeds from the sale of oil initially were credited to the UN Iraq Account at the Bank, only 59% of those proceeds remained in that Account. The balance of those proceeds immediately were transferred to a UN account at JP Morgan Chase pursuant to instructions from the UN: 13% of the funds to be used by the UN to provide relief to the Kurdish provinces in Northern Iraq; 25% to be used by the UN to provide compensation to victims of the first Gulf War; and 3% to be used by the UN for weapons inspection and to defray the costs of administering the Program.

In practice, the UN has directed the Bank's investment of every penny in the 59% account. On a daily basis, the UN has compared the Bank's rates for these investments against those of other banks, and has directed the investment of all funds, including those that are required to be held in cash-equivalent investments at the Bank in order to collateralize letters of credit that have been issued to suppliers of UN-approved goods. Although the Bank is not responsible under the Banking Services Agreement for the monitoring or auditing of funds transferred from the 59% account at UN direction to other institutions for investment purposes, the Bank understands that all interest earned on funds in the 59% account has been reinvested and has been available for the purchase of additional UN-approved supplies.

In short, BNP Paribas' role under the Banking Services Agreement has been to confirm oil letters of credit, ensuring that the UN Iraq Account receives all of the proceeds from the sale of Iraq oil; to credit the UN Iraq account with the proceeds from UN-approved oil sales; to transfer certain of those funds pursuant to UN instructions; to invest the balance pursuant to UN directives; and to issue, process and pay humanitarian letters of credit at the direction of the UN, all in accordance with traditional trade finance practice and the specified protections of the Program.

3. **What Legal, Ethical and Due Diligence Procedures Was the Bank Obligated to Follow?**

As a preliminary observation, the services provided to the UN by the Bank under the Banking Services Agreement were licensed by the United States

Department of Treasury Office for Foreign Asset Control, or "OFAC." Moreover, all services provided by the Bank under the Program were performed within a framework designed by the UN and formalized via the Banking Services Agreement. Under that Agreement, the UN – a universally known international organization of sovereign States – was the Bank's sole customer. All aspects of the transactions under the Program, including the purchasers of oil and the suppliers of goods, as well as the nature, amount and pricing of the goods involved, were subject to prior review and approval by the Sanctions Committee of the UN Security Council.

All letters of credit confirmed or issued by the Bank under the Program complied with the Uniform Customs and Practices for Documentary Credits, a set of detailed procedures for letters of credit published by the International Chamber of Commerce. Program transactions also were subject to U.S. regulatory requirements, including in particular the screening of any Program participant against lists of specially designated nationals published by OFAC. There also were, as described above, a number of additional controls unique to the Program that were designed to minimize potential abuse.

4. **What Particular Challenges Has the Bank Encountered, and How Have Those Challenges Been Met?**

From a banking perspective, the Program has represented an enormously challenging and unique undertaking. The Bank is not aware of any program of comparable scope or magnitude.

Since the Program's inception, the Bank has processed over 23,000 letters of credit. Many of the letters of credit for the sale of UN-approved goods, which in the aggregate have totaled approximately \$40 billion, have been subject to multiple amendments, and have involved the examination by the Bank of massive amounts of documentation to determine compliance with the terms of the letters of credit. The files with respect to these transactions comprise an estimated five million pages of documents.

The Bank also has handled the disbursement of billions of dollars for investment purposes at the direction of the UN. To date, the interest earnings on the investment of funds deposited into the UN Iraq Account have been in excess of \$2.7 billion.

The Bank believes that it has performed its obligations under the Banking Services Agreement in a professional and ethical manner. However, there have been occasions when the Program suffered backlogs in the processing of letters of credit, which created some dissatisfaction on the part of our customer, the UN, as well as on the part of various Program participants and the Iraqi Government. Specifically, there was a sudden, three-fold increase in the volume and complexity of transactions for the supply of UN-approved goods under the Program around the time of the merger of BNP and Paribas in mid-2000, for which the Bank was not fully prepared from a staffing standpoint. Following the merger, however, the Bank

substantially reorganized and increased its staffing of the Program, from 25 to 90 employees during one 12 month period, and significantly enhanced its electronic systems for the processing of letters of credit under the Program. As a result of the Bank's commitment of resources, the processing of letters of credit from the height of the Program through its current wind-down phase has been greatly enhanced.

5. **How Might the Oil-For-Food Program Been Better Designed?**

The Bank believes that the use of letters of credit provided the correct banking framework for the Program. Although outside the scope of our responsibilities, it appears with the benefit of hindsight that the Program could have been better structured in other respects to minimize the risk of abuse. Thus, a well-managed competitive bidding process, both for the purchase of oil and the sale of goods, might have been substituted for what was essentially a sole source procurement process. This would have eliminated the role of the Government of Iraq in the identification of prospective counterparties for UN-approved oil and goods transactions. It also might have reduced the possibility that the Program might not always have received the most favorable pricing.

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

Tuesday, October 5, 2004, 11:00 a.m.

**BNP Paribas
Documents**

AGREEMENT FOR BANKING SERVICES
PURSUANT TO SECURITY COUNCIL RESOLUTION 986 (1995)

AGREEMENT, dated as of 12 September, 1996 between THE UNITED NATIONS, an international intergovernmental organization having its Headquarters at New York, New York 10017 (hereinafter referred to as the "United Nations") and BANQUE NATIONALE DE PARIS S.A., a French banking corporation licensed by the State of New York, having offices at 499 Park Avenue, New York, New York 10022 (hereinafter referred to as the "Bank"). The United Nations and the Bank are hereinafter collectively referred to as the "Parties" and individually as a "Party".

WHEREAS, the Security Council of the United Nations, in its resolution 986 (1995) of 14 April 1995 (hereinafter referred to as "SCR 986"), authorized States, non/issuancing previous resolutions of the Security Council, to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, subject to the provisions of SCR 986;

WHEREAS, in SCR 986, the Security Council requested the Secretary-General to establish an account for the purposes of SCR 986, and further required that payment of the full amount of each purchase of Iraqi petroleum and petroleum products be made directly by the purchaser in the State concerned into such account;

WHEREAS, pursuant to SCR 986, proceeds of the sale of Iraqi petroleum and petroleum products shall be used to meet the humanitarian needs of the Iraqi population and for other purposes as specified in SCR 986 and shall not be diverted from the purposes laid down in that resolution;

WHEREAS, a Memorandum of Understanding on the Implementation of SCR 986 was entered into by the Secretariat of the United Nations and the Government of Iraq on 20 May 1996 (hereinafter referred to as the "Memorandum of Understanding");

WHEREAS, the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait (hereinafter referred to as the "661 Committee") has issued procedures to be employed by it in the discharge of its responsibilities under Article 12 of SCR 986 (hereinafter referred to as the "661 Committee Procedures");

WHEREAS, pursuant to SCR 985 and the Memorandum of Understanding, the United Nations wishes to enter into arrangements with the Bank for the establishment of the account, and for the performance of various banking services described in this Agreement (hereinafter collectively referred to as the "Services"), such Services to be performed in conformity with the provisions of this Agreement;

WHEREAS, the Bank is in the business of performing, and has offered to perform, such Services;

WHEREAS, it is absolutely essential to the United Nations that the account and the funds and assets therein, and all transactions, data and information relating thereto, be secure from misuse and from unauthorized access, use, tampering or intrusion and that the Services rendered in connection with such account, funds, assets and transactions be reliable and secure;

WHEREAS, the account shall enjoy the privileges and immunities of the United Nations;

NOW, THEREFORE, the United Nations and the Bank hereby mutually agree as follows:

PART I: TERMS OF GENERAL APPLICATION

1.1 **Applicability:** The terms and conditions set forth in this Part I shall apply to and govern this Agreement in its entirety. In the event and to the extent of any conflict between the terms and conditions set forth in this Part I and any other provisions of this Agreement, the terms and conditions of this Part I shall prevail.

1.2 **Agreement Documents:** This document, including all of its Annexes, which are incorporated herein by reference, constitutes the entire Agreement (herein referred to as the "Agreement" or "this Agreement") between the United Nations and the Bank for the provision of the Services.

The Annexes to this Agreement, which constitute an integral part of this Agreement, are the following:

- Annex 1: SCR 986
- Annex 2: Memorandum of Understanding
- Annex 3: 661 Committee Procedures
- Annex 4: Schedule of Authorized United Nations Officials
- Annex 5: Schedule of Fees
- Annex 6: Schedule of Interest Paid on Daily Balances
- Annex 7: BNP Teletransfer Product and Maintenance Provisions
- Annex 8: BNP Teletransfer Product and Maintenance Provisions.

The procedures and requirements set forth in SCR 986, the Memorandum of Understanding and the 661 Committee Procedures continue essential and fundamental terms and conditions of this Agreement.

1.3 United Nations Iraq Account and Services.

1.3.1 The Bank shall open the account provided for in SCR 986 on behalf of the United Nations for the receipt of funds and for the making of payments pursuant to SCR 986.

1.3.2 The account, including any sub-accounts required for purposes of investing funds in the account pursuant to Part 4 of this Agreement, shall be designated the "United Nations Iraq Account" and shall contain only funds paid therein pursuant to SCR 986, investments pursuant to Part 4 of this Agreement and interest income earned by such funds. Such funds and investments shall be regarded as specifically-identified assets held by the United Nations pursuant to SCR 986.

1.3.3 The Bank shall administer the United Nations Iraq Account and perform the Services in full conformity with the terms and conditions of this Agreement.

1.3.4 The United Nations Iraq Account shall be administered as provided in paragraph 7 of SCR 986 and paragraph 14 of the Memorandum of Understanding. The Bank shall co-operate fully in the performance of such audits, and provide all necessary documentation to the United Nations and its auditors.

1.3.5 The Bank shall have no power or authority to pay, transfer, assign, hypothecate, negotiate, pledge or otherwise dispose of or deliver any funds or other assets from time to time held by the Bank pursuant to this Agreement, in the United Nations Iraq Account or otherwise, to any person or entity, whether Governmental or otherwise, except in strict

accordance with the express terms and conditions of this Agreement. The Bank shall have no rights in or to the funds or assets held by it pursuant to this Agreement, whether in the United Nations Iraq Account or otherwise, except as expressly provided in this Agreement.

1.3.6 The proceeds of the sale of Iraq's petroleum and petroleum products shall not be diverted from the purposes laid down in SCR 986.

1.3.7 The United Nations represents and warrants that, as specified in, and in accordance with, SCR 986, the Memorandum of Understanding and the 661 Committee Procedures: (i) it has the right to and control of funds in the United Nations Iraq Account, and (ii) it has the authority to give binding instructions to the Bank with respect to said funds, the Services, the United Nations Iraq Account and the Letters of Credit provided for in this Agreement.

1.4 Transmittal and Deductions. Transactions with respect to, and deductions from, the United Nations Iraq Account shall be only those authorized by the Security Council in and pursuant to SCR 986, by and pursuant to the Memorandum of Understanding and by and pursuant to this Agreement. All such transactions and deductions shall be made solely from funds in the United Nations Iraq Account pursuant to SCR 986 and the Memorandum of Understanding, and in accordance with the provisions of this Agreement.

1.5 Authorized United Nations Officials. Annex 4 sets forth the names and respective areas of authority of those individuals authorized to act on behalf of the United Nations pursuant to this Agreement. The United Nations shall also provide the Bank with specimen signatures for all such individuals. Any such signature shall be effective only if in writing (except as otherwise provided in provisions of this Agreement relating to electronic funds transfers) and signed by the requisite number of the aforementioned Authorized United Nations Officials as specified in Annex 4, or any amendment thereof as hereinafter provided, having the requisite authority. The list of Authorized United Nations Officials may be amended from time to time by means of a written document signed and dated by as

sources, provided that they are not in or acting on behalf of the Government of Iraq, or representing persons or entities in Iraq; governmental regulatory authorities and examiners, other participants in payment systems used by the Bank in providing the Services, and other financial institutions and third parties supplying information necessary for the Bank to provide the Services. The Bank shall refrain from any action which is inconsistent with the terms and conditions of this Agreement, whether express or implied, or which it knows or has reason to know may adversely affect the United Nations, and shall fulfill its commitments with the highest regard for its undertakings in this Agreement.

1.9 **Bank's Responsibility for Employees.** The Bank shall be responsible for the professional and technical competence of its employees and will select, for work under this Agreement, reliable individuals who will perform effectively in the implementation of this Agreement, and conform to a high standard of moral and ethical conduct.

1.10 **Assignment.** Neither Party shall assign, transfer, pledge or make other disposition of this Agreement or any part thereof or of any of such Party's rights, claims or obligations under this Agreement.

1.11 **Sub-Contracting.** In the event the Bank requires the services of sub-contractors to provide any services relating to this Agreement, the Bank shall obtain the prior written approval of the United Nations for all sub-contractors, which approval shall not be unreasonably withheld or delayed. Reasonable grounds for the United Nations to withhold its approval shall include, *inter alia*, that the engagement of a particular sub-contractor would be inconsistent with the purposes of SCR 986. The approval of the United Nations of a sub-contractor shall not relieve the Bank of any of its obligations under this Agreement. The intent of any sub-contract shall be subject to and in conformity with the provisions of this Agreement.

Authorized United Nations Official designated in Annex 4 as having the authority to do so. Such amendments shall be effective upon receipt of such document by the Bank. As used in this Agreement, the term "Authorized United Nations Official" means a United Nations Official designated in Annex 4 of this Agreement or any amendment thereof in accordance with this Article 1.5. The authority of any Authorized United Nations Official shall be only as set forth in the list of Authorized United Nations Officials or an amendment thereof as heretofore provided, and subject to any limitations and restrictions on such authority as may be set forth therein. The Bank shall comply with the security procedures set forth in this Agreement.

1.6 **Reports and statements of account.** The Bank shall provide such reports and statements of account with respect to balances in the United Nations Iraq Account and outstanding Letters of Credit as the United Nations may reasonably request, including without limitation, daily accountings of debits and credits to, and balance of, the United Nations Iraq Account, and daily reports of outstanding Letters of Credit issued, confirmed or advanced in accordance with this Agreement. Full transaction details shall be included regarding any and all debits and credits mentioned in the daily transaction reports.

1.7 **Legal Status.** The Bank shall be considered as having the legal status of an independent contractor *vis-à-vis* the United Nations. Neither Party's personnel or sub-contractors shall be considered in any respect as being the employees or agents of the other Party.

1.8 **Source of Instructions.** Except as otherwise provided in this Agreement, the Bank shall neither seek nor accept instructions from any authority external to the United Nations in connection with the performance of the Services. Notwithstanding the foregoing, it is understood and agreed that, except as otherwise provided in this Agreement, where necessary to carry out the operations involved in the performance of the Services, the Bank may from time to time act in accordance with procedures or accept information from the following

1.12 **Officials Not To Benefit.** The Bank warrants that no official of the United Nations has received or will be offered by the Bank any direct or indirect personal benefits arising from this Agreement or the award thereof. The Bank agrees that breach of this provision is a breach of an essential term of this Agreement.

1.13 **Indemnification: liability for loss of funds, etc.**

1.13.1 The Bank shall indemnify, hold and save harmless and defend, at its own expense, the United Nations, its officials, agents, servants and employees, from and against, and pay or reimburse each of the foregoing for, all suits, claims, proceedings, demands and liability of any nature or kind, including their costs and expenses, arising out of any breach of or failure to perform this Agreement or any negligence or willful misconduct of the Bank or its employees, agents, servants or sub-contractors in the performance of this Agreement. This provision shall also extend, *inter alia*, to claims and liability in the nature of worker's compensation and product liability.

1.13.2 In addition to and without limiting the foregoing, the Bank shall be liable for loss of or damage to funds or other property or assets held by it in connection with the performance of this Agreement, however caused by any breach of or failure to perform this Agreement or any negligence or willful misconduct of the Bank, its employees, agents, servants or sub-contractors, including but not limited to theft, misappropriation, fraud or misfeasance.

1.13.3 In the event of any claim by a third party against the Bank, its officials, agents, servants and employees, arising out of any breach of or failure to perform this Agreement or any negligence or willful misconduct of the United Nations or its employees, agents, servants or sub-contractors in the performance of this Agreement, the United Nations shall reimburse the Bank, exclusively from funds in the United Nations Iraq Account, for the Bank's reasonable costs in defending such claim. Such reimbursement shall include reasonable

attorneys fees provided that the Bank shall have obtained the prior consent of the United Nations for engaging the attorneys in question, such consent not to be unreasonably withheld. The United Nations shall have the right, at its sole option, to be represented in any action or proceeding by independent counsel of the United Nations' own choice, provided that the exercise of such right shall not affect the obligations of the Bank pursuant to this Article 1.13. The reasonable cost of such representation of the United Nations shall be covered from the United Nations Iraq Account.

1.13.4 The provisions of this Article 1.13 shall not lapse upon expiration or termination of this Agreement.

1.14 **Intellectual Property Indemnification.**

1.14.1 The Bank shall indemnify, hold and save harmless and defend, at its own expense, the United Nations, its officials, agents, servants and employees from and against, and pay or reimburse each of the foregoing for, all suits, claims, proceedings, demands and liability of whatever nature and kind, whether or not resulting from third party claims, including their costs and expenses, with respect to, based on, arising from or relating to allegations that the United Nations' use of any equipment, services, documentation or software provided or supplied by the Bank under this Agreement, separately or in combination with each other, whole or in part, constitutes an infringement of any patent, copyright or other intellectual property right, or misuse of any proprietary or trade secret information. Without limiting the generality of any of the foregoing, the Bank agrees to pay all litigation costs, attorneys fees, settlement payments and damages awarded or resulting from such suits, claims, proceedings, demands and liability.

1.14.2 The United Nations will promptly advise the Bank in writing of any such suit, claim, proceeding, demand or liability and will reasonably cooperate with the Bank, at the Bank's expense, in the defense or settlement thereof subject to the privileges and immunities

identify, segregate and hold funds as cash collateral in the United Nations Iraq Account as provided in Article 2.3.6, 2.3.7 and 2.3.8.

1.16.3 (a) The Bank shall take all reasonable steps to prevent the placement of any lien, attachment or other encumbrance on the United Nations Iraq Account or the funds therein, and to obtain the immediate removal of any such lien, attachment or encumbrance that has been placed thereon. The United Nations shall assist in such ways as it considers appropriate in preventing the placement or obtaining the removal of any such lien, attachment or other encumbrance, including assistance in upholding the privileges and immunities of the United Nations Iraq Account.

(b) Unless the lien, attachment or other encumbrance relates to any claim or demand arising from any act, omission or circumstances that would constitute a breach of or failure to perform this Agreement or any negligence or willful misconduct of the Bank, its employees, agents, servants or sub-contractors, or any claim or demand unrelated to this Agreement or the performance thereof, the Bank shall be entitled to reimbursement for its reasonable costs in preventing or obtaining the removal of such lien, attachment or encumbrance. Such reimbursement shall be payable by the United Nations exclusively from funds in the United Nations Iraq Account and shall include reasonable attorneys fees, provided that the Bank shall have obtained the prior consent of the United Nations for engaging the attorneys in question, such consent not to be unreasonably withheld. In addition, in the event that, due to the existence of such lien or attachment on the United Nations Iraq Account, the Bank is prevented from obtaining reimbursement for its payment of an LOC issued by it pursuant to Article 2.3 of this Agreement, the Bank shall be paid interest compensation, for the period of time that the Bank has been so prevented from being reimbursed due to such lien or attachment, provided that such interest compensation shall not exceed the amount of interest that the United Nations is entitled to earn, pursuant to Annex 6

hereto, on funds in the United Nations Iraq Account in the amount that the Bank has been so prevented from being reimbursed.

1.17 Use of Name, Emblem or Official Seal of the United Nations.

The Bank shall not advertise or, except as provided in Article 1.18 hereof, otherwise make public the fact that it is a contractor with the United Nations, nor shall the Bank, in any manner whatsoever, use the name, emblem or official seal of the United Nations, or any abbreviation of the name of the United Nations in connection with its business or otherwise.

1.18 Confidentiality and Non-disclosure.

1.18.1 Except as otherwise provided in this Article 1.18 or elsewhere in this Agreement, the Bank shall hold and keep in confidence all messages and other data and information received by it under this Agreement, or relating to any transaction involving the Bank or the United Nations Iraq Account or to funds or other assets held by the Bank pursuant to this Agreement, or relating to any of the Services performed by the Bank under this Agreement. Such messages, data and information will remain the property of the United Nations and, upon expiration or termination of this Agreement, will upon request be returned to the United Nations by the Bank; however, the Bank may retain copies thereof for its own records. The above-mentioned messages, data and information will not be used by the Bank for any purpose other than that of rendering the Services under this Agreement, nor will it or any part thereof be disclosed to third parties, by the Bank, its employees, servants, agents or sub-contractors, except as otherwise provided in this Article 1.18.

1.18.2 The Bank may not communicate at any time to any other person, entity, Government or authority external to the United Nations any information relating to this Agreement or the performance thereof known to it by reason of its association with the

United Nations which has not been made public except with the prior authorization of the United Nations; nor shall the Bank at any time use such information to private advantage. Notwithstanding the foregoing, where and to the extent necessary to carry out the operations involved in the performance of the Services, the Bank may from time to time communicate such information to the following entities or persons: relevant governmental regulatory authorities (subject to Article 1.18.4), other participants in payment systems used by the Bank in providing the Services, and other financial institutions and third parties as necessary for the Bank to provide the Services. In addition, the Bank may respond to inquiries regarding its role in, and published procedures for, implementing this Agreement from its customers or other parties interested in buying oil or selling humanitarian supplies under SCR 966, the Memorandum of Understanding and the 661 Committee Procedures.

1.18.3 The Bank may disclose confidential information referred to in Articles 1.18.1 and 1.18.2 in the following additional cases:

- (A) such information may be disclosed to such of the Bank's agents and representatives as need to know such information in connection with the Bank's performance under this Agreement;
- (B) subject to the privileges and immunities of the United Nations and the provisions of Article 1.18.4, such information may be disclosed to the extent required by mandatory provisions of applicable law in a country having jurisdiction over the Bank, provided that the Bank shall give the United Nations prior advance notice of such disclosure (except where the giving of such prior notice is legally prohibited);
- (C) subject to the privileges and immunities of the United Nations and the provisions of Article 1.18.4, and provided that the United Nations shall have given its consent, which shall not be unreasonably withheld, such information may be

disclosed to any person and in any proceeding necessary in the Bank's reasonable judgment to protect the Bank's interests in connection with any claim or dispute;

(D) such information may be disclosed to the extent that such information (i) becomes publicly available through no fault of the Bank, or (ii) is disclosed to the Bank free of any obligation of confidentiality by a third party who has the right to disclose the same; or

(E) such information may be disclosed at any time after five (5) years following the expiration or termination of this Agreement.

1.18.4 If any confidential information is sought by a Court or governmental agency having jurisdiction over the Bank to require such information, the Bank shall:

- (A) prior to disclosing such information, promptly notify the United Nations of such fact; provided, however, that the Bank shall not be obligated to notify the United Nations in the case of a subpoena served on the Bank, or where the Bank is otherwise prohibited by applicable law to which the Bank is subject, from disclosing that the information has been sought, or in the case of regular periodic inspections by bank examiners from government regulatory authorities having jurisdiction over the Bank;
- (B) inform the Court or regulatory agency that such information is privileged under the Convention on the Privileges and Immunities of the United Nations, as well as, in the United States, the International Organizations Immunities Act of the United States, Public Law 79-291, 29 December 1945; and

(c) in the event that such Court or regulatory agency still seeks such information, request that the United Nations be given the opportunity to present its position on the question to such Court or regulatory agency.

1.18.5 The obligations set forth in this Article 1.18 shall not lapse upon expiration or termination of this Agreement.

1.19 Force Majeure; Other Changes in Conditions.

1.19.1 In the event of and as soon as possible after the occurrence of any cause constituting force majeure, the Bank shall give notice and full particulars in writing to the United Nations of such occurrence if the Bank is thereby rendered unable, wholly or in part, to perform its obligations and meet its responsibilities under this Agreement. The Bank shall also notify the United Nations of any other changes in conditions or the occurrence of any event which interferes or threatens to interfere with its performance of this Agreement. Notwithstanding the foregoing, the Bank shall use its best efforts to avoid, minimize, mitigate or remedy as soon as possible, the consequences of such event, occurrence or change which caused such force majeure or interfered or threatened to interfere with the Bank's performance of its obligations under this Agreement. On receipt of the notice required under this Article, the United Nations shall take such action as, in its sole discretion, it considers to be appropriate or necessary in the circumstances, including the granting to the Bank of a reasonable extension of time in which to perform its obligations under this Agreement.

1.19.2 If the Bank is rendered permanently unable, wholly, or in part, by reason of force majeure to perform its obligations and meet its responsibilities under this Agreement, the United Nations shall have the right to suspend or terminate this Agreement upon not less than seven (7) days prior written notice to the Bank.

1.19.3 Force majeure as used in this Agreement means acts of God, war (whether declared or not), invasion, revolution, insurrection or other acts of a similar nature or force; provided that such event renders the Bank wholly, or in part, unable to provide to its customers in general services of the nature of the Services to be provided under this Agreement and the Bank complies with the obligations set forth in Article 1.19.1.

1.20 Fees

1.20.1 In consideration of the complete and satisfactory performance by the Bank of the Services and other obligations under this Agreement, the Bank shall be paid the fees and charges set forth in Annex 5. The fees and charges set forth in Annex 5 as payable from the United Nations Iraq Account are the only fees and charges payable by the United Nations under this Agreement.

1.20.2 The Bank shall submit invoices with supporting documentation on a monthly basis for fees, charges and all other payments due to the Bank under this Agreement to the United Nations Treasury, Attention: Deputy Treasurer, Room S-2770, New York, N.Y. 10017. However, invoices and supporting documentation for Letter of Credit fees shall be submitted at issuance of the Letter of Credit or as incurred. Invoices shall be paid as follows:

(a) Payment shall be made within thirty (30) days of receipt of the invoice by the United Nations, unless the United Nations disputes the invoice or a portion thereof. Such payment shall be made by means of an instruction by the United Nations to the Bank to debit the United Nations Iraq Account for the amount of the payment to be made against the invoice. With respect to disputes regarding only a portion of the invoice, the United Nations shall pay the Bank the amount of the undisputed portion within thirty (30) days. If a dispute regarding an invoice or a portion thereof has been received in favour of the Bank, the United Nations shall pay the Bank expeditiously.

If the dispute is resolved in favour of the establishment of the United Nations to the refund, and if the United Nations has not withheld the disputed amount pursuant to paragraph (d), above, the Bank shall expeditiously refund such disputed amount or portion thereof to the United Nations Iraq Account.

(f) The United Nations and the Bank shall consult in good faith to promptly resolve outstanding issues with respect to any disputed invoice or any dispute regarding a claim by the United Nations to a refund. Should such a dispute not be resolved within thirty (30) days after written notification that the United Nations intends to dispute an invoice or that the Bank intends to dispute a refund, as the case may be, such dispute will be resolved according to the terms of Article 1.23 of this Agreement ("Settlement of Disputes").

1.21 Term and Termination

1.21.1 This Agreement will enter into force as of the date when both Parties have signed this Agreement (herein referred to as the "Effective Date"), with each of the Services to be performed by the Bank under this Agreement commencing on a date mutually agreed upon by the Parties. This Agreement will continue in effect for a period of six (6) months from the date when the United States Office of Foreign Assets Control has issued the necessary license to the Bank (the "Initial Term") unless sooner terminated as provided in this Agreement. This Agreement may be renewed, at the sole option of the United Nations, on the same terms and conditions hereof, for an additional period of six (6) months, by means of a written notification of such renewal by the United Nations to the Bank not later than ten (10) days prior to the expiration of the Initial Term. The United Nations may request a renewal of this Agreement after the expiration of the first six-month renewal period heretofore referred to, for one or more additional successive periods of six (6) months each, by so notifying the Bank in writing not later than thirty (30) days prior to the expiration of such first six-month renewal period or a successive renewal period. Any

(b) Without prejudice to the United Nations' rights under paragraph (c) of this Article 1.20.2, the United Nations shall notify the Bank within thirty (30) days of its receipt of an invoice if the United Nations intends to dispute the invoice or any portion thereof. Such notification shall include a brief explanation of the reasons why the United Nations disputes the invoice.

(c) Each invoice paid by the United Nations shall be subject to a post payment audit by the United Nations' auditors or its authorized agents. The Bank shall refund to the United Nations Iraq Account any amounts shown by such audits to have been unauthorised or not in accordance with this Agreement, within thirty (30) days of its receipt of a claim by the United Nations to such refund, provided that the United Nations shall obtain such refund during the term of this Agreement or during a period of one (1) year following the expiration or prior termination of this Agreement.

(d) The Bank shall notify the United Nations within thirty (30) days of its receipt of the United Nations' claim to a refund if it intends to dispute the refund or any portion thereof. Such notification shall include a brief explanation of the reasons why the Bank disputes the refund. If the Bank disputes only a portion of such refund, it shall refund the amount of the undisputed portion within thirty (30) days. In the event that the Bank fails to make, or disputes, a refund or a portion thereof, the United Nations may withhold the amount in question from further amounts payable to the Bank under this Agreement.

(e) In the event that the Bank disputes a refund or a portion thereof, the amount withheld pursuant to paragraph (d), above, shall be identified, segregated and held in the United Nations Iraq Account pending the resolution of such dispute. If the dispute is resolved in favour of the Bank, the United Nations shall pay the disputed amount, from the amount identified, segregated and held in the United Nations Iraq Account, by the Bank debiting such amount from the United Nations Iraq Account.

renewal of the Agreement after the expiration of the aforementioned first six-month renewal period shall require the written consent of the Bank, which consent shall not be unreasonably withheld.

1.21.2 Notwithstanding anything contained in Article 1.21.1, and without prejudice to any other right or remedy the United Nations may have under this Article 1.21 or otherwise under this Agreement, this Agreement may be terminated in whole or in part, upon the following terms:

(A) The United Nations may terminate this Agreement at any time upon written notice to the Bank in the event that the Bank fails to perform any of its obligations hereunder or breaches any representation or warranty made herein and such failure to perform or breach is not cured within thirty (30) days after receipt of written notice thereof; and

(B) The United Nations may terminate this Agreement upon not less than thirty (30) days prior written notice to the Bank, in the event of a change of control of the Bank. For the purpose of the foregoing, "change of control" means (A) directly or indirectly a sale, transfer or other conveyance of all or substantially all of the assets of the Bank to any "person" or "group" (as such terms are used for purposes of Sections 13(G) and 14(G) of the Securities Exchange Act of 1934 of the United States, as amended (the "Exchange Act"), whether or not applicable), as an entirety or substantially as an entirety in one transaction or series of related transactions, (B) any "person" or "group" (as such terms are used for purposes of Sections 13(G) and 14(G) of the Exchange Act, whether or not applicable), is or becomes the "beneficial owner" (as that term is used in Rules 13d-3 and 13d-5 under the Exchange Act, whether or not applicable, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of

more than 30% of the total voting power of all voting stock then outstanding of the Bank; or (C) during any period of 24 consecutive months, individuals who at the beginning of such period constituted the Board of Directors of the Bank (together with any new directors whose election by each Board or whose nomination for election by the shareholders of the Bank was approved by a vote of a majority of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Bank then in office.

1.21.3 The United Nations may, without prejudice to any other right or remedy it may have under this Article 1.21 or otherwise under this Agreement, terminate this Agreement forthwith upon any of the events listed below upon written notice to the Bank:

- (1) in the event of any material adverse change in the Bank's financial condition, including without limitation, any down-grading of the Bank's individual credit rating by IBCA to lower than "C";
- (2) if a trustee, conservator, committee, liquidating agent or governmental authority shall be appointed for the Bank to take possession of or any substantial part of the business or assets of the Bank or if bankruptcy or other proceedings shall be commenced for any such purpose;
- (3) if the rights, privileges and franchises of the Bank shall be declared forfeited by any governmental authority or a proceeding is commenced for such purpose, and such declaration or proceedings adversely affect or could adversely affect the performance by the Bank of the Services, or any Service, under this Agreement;

(f) If the shareholders of the Bank affirmatively vote to place the Bank into liquidation or proceedings are commenced for such purpose;

(g) If a government authority shall bring a suit against the Bank pursuant to a banking or other regulatory statute and said suit adversely affects, or could adversely affect, the performance by the Bank of the Services, or any Service, under this Agreement; or

(h) If the transaction of the usual business of the Bank is suspended for any reason, or if a committee of any creditors or a liquidating agent is appointed to operate such business.

1.21.4 The United Nations may, without prejudice to any other rights or remedy it may have under this Article 1.21 or otherwise under this Agreement, terminate this Agreement forthwith at any time, upon written notice to the Bank, pursuant to a decision to that effect by the Security Council, or should the mandate of the United Nations under SCR 986 be curtailed or terminated, or should a decision of the Security Council render the United Nations Iraq Account or the Services, in the sole opinion of the United Nations, unnecessary.

1.21.5 The Bank may terminate this Agreement at any time upon written notice to the United Nations in the event that the United Nations fails to perform any of its obligations hereunder or breaches any representation or warranty made herein and such breach is not cured within ninety (90) days after receipt of written notice hereof; provided, however, that the Bank shall have no right to terminate this Agreement during the initial six-month term hereof.

1.21.6 In the event of any termination, no payment shall be due to the Bank except for services performed in conformity with the express terms of this Agreement.

1.21.7 Upon any termination of this Agreement, (i) all Services pursuant to this Agreement shall automatically and simultaneously terminate, (ii) the United Nations shall immediately return to the Bank all documentation and materials that remain the property of the Bank and were provided to the United Nations by the Bank in connection with any Service; and (iii) the Bank shall deliver to the United Nations, as instructed in writing by two Authorized United Nations Officials and having appropriate authority, all funds and other property held by the Bank pursuant to this Agreement. However, sufficient funds (including funds that, pursuant to Article 2.3.6, 2.3.7 and 2.3.8, are to be identified, segregated and held in the United Nations Iraq Account as cash collateral) shall remain in the United Nations Iraq Account to cover: (i) the reimbursement to be made to the Bank for its payment of any then unpaid outstanding Letters of Credit issued by it pursuant to Article 2.3 of this Agreement, (ii) any reimbursement then due to the Bank pursuant to said Article 2.3 for Letters of Credit issued and paid by it, (iii) any then outstanding fees payable to the Bank from the United Nations Iraq Account duly incurred under this Agreement prior to such termination, (iv) any reimbursement then due to the Bank pursuant to Articles 1.16.3 and 1.23.3, (v) any amount of fees in dispute identified, segregated and held in the United Nations Iraq Account pursuant to Article 1.20.2(a), pending the final resolution of such dispute, and (vi) the amount referred to in Article 1.34 as such amount is reduced in accordance therewith. The amount of funds necessary for the foregoing purposes shall be determined by consultations between the United Nations and the Bank. The provisions of this Agreement shall survive as necessary to apply in respect of such funds for as long as the funds remain in the United Nations Iraq Account. The Bank shall, pursuant to instructions in writing by two Authorized United Nations Officials as aforementioned, deliver to the United Nations funds that remain in the United Nations Iraq Account for the purpose of covering the reimbursement to be made to the Bank for its payment of unpaid outstanding Letters of Credit as hereinafter provided as each such Letter of Credit expires without being paid, and all remaining funds in the United Nations Iraq Account shall be delivered to the United Nations pursuant to such instructions in writing when all such outstanding Letters of Credit have either expired or have been paid and such payments have been reimbursed to the Bank,

and all of the other aforementioned reimbursements and payments due to the Bank have been paid.

1.21.8 Nothing in this Article 1.21 or elsewhere in this Agreement shall obligate the United Nations to use any amount or quantity of the Services or any of them, or to guarantee a minimum usage of the Services or any of them. Subject to the conditions in this paragraph, nothing shall restrict or limit the right of the United Nations to withdraw or transfer all or any part of the funds or other assets held or administered by the Bank, pursuant to instructions in writing by two Authorized United Nations Officials having the requisite authority. It is a condition to any withdrawal that such withdrawal shall not exceed the amount of Available Funds as defined in Article 2.3.5. The United Nations shall provide the Bank with two (2) Business Days (as defined in Article 3.1.3) prior notice in the case of any withdrawal or transfer of all or substantially all of the funds or other assets held in the United Nations Iraq Accounts, except for transfers or withdrawals provided for or contemplated by SCR 985 and the Memorandum of Understanding.

1.22 Non-Exclusivity.

The United Nations reserves the right at any time, including but not limited to during the term of this Agreement or any extension thereof, to enter into any agreements or arrangements with any other entity or entities for any of the Services as necessary to carry out its mandated activities. In the event that the United Nations enters into such agreements or arrangements, it shall so inform the Bank in writing for information purposes only. The United Nations shall incur no liability to the Bank by virtue of its entry into such agreements or arrangements.

1.23 Settlement of Disputes.

1.23.1 Amicable settlement. The Parties shall use their best efforts to settle amicably any dispute, controversy or claim arising out of or relating to this Agreement or the breach, termination or invalidity thereof. Where the Parties wish to seek such an amicable settlement through conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules then obtaining, or according to such other procedure as may be agreed between the Parties.

1.23.2 Arbitration. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, unless settled amicably under Article 1.23.1 within sixty (60) days after receipt by one Party of the other Party's request for such amicable settlement, shall be referred by either Party to arbitration in accordance with the UNCITRAL Arbitration Rules then obtaining and the directions contained in this Article 1.23.2. The arbitrators selected shall have a working knowledge of banking practices of major international commercial banks, including the Services. The arbitration shall take place in New York City, New York. In connection with the interpretation and application of this Agreement, the arbitrators shall apply (subject to Article 2.1.3) the substantive law of the State of New York relating to banking services and practices in the nature of the Services, except to the extent that such law is inconsistent with the privileges and immunities of the United Nations or SCR 985. The arbitral tribunal shall have no authority to award punitive damages. The arbitral tribunal shall have authority to award such interest as it considers appropriate in accordance with the UNCITRAL Arbitration Rules. The Parties shall be bound by the arbitration award rendered in accordance with such arbitration as the final adjudication of any such dispute, controversy or claim.

1.24 Privileges and Immunities.

1.24.1 Nothing in or relating to this Agreement, including, but not limited to, the reference to New York law in Article 1.23, shall be deemed a waiver, express or implied, of any of the privileges and immunities of the United Nations, its programmes, funds or offices, whether under the Convention on the Privileges and Immunities of the United Nations, the International Organizations Immunities Act of the United States, Public Law 79-291, 29 December 1945, or otherwise, and no provision of this Agreement shall be interpreted or applied in a manner, or to an extent, inconsistent with such privileges and immunities.

1.24.2 The United Nations Inq. Account shall enjoy the privileges and immunities of the United Nations referred to in Article 1.24.1 and those specified in SCR 986, including full immunity from any attachment, lien or other encumbrance against such Account or any funds or investments (pursuant to Part 4 of this Agreement) therein.

1.25 Tax Exemption.

1.25.1 Section 7 of the Convention on the Privileges and Immunities of the United Nations provides, inter alia, that the United Nations, including its subsidiary organs, is exempt from all direct taxes, except charges for public utility services, and is exempt from customs duties and charges of a similar nature in respect of articles imported or exported for its official use. In the event any governmental authority refuses to recognise the United Nations exemption from such taxes, duties or charges, the Bank shall immediately consult with the United Nations to determine a mutually acceptable procedure.

1.25.2 Accordingly, the Bank shall not include in its fees any amount representing such taxes, duties or charges, unless the Bank has consulted with the United Nations before the payment thereof and the United Nations has, in each instance, specifically authorized the Bank to pay such taxes, duties or charges under protest. In that event, the Bank shall

provide the United Nations with written evidence that payment of such taxes, duties or charges has been made and appropriately authorized.

1.25.3 The Bank shall be entitled to reimbursement for its reasonable cost of the manually agreed procedure referred to in Article 1.25.1 to contest or avoid such taxes, duties and charges. Such reimbursement shall be payable by the United Nations exclusively from funds in the United Nations Inq. Account. Such reimbursements shall include reasonable attorneys fees provided that the Bank shall have obtained the prior consent of the United Nations for engaging the attorneys in question, such consent not to be unreasonably withheld.

1.26 Notices. Except as otherwise provided in this Agreement, any and all notices permitted or required hereunder shall be in writing and delivered by hand, transmitted by telecopier with transmittal receipt, or sent via certified or registered mail, return receipt requested, to the parties at the addresses hereafter stated or such other addresses as the Parties may specify in writing:

If to the United Nations: The United Nations
New York, New York 10017
Attention: The Deputy Treasurer
Fax: (212) 963-2086

If to the Bank: Banque Nationale de Paris
Commodities & Trade Finance
499 Park Avenue
New York, New York
Attention: Eva Millos Russo
Fax: (212) 412-9898
or (212) 412-9707

If to the Central Bank of Iraq
(pursuant to Article 1.2): As specified in writing by the United Nations

Notices delivered by hand or by telecopier shall be deemed received upon receipt (in the case of telecopier transmission as evidenced by and on the date and at the time indicated in the telecopier transmittal confirmation), and those sent by certified or registered mail shall be deemed received as evidenced by and on the date indicated in the return receipt signed by the recipient.

1.27 **Licenses, Approvals and Other Clearances.** The Bank shall be responsible for obtaining all licenses, approvals and other clearances from governmental or other authorities necessary for the performance of its obligations under this Agreement. The obtaining of the necessary licenses from the United States Office of Foreign Assets Control (OFAC) shall be a condition precedent to the performance of the Services by the Bank. The Bank agrees to use its best efforts to obtain such OFAC license as soon as possible after the execution of this Agreement, and the United Nations shall assist in that respect as appropriate. If the necessary OFAC license is not issued within twenty (20) days after the Effective Date as defined in Article 1.21.1, the United Nations shall be entitled to terminate this Agreement forthwith by written notice to the Bank.

1.28 **Obedience of the Law.** The Bank shall comply with the laws, ordinances, rules and regulations applicable to it bearing on the performance of its obligations under the Agreement.

1.29 **Authority to Modify.** Only the Under-Secretary-General for Administration and Management of the United Nations (reference to whom in this Article and in Article 1.30 shall include the Official of the United Nations acting on his behalf in his absence) is

authorized to agree on behalf of the United Nations to any modification of or change in this Agreement, to a waiver of any of its provisions or to any additional contractual relationship of any kind with the Bank. Accordingly, no modification or change in this Agreement shall be valid and enforceable against the United Nations unless provided by an amendment to this Agreement signed by the Bank and the Under-Secretary-General for Administration and Management of the United Nations, and no waiver shall be valid or enforceable unless express and in writing signed by the Under-Secretary-General for Administration and Management of the United Nations. The Under-Secretary-General for Administration and Management of the United Nations may delegate to another Official of the United Nations any authority hereof provided in this Article 1.29. Such delegation of authority shall be by means of a written document signed and dated by the Under-Secretary-General for Administration and Management of the United Nations. No modification or change in this Agreement shall be valid and enforceable against the Bank, and no waiver by the Bank shall be valid and enforceable, unless such modification, change or waiver is express and in writing signed by the Bank.

1.30 **Cooperation.** The Bank agrees that at any time (whether before or after the United Nations has given notice of termination), upon request by the Under-Secretary-General for Administration and Management of the United Nations, it will cooperate fully with the United Nations in facilitating the provision of banking services relating to the subject matter of this Agreement by another financial institution, including the transfer of any database or other information developed by the Bank relating to the United Nations Iraq Account and the Services. Notwithstanding the foregoing, the Bank shall not be obligated to make any disclosure which would be prohibited by any legally binding agreement to which the Bank is a party on the Effective Date; provided, however, that the Bank shall promptly notify the United Nations of any disclosure which is so prohibited and consult with the United Nations with a view towards arriving at a mutually agreeable solution. The Under-Secretary-General for Administration and Management of the United Nations may delegate to another Official of the United Nations any authority hereof provided in this Article 1.30. Such delegation

exercise by either Party of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right.

1.32.2 In the event that any one of the provisions of this Agreement shall be held to be invalid, illegal, or unenforceable in any respect, the validity, legality, or enforceability of the remaining provisions of this Agreement shall not be affected or impaired thereby.

1.33 This Agreement constitutes the entire agreement of the parties with respect to the Services (except as otherwise expressly provided herein) and supersedes and replaces any previously made proposals, representations, warranties or agreements, express or implied, either oral or in writing, between the Parties.

1.33 Liability of the United Nations. Any obligation or liability of the United Nations under or in connection with this Agreement shall be covered exclusively from, and shall be limited to, funds in the United Nations Iraq Account.

1.34 RESERVE. Notwithstanding any other provision of this Agreement, there shall remain in the United Nations Iraq Account at all times a sum of \$100,000, subject to the receipt of funds into the United Nations Iraq Account in at least such amount, which may be used only to provide reimbursement to the Bank pursuant to Articles 1.16.3 and 1.25.3; provided that if the United Nations withdraws funds in the United Nations Iraq Account pursuant to Articles 1.21.7 or 1.21.8, such required amount shall be adjusted in an appropriate manner as agreed between the United Nations and the Bank after consultations between them.

1.35 Representations by the Bank and the United Nations. Each of the Bank and the United Nations represents and warrants to the other that this Agreement (i) has been duly authorized, executed and delivered by it and (ii) constitutes a legal, valid and binding

of authority shall be by means of a written document signed and dated by the Under-Secretary-General for Administration and Management of the United Nations.

1.31 Breakdown, Disaster Recovery. The Bank represents and warrants that it has in place and will maintain for the entire term and duration of this Agreement and any extension thereof disaster recovery procedures which will be promptly implemented in the event of a partial or total failure, breakdown or impairment of the Bank's computer or other data processing, data transmission or communications systems, from any cause whatsoever, affecting performance of this Agreement. In such event, the Bank will use its best efforts to avoid any interruption of the Services, and to limit such interruption to the shortest practicable time. The Bank will periodically, at least annually, update and test the operability of its disaster recovery procedures and, upon request by the United Nations, provide the United Nations with a current written copy of such procedures and certify to the United Nations that such procedures are fully operational. The Bank shall be excused from implementing its disaster recovery procedures as a result of a force majeure event if that event prevents the Bank from implementing such procedures, provided that it has used its best efforts to avoid, minimize, mitigate or remedy as soon as possible the consequences of such event and implement such procedures. The Bank further represents and warrants that it has in place and will maintain for the entire term and duration of this Agreement and any extension thereof suitable arrangements to safeguard against the destruction, loss or alteration of messages, data or other information or communications, including but not limited to messages, data, information and communications relating to the United Nations Iraq Account, the funds and assets therein, the Services, and transactions relating to the foregoing.

1.32 - Miscellaneous

1.32.1 No failure on the part of either Party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial

- 33 -

acted upon it, the Bank shall assist and co-operate with the United Nations in good faith in attempting to deal with or resolve these circumstances.

2.2 Purchases of Iraqi Petroleum and Petroleum Products

2.2.1 Upon receipt of an LOC issued by a bank on behalf of a State or national petroleum purchaser (hereinafter referred to as a "Purchaser") for the purchase of Iraqi petroleum or petroleum products (any such issuing bank hereinafter referred to as a "Purchaser's Bank"), and in cases where the Bank issues an LOC directly as the Purchaser's Bank on behalf of its customer (as provided in Article 2.2.8 below), the Bank shall comply with the procedures and requirements set forth in this Article 2.2. Such procedures and requirements shall also apply, *mutatis mutandis*, in respect of amendments to LOCs. The LOCs referred to in this Article 2.2 are LOCs for the purchase of Iraqi petroleum and petroleum products.

2.2.2 The Bank shall immediately verify that the beneficiary of each LOC is the United Nations, as the holder of the United Nations Iraq Account in accordance with SCR 986, the Memorandum of Understanding and the 661 Committee Procedures, and that each LOC contains provisions to the following effect:

- (a) Provided all terms and conditions of this Letter of Credit are complied with, proceeds of this Letter of Credit will be irrevocably paid into the "United Nations Iraq Account", account number 0200-201732-001-08, with Banque Nationale de Paris, S.A., New York branch; and
- (b) All charges within Iraq are for the account of the Seller, whereas all charges outside Iraq are to be borne by the Purchaser; and
- (c) This Letter of Credit is not assignable and not transferable.

- 32 -

agreement of it, enforceable in accordance with its terms, subject to the privileges and immunities of the United Nations.

PART 2. LETTERS OF CREDIT

2.1. General

2.1.1 The Bank undertakes to provide the Services set forth in this Part 2 with respect to Letters of Credit (hereinafter referred to as "LOCs") in accordance with SCR 986, the Memorandum of Understanding, the 661 Committee Procedures and the terms and conditions of this Agreement.

2.1.2 The Bank recognizes that the implementation of SCR 986 and the Memorandum of Understanding requires that purchases of Iraqi petroleum and petroleum products and exports to Iraq of humanitarian supplies, except for purchases made directly by the United Nations Inter-Agency Humanitarian Programme, be paid for through LOCs.

2.1.3 LOCs referred to in this Agreement shall conform with and be governed by the Uniform Customs and Practices for Documentary Credits (1993 Revision) International Chamber of Commerce Publication No. 500, and any revisions thereof, (hereinafter referred to as the "UCP"). Accordingly, the UCP shall be incorporated into the text of each LOC issued or confirmed by the Bank. The Parties agree that nothing in this Agreement is intended to be inconsistent with the UCP.

2.1.4 No approval or instruction received by the Bank from an Authorized United Nations Official having the requisite authority with respect to the issuance, confirmation, advice or amendment of an LOC, or instruction with respect to discrepancies, may be revoked after such approval or instruction has been acted upon by the Bank. However, should circumstances cause the United Nations to seek to modify or revoke an approval or instruction after the Bank has

United Nations (unless the Bank has been authorized by the Deputy Treasurer to communicate directly with the Overseers), and shall draw the attention of the Overseers to any lack of conformity of the LOC with the requirements of this Agreement. If the Overseers of the 661 Committee, through such a United Nations Official, inform the Bank in writing that the LOC complies with the information given by the Purchaser in its approved application for the purchase of Iraqi petroleum and petroleum products, the Bank shall add its confirmation to the LOC provided that the criteria hereinafter set forth are met: (i) the bank issuing the LOC has an individual ISCA credit rating of C or better; if the LOC is for a maximum amount, the following additional criteria shall apply: (ii) the credit limit established by the Bank in the ordinary course of its business and then in effect for the country where the bank issuing the LOC is located would not be exceeded by confirming the LOC, and (iii) the credit limit established by the Bank in the ordinary course of its business and then in effect for the country where the bank issuing the LOC is located would not be exceeded by confirming the LOC. Notwithstanding the foregoing, the Bank may confirm an LOC even if one or more of the foregoing criteria are not met. The Bank shall confirm the LOC as provided herein even if the LOC is not for a maximum amount unless the Bank, in its sole discretion, determines that it can confirm an LOC issued by the issuing bank in question only if the LOC is for a maximum amount. Under no circumstances shall the Bank add its confirmation to the LOC unless the Bank has been informed by the Overseers of the 661 Committee that the LOC complies with the information given by the Purchaser in its approved application for the purchase of Iraqi petroleum and petroleum products. In the event that the Overseers of the 661 Committee so inform the Bank, they shall also confirm to the Bank that the contract for the purchase of Iraqi petroleum and petroleum products conforms to the standard form of contract for the purchase of Iraqi petroleum and petroleum products referred to in Article 2.2.4 or indicate any departure therefrom (which may not include departures from the provisions referred to in Article 2.2.4(a) and (b)), and an Authorized United Nations Official having the requisite authority will provide the Bank with the following information concerning said contract: contract number, quality, quantity, date of loading, vessel and pricing mechanism. When the Bank has added its confirmation to an LOC, it shall advise the LOC directly to the

2.2.3 If the LOC is to be confirmed by the Bank in for a maximum amount, such LOC must provide that invoices for the purchase price of the petroleum or petroleum products exceeding the total amount or balance available under the LOC are acceptable, provided that: (i) the quantity of petroleum or petroleum products invoiced and shipped, as per the bill of lading, does not exceed the total quantity of petroleum or petroleum products authorized to be shipped under the LOC; (ii) the beneficiary agrees in writing to release the documents presented under the LOC to the buyer or the issuing bank of the LOC against payment of only the amount available for payment under the LOC; and (iii) the invoice otherwise complies with the terms and conditions of the LOC.

2.2.4 The United Nations shall provide the Bank with a copy of the standard form of contract to be used for purchases of Iraqi petroleum and petroleum products. Such standard form contract shall contain provisions to the following effect:

- (a) The parties hereto agree that payment of the LOC contemplated hereunder shall be made to the United Nations, as holder of the United Nations Iraq Account, account number 0200-201752-001-08, at Banque Nationale de Paris, S.A., New York Branch;
- (b) The Letter of Credit to be issued under this contract shall be issued by a bank that meets criteria that have been established for the confirmation of the Letter of Credit by Banque Nationale de Paris, S.A., in an Agreement for Banking Services pursuant to Security Council resolution 986 (1995), entered into between Banque Nationale de Paris, S.A. and the United Nations.

2.2.5 When transmitting the LOC to the Bank, the issuing bank must certify that it has obtained any necessary governmental authorization for the issuance of the LOC.

2.2.6 The Bank shall immediately transmit a copy of the LOC received by it from the Purchaser's Bank to the Overseers of the 661 Committee, through the Deputy Treasurer of the

2.2.9 Documents to obtain payment of the LOC shall be presented to the Bank at the address set forth below, or at such other office of the Bank as the Bank and the United Nations may mutually agree:

Banque Nationale de Paris, S.A.
 Trade Finance Services
 Attn: Harold Lehmann
 New York Office
 200 Liberty Street
 World Financial Center
 Tower A
 New York, New York 10281-1062.

2.2.10 The proceeds of each LOC shall be paid only into the United Nations Iraq Account and shall be held strictly in accordance with the terms and conditions of this Agreement.

2.2.11 The Bank hereby undertakes not to sell, assign or transfer any LOC to any person or entity, whether governmental or otherwise.

2.2.12 All charges within Iraq are to be borne by the seller of the Iraqi petroleum or petroleum products, and all charges outside Iraq are to be borne by the purchaser of such products, and such charges are not to be covered from the funds in the United Nations Iraq Account.

2.2.13 The provisions of this Article 2.2.13 apply in the case of an LOC for a maximum amount. In the event that the invoiced purchase price of the Iraqi petroleum or petroleum products exceeds the maximum amount of the LOC, and the bank that issued the LOC issues an amendment to the LOC to cover the excess purchase price, the Bank shall transmit a copy of such amendment to the LOC to the Overseers of the 661 Committee in accordance with Articles 2.2.6 and 2.2.7. If the Overseers approve the amendment to the LOC, the Bank shall

United Nations and, for information purposes only, forward a copy thereof to the Central Bank of Iraq for the purpose of advising the Iraqi State Oil Marketing Organization (SOMO).

2.2.7 Should the Bank refuse to add its confirmation to the LOC in accordance with Article 2.2.6, it shall so inform the Overseers of the 661 Committee, through the Deputy Treasurer of the United Nations (unless the Bank has been authorized by the Deputy Treasurer to communicate directly with the Overseers), giving the reasons for such refusal, at the time it transmits the copy of the LOC for their review. If so requested by the United Nations, the Bank shall consult with the United Nations regarding the reasons for such refusal. However, the Bank shall not be required to give reasons for its determination, pursuant to Article 2.2.6, that it can confirm an LOC issued by its issuing bank only if the LOC is for a maximum amount. The Bank shall not refuse to confirm an LOC if it has not so notified the Overseers of the 661 Committee before it has determined, in accordance with Article 2.2.6, whether it will add its confirmation to the LOC; however, such determination will be made without delay.

2.2.8 The Bank may issue LOCs directly as the Purchaser's Bank on behalf of its customers who are approved purchasers of Iraqi petroleum and petroleum products. Such LOCs shall comply, mutatis mutandis with all provisions of this Agreement, including, but not limited to, the requirements relating to prior review and approval by the 661 Committee of LOCs issued in connection with purchases of petroleum and petroleum products and those relating to the contents of the LOC. However, no confirmation by the Bank of such an LOC issued by it shall be necessary.

add its confirmation thereto, provided that the criteria set forth in Article 2.2.6 would be met. If such criteria would not be met, the Bank shall nevertheless make a good faith effort to determine that it is in a position to confirm the amendment to the LOC. If the Bank is still unable to confirm the amendment to the LOC, it shall so inform the Overseers of the 661 Committee in accordance with Article 2.2.7 at the time it transmits the copy of the amendment to the LOC to them for their review, and, if requested, consult with the United Nations as provided in Article 2.2.7. Under no circumstances shall the Bank add its confirmation to the amendment to the LOC unless the Bank has been informed by the Overseers of the 661 Committee that they have approved the amendment. When the Bank has added its confirmation to the amendment to the LOC, it shall advise the amendment directly to the United Nations and, for information purposes only, forward a copy thereof to the Central Bank of Iraq for the purpose of advising SOMO. If an amendment to the LOC is not issued or is not confirmed by the Bank, the right of the beneficiary of the LOC (the United Nations, as holder of the United Nations Iraq Account) to draw the full amount of the LOC in accordance with its terms shall not be prejudiced thereby.

2.3 Exports to Iraq of humanitarian and other supplies pursuant to SCR 986.

2.3.1 The Bank undertakes to be the issuing bank for LOCs for purchases by the Government of Iraq of humanitarian and other supplies pursuant to SCR 986. In performing such services, the Bank shall comply with the procedures and requirements set forth in this Article 2.3. The LOCs referred to in this Article 2.3 are LOCs for such purchases of humanitarian and other supplies.

2.3.2 The Central Bank of Iraq will forward to the Bank requests from the appropriate Iraqi Government entities to open irrevocable, non-transferable, non-assignable (except to the supplier's bank for the repayment of financing for the purchase of the humanitarian supplies) LOCs for the account of the Iraqi purchaser in favour of the supplier. Such requests shall provide for payments from the United Nations Iraq Account. Only the United Nations has the

authority to give binding instructions to the Bank concerning such LOCs. When the Bank receives such a request, it shall immediately forward it to the Deputy Treasurer of the United Nations for approval. Except for LOCs described in Article 2.3.8, the approval shall contain stipulations to substance as follows: (a) approval is given to open the LOC; (b) the Bank is authorized to identify, segregate and hold in the United Nations Iraq Account as cash collateral the amount that the Bank would be required to pay under the LOC and the amount of its fees related to the LOC that are payable from the United Nations Iraq Account pursuant to this Agreement, and, if applicable, the additional amount provided for in Article 2.3.7 to cover potential currency exchange losses in the purchase by the Bank of non-United States dollar currency for the payments of LOCs denominated in such currency; and (c) the Bank shall be reimbursed from the United Nations Iraq Account, in accordance with the terms and conditions of this Agreement, for its payments under the LOC, provided that such payment has been made in full conformity with the terms and conditions of the LOC and all documents presented for payment are in conformity with the requirements of the LOC. Upon receipt of such approval in writing from the Deputy Treasurer of the United Nations or another Authorized United Nations Official having the requisite authority, the Bank shall issue the LOC in accordance with such approval.

2.3.3 The requirements set forth below shall apply to LOCs covering purchases of humanitarian and other supplies:

- (a) The Bank shall be reimbursed, in accordance with the terms and conditions of this Agreement, for any payment by the Bank of LOCs issued by it only from funds in the United Nations Iraq Account;
- (b) If documents presented to the Bank under the LOCs issued by the Bank are in conformity with the terms and conditions of the LOCs, the Bank shall be authorized to make payment under the LOCs;

(c) If documents are presented to the Bank which are not in conformity with the LOCs issued by it, the Bank shall request written instructions from the Deputy Treasurer of the United Nations. The Bank shall follow all such instructions issued by an Authorized United Nations Official having the requisite authority.

2.3.4 The LOC shall require as condition for payment of the LOC the submission to the Bank of the following documents:

- (a) the customary commercial documentation,
- (b) a copy of the 661 Committee's letter stating that the exporter is eligible for payment from the United Nations Iraq Account,
- (c) a confirmation by the Secretary-General's designees of the arrival of the exported goods in Iraq, and
- (d) any required governmental license or equivalent authorizing the export.

The Bank shall effect payment under any LOC only if all the documents listed above and stipulated in the LOC are presented to it and if all other terms and conditions of such LOC are complied with. When specified in the contract and the exporting documents, partial payments can be made in the full amount that correspond to actual shipment deliveries to Iraq, provided that arrivals of such actual deliveries are confirmed in accordance with this Agreement. Documentary discrepancies can be waived only by an Authorized United Nations Official having the requisite authority.

2.3.5 (a) As used in Article 2.3 and elsewhere in this Agreement, the term "Available Funds" means the funds in the United Nations Iraq Account at any given time net of the aggregate of the following amounts: (i) the amounts then identified, segregated and held in the

United Nations Iraq Account as cash collateral pursuant to Article 2.3.6, 2.3.7 and 2.3.8, (ii) the amounts referred to in Article 1.34, subject to adjustment as provided therein, (iii) any amount of fees to disburse then identified, segregated and held in the United Nations Iraq Account pursuant to Article 1.20.2(c), (iv) any reimbursements then due to the Bank for its reasonable costs pursuant to Articles 1.16.3 and 1.25.3 and (v) any then outstanding fees payable to the Bank from the United Nations Iraq Account duly incurred under this Agreement for which amounts are not identified, segregated and held in the United Nations Iraq Account.

(b) The amounts of cash collateral identified, segregated and held in the United Nations Iraq Account pursuant to Articles 2.3.6, 2.3.7, and 2.3.8 shall be adjusted accordingly as and when an LOC expires to the extent that it is unpaid, the Bank is reimbursed pursuant to this Agreement for payments made by it under its LOC, the Bank is paid its fees related to LOCs that are payable from the United Nations Iraq Account pursuant to this Agreement or adjustments are made to the additional amounts of cash collateral referred to in Article 2.3.7. Similarly, the amounts of fees in dispute identified, segregated and held in the United Nations Iraq Account pursuant to Article 1.20.2(c) shall be adjusted accordingly as and when disputes concerning such fees are resolved and payment or refunds of such fees are made in accordance with the resolutions of such disputes.

2.3.6 LOCs will be available for payment only at the Bank and shall provide for payment only from the United Nations Iraq Account. Except in the case of LOCs described in Article 2.3.8, the Bank shall not issue an LOC unless there are sufficient Available Funds in the United Nations Iraq Account to cover such LOC and the fees of the Bank related thereto that are payable from the United Nations Iraq Account pursuant to this Agreement. Also except in the case of LOCs described in Article 2.3.8, concurrently with the issuance of an LOC, the Bank is authorized to identify, segregate and hold in the United Nations Iraq Account as cash collateral the amount that the Bank would be required to pay under the LOC and the amount of its fees related to the LOC that are payable from the United Nations Iraq Account pursuant to this Agreement. The Bank is authorized to debit from the amount identified, segregated and

held in the United Nations Iraq Account as cash collateral as heretofore provided the amount necessary to reimburse itself for any amount paid by it under the LOC, provided that such payment has been made in full conformity with the terms and conditions of the LOC and all documents presented for payment are in conformity with the requirements of the LOC, or an Authorized United Nations Official having the requisite authority has waived a discrepancy pursuant to Article 2.3.3(c). If such amount identified, segregated and held in the United Nations Iraq Account as cash collateral is not sufficient to provide full reimbursement to the Bank for its payment under the LOC, the Bank may, after consultation with the United Nations, debit from Available Funds such additional amount as is necessary to provide such full reimbursement. The Bank's fees related to the LOC that are payable from the United Nations Iraq Account pursuant to this Agreement shall be invoiced to and paid by the United Nations from the United Nations Iraq Account in accordance with Article 1.20.

2.3.7 LOCs provided for in this Article 2.3 will normally be denominated in United States dollars. In the event that an LOC denominated in another freely convertible currency is requested and approved pursuant to this Agreement, purchases of the non-United States dollar currency in which payment of such LOC is to be made shall be covered from funds from the United Nations Iraq Account in accordance with the provisions of this Article 2.3.7. If such purchases of non-United States dollar currencies are made by the Bank: (i) such purchases shall be made on a spot basis at the time the terms and conditions for payment of the LOC have been met, as an exchange rate mutually agreed between the United Nations and the Bank; (ii) the Bank shall be authorized to identify, segregate and hold in the United Nations Iraq Account as cash collateral, in addition to the amount identified, segregated and held in the United Nations Iraq Account referred to in Article 2.3.6, an amount, equal to five per cent (5%) of the amount that the Bank would be required to pay under the LOC, to cover potential currency exchange losses in the purchase by the Bank of the non-United States dollar currency with which payment of the LOC is to be made, and (iii) the Bank shall be authorized to debit from the amount identified, segregated and held in the United Nations Iraq Account as cash collateral pursuant to Article 2.3.6 and this Article 2.3.7 the full cost of the purchase of the non-United States dollar currency

for payment of the LOC in accordance with the provisions of Article 2.3.6 and 2.3.7. Should the aggregate cash collateral identified, segregated and held in the United Nations Iraq Account to cover reimbursement to the Bank for its payment of a particular non-United States dollar denominated LOC be less than the amount in United States dollars necessary to purchase the non-United States dollar currency to pay the LOC, adjusted on a mark-to-market basis, by more than five per cent (5%), additional cash collateral, in an amount equal to five per cent (5%) of the amount originally identified, segregated and held as cash collateral to cover reimbursement to the Bank for its payment of the LOC, will be identified, segregated and held in the United Nations Iraq Account. For any additional five per cent (5%) increase in the amount in United States dollars necessary to purchase the non-United States dollar currency to pay the LOC, adjusted on a mark-to-market basis, the amount identified, segregated and held in the United Nations Iraq Account shall be increased by an additional five per cent (5%) increment as heretofore provided. Conversely, such additional cash collateral shall be returned to Available Funds as and to the extent that the amount in United States dollars necessary to purchase the non-United States dollar currency to pay the LOC becomes fully covered without such additional cash collateral. The above-described mark-to-market calculations will be performed daily based on the Exchange Rate quotations for the prior business day as quoted in the Wall Street Journal. The foregoing arrangements shall be subject to such other or additional terms as may be agreed in writing between the Bank and the United Nations.

2.3.8 The Bank shall issue LOCs in respect of the purchase of parts and equipment essential for the safe operation of the Kirkuk-Yammutait pipeline without their being sufficient Available Funds in the United Nations Iraq Account, provided the approval of the Authorized United Nations Official having the requisite authority remains unopposed along the following lines: (a) approval is given to open the LOC; (b) upon receipt of Available Funds in the United Nations Iraq Account in an amount sufficient to reimburse the Bank for any payment to be made under the LOC and the amount of the fees relating to the LOC that are payable from the United Nations Iraq Account pursuant to this Agreement, the Bank shall identify, segregate and hold such amount in the United Nations Iraq Account as cash collateral; (c) the Bank is authorized

in payment under the LOC, the Bank may, after consultation with the United Nations, debit from Available Funds such additional amount as is necessary to provide such full reimbursement. The Bank's fees related to the LOC that are payable from the United Nations Iraq Account pursuant to this Agreement shall be invoiced to and paid by the United Nations from the United Nations Iraq Account in accordance with Article 1.20.

PART 3. PROCESSING OF NON-ELECTRONIC FUNDS TRANSFER INSTRUCTIONS

3.1.1 Delivery of Non-Electronic Transfer Instructions: From time to time, two of the Authorized United Nations Officials having the requisite authority may deliver or transmit to the Bank's offices at 499 Park Avenue, New York, New York, to the attention of Eva Millas Puzos, Commodities & Trade Finance, or to such other address or such other Officer of the Bank as the Bank may specify by written notice to the United Nations, non-electronic funds transfer instructions with respect to the United Nations Iraq Account in any of the following forms (each being hereinafter referred to as "Non-Electronic Funds Transfer Instructions"):

- (a) one or more written funds transfer instructions, signed by two such Authorized United Nations Officials, in such form as may be mutually agreed upon in writing by such Authorized United Nations Officials and an Officer of the Bank;
- (b) funds transfer instructions delivered by means of facsimile transmission confirmed by a transmittal receipt and signed by two such Authorized United Nations Officials.

3.1.2 Notwithstanding the foregoing, the Bank shall not accept any Non-Electronic Funds Transfer Instructions from any Authorized United Nations Officials unless there are sufficient Available Funds (as defined in Article 2.3.5) in the United Nations Iraq Account as of the date of such Instructions to cover the amount of any such transfer, provided, however, that the Bank shall accept a Non-Electronic Funds Transfer Instruction to make payments from funds

to debit from such cash collateral the amount necessary to reimburse itself for any payment under the LOC, provided that such payment has been made in full conformity with the terms and conditions of the LOC and all documents presented for payment are in conformity with the requirements of the LOC, and provided further that an Authorized United Nations Official having the requisite authority has approved such payment. The LOC shall include the following conditions in addition to those set forth in Article 2.3.4:

- (a) the Bank shall not be required to make any payment under the LOC unless and until the United Nations Iraq Account contains Available Funds in an amount sufficient to reimburse the Bank for such payments and any fees that are payable from the United Nations Iraq Account pursuant to this Agreement relating thereto; and
- (b) the Bank shall not make any payment under the LOC unless the Authorized United Nations Officials having the requisite authority approve such payment.

Upon receipt of Available Funds in the United Nations Iraq Account in an amount sufficient to reimburse the Bank for any payment to be made under an LOC described in this Article 2.3.8 and its related fees that are payable from the United Nations Iraq Account pursuant to this Agreement, the Bank shall request approval from the Deputy Treasurer of the United Nations to identify, segregate and hold such amount in the United Nations Iraq Account as cash collateral. The Bank is authorized to debit from such amount identified, segregated and held in the United Nations Iraq Account as cash collateral the amount necessary to reimburse itself for any amount paid by it pursuant to the LOC, provided that such payment has been made in full conformity with the terms and conditions of the LOC and all documents presented for payments are in conformity with the requirements of the LOC, or an Authorized United Nations Official having the requisite authority has waived a discrepancy pursuant to Article 2.3.3(c), and provided further that an Authorized United Nations Official having the requisite authority has approved such payment. If such amount identified, segregated and held in the United Nations Iraq Account as cash collateral is not sufficient to provide full reimbursement to the Bank for

identified, segregated and held in the United Nations Iraq Account pursuant to this Agreement for purposes for which such funds have been so identified, segregated and held.

3.1.3 Upon receipt by the Bank of proper Non-Electronic Funds Transfer Instructions, as provided above, but subject to verifying the authenticity thereof in accordance with Article 3.2, the Bank shall transfer funds in the amount and manner specified in such Non-Electronic Funds Transfer Instructions to the designated payee and, thereupon, debit the United Nations Iraq Account. If such proper Non-Electronic Funds Transfer Instructions are received by the Bank (A) prior to 10:00 a.m. Eastern Time on any day on which commercial banks and foreign exchange markets settle payments in New York (hereinafter referred to as a "Business Day"), such transfer shall, subject to such verification, be made on such Business Day, or (B) after 10:00 a.m. Eastern Time on any Business Day, the Bank shall, subject to such verification, use its best efforts to effect such transfer as of the same Business Day, but in any event no later than the next succeeding Business Day; provided that if such transfer has been designated as urgent by an Authorized United Nations Official having the requisite authority, the Bank shall use its best efforts to effect such transfer as of the same Business Day.

3.2 Security Procedures. The Bank shall verify the authenticity of all Non-Electronic Funds Transfer Instructions as follows:

- (A) Upon receipt of Non-Electronic Funds Transfer Instructions as the Bank's Commodities & Trade Finance Desk, the Bank shall check all signatures and make a call-back to an Authorized United Nations Official having the requisite authority, preferably an Authorized United Nations Official who did not sign the Non-Electronic Funds Transfer Instructions, to verify the instructions given therein.
- (B) The Bank shall then transmit the Non-Electronic Funds Transfer Instructions to its Collateral Control Section within the Trade Finance Services Department to verify sufficient cash balances in the United Nations Iraq Account from which payment under

the Non-Electronic Funds Transfer Instructions can be made in accordance with Article 3.1.2. The Trade Finance Services Department will set aside the required funds and notify the Commodities & Trade Finance Desk that sufficient funds exist to make the payment.

- (C) The Bank shall then transmit the Non-Electronic Funds Transfer Instructions to its Funds Transfer Department for processing via its payment system.
- (D) The Commodities & Trade Finance Desk will have set up a zero transaction and a zero overdraft limit on the United Nations Iraq Account. Consequently, the Funds Transfer Department will call the Commodities & Trade Finance Desk to verify again that the transfer can be released.
- (E) Upon approval from the Commodities & Trade Finance Desk, the Bank will release the transfer.
- (F) The United Nations will follow up by sending the original hard-copy request to the Bank as confirmation.

3.3 General Provisions Regarding Non-Electronic Funds Transfer Instructions. The United Nations shall be bound by any Non-Electronic Funds Transfer Instructions, whether or not actually authorized, if, but only if, they were issued in its name, confirmed on their face with the requirements of Article 3.1, and purported to be issued by Authorized United Nations Officials having the requisite authority to give such Non-Electronic Funds Transfer Instructions and such instructions were accepted in good faith by the Bank and in compliance with the security procedures set forth in Article 3.2. The security procedures and other terms specified herein shall also apply to amendments and cancellations of Non-Electronic Funds Transfer Instructions. It is understood that these security procedures are designed to verify the authenticity of, and not to detect errors in, Non-Electronic Funds Transfer Instructions.

4.3 Interest Rates. Interest rates payable on investments of funds in the United Nations Iraq Account shall be based on the interest rate formulas set forth in Annex 6.

IN WITNESS WHEREOF, the Parties have executed this Agreement on the dates hereinafter specified.

BANQUE NATIONALE DE PARIS, S.A. THE UNITED NATIONS

By: [Signature] Name: Joseph E. Connor
By: [Signature] Name: Pierre Schmitzer
General Manager and Chief Executive Officer, MBG de Banque Paribas
Date: 12/1/86
Date: 12-9-76

By: _____
Name: _____
Title: _____
Date: _____

PART 4. INTEREST PAID ON BALANCES

4.1 Instructions. The Bank shall act on the instructions from the Authorized United Nations Officials having the requisite authority with respect to investments of funds in the United Nations Iraq Account for the purpose of earning interest. Such investments shall only be in the form of overnight or other short term interest-bearing investments and shall be specifically identified as assets of the United Nations Iraq Account. The Bank shall place the funds in sub-accounts of the United Nations Iraq Account for the purpose of such investments.

4.2 Investments of Cash Collateral. The Bank shall place amounts identified, segregated and held in the United Nations Iraq Account as cash collateral pursuant to this Agreement in an overnight investment sub-account of the United Nations Iraq Account separate from other investment sub-accounts of the United Nations Iraq Account.
[CONTINUED ON NEXT PAGE]

S/RES/666 (1991)
Page 2

NO. 008 PSI
S

ANNEX

UNITED NATIONS

Security Council

Distr.
General

S/RES/666 (1991)
14 April 1991



RESOLUTION 666 (1991)

Adopted by the Security Council at its 3533rd meeting, on 14 April 1991

The Security Council,

Reminding its previous relevant resolutions,
Concerned by the serious nutritional and health situation of the Iraqi population, and by the risk of a further deterioration in this situation,

Convinced of the need as a temporary measure to provide for the humanitarian needs of the Iraqi people until the fulfilment by Iraq of the relevant Security Council resolutions, including notably resolution 661 of 3 April 1991, allow the Committee established by resolution 661 to the Secretary-General to continue to monitor the situation in Iraq in accordance with the provisions of those resolutions,

Convinced also of the need for equitable distribution of humanitarian relief to all segments of the Iraqi population throughout the country,

Maximizing the commitment of all Member States to the sovereignty and territorial integrity of Iraq,

Acting under Chapter VII of the Charter of the United Nations,

1. Authorizes States, notwithstanding the provisions of paragraphs 1 (a), 1 (b) and 4 of resolution 661 (1991) and subsequent relevant resolutions, to permit the import of petroleum and petroleum products, including refined petroleum products, to Iraq, provided that such imports are directly related to the production of petroleum and petroleum products in Iraq, and that such imports are subject to the following conditions:

(a) Approval by the Committee established by resolution 661 (1991), in order to ensure the transparency of such transactions and its conformity with the other provisions of this resolution, after submission of an application by the

State concerned, subject to the agreement of Iraq, for each proposed purchase of petroleum and petroleum products, including details of the purchase price at fair market value, the export route, the opening of a letter of credit payable to the account to be established by the Secretary-General for the purchase of petroleum and petroleum products, and any other directly related financial or other essential transactions;

(b) Payment of the full amount of such purchases of Iraqi petroleum and petroleum products to the account established by the Secretary-General into the account to be established by the Secretary-General for the purpose of this resolution;

2. Authorizes Turkey, notwithstanding the provisions of paragraphs 1 (a), 1 (b) and 4 of resolution 661 (1991) and the provisions of paragraph 1 above, to permit the import of petroleum and petroleum products, including refined petroleum products, to Iraq, provided that such imports are directly related to the production of petroleum and petroleum products in Iraq, and that such imports are subject to the following conditions:

(a) Approval by the Committee established by resolution 661 (1991), in order to ensure the transparency of such transactions and its conformity with the other provisions of this resolution, after submission of an application by the State concerned, subject to the agreement of Iraq, for each proposed purchase of petroleum and petroleum products, including details of the purchase price at fair market value, the export route, the opening of a letter of credit payable to the account to be established by the Secretary-General for the purchase of petroleum and petroleum products, and any other directly related financial or other essential transactions;

(b) Payment of the full amount of such purchases of Iraqi petroleum and petroleum products to the account established by the Secretary-General into the account to be established by the Secretary-General for the purpose of this resolution;

3. Requests the Committee established by resolution 661 (1991) to monitor the sale of petroleum and petroleum products to be exported by Iraq via the Kirkuk-Turkmenlik pipeline from Iraq to Turkey and from the Sina al-Nahr oil pipeline from Iraq to Jordan, and to report to the Secretary-General on the progress of its work, and to submit to the Secretary-General, who will keep the Committee informed of the amount of petroleum and petroleum products exported from Iraq after the date of entry into force of paragraph 1 of this resolution, and will verify that the purchases being made are for the production of petroleum and petroleum products in Iraq, under such conditions, and that, for the purposes of the arrangements set out in this resolution, the larger share of the petroleum and petroleum products is shipped via the Kirkuk-Turkmenlik pipeline and the remainder if exported from the Sina al-Nahr oil pipeline;

4. Requests the Committee established by resolution 661 (1991) to monitor the sale of petroleum and petroleum products to be exported by Iraq via the Kirkuk-Turkmenlik pipeline from Iraq to Turkey and from the Sina al-Nahr oil pipeline from Iraq to Jordan, and to report to the Secretary-General on the progress of its work, and to submit to the Secretary-General, who will keep the Committee informed of the amount of petroleum and petroleum products exported from Iraq after the date of entry into force of paragraph 1 of this resolution, and will verify that the purchases being made are for the production of petroleum and petroleum products in Iraq, under such conditions, and that, for the purposes of the arrangements set out in this resolution, the larger share of the petroleum and petroleum products is shipped via the Kirkuk-Turkmenlik pipeline and the remainder if exported from the Sina al-Nahr oil pipeline;

5. Further decides that the remaining paragraphs of this resolution shall come into force forthwith;

6. Requests the Committee established by resolution 661 (1991) to monitor the sale of petroleum and petroleum products to be exported by Iraq via the Kirkuk-Turkmenlik pipeline from Iraq to Turkey and from the Sina al-Nahr oil pipeline from Iraq to Jordan, and to report to the Secretary-General on the progress of its work, and to submit to the Secretary-General, who will keep the Committee informed of the amount of petroleum and petroleum products exported from Iraq after the date of entry into force of paragraph 1 of this resolution, and will verify that the purchases being made are for the production of petroleum and petroleum products in Iraq, under such conditions, and that, for the purposes of the arrangements set out in this resolution, the larger share of the petroleum and petroleum products is shipped via the Kirkuk-Turkmenlik pipeline and the remainder if exported from the Sina al-Nahr oil pipeline;

7. Requests the Secretary-General to establish an account for the purposes of this resolution, to be used for the payment of the amounts to audit it, and to keep the Government of Iraq fully informed;

8. Decides that the funds in the account shall be used to meet the humanitarian needs of the Iraqi population and for the following purposes, and requests the Secretary-General to use the funds deposited in the account:

(a) To finance the export to Iraq, in accordance with the procedures of the Committee established by resolution 61 (1990), of medicines, health supplies, foodstuffs, and materials and supplies for essential civilian needs, as referred to in paragraph 8 of resolution 61 (1990), provided that:

(i) Each export of goods is at the request of the Government of Iraq;

(ii) Iraq effectively guarantees their equitable distribution, on the basis of a plan submitted to and approved by the Secretary-General, including a description of the goods to be purchased;

(iii) The Secretary-General receives substantiated confirmation that the exported goods concerned have arrived in Iraq;

(b) To complement, in view of the exceptional circumstances prevailing in the three Governments mentioned below, the distribution by the Government of Iraq of goods referred to in this resolution, in order to ensure an equitable distribution of such goods throughout the country, by providing between 100 million and 150 million United States dollars every 30 days to the United Nations Inter-Agency Humanitarian Fund, to be used for the purchase of such goods in the territories of the Governments of Thailand, Mali, and Senegal;

(c) To transfer to the Compensation Fund the same percentage of the funds deposited in the account as that decided by the Council in paragraph 2 of resolution 705 (1991) of 18 August 1991;

(d) To meet the costs to the United Nations of the independent inspection agencies and the special commissions and the activities associated with implementation of this resolution;

(e) To meet the current operating costs of the Special Commission, pending section C of resolution 67 (1991);

(f) To meet any reasonable expenses, other than expenses payable in Iraq, which are determined by resolution 61 (1990) to be necessary to be directly released to the export by Iraq of petroleum and petroleum products permitted under paragraph 1 above or to the export to Iraq, and activities

directly necessary therefor, of the parts and equipment permitted under paragraph 2 below;

(g) To make available up to 10 million United States dollars every 30 days from the account to the Government of Iraq for the payment envisaged under paragraph 8 of resolution 718 (1991) of 3 October 1991;

9. Authorizes States to permit, notwithstanding the provisions of paragraph 2 (c) of resolution 61 (1990):

(a) The export to Iraq of the parts and equipment which are essential for the safe operation of the Minam-thamrallah pipelines system in Iraq, subject to the conditions established by the Committee established by resolution 61 (1990) of such export contracts;

(b) Activities directly necessary for the exports authorized under subparagraph (a) above, including financial transactions related thereto;

10. Decides that, since the costs of the exports and activities authorized under paragraph 9 above, including financial transactions related thereto, and by paragraph 11 of resolution 718 (1991) from being met from funds frozen in accordance with these provisions, the cost of such exports and activities may, until such time as the account is established for the purposes of this resolution, be met from the account established for the purposes of this resolution, in accordance with the procedures established by resolution 61 (1990), except that the Committee of credit, drawn against future oil sales the proceeds of which are to be deposited in the account;

11. Requests the Secretary-General to report to the Council 30 days after the date of the adoption of this resolution, and again prior to the end of the initial 180-day period of paragraph 2 above, and again prior to the end of the second 180-day period of paragraph 2 above, on the basis of consultations with the Government of Iraq, on whether Iraq has ensured the equitable distribution of medicines, health supplies, foodstuffs, and materials and supplies for essential civilian needs, as referred to in paragraph 8 of this resolution, in accordance with paragraph 8 (a) above, including in his reports any observations he may have on the adequacy of the revenues to meet Iraq's humanitarian needs, and on Iraq's capacity to export sufficient quantities of petroleum and petroleum products to produce the sum referred to in paragraph 1 above;

12. Requests the Committee established by resolution 61 (1990), in close coordination with the Secretary-General, to continue to monitor the situation necessary to implement the arrangements in paragraphs 1, 2, 4, 8, 9 and 10 of this resolution and to report to the Council 30 days after the date of entry into force of this resolution, and thereafter at intervals of 90 days of the initial 180-day period on the implementation of those arrangements;

13. Requests the Secretary-General to take the actions necessary to ensure that the arrangements referred to in this resolution are implemented, and to report to the Council when he has done so;

S/RES/661 (1981)
Page 5

14. Decides that petroleum and petroleum products subject to this resolution shall, under paragraph 11 of the resolution, be sold only to the States which have submitted or submitted an application, and that all States shall take any steps that may be necessary under their respective domestic legal systems to ensure this protection, and to ensure that the proceeds of the sale are not diverted from the purposes laid down in this resolution;

15. Affirms that the freeze account established for the purposes of this resolution enjoys the privileges and immunities of the United Nations;

16. Affirms that all persons appointed by the Secretary-General for the purpose of implementing this resolution enjoy privileges and immunities of the United Nations and that the United Nations shall ensure that the Privileges and Immunities of the United Nations, and maintain the Government of Iraq to allow them full freedom of movement and all necessary facilities for the discharge of their duties in the implementation of this resolution;

17. Affirms that nothing in this resolution affects Iraq's duty and responsibility to adhere to all of its obligations concerning international mechanisms;

18. Also affirms that nothing in this resolution should be construed as infringing the sovereignty or territorial integrity of Iraq;

19. Decides to remain seized of the matter.

ANNEX 2

UNITED NATIONS



Security Council

S

RISK
GENERAL

S/RES/716*
26 MAY 1976

ORIGINAL, ENGLISH

LETTER DATED 20 MAY 1976 FROM THE SECRETARY-GENERAL
ADDRESSED TO THE PRESIDENCY OF THE SECURITY COUNCIL

I have the honour to submit to you, and through you to the members of the Security Council, the text of a memorandum of understanding concluded today between the Government of the United Nations and the Government of Iraq on the implementation of Security Council resolution 661 (1981) of 14 April 1976. I am also submitting to you a letter handed over by the head of the Iraqi delegation upon signing the memorandum.

The memorandum represents an important step in the arrangements that are required under the resolution to bring it fully into effect. Once the arrangements have been taken, I will be in a position to report to the Security Council as requested in paragraph 11 of the resolution. The present letter, therefore, is submitted with a view to the early completion of the progress achieved so far in the implementation of the resolution.

(Signed) Maurice HORTON-CHALL

Released for technical reasons.

UN Doc S/RES/716
26 May 1976
320895

Memorandum of Understanding between the Secretary-General of the United Nations and the Government of Iraq on the Implementation of Security Council Resolution 661 (1981)

Section I

General provisions

1. The purpose of this Memorandum of Understanding is to ensure the effective implementation of Security Council Resolution 661 (1981) hereinafter the "Resolution".
2. The Distribution Plan referred to in paragraph 1 (a) (ii) of the Resolution, which has to be approved by the Secretary-General of the United Nations, constitutes an important element in the implementation of the Resolution.
3. Nothing in the present Memorandum should be construed as infringing upon the sovereignty or territorial integrity of Iraq.
4. The provisions of the present Memorandum apply strictly and exclusively to the implementation of the Resolution and, as such, in no way create a precedent. It is also understood that the arrangements provided for in the Memorandum is an exceptional and temporary measure.

Section II

Distribution Plan

1. The Government of Iraq undertakes to effectively guarantee equitable distribution to the Iraqi population throughout the country of medicine, health supplies, foodstuffs, clothing, footwear, household necessities, and other essential humanitarian supplies purchased with the proceeds of the sale of Iraqi petroleum and petroleum products.
2. In this and the Government of Iraq shall prepare a Distribution Plan which is to be approved by the Secretary-General of the United Nations. The Distribution Plan shall be prepared in accordance with the provisions of the Resolution and shall be submitted to the Secretary-General of the United Nations for approval. The Distribution Plan shall be submitted to the Secretary-General of the United Nations for approval. If the Secretary-General is satisfied that the

plan adequately ensures equitable distribution of humanitarian supplies to the Iraqi population throughout the country, he will so inform the Government of Iraq.

9. It is understood by the parties to this Memorandum that the Secretary-General will not be in a position to report as required in paragraph 13 of the Resolution unless the plan prepared by the Government of Iraq meets with his approval.
10. Once the Secretary-General approves the plan, he will forward a copy of the Distribution Plan to the Secretary-General of the United Nations for approval. The Secretary-General will also inform the Security Council of the Distribution Plan and the situation between Iraq and Kuwait (hereinafter the 661 Committee) for information.

11. After the plan becomes operational, each party to the present Memorandum may suggest to the other for its consideration a modification to the plan if it believes that such adjustment would improve the equitable distribution of humanitarian supplies and their adequacy.

Section III

Establishment of the escrow account and audit of that account

12. The Secretary-General, after consultations with the Government of Iraq, shall establish an escrow account with the United Nations Bank for International Cooperation (hereinafter the "Iraq Account"). The Secretary-General will appoint the terms of this account with the bank and will keep the Government of Iraq fully informed of his actions in closing the bank and opening a new account. The Government of Iraq shall ensure that the Iraq Account is administered in accordance with the relevant financial regulations and rules of the United Nations.
13. The Iraqi authorities shall designate a senior banking official to liaise with the Secretary-General of the United Nations on all banking matters relating to the "Iraq Account".
14. In accordance with the United Nations financial regulations, the "Iraq Account" will be audited by the board of auditors who are external independent public auditors. As provided for in the regulations, the board of auditors will submit an annual report to the Secretary-General of the United Nations. Such reports will be submitted by the board to the Secretary-General who will forward them to the 661 Committee and to the Government of Iraq.
15. Nothing in this Memorandum shall be interpreted to create a liability on the part of the United Nations or to constitute an endorsement of the Iraq Account or any aspect acting on its behalf pursuant to the provisions of the Resolution.

Section IV

Sale of Petroleum and Petroleum Products Originating in Iraq

15. Petroleum and petroleum products originating in Iraq will be exported via the Kirkuk-Yamruq pipeline through Turkey and from the Mina al-Bahr oil terminal. The 661 Committee will monitor the exports through Turkey and Turkey will be required to issue a certificate of origin for each consignment of petroleum products. The certificate of origin will be issued by an additional amount of oil, as foreseen in the Resolution and in accordance with procedures to be established by the 661 Committee. The arrangement between Iraq and Turkey regarding the use of Turkish oil installations has been provided to the 661 Committee.

17. Bulk export of petroleum and petroleum products originating in Iraq shall be approved by the 661 Committee.

18. Detailed provisions concerning the sale of Iraqi petroleum and petroleum products are contained in Annex II, which constitutes an integral part of this Memorandum.

Section V

Procurement and Confirmation Procedures

19. The purchase of medicines, health supplies, foodstuffs, and materials and equipment for the health services of Iraq shall be carried out in accordance with the country, as referred to in paragraph 20 of resolution 661 (1981), will, subject to paragraph 20 below, be carried out by the Government of Iraq, will follow normal commercial practice and be on the basis of the relevant resolutions of the Security Council and procedures of the 661 Committee.

20. The purchase of humanitarian supplies for the three northern Governments of Akrah, Sulaim and Bushayrah, as provided for in the Distribution Plan, will be carried out in accordance with Annex I.

21. The Government of Iraq will, except as provided for in paragraph 20, contract directly with suppliers to arrange the purchase of supplies, and will continue the appropriate contractual arrangements.

22. Each export of goods to Iraq shall be at the request of the Government of Iraq pursuant to paragraph 6 (a) of the Resolution. Accordingly, normally all goods to be exported under the Resolution to the 661 Committee for appropriate action according to IIA procedures. It is understood that payment of the supplier from the "Iraq Account" can take place only for items purchased by Iraq pursuant to the Resolution. In the event of a purchase of goods for humanitarian purposes, humanitarian supplies should exceptional circumstances arise, supplies for the export of additional items may be submitted to the 661 Committee for its consideration.

23. As noted above, the 661 Committee will take action on applications for the export of goods from Iraq in accordance with its existing procedures subject to future modifications. The 661 Committee will inform the Government of Iraq, requesting it to provide the Secretary-General of the actions taken on the requests submitted.

24. After the 661 Committee has taken action on the applications for export in accordance with its procedures, the Committee will advise the bank holding the "Iraq Account" to open irrevocable letters of credit in favor of the "Iraq Account". Such requests shall be referred by the bank holding the letter of credit by the letter instructing for approval of the opening of the "Iraq Account" upon presentation of credit-conform documents. The bank holding the letter of credit shall be required to issue the letter of credit in accordance with the condition of payment, Iraq/Alia, the submission to the bank established by the 661 Committee, including to be determined by the procedures referred to in paragraph 18 below. The United Nations, advised by the agents of the Government of Iraq, shall determine the clause to be inserted in all purchase orders. All charges incurred in connection with the opening of the "Iraq Account". All charges outside Iraq are for the account of the beneficiary.

25. The arrival of goods in Iraq purchased under the plan will be confirmed by independent inspection agents to be appointed by the Secretary-General. The Secretary-General will, until the independent inspection agents provide the concerned have arrived in Iraq.

26. The independent inspection agents may be stationed at relevant Iraqi entry points, customs areas or other locations. The functions set out in paragraph 27 of this Section can be performed at the discretion of the Secretary-General for the agents will be designated by the United Nations after consultation with the Government of Iraq.

27. The independent inspection agents will confirm delivery to Iraq of the goods. They will prepare the appropriate documentation, such as bills of lading, the 661 Committee, will accept or cargo manifests, and the documents issued by the authority to perform duties necessary for the goods, including: inspection, sampling, and, when necessary, laboratory testing.

28. The inspection agents will report all irregularities to the Secretary-General and to the 661 Committee. If the problem is related to the Government of Iraq (e.g., non-shorthand goods), the 661 Committee and the Government of Iraq will be notified. If the problem is related to the independent inspection agents will hold the shipment in question pending guidance from the 661 Committee.

35. The objectives of the United Nations observation process shall be:

- (a) to confirm whether the equitable distribution of humanitarian supplies to the Iraqi population throughout the country has been ensured;
- (b) to ensure the effectiveness of the operation and determine the adequacy of the available resources to meet Iraq's humanitarian needs.

OBSERVATION PROCEDURES

36. In observing the equitable distribution and its adequacy, United Nations personnel will use, *inter alia*, the following procedures:

Food Items

37. The observation of the equitability of food distribution will be based on information obtained from local markets throughout Iraq, the Iraqi Ministry of Trade, the information available to the United Nations and its specialized agencies, on the situation in the country and the needs of the population. The observations will also include the quantity and prices of food items imported under the sanction.

38. To provide regular updated observation of the most pressing needs, a survey undertaken by United Nations agencies in cooperation with the appropriate Iraqi authorities will serve as a basis for the continuing observation of nutritional status of the population of Iraq. This information will take account of public health data generated by the Ministry of Health (MHI) and the relevant United Nations agencies.

Medical Supplies and Equipment

39. Observation regarding distribution of medical supplies and equipment will focus on the existing distribution and storage system and will involve visits to hospitals, clinics as well as medical and pharmaceutical stores. Such observations will also be guided by health statistics data from UNICEF and surveys by relevant United Nations agencies.

Water/sanitation supplies and equipment

40. Observation of distribution of water/sanitation supplies and equipment will focus on the determination that they are used for their intended purposes. Such observations will include visits to water treatment plants, distribution centres, disease surveillance centres, health centres and water quality control checks by visits to water and sanitation facilities by representatives of relevant United Nations agencies. In this regard the United Nations will rely on all relevant indications.

29. As regards the export to Iraq of parts and equipment which are essential for the safe operation of the circuit-breaker pipeline system in Iraq, the Government of Iraq shall ensure that the necessary arrangements are made for the supply. Such requests will be considered for approval by the Committee in accordance with its procedures.

30. In the 461 Committee has approved a request in accordance with paragraph 29, the provisions of paragraph 34 shall apply. However, since the supplier can expect payment against future oil sales, as stated in paragraph 10 of the Sanctions, the proceeds of which are to be deposited in the "Iraqi Account" established in the trust account of the United Nations, the Government of Iraq shall ensure that the necessary arrangements are made for the payment of the "Iraqi Account" has sufficient disposable funds and the United Nations Secretariat approves the payment.

31. The requirement of substantiated confirmation of arrival provided for in this section shall apply also to the parts and equipment mentioned in paragraph 29.

Section VI

Distribution of humanitarian supplies purchased under the Distribution Plan

32. The distribution of humanitarian supplies shall be undertaken by the Government of Iraq in accordance with the provisions of paragraph 29 of Section 11 of the present Sanctions. The Government of Iraq will keep the United Nations observation personnel informed about the implementation of the plan and the activities that the Government is undertaking.

33. The distribution of humanitarian supplies in the three northern Governorates of Mosul, Erbil and Sulaymaniyah shall be undertaken by the United Nations Inter-Agency Humanitarian Programme on behalf of the Government of Iraq under the Distribution Plan with due regard to the sovereignty and territorial integrity of Iraq in accordance with Annex 1.

Section VII

Observation of the equitable distribution of humanitarian supplies and determination of their adequacy

GENERAL PROVISIONS

34. The United Nations observation process will be conducted by United Nations personnel in Iraq under the overall authority of the Department of Humanitarian Affairs. The procedures and methods of observation shall apply to the distribution of humanitarian supplies financed in accordance with the procedures set out in the resolution.

Other materials and supplies

41. With reference to materials and supplies which do not fall within the three areas indicated above, in particular those needed for the rehabilitation of infrastructure essential to east humanitarian needs, the Committee will focus on the following: (a) the identification of the materials and supplies which are needed in accordance with the distribution plan and that they are used for their intended purposes, and on the determination of whether these materials and supplies are adequate or necessary to meet essential needs of the Iraqi population.

COORDINATION AND COOPERATION

42. The United Nations observation activities will be coordinated by the Department of Humanitarian Affairs at United Nations Headquarters in New York. Observation will be undertaken by United Nations personnel, in concert with the Iraqi authorities, in order to ensure that the activities are carried out in accordance with the practical requirements. The Government of Iraq will be consulted in this regard.

43. The Iraqi authorities will provide to United Nations personnel the assistance required to facilitate the performance of their functions. United Nations personnel will coordinate with the Iraqi competent authorities.

44. In view of the importance of the functions which United Nations personnel will perform in accordance with the provisions of this Section of the Memorandum, such personnel shall have, in connection with the performance of their functions, the same freedom of movement, freedom of communication and freedom of access to information as the personnel of the United Nations. The Iraqi authorities concerned, and the possibility to make such contacts as they find essential.

**SECTION VIII
PRIVILEGES AND IMMUNITIES**

45. In order to facilitate the successful implementation of the Resolution the following provisions concerning privileges and immunities shall apply:

(a) officials of the United Nations and of the Specialized Agencies performing functions in connection with the implementation of the Resolution shall enjoy the privileges and immunities applicable to them under Articles V and VII of the Convention on the Privileges and Immunities of the United Nations. The provisions of the Convention concerning the Privileges and Immunities of the Specialized Agencies to which Iraq is a party;

(b) independent inspection agents, technical experts and other specialists appointed by the Secretary-General of the United Nations or by heads of the specialized Agencies concerned and performing functions in connection with

the implementation of the Resolution, whose names will be communicated to the Government of Iraq, shall enjoy the same privileges and immunities as those provided to experts on mission for the United Nations or for the Specialized Agencies under Article VI of the Convention on the Privileges and Immunities of the United Nations or the relevant Annexes of the Convention on the Privileges and Immunities of the Specialized Agencies respectively;

(c) persons performing contractual services for the United Nations in connection with the implementation of the Resolution, whose names will be communicated to the Government of Iraq, shall enjoy the privileges and immunities referred to in sub-paragraph (b) above concerning experts on missions appointed by the United Nations.

46. In addition, officials, experts and other personnel referred to in paragraph 45 above shall have the right of unimpeded entry and exit from Iraq and shall be issued visas by the Iraqi authorities promptly and free of charge.

47. It is further understood that the United Nations and its Specialized Agencies shall enjoy freedom of entry into and exit from Iraq without delay or restriction, and shall be permitted to transport their equipment and supplies for the implementation of the Resolution and means of surface transport required for them to, temporarily, import such equipment free of customs or other duties.

48. Any issue relating to privileges and immunities, including safety and protection of the United Nations and its Specialized Agencies, shall be governed by the provisions of this Section which shall be governed by paragraph 45 of the Resolution.

**SECTION IX
CONSULTATIONS**

49. The Secretariat of the United Nations and the Government of Iraq shall, if necessary, hold consultations on how to achieve the most effective implementation of the present Memorandum.

**SECTION X
FINAL CLAUSES**

50. The present Memorandum shall enter into force following signature, on the day when paragraphs 1 and 2 of the Resolution become operational and shall remain in force until the expiration of the 180 day period referred to in paragraph 3 of the Resolution.

8/1987/134
English
Page 13

8/1987/134
English
Page 13

1. Pending its entry into force, the Memorandum shall be given by the United Kingdom and the Government of Iraq provisional effect.

For the United Kingdom
(Signed) Hans COMPTON
Ambassador Permanent
The Legal Counsel

Annex I

1. In order to ensure the effective implementation of paragraph 4 (b) of the Resolution, the following arrangements shall be made by the Government of Iraq, in consultation with the Government of the United Kingdom, and to the principle of equitable distribution of humanitarian supplies throughout the country.
 1. The United Nations Inter-Agency Humanitarian Programme shall collect and analyze pertinent information on humanitarian needs in the three northern Governorates. On the basis of this information, the Government of Iraq shall coordinate with the Government of Iraq and subsequent incorporation in the distribution plan. In preparing estimates of food needs, the Programme will take into consideration all relevant circumstances, including the impact of the drought on the distribution. Specific rehabilitation needs in the three northern Governorates shall receive the necessary attention.
 2. Within a week following the approval of the Distribution Plan by the Secretary-General, the Programme and the Government of Iraq will hold discussions to enable the Programme to determine how the procurement of humanitarian supplies for the three northern Governorates by undertakes most considerations. The bulk purchases by the Government of Iraq of standard food commodities and medicines may be the most cost-effective means of procurement. Other materials and supplies for essential civilian needs, especially agricultural equipment, shall be procured through the United Nations system in view of technical aspects related to their proper use.
 3. To the extent that purchases and deliveries are made by the Government of Iraq, the amount of the United Nations Programme account corresponding to the cost of the delivered goods will be debited from the amount allocated to the Programme from the "Iraq Account".
 4. Humanitarian supplies destined for distribution in the three northern Governorates shall be delivered by the Programme to warehouses located within Iraq or the Programme, such supplies can also be delivered by the Government of Iraq or the Programme, as appropriate, to warehouses in Iraq and Kuwait. The Programme will ensure that the Government of Iraq and the Government of Kuwait ensure the prompt issuance and administrative arrangements to enable the safe and quick transit of such supplies to the three northern Governorates.
 5. The Programme shall be responsible in the three northern Governorates for the safe handling, transport, distribution and coordination of equitable distribution of humanitarian supplies. The Programme will keep the Government of Iraq informed on the implementation of distribution.
 6. Whenever possible and cost-effective, the Programme shall use appropriate local distribution mechanisms which are comparable to those existing in the rest of Iraq.

of Iraq in order to effectively reach the population. Recipients under this arrangement will pay a fee for internal transportation, handling, and distribution as in the rest of the country. The programme shall ensure that the most vulnerable groups in need of supplementary food are appropriately met, and will keep the Government of Iraq informed.

6. The Programme will observe that humanitarian supplies are used for their intended purposes through the monitoring and reporting mechanism. The programme will report to the Department of State, the United Nations Office for the Coordination of Humanitarian Affairs, and the United Nations Headquarters in New York and the Government of Iraq any violation observed by the Programme.

Annex II

1. The State concerned or, if the 661 Committee so decides, the national petroleum purchaser authorised by the 661 Committee, shall submit to the Committee for review and approval the application for purchase of petroleum products, domestic consumption, and purchase of Iraqi petroleum and petroleum products, (hereinafter referred to as "petroleum products") for the purpose of the programme, on behalf of the Government. Such endorsement could be made by sending a copy of the contract to the 661 Committee. The application shall include details of the purchase price to be paid to the "Iraq Account", and other necessary information required by the Committee. The sale of petroleum and petroleum products shall be covered by contractual documents. A copy of these documents shall be included in the information provided to the 661 Committee together with the application for forwarding to the relevant independent inspection agent in the following information: quantity and quality of petroleum and petroleum products, duration of contract, credit and payment terms and pricing mechanism. The pricing mechanism for petroleum should include the following points: market crude oil and type of concessions to be used, adjustments for transportation and quality, and pricing dates.

2. Irrevocable confirmed letters of credit will be opened by the oil purchaser's bank with the irrevocable undertaking that the proceeds of the letter of credit will be paid directly to the "Iraq Account". The following clauses will have to be inserted in each letter of credit:

" Provided all terms and conditions of this letter of credit are complied with, proceeds of this letter of credit will be irrevocably paid into the 'Iraq Account' via

" All charges within Iraq are to be borne by the beneficiary's account, whereas all charges outside Iraq are to be borne by the purchaser."

3. All such letters of credit will have to be directed by the purchaser's bank to the bank named in the application with a copy of the letter of credit and forwards it to the Central Bank of Iraq for the purpose of advising 660.

4. The sale of petroleum and petroleum products originating in Iraq will be monitored by United Nations independent oil experts appointed by the Security Council. The oil will be transported to the relevant independent inspection agent at oil storage facilities at Ceyhan and Mina al-Bakr and, if the 661 Committee so decides, at facilities at Ceyhan and Mina al-Bakr and, if the 661 Committee so decides, at the pipeline unloading station at the Iraq-Turkey border, and would include quality and quantity verifications. They would undertake the loading after they have been approved, and report to the relevant United Nations expert that the relevant contract has been approved, and report to the United Nations.

8/1984/356
English
Page 14

5. The United Nations will provide monthly reports from SOMO on the actual volume and type of petroleum products exported under the relevant sales contracts.

6. The United Nations Secretariat and SOMO shall maintain continuing contact and in particular United Nations oil experts shall meet routinely with SOMO representatives to review market conditions and oil sales.

8/1984/356
English
Page 15

Letter dated 20 May 1992 from the Head of Delegation
of Iraq addressed to the Legal Counsel

In reference to the memorandum of understanding signed today and as I advised you during the discussion that a letter would be sent to you concerning the position of Iraq as to the cost of production and transportation of oil inside Iraq, I state below Iraq's position, which I request that you include in the official record of our discussion:

The Iraqi delegation explained during the discussion that the cost of production and transportation of petroleum including expenses in local currency, is currently estimated at US\$ 2.08 per barrel. Such cost had to be deducted from the price as proposed through the production and export of extra barrels of oil. The Iraqi delegation stated that the cost of production and transportation referred to above would be deposited in the Iraq account to be utilized for the import of spare parts and other items necessary for the maintenance and sustaining of production and transportation operations as is the established practice in the oil industry, otherwise production and transportation operations could be hindered and eventually come to a halt.

Nevertheless, and in order to facilitate the conclusion of this memorandum of understanding, the Iraqi delegation agreed not to insist on the acceptance of its position by the United Nations Secretariat delegation at this stage and to refer to the matter in a separate letter addressed to the Head of the Delegation of the United Nations Secretariat for consideration in any future discussion.

Although the matter is not discussed, the Iraqi delegation wishes to state that the route for Iraqi petroleum export could be via the Syrian Arab Republic.

(SIGNED) Ambassador A. Amir MUHAMMAD
Head of the Delegation of Iraq



M E M O R A N D U M

Date: May 4, 2003
To: Dominique Remy
From: Pierre Vignas
Copy: Lincoln Pylton

Re: Chronology of Oil For Food Program Banking Events

Please find attached here below a synopsis of events that were significant for BNP/BNP Parties:

- June 3, 1996 Request for Proposal of this date sent to BNP.
- June 7, 1996 BNP response to RFP sent to UN Treasury under competitive bidding procedure.
- June 18, 1996 Notification that BNP won the bid sent to Pierre Schneider by UN Controller.
- Sept. 12, 1996 Agreement For Banking Services (ABS) signed by UN and BNP after six weeks of negotiation. Valid until March 26, 1997. Along with BNP Paribas, Chase has managed the various accounts which represented 47% of the funds at that time (now it is 41%).
- Dec. 10, 1996 Phase I begins, first oil cargo loaded.
- Dec. 27, 1996 UN allows BNP to sell risk participations in confirmations of oil LCs opened by Turkish banks.
- Jan. 17, 1997 Amendment no. 1 to ABS signed changing authorized signatories.
- Feb. 14, 1997 First humanitarian LC issued by BNP.
- Several amendments to ABS and renewal of several phases in between.
- Dec. 12, 1999 Phase VII begins.
Examination to ABS signed by UN with validity until Sept. 27, 2000.
- During 2000 Diversification of funds at banks selected by UN begins (Deutsche Bank, HypoVereinsbank, BBVA, CA).
- June 9, 2000 Phase VIII begins.
- Sept. 27, 2000 Examination to ABS signed by UN with validity until March 26, 2001.

Nov. 13, 2000 Amendment no. 4 to ABS signed adding Euro Sub-Account and format of all LCs, now to be demonstrated in future.

Dec. 5, 2000 Phase IX begins.

Dec 19 2000 Letter from the Permanent Representative of Iraq to the UN Security Council raising some operational issues and insisting on a diversification of the banking activities

Jan 9, 2001 Letter from the Iraqi Ministry of Foreign Affairs to the UN General Secretary stating him about serious operational issues

Jan 18, 2001 Letter from the UN Under Secretary General to the Iraqi Minister of Foreign Affairs explaining the operational situation and suggesting to Iraq to deploy in NY a representative of CBI in order to resolve practical issues

Mar. 28, 2001 Extension to ABS signed by UN with validity until Sept. 24, 2001.

Mar. 30, 2001 Request for Proposal of the date sent to BNPP for diversification of letter of credit business and new pricing. Sent by Joseph Connor, Under-Secretary-General, Department of Management.

Apr. 27, 2001 RFP bid for diversification of letters of credit sent to UN with validity of June 30, 2001.

Feb. 25, 2002 Extension to ABS signed by UN with validity until Dec. 31, 2002.

May 2002 RFP Paribas informed by the UN that the all LCs will be split as an equal bank between 2 banks (BNPP and CBI) and the other 3 banks will be shared equally between 3 banks (BNPP, CBI, DIB and BVA) on an equal basis that had to be defined; all this was going to be implemented gradually by May and June 2002 subject to an agreement between the UN and the Iraqi Government on the practical implementation of the diversification

May 30, 2002 Phase XII begins.

October, 2002 Deutsche Bank had finalized the documentation in order to start the issuance of humanitarian LCs with the upcoming start of Phase XII: DIB credit rating downgraded by Fitch IBCA and informed by the UN it could not issue LC as long as its "individual rating" would be C or below.

Dec. 5, 2002 Phase XIII begins.

Apr. 2, 2003 Extension to ABS signed by UN with validity until Dec. 31, 2003.

Apr. 4, 2003 Amendment no. 8 to ABS signed covering changes resulting from Resolution 1472 (and 1476), UN now assuming the role of the applicant, i.e. Iraqi buyers, for an interim period until June 30.

Nov. 15, 2001 RFPs-311 and RFPs-312 regarding diversification of oil and humanitarian letters of credit sent to BNPP. Sent by UN Procurement Division.

Nov. 28, 2001 RFPs bids sent to UN with validity of Jan. 31, 2002 (after clarification and re-adjustments by the UN of several points that were not properly addressed by the UN in its RFP).

Dec. 1, 2001 Phase XI begins.

Jan. 9, 2002 RFPs-330 for "best and final offer" regarding diversification of humanitarian LCs sent to BNPP by UN Procurement Division. It was stated that one of the intended recipients did not receive the solicitation RFPs-312.

Jan. 22, 2002 Response to RFPs-330 sent to UN with a validity of April 23, 2002.

Jan. 2002 BNP Paribas informed (unofficially) that several banks short-listed for the 1st round have either decided not to bid finally or have been not retained by the UN after round 1 of 2.

Feb. 4, 2002 Letter from UN regarding RFPs-311, 312 and 330 indicating that the UN intends to enter into direct negotiations for award of contracts for both OH letters of credit and Humanitarian letters of Credit.

Feb. 2002 Several meetings between UN and CBI in Baghdad regarding the banking side of the Program, this leading to some changes decided by the UN as for the handling of document documents presented for payment, notably expired LCs

In between extensions of phase, amendment to our ABS, renewals of our bid under the RFP

Oct. 26, 2001 Letter received from UN Procurement Division rejecting all proposals and indicating that the UN would enter into negotiated agreements directly with each of the invited bidders, the pricing to be matched being in practice the one submitted by BNP Paribas in the 1st round (including BNPP's pricing was being the lowest one).

BNP Paribas and the UN Oil for Food Program

July 14th

1) How was BNP selected by the United Nations?

Resolution 984 of the UN Security Council gave the responsibility of establishing an escrow account to the Secretary-General. In order to do this, the Secretary-General needed the terms of the account under the Memorandum of Understanding Between the Secretariat of the U.N. and the Government of Iraq.

According to the Secretary-General's report, dated November 25, 1998, the selection process for the account was a two-stage process. In the first stage, the Secretary-General invited all banks in all parts of the world with the necessary credit quality ratings, among capital positions, and the capabilities to provide the services necessary for the account. After consulting with the Government of Iraq, a short list of banks was prepared. In the second stage, the Secretary-General invited the banks on this list to submit written proposals to the U.N. outlining their services and prices. The RFP requested, among other objective criteria, pricing and required into the bank's capabilities to handle business of all origin's size. According to the UN, only 4 banks made a formal offer: Citicorp, Citibank, BNP, Credit Suisse and UBS.

In 1998, The Secretary-General reported "after careful consideration of the proposals received, Citicorp and UBS were selected as the holder of the escrow account, and the account was established on January 1, 1999. The Secretary-General also reported that Citicorp and UBS were selected for the criteria for the UN and High credit ratings gave it a competitive edge over the other banks including Credit Suisse which was the only bank who had made a lower bid than BNP. At that time (and still today), BNP had a much higher international rating and it being a commercial bank, it had a much higher international rating than Citicorp and UBS. The Secretary-General also reported that all the banks' bids were not viable to do so. Therefore, BNP was a natural choice for the 99 % account (99 % of the funds derived from Iraq Oil sales are managed on one account). The UN also reported that Citicorp and UBS were selected as the holder of the account for Northern Governments. Along with BNP, Citicorp and UBS were also selected as the holder of the account for those other accounts, i.e. 41 % of the total funds and, particularly, the 13% allocated to the Iraq Northern Government.

After six weeks of negotiations, on September 12, 1998, an agreement for banking services for the Oil-for-Food Program was signed by the U.N. and BNP.

It should be noted that the U.N. has repeatedly confirmed that the selection of BNP was based on a competitive bidding process. (See Simon V. Stevan, Esq., Esq. Oil-for-Food Program, Oil-for-Food, 29 U.N. Rep. N.Y. Times, Apr. 28, 2002).

There has been one story linking one of Paribas' largest private shareholders, an Iraq-born businessman named Nadim Alusi, to the Hussein Government, which states speculation that BNP was selected for the account because of Alusi's relationship with the Hussein Government. However, a shareholder of Paribas in 1998 but it does not make any sense to imagine that he could have played any part in helping a competitor of Paribas win the account, i.e. BNP. The 2 banks were totally

BHGA-002-0054
CONFIDENTIAL

independent, at that time and until 2000 when BNP and Paribas merged, after an aborted, protracted struggle in 1999 between Paribas and Societe Generale. Currently, Mr. Auzan has no involvement in BNP's activities and is an indirect passive investment in less than one-half of one percent of the bank's outstanding stock.

2) Role of BNP-Paribas under Oil for Food.

The role of BNP-Paribas consists strictly of delivering banking services to the UN General Secretary / Treasury Department, its client. The bank intervenes only where contracts have been signed between the UN and the suppliers, and where the UN has not yet made payment. In such cases, the bank's role is being seen approved by the relevant UN departments which report in that respect to the members of the Security Council.

In practice, applications for export of goods to Iraq under SC Resolution 688, for which payment is to be made by the UN, are processed by BNP-Paribas, which is accredited to the UN Office of Iraq Programme (OIP) by relevant National Ministries and UN Secretaries. The bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

Once all the UN paperwork is completed, the Central Bank of Iraq requests the issuance of the LC which is then approved by BNP-Paribas, once the UN has given its approval. Generally, the goods are then shipped to Iraq. The bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

Once all the UN paperwork is completed, the Central Bank of Iraq requests the issuance of the LC which is then approved by BNP-Paribas, once the UN has given its approval. Generally, the goods are then shipped to Iraq. The bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

3) The management of the Oil for Food funds

BNP Paribas has no control over how money is spent under the Oil-for-Food Program. As explained above, the bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

Security Council members. BNP is not responsible for monitoring or auditing moneys that leave the bank. BNP Paribas role is to pay the exporter of goods upon confirmation by UN inspectors, credit transfer to UN Treasury. The bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

BNP Paribas is not the only bank holding funds for the United Nations Oil-for-Food Program; other banks also hold these funds, particularly Chinese state banks.

Other banks have been involved in holding Oil-for-Food funds from the outset of the Program. Although, 100% of the proceeds from the sale of oil flow through BNP Paribas, only 60% remain in its custody for purchasing humanitarian supplies. Upon the receipt of oil proceeds, BNP Paribas is given authority to purchase humanitarian supplies. The bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

Not knowing the full capacity of the Program, it made sense in the beginning to limit the investment to 50% (later on this number has been increased by the UN Security Council to 50%) in the UN Iraq Account and the issuance of supply LCs to one bank. In the beginning of the Program, the bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

By end of 2000 BNP Paribas had together examined how to best diversify; however, the UN never actually authorized BNP Paribas' suggestions. In 2000, other banks were however brought in to diversify the funds. The bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

In March 2001, the UN launched a Request For Proposal for the issuance of LCs. In late 2002 the last step of the issuance of three RFPs resulting in an order to execute a deal for overall diversification of the supply LCs. The bank's role is strictly limited to the processing of the UN's requests and providing the application in its confidence. It does not forward its advice Memorandum of Understanding between Iraq and the UN, the application is then forwarded to the UN Secretary-General's Office (UNSGO) and the UN Security Council. The UN Security Council (UNSC) and the International Atomic Energy Agency (IAEA). The UN Security Council has a regular basis to the UN Security Council about the situation of the Program. From a more practical point of view, the bank's role is to ensure that the contracts are under the supervision of the UN 681 Committee where all members of the Security Council are represented.

In practice UN gives instructions to BNP Paribas to invest every dollar in the account, the UN is participating in a daily basis BNP market rates with its other banks (notably Citibank and CDBP). All interest earned is reinvested in fact in the fund to purchase humanitarian supplies, as publicly stated by Mr. Baron Sever, Executive Director of the Oil-for-Food Program (For New Channel, Apr. 28, 2003).

3.1. Issues of Oil for Food on BNP Program

All bills received by BNP Parcibas are commensurately receivable and its remuneration is made by either the exporter of humanitarian supplies (15 top flat) or by the oil buyer (11 top flat). This is rather modest compared to normal commercial rates, considering the LCs are issued on the condition that the bank must ensure the receipt of goods and the payment of the LCs. The bank also has a right of inspection at the delivery point and the other documents of the LC.

There is, in general, an enormous amount of work involved in issuing or confirming and registering LCs under the program. As an order of magnitude, the bank has registered over 20,000 LCs for BNP Parcibas in the last 12 months. The bank has issued over 20,000 LCs within the year. In the same vein, there were several significant additional issues that the bank had to issue such as the above in the results of the purchase of oil from Iraq. The bank has also issued a number of LCs for the purchase of oil from Iraq. The bank has also issued a number of LCs for the purchase of oil from Iraq. The bank has also issued a number of LCs for the purchase of oil from Iraq.

BNP Parcibas had originally obtained a "cash management" fee to the UN, but this has been waived when the same work required to bill the UN becomes more burdensome than the modest fee was actually worth. At the same time, the UN's treasury department is sophisticated and deals with multiple banks on a daily basis (see the foreign exchange rate that remains stable). BNP Parcibas is from a more global standpoint, BNP Parcibas is the worldwide leader bank in the oil business, its operations in the main metropolitan being significant. The OIF has certainly brought an additional expertise into the bank as well as more knowledge of the world market and the oil business. The activity of the business has not been high, but the bank has not lost sight of a percent of the bank's total revenue.

ECKP Americas
UN Oil for Food

April 7, 2004

A Brief Report and Update on the Bank's Side
RE: THE UNITED NATIONS OIL FOR FOOD PROGRAM

End of the Historical Involvement of the Bank in the United Nations Oil for Food Program

The UN Oil for Food Program was established by the UN in 1996. It was established out of the desire to alleviate the suffering of the Iraqi people arising from the sanctions that were imposed on Iraq immediately after Iraq's invasion of Kuwait. The Program permitted Iraq to sell oil but only so long as the proceeds were used to purchase humanitarian goods and for other purposes permitted by the UN (schools, hospitals, etc.). The UN also permitted Iraq to sell other commodities, such as wheat, for humanitarian purposes. As the Program progressed, the list of authorized humanitarian goods was expanded to include other goods approved by the UN.

All oil revenues arising from the sale of Iraqi oil under the Program were to be deposited to a UN bank account to be established by the UN as an international bank. Of these revenues, 40% were to be used to the purchase of food, medicine and other humanitarian goods by the Iraqi Government under the control of the UN. The remaining 60% of the oil revenues was allocated to the UN Compensation Fund for damages from the First Gulf War (CFW), to replace for the Northern Part of Iraq under the control of the UN. The UN also permitted Iraq to sell other commodities, such as wheat, for humanitarian purposes. As the Program progressed, the list of authorized humanitarian goods was expanded to include other goods approved by the UN.

In connection with the Program, BNP was selected in 1996 by the UN to hold the escrow account and issue or confirm the letters of credit related to the importation of goods under the OIF program through a competitive bidding process involving (on one knowledge) approximately 20 banks, four of them being then-listed on the basis of qualitative criteria (credit rating, international network, capacity in trade finance, etc) and pricing.

The UN opened an escrow account at BNP (and which the proceeds of the oil sales under the Program were deposited) and selected BNP to handle the documentary credit requirements of the Program. From the Program's inception, 41% of the oil proceeds were immediately transferred by the UN to the UN's account at JPMorgan Chase, the remaining 59% balance was held at BNP to secure BNP's issuance of letters of credit to the UN. The UN also permitted Iraq to sell other commodities, such as wheat, for humanitarian purposes. As the Program progressed, the list of authorized humanitarian goods was expanded to include other goods approved by the UN.

For the documentary part, the role of the selected bank was twofold: 1) confirm LC's issued by the issuer of the LC's (BNP) and 2) issue humanitarian LC's on behalf of the UN in favor of suppliers of goods to Iraq. BNP handled the first transaction in December 1996.

BHGA-002-0057
CONFIDENTIAL

BHGA-002-0058
CONFIDENTIAL

As mentioned above, all transactions were governed by UCP 500 documentary rules but there were also some extra requirements:

- f) the price of the oil was established by the UN Sanctions Committee in NY after recommendation from UN Oil Movement that was issued in a formal approval,
- g) on the ground, the lifting of the oil was controlled by Seybold (an independent company) and known in the industry, which was approved by the UN, which had to issue a certificate of release of the oil.
- h) a set of documents (consentment by an exporter of goods for payment had to include two specific documents:
 - a letter from the UN Sanctions Committee approving the contract
 - a Confirmation of Arrival issued by the UN on the basis of an inspection report upon the arrival of the goods being transported by air-sea route.

Finally, all decisions in terms of cash-management were made by the UN Treasury Department. From a US regulatory standpoint, all OGP transactions were screened through the Office for Foreign Assets Control (OFAC).

To summarize, the banking side of the OGP was isolated from the contract negotiation and UN Oil Movement and was fully controlled by the UN Treasury Department. Additional checks on the ground were placed at its center the UN Treasury Department, which was the decision-maker overall and on a daily basis, this being in addition to the usual US light regulatory context.

The consolidation of BNFP Facilities NY

Up until 2003, the bank had dedicated some From-Office and Head-Office resources to the OGP Program. With the consolidation of the OGP Program in 2003, the bank had to re-organize its resources. In 1999 up to 25,000 in 2001, the bank massively re-organized and increased in order to meet the challenge: new managers, additional staff (from 23 up to 90 in 12 months), and IT systems.

This allowed the bank to deliver a good quality of service to exporters and to the UN. In particular, the commitment of the bank was to quick turnaround of transactions, a crucial point for all players. Meanwhile the bank expanded their Customer Service Unit, up to 14 employees, in order to handle inquiries from exporters. This has been appreciated in the market.

Our relationship with the UN

Over the last seven years, under the OGP Program, BNFP has overall enjoyed a relatively good relationship with the UN, its client. This was achieved in spite of the "construction of the Program" which at times left the bank in the awkward position of being a commercial player with divergent interests. In addition, the complexity of the UN organization has to be taken into account.

There were some frictions at times, notably in 2000 for various reasons. Since then, the relationship with the UN and its decision-makers has significantly improved, the UN appreciating the high level of service we have consistently delivered to them. And all this in a context of high volumes.

BHGA-002-0060
CONFIDENTIAL

It must be noted that BNFP has never been involved in the commercial discussions/negotiations between Iraqi counter-parties and buyers of oil or suppliers of goods. BNFP was not aware of the terms of the humanitarian contract, the bank dealing exclusively with letters of credit, which remain an operating tool distinct and independent from the underlying commercial contract according to UCP 500 rules (which have been applied by the UN to the OGP Program).

In late 2000, when the Iraqi government agreed with the UN to switch from USD to EUR for the oil sales, it was also decided that the custody of the 50% escrow account funds (in excess of the amount needed to secure outstanding humanitarian letters of credit) should be diversified. Deutsche Bank, HypoVereinsbank, BBVA, and Credit Agricole have participated over time in the 50% side of this escrow account. In 2001, the amount remained with Deutsche Bank. In 2002, the amount was split in all, BNFP held over time, between 50% and 50% of the total funds managed by the UN under the Program.

In terms of cash-management, the bank has indeed been in competition with top players in the industry, the UN Treasury Department and the UN Oil Movement. The bank's role was to provide the services needed by the UN Treasury Department and the UN Oil Movement. The OGP funds, Foreign Exchange transactions were also concluded at the discretion of the UN (the oil revenues were in EUR since the end of 2000), while a large portion of the OGP expenses were USD-based, BNFP Facilities being one of the banks dealing FX with the UN.

Subsequently the UN Treasury Department launched a Request for Proposal early 2001 in order to diversify the documentary part of the Program. In April 2002, after three successive rounds of competition, four banks (CSEF, Deutsche, BBVA, and BNFP) were finally selected for the documentary part of the OGP Program. BNFP being best bidder and "virtually" retained for approximately half of the total operation. The UN has entered in re-entrance agreements with banks and for reasons unknown that we never implemented the second step of the re-entrance.

In short, under a competitive bidding process organized by the UN, BNFP was selected by the UN in 1999 to handle the documentary transactions involving Iraq under OGP. During the Program, a large part of the OGP funds were held by other banks.

Which measures were implemented in order to control the Program?

As a general comment, all actions by BNFP took place within a framework designed by the UN General Secretariat on behalf of the Security Council and formalized via the banking contract banking the UN and BNFP.

In addition to the fact that the bank, as is usual in the trade business, was not party to the commercial negotiations between Iraq and its counter-parties, all the operations were controlled by the UN organization, the OGP Program was tightly controlled on the banking side, indeed the lengthy and cumbersome banking process set up by the UN has been a constant complaint over time from traders and exporters from all over the world, the bank being under the spotlight due to the application of these rules designed by the UN.

In order to ensure and process any banking transaction—any oil L/C confirmation, any oil L/C negotiation, any issuance, amendment, or payment of any humanitarian L/C—BNFP systematically required formal approval from the UN. Any other specific request from the Central Bank of Iraq was systematically submitted to the UN for instruction. In addition, the UN L/C's were not transferable and the possibility of assignments of proceeds was significantly restricted.

BHGA-002-0059
CONFIDENTIAL



MEMORANDUM

Date: May 7, 2003
To:
From: Evi Milas Russo
Copy:
Re: Chronology of Oil For Food Program Banking Events

Under the United Nations Office of the Iraq Programme website (www.un.org/daep/oipl/background/chron.htm) is a chronology of the Oil For Food Program Events. In addition to that chronology, below is a synopsis of events that were significant for BNP/BNP Parties.

- June 3, 1998 Request for Proposal of the date sent to BNP.
June 7, 1998 BNP response to RFP sent to UN Treasury under competitive bidding procedure.
June 11, 1998 UN award of contract to BNP to provide services by UN Comptroller.
Sept. 12, 1998 Agreement For Banking Services signed by UN and BNP after 46 weeks of negotiation. Valid until March 28, 1999.
Dec. 10, 1998 Phase I begins, first oil cargo loaded.
Dec. 27, 1998 UN allows BNP to set the participations in confirmations of oil LCs opened by Turkish banks.
Feb. 14, 1999 First humanitarian LC issued by BNP.
Feb. 14, 1999 Amendment nos. 2 and 3 to ABS signed changing authorized signatories and oil LC pricing.
May 13, 1997 (Signed by BNP July 28, 1997).
June 8, 1997 Phase II begins.
Aug. 26, 1997 Extension to ABS signed by UN with validity until March 28, 1998.
Dec. 5, 1997 Phase III begins.
Mar. 25, 1998 Extension to ABS signed by UN with validity until Sept. 28, 1998.
May 25, 1998 Phase IV begins.
Nov. 26, 1998 Extension to ABS signed by UN with validity until March 28, 1999.
Nov. 26, 1998 Extension to ABS signed by UN with validity until Sept. 27, 1999.
May 25, 1999 Phase V begins.
Sept. 23, 1999 Extension to ABS signed by UN with validity until March 27, 2000.
Dec. 12, 1999 Extension to ABS signed by UN with validity until Sept. 27, 2000.
During 2000 Diversification of funds at banks selected by UN begins.
June 6, 2000 Phase VIII begins.
Sept. 27, 2000 Extension to ABS signed by UN with validity until March 28, 2001.
Nov. 13, 2000 Amendment nos. 4 to ABS signed adding Euro Sub-Account and format of oil LCs, now to be

BHGA-002-0064
CONFIDENTIAL

In the post-war context, in particular, given the sense of emergency and the involvement of many new players such as different UN agencies (UNICEF, UNDP, WHO, etc.) the role of the UN Treasury has been significantly enhanced. While the UN Treasury has been proactive and has effectively completed our contracts at the UN, especially during the last several months when sustaining the UN with numerous LC limitations and amendments.

P. A. challenging the overall good relationship with the UN.

Current situation of the Oil For Food Program and its immediate evolution

The Oil For Food Program was officially terminated on November 31, 2003. Through the deadline has passed, the UN Treasury continues to operate under the joint control of the UN and the Coalition Provisional Authority (CPA). As far as the bank is concerned, it has continued to issue and amend humanitarian Letters of Credit related to priority concerns raised by the tri-partite group consisting of the UN, the CPA and the new Iraqi authorities in order to meet the urgent needs of the Iraqi population. On the other side, the activity on the oil export side cannot right after the war in April.

Currently and until those LC's are fully drawn, the exposure will continue to ship goods to Iraq in order to ensure basic primary necessities and to support the reconstruction process. For the second half of 2003, the UN Treasury has issued 100 LC's with a total value of \$1.5 billion. The current backlog is 30 LC's (vs. 90 prior to the war).

The level of cash in the UN's account with BNP amounts to \$6.3Bn as of today, the amount of collateral being \$6Bn. There are some 3,500 humanitarian LC's on the books, \$4.5Bn of them \$6Bn expiring between now and the end of this year. The bulk of the amount is in the form of LC's issued in 2002 (50% of the total amount) and 2003 (50% of the total amount).

Recent Fed requests for information

The New York Fed has recently requested specific information relating to the Oil For Food Program and we are in the process of complying with those requests.

In conclusion, BNP Paribas has brought a positive and decisive contribution to the banking of the Oil For Food Program and the performance of the bank has helped the UN Treasury to meet its challenges over the past seven years, particularly in the difficult post-war context of this year. We are now at a crossroads in light of the (below) winding-down of the Program and re-coming home of the political power in Iraq.

FERRY VETTER

BHGA-002-0061
CONFIDENTIAL

- Dec. 6, 2000 denominated in Euros.
- Dec. 26, 2001 Phase IX begins.
- Mar. 26, 2001 Extension to ABS signed by UN with validity until Sept. 24, 2001.
- Mar. 30, 2001 Request for Proposal of this date sent to BNPP for diversification of letter of credit business and new RFP bid sent by Joseph Connor, Under-Secretary-General, Department of Management.
- Apr. 27, 2001 Extension of RFP bid sent to UN with validity of July 31, 2001.
- June 28, 2001 Extension of RFP bid sent to UN with validity of August 31, 2001.
- July 4, 2001 Extension of RFP bid sent to UN with validity of Sept. 30, 2001.
- July 31, 2001 Extension of RFP bid sent to UN with validity of Oct. 31, 2001.
- Sept. 24, 2001 Extension to RFP bid sent to UN with validity of Nov. 30, 2001.
- Oct. 26, 2001 Letter received from UN Procurement Division rejecting all proposals and indicating that the UN would enter into negotiated agreements directly with each of the invited bidders.
- Nov. 16, 2001 RFPs-311 and RFPs-312 regarding diversification of oil and humanitarian letters of credit sent to BNPP.
- Nov. 29, 2001 RFPs-311 and RFPs-312 regarding diversification of oil and humanitarian letters of credit sent to BNPP.
- Dec. 1, 2001 RFPs-311 and RFPs-312 regarding diversification of oil and humanitarian letters of credit sent to BNPP.
- Dec. 9, 2002 RFPs-330 for "test and final offer" regarding diversification of humanitarian L/Cs sent to BNPP by UN Procurement Division. It was stated that one of the intended recipients did not receive the letter.
- Jan. 22, 2002 Response to RFPs-330 sent to UN with a validity of April 23, 2002.
- Feb. 9, 2002 Letter from UN regarding RFPs-311, 312 and 330 indicating that the UN intends to enter into direct negotiations for award of contracts for both Oil letters of credit and Humanitarian letters of credit.
- Feb. 25, 2002 Separately, ABS signed by UN with validity until Dec. 31, 2002.
- May 30, 2002 Extension to ABS signed by UN with validity until Dec. 31, 2003.
- Dec. 5, 2002 Extension to ABS signed by UN with validity until Dec. 31, 2003.
- Apr. 2, 2002 Amendment no. 3 to ABS signed covering changes resulting from Resolution 1472, UN now assuming the role of final bidder for an 18-month period.
- Apr. 4, 2003

BHCA-002-0065
CONFIDENTIAL

22/03/03

In light of recent anti-French sentiment arising from the Iraq situation and an underlying and misleading NSIC story on BNP Paribas and its role in the UN Oil for Food Program, we have prepared the following statements which may be used for employee inquiries and conversations with concerned clients.

Anti-French sentiment

- BNP Paribas employs over 10,000 people in the U.S.
- BNP Paribas provides a broad range of financial products and services to a significant number of US corporations, including some of the largest US corporations. By doing so, BNP Paribas provides financing and other support to the US economy.
- BNP Paribas is a publicly traded company operating in the private sector whose shareholders reside in locations across the globe.

UN Oil for Food Program

- The United Nations Oil for Food Program is an established humanitarian aid program for the Iraq people created by the unanimous action of the UN Security Council, and thus specifically endorsed by the United States, one of the five permanent members.
- BNP Paribas was chosen by the UN to provide banking services for the Oil for Food Program through a competitive bidding process. There are several other banks involved in the Program.
- BNP Paribas' participation in the United Nations Oil for Food Program was authorized by the US Government. (If asked - through the US Department of Treasury Office of Foreign Assets Control - OFAC).
- The United Nations approves and conditions any and all purchases made for humanitarian aid for the people of Iraq under the Oil for Food Program.
- If asked - BNP Paribas' role is limited to providing financial services to its client, the United Nations and has no role in the selection, approval or distribution of the products or goods that are delivered to Iraq under the Program.
- Today (2/20/03), the US has reiterated its endorsement of the UN Oil for Food Program as a means to provide humanitarian relief to the Iraqi people.
- For further information on the UN Oil for Food Program, please visit the UN's website at: <http://www.un.org/Depts/dp/peace/round/food-ohf.html>

WALJ03981

BHCA-002-0066
CONFIDENTIAL

Mr. SHAYS. Mr. Boks.

Mr. BOKS. Mr. Chairman and distinguished members of the subcommittee, my name is Peter Boks. I am an executive of Saybolt International which is headquartered in The Netherlands, just outside of Rotterdam. Thank you for inviting me to discuss with the subcommittee today the role of Saybolt International in the administration of the United Nations Oil-for-Food Program. Having submitted a more complete statement for the record, I will discuss my brief oral remarks on our principal responsibilities; namely, the monitoring of oil exports under the Oil-for-Food Program.

Mr. Chairman, please bear with me that English is not my native language. So excuse me if things are unclear.

Mr. SHAYS. Let me assure you that we hear you very well, and we appreciate you are speaking in English.

Mr. BOKS. Thank you. Saybolt won its contract with the United Nations in 1996 through a competitive bid process. Under that contract and multiple extensions, Saybolt deployed teams of inspectors selected on the basis of their prior experience in the industry. Oil inspectors were screened by Saybolt, approved by the United Nations, trained and briefed for this assignment and required to certify compliance with Saybolt's code of conduct.

Under its contract with the United Nations, Saybolt's responsibility was to monitor the quality and quantity of oil exports from the two authorized Oil-for-Food export points, the offshore platform in Al-Bakr and the port of Ceyhan in Turkey, along with the remote monitoring station on the Iraq-Turkey pipeline near Zakho, close to the northern border with Turkey.

The monitoring procedures follow: First, the United Nations oil overseers would review and approve contracts and letters of credit negotiated between the Iraqi oil company SOMO and the buyers of Iraqi oil. Coordinating through a common data base shared by Saybolt and the United Nations, Saybolt would monitor the quantity and quality of oil, pursuant to the approved contracts at the two authorized export points and report confirming figures to the United Nations.

Also important were the limits of Saybolt's responsibilities. Saybolt had no responsibility, for example, with respect to the underlying contracts which were negotiated directly between the seller and buyer and reviewed by the United Nations. Saybolt had no control over the moneys that were involved in the underlying transactions—that was a matter for the sellers, buyers, and the United Nations—nor did Saybolt itself buy or sell Iraqi oil.

Finally, from time to time, we reported irregularities that we observed to the United Nations or the Multilateral Interception Force. Saybolt had no responsibility for monitoring oil exports from any locations other than the three locations specified in its contract. In performing their responsibilities, Saybolt inspectors typically operated in remote locations in inhospitable work environments. Some days, for example, the isolated Mina Al-Bakr platform was without electricity or water and sometimes during heat that exceeded 110 degrees. U.N. audits and reports confirmed the harsh working conditions and risk to personal safety. The entire program was also characterized by highly charged, political interests and sensitivities.

The simultaneous operation of the humanitarian Oil-for-Food Program and a comprehensive U.N.-imposed sanctions regime created a variety of practical and logistical complications affecting everything from obtaining visas to paying for basic necessities.

The job of monitoring authorized oil exports was also made more challenging by the poor state of the oil industry infrastructure and the deficiencies in equipment and technology in Iraq. Even before the program began, Saybolt informed the United Nations of problems with the metering equipment at each of the three sites. At Mina Al-Bakr, the Iraqi failure to install, repair, or calibrate metering equipment meant there were no counterpart measurements to cross-check against ship measurements at the point of loading on the Mina Al-Bakr platform.

In the absence of calibrated metering equipment, Saybolt used the best alternative techniques accepted and widely used in the industry. Specifically, in the absence of metering, inspectors relied on calibration charts, vessel experience factors, and shipboard measurements to determine the quantity of oil loaded onto vessels, a methodology that the United Nations expressly accepted.

Monitoring loadings without access to reliable meters is accepted industry practice but is less accurate than metering at loading points. Although falsification of calibration charts and VEF data is rarely an issue, the possibility exists. To avoid such a problem, Saybolt originally recommended that the volume of oil be measured at the foreign point offloadings, as well as at the loading points of Mina Al-Bakr and Ceyhan. For whatever reasons, his recommendation was not adopted.

In January 1999 following discussions with the United Nations, Saybolt began requiring that each master sign a statement certifying the accuracy of the records provided to Saybolt. The United Nations was informed of this procedure and supported its recommendation. Over 7 years, Saybolt inspectors monitored more than 2,600 loadings involving a total of approximately 3.4 billion barrels of crude oil. Over that period of time, very few irregularities occurred. Two instances of loading excess quantities of oil, the unauthorized topping off, occurred in 2001, both involving the same vessel, the same vessel charter. Saybolt promptly investigated these incidents, made written and personal reports to the United Nations, and put in place additional safeguards to prevent any similar abuses in the future. Thereafter, Saybolt encountered no recurrences of the incidents experienced in 2001.

Looking back on the program and the variety of challenges it faced, we can now identify the ways that the monitoring of oil exports under the Oil-for-Food Program might have been strengthened. These include requiring accurate metering equipment, the continued presence of at least one U.N. official at each loading location, incorporating from the outset various safeguards that Saybolt developed during the course of the program, and monitoring mechanisms for detecting unauthorized exports from other than the two U.N.-approved export points. More broadly, it now appears in hindsight that the ability for Iraq to contract directly with buyers of oil and sellers of goods introduced a significant opportunity for abuse. And to the extent that the member states of the United Nations disregarded or systematically violated the U.N. embargo against

Iraq, that conduct obviously undercut fundamentally the objectives of the Oil-for-Food Program which was conceived to be an exception to the embargo.

Saybolt and its professionals performed a difficult job under very difficult circumstances in Iraq. While not without blemishes, the monitoring of oil was done professionally over an extended period of time. I am happy to discuss that project with you today and to help extract from their experience any lessons which may be of value in conducting humanitarian programs in the future.

Mr. SHAYS. Thank you, Mr. Boks.

[The prepared statement of Mr. Boks follows:]

Testimony of Peter W. G. ~~Smith~~, Managing Director, Saybolt International B.V.
Before the House Committee on Government Reform Subcommittee on National Security,
Emerging Threats, and International Relations
October 5, 2004

Mr. Chairman, distinguished members of the Subcommittee,

Thank you for inviting me to speak before the Subcommittee today on the role of Saybolt International B.V. ("Saybolt") in the administration of the United Nations Oil-for-Food Program ("the Program") that operated in Iraq between 1996 and 2003. As a senior executive and manager of Saybolt, now and during that time, 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.

I will focus my remarks on the areas that your invitation asked me to address. The first area is Saybolt's contracts with the United Nations. I will discuss how Saybolt won the contracts, the scope of the contracts, and how they compare with other contracts into which Saybolt typically enters. The second area is the legal, ethical, and due diligence procedures that Saybolt followed. The third area is the challenges that Saybolt faced in carrying out contractual obligations. I will discuss those challenges, and how both Saybolt and the United Nations addressed them. Finally, I will discuss what steps could have been taken, in my opinion, to make the Program as a whole more effective at preventing manipulation by the Iraqi government.

I. BACKGROUND ON SAYBOLT'S CONTRACTS WITH THE UNITED NATIONS

How Saybolt Won the Oil-for-Food Contract

Saybolt was selected as the independent oil inspection agent of the United Nations through a competitive bid process that was initiated by a 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 a RFP, which included a request for provision of independent oil inspection agents.

We 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. After some discussion of our proposal and a preliminary fact-finding mission, on November 29, 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, we submitted our 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").

Unique Features of the Oil-for-Food Contract

The contract under which Saybolt provided inspection services to the United Nations was in many respects a standard commercial contract, with a few notable differences.

First, our role was substantially different than the role we play in most of our commercial contracts. It is standard industry practice, and common practice for Saybolt, to be retained jointly by both buyers and sellers of oil. In this instance, however, we acted as independent inspectors verifying the quantity and quality of oil on behalf of a third party. Though we acted as monitors for the United Nations, I should point out that we were never involved in the transfers of funds related to oil purchased in the Program.

Second, there were significantly more third parties that had institutional or political interests or sensitivities in the performance of our contract with the United Nations than we encounter in other transactions. We were monitored and reviewed by the U.N. Security Council, other organs of the United Nations, and U.N. member states, most notably Iraq. As a result, the professionalism of our inspectors was particularly important to the performance of our duties.

Third, the negotiation process for this contract was different than what we encounter in other contexts. Saybolt typically negotiates the specific terms of contracts with clients. However, in this instance, the terms of the contract were dictated by the United Nations. Because of the importance of the project and our desire to ease the humanitarian crisis in Iraq, we were willing to agree to the terms specified by the U.N.

The Role of Saybolt in the Oil-for-Food Program

Saybolt performed two functions in the Program. First, Saybolt 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, Saybolt coordinated three studies of the Iraqi oil industry by a group of experts called for under resolutions of the U.N. Security Council. Saybolt carried out each of these activities pursuant to contracts with the United Nations.

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 Saybolt was 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. Saybolt

began monitoring in 1996, after it received a Request to Commence Mobilization from the United Nations dated November 29, 1996.

Almost a year-and-a-half after Saybolt began monitoring oil exports from these locations, the United Nations awarded Saybolt a contract for additional inspection work related to the Program. Saybolt was 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. Saybolt's proposal was accepted in a June 1998 amendment to the First Contract.

Beginning in 1998, Saybolt also coordinated 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 plans to import spare parts and equipment for the Iraqi oil industry, and their possible impact on production of Iraqi oil. 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.

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 2600 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.

II. DUE DILIGENCE PROCEDURES FOLLOWED BY SAYBOLT

Saybolt instituted several procedures to ensure fulfillment of our contract with the United Nations. These include the screening of inspectors, the sharing of information in real time with the United Nations, and ongoing internal monitoring of Saybolt operations in Iraq.

Employee Screening and Training

Saybolt inspectors were experienced in monitoring, and they received 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 United Nations. The United Nations reviewed their credentials. Before being deployed, the inspectors received extensive briefings in Rotterdam. They received comprehensive materials detailing their responsibilities. In addition, each member of Saybolt's team in the Program was required to certify that he had read and understood Saybolt's code of conduct.

Databases to Share Information with 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.

On-site Monitoring by Saybolt Management

Our office in Rotterdam communicated directly with the team members stationed in Iraq and Turkey, as well as with the United Nations, on a daily basis. Through the database, our office in Rotterdam could ensure that actions taken in the field conformed to the terms of the contracts and letters of credit approved by the U.N. Overseers. There was an overall project coordinator located in our office in Rotterdam who carefully reviewed each contract and letter of credit approved by the U.N., and he instructed the inspectors as to which loadings were authorized and for what amount.

On several occasions, the Saybolt contract administrator in Rotterdam made visits to Iraq to coordinate and monitor the inspection activities. He made visits to the Ceyhan operation and later, as the Team Leader on three projects in 1998, 2000, and 2001, visited all Saybolt operations in Iraq. As the volume of oil export operations increased, and Saybolt began monitoring imports of spare parts, Saybolt also appointed a country manager, based in Baghdad, to oversee both the oil and spare parts monitoring operations. This manager routinely visited Saybolt operations at Zakho in the north of Iraq and the Saybolt operations at Mina Al-Bakr.

III. ADDRESSING CHALLENGES SAYBOLT FACED IN IRAQ*Facing Operational Difficulties Within Iraq*

In performing their duties, Saybolt 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 achieve 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 Calculate Loading Quantities In Absence of Reliable Meters

The poor state of the Iraqi infrastructure not only impacted our employees, but it impacted 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, Saybolt 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, 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, Saybolt would measure the ullage (the amount by which the vessel tank falls short of being full) and the temperature of the oil. Saybolt inspectors compared this data with the calibration tables to determine how much oil had been loaded onto the vessel.

The vessel calibration charts, however, sometimes were not accurate. 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. Each vessel keeps a record of the variances from its calibration tables, 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.

A weakness in using the calibration tables and the VEF of a vessel 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, 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, Saybolt 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, Saybolt 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 VEF of the vessel 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.

In January 1999, following discussion with the United Nations, Saybolt instituted a procedure to attempt to address the potential inaccuracy of 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.

Adapting Inspection Procedure to Enhance Ability to Detect Topping Off

As noted above, the absence of meters was one of the most significant challenges Saybolt faced during the Program, inhibiting our ability to detect measurement discrepancies or unauthorized loadings at those locations. Despite our close monitoring of oil exports at Mina Al-Bakr, in early October 2001, we learned that the captain of the vessel Essex had alerted the U.N. and U.S. authorities that there had been two incidents of unauthorized "topping off" of the Essex at the Mina Al-Bakr terminal after Saybolt inspectors had completed their inspections of the Essex. 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 additional amounts of oil above and beyond that which was

approved by the SOMO contract with Ibex Energy France, the buyer of the oil loaded onto the Essex.

Saybolt immediately undertook an internal investigation to learn what happened and why, and it cooperated fully with other investigations of these incidents, providing extensive documentation to investigators. I headed our internal investigation. With respect to both incidents, we conducted extensive interviews of our staff, including our Team Leader on the Mina Al-Bakr platform, and reviewed all available documentation. Our investigation found no evidence that any of our employees were aware of the additional unauthorized loadings prior to the report by the Essex captain. We detailed our findings and the bases for our conclusions in a report that I personally presented in mid-October 2001 to the U.N. 661 Committee. That report is included in the documents previously provided to this Subcommittee. Our investigation of these incidents also attempted to determine whether there might have been incidents of topping off in addition to the two reported by the Essex captain. For all of the reasons detailed in our report, we concluded that it was extremely unlikely that this occurred.

Immediately after learning of the Essex captain's report, Saybolt put in place additional procedures to minimize the likelihood that such incidents could recur. As an interim measure, I instructed all team members at Mina Al-Bakr to remain on board vessels until they left port to ensure that there were no additional loadings. After further review, we put in place a procedure under which Saybolt employees sealed the valves on the vessel after loading was complete whenever the vessel did not leave the port immediately after loading for whatever reason. The seals contained numbers, which we noted. Before the vessel left the port, we returned to the vessel to inspect that the seal was still in place and that it was the same seal number. We are unaware of any topping off incidents that happened after we instituted these additional procedures.

Staffing for Spare Parts Monitoring

We also faced significant challenges in implementing our monitoring role in the spare parts side of the Program. Saybolt's contract with the United Nations authorized the employment of six monitors in the country who worked to verify the arrival and end-use of the spare parts that were purchased. Given the number of spare parts imported into Iraq under the Program, and the distance between locations to be monitored, it was impossible to closely monitor all spare parts at all locations. We communicated to the U.N. that we were not able to physically inspect all spare parts that arrived, and we informed them that additional staff would be required in order to be able to monitor the end-uses of the parts effectively. We also requested that our monitors be stationed throughout the country. However, the Iraqi government insisted that the monitors be stationed only in Baghdad, and the U.N. relented to this pressure.

IV. HOW THE PROGRAM COULD HAVE BEEN CONSTRUCTED DIFFERENTLY

Your invitation to testify today asked for our insights as to how the Program might have been constructed to better prevent Iraqi manipulation. I understand that others far more expert than I in the structuring of multilateral sanctions regimes have testified before you on this very point. Please allow me to preface my response by explaining that Saybolt is in the oil inspection business, and not the business of second-guessing the architects of the Oil-for-Food Program.

From first-hand experience, I know how complex and tumultuous the environment was in Iraq, and I can assure you that we collaborated with the United Nations, the U.S.-led Multilateral Interception Force ("MIF"), and Iraqi authorities to implement the best possible monitoring system, given the state of the infrastructure we encountered in Iraq. Nonetheless, in the spirit of joining a good faith dialogue, and with the benefit of hindsight, I can offer a few suggestions.

First, obtaining commitments to repair the necessary infrastructure could have strengthened the program. At various times during the Program, problems with the metering systems at Mina Al-Bakr, Zakho, and Ceyhan were brought to the attention of Iraqi authorities. Yet the meters were never brought into working condition. I do not know whether this is because Iraq was not permitted to import the necessary spare parts, or because Iraq was not forced to make the repairs as a condition of participating in the Program. Had these meters become functional and reliably accurate, our monitoring process would have been much less cumbersome and complex, and incidents such as the two 2001 Essex additional loadings could have been more easily detected.

Second, any attempt to monitor unauthorized exports of oil would have necessitated having monitors at other than the three export points authorized under the Program. As you know, Security Council Resolution 986 refers only to monitoring of oil exports through the Mina Al-Bakr terminal and the Iraq-Turkey pipeline. These were the only locations at which Saybolt was contracted to monitor oil exports. From prior testimony before this Subcommittee, we have heard reports of smuggling by roadways into Turkey, other offshore terminals in Iraq, or other cross-border pipelines. Had the scope of the monitoring mandate from the Security Council been broader, the United Nations and its inspection agents could have set up inspection checkpoints to detect illicit oil exports from these other locations.

Third, I think some U.N. official presence at the loading locations may have enhanced the likelihood of compliance with the Program. Saybolt is not a security organization and, in any event, represented a small fraction of those present at authorized export points. For example, at Mina Al-Bakr, there were some 80 Iraqis on the platform, and only a handful of Saybolt inspectors. Our role was as a monitor. When ships were loaded, our duty was to give the United Nations our best calculation as to how much oil was loaded onto the ship. When something went wrong, our duty was to tell the United Nations. Thus, rather than searching for smuggling, our role was to inform the United Nations of quantities leaving Iraq at the designated monitoring sites.

Thank you for your important work, and for the opportunity to address you today.

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

Tuesday, October 5, 2004, 11:00 a.m.

Saybolt B.V. Documents



FAX

TO: UNITED NATIONS, NEW YORK
FAO: THE OVERSEERS
UNITED NATIONS, NEW YORK
FAO: MR BENON SEVAN

FROM: Graham Brett
Director
011-44-202218

DATE: 29th May 1998

COPIES: MR P BOKS

REFERENCE: RESOLUTION 986 - "OIL FOR FOOD"
SUMMARY REPORTS:-

iv "Eco Africa" at Ceyhan
iv "Kraak" at Mina al-Bahr

TOTAL PAGES: 4 (three)

Please find attached our Summary Report covering the following loading:-

- 1) iv "Eco Africa" which completed loading at Ceyhan at 07:48 hrs 29/05/98 for the account of Tridigra and Tansoff. The overall quantity loaded was paper split by SOMO into two Bills of lading as follows:-
- 2) iv "Kraak" which completed loading at Mina al-Bahr at 08:55 hrs 29/05/98 for the account of Tridigra and Tansoff. The overall quantity loaded was paper split by SOMO into two Bills of lading as follows:-

	Tridigra	Tansoff	Total
Gross barrels	1,894,942	245,143	2,140,085
Nett barrels	1,893,995	245,000	2,138,995

Please note the loading of the vessel was stopped by shore requirements/SOMO. The overall quantity loaded is outside the approved LC approval of 2,300,000 barrels -5% = 2,185,000 barrels. This was advised to the vessel when vessel was stopped, who took no further action. The Tansoff "split" is for 100,000 nett barrels -5% exactly, and the Tridigra "split" of 1,893,995 nett barrels is 6,005 nett barrels short of 2,000,000 nett barrels -5% = 1,900,000.

Full details of the above loadings are now entered on to the UN Database.

Kindest regards,

Graham Brett
Graham Brett

MEMO: 27-AUG-97 14:42 SAYBOLT BUTROS CEVNIK TURK 00803220133867



Saybolt International B.V.
 Independent Inspectors
 Chemical Laboratories
 2000 AB Rotterdam
 The Netherlands
 Fax: (31) 10 4125600
 Tel: 2442 870 NL

Date : March 31, 1999
 Name : JAMES VERTUNE
 Location : MERS LIGHT CRUDE OIL
 Cargo : MERS LIGHT CRUDE OIL

STATEMENT OF FACTS

To : "E.O. Motor", sa. "JAMES VERTUNE"
 From : "E.O. Motor", Misk al, BAKR.

Dear Sirs,

This is to advise you that we, acting on behalf of the United Nations, are in receipt of the following information to draw the attention of all parties to the following:

That there is insufficient information on board of the ship to allow for the use of an accurate Vessel Experience Factor (VEF) for the measurement of MERS LIGHT CRUDE OIL. The vessel's VEF is based on the measurement of MERS LIGHT CRUDE OIL using a vessel experience factor (VEF).

Due to the fact an experience factor will not be applied to the ship's measurement of MERS LIGHT CRUDE OIL, the amount of MERS LIGHT CRUDE OIL loaded on board of the ship will be less than the amount of MERS LIGHT CRUDE OIL intended. Furthermore, on behalf of our client, the vessel's VEF will be used to determine the amount of MERS LIGHT CRUDE OIL to be loaded. We reserve the right to refer to this matter at a later date.

Signed on behalf of Saybolt UK Team
 Accepted on behalf of "JAMES VERTUNE"
 Accepted on behalf of E.O.M.O Iraq

21/03 '98 010 13:14 (12/24 00 041) 0007
 5016366



T.O. G. Brett

TO: SONO BAGDAD
 TO: SONO CEHNA
 CC: ROTAS

Timed : 27-08-98 at 15:00
 LETTER OF PROTEST

Dear Sirs,

The vessel "Mesta" which has loaded for the account of Rosneft has a total capacity of 500,000 barrels +/- 2%. On completion of loading, the vessel was found to have a total quantity of 499,000 barrels. The difference of 100,000 barrels which falls within the UN stipulation of 11,000 barrels reason to require discharge to shore of 11,000 barrels.

If this transfer to shore is a requirement enforced by you, we, as monitors on behalf of the United Nations:-

- 1) Reserve the right of our principal to refer to this matter at a later date, particularly in respect of any delays incurred.
- 2) Insist that any such transfer to shore is effected in such a manner that the transferred cargo can be measured accurately and will not be degraded in quality in any way. The measurement of the Saybolt/UM monitor for the transfer of cargo to the Kirrikais pipeline, or another vessel, will not be acceptable.
- 3) We can accept the decision to discharge back into T 4

Yours faithfully,

Saybolt Int. - UN Team Cayman, Turkey. For: SONO
 Mr. M.S.A. Nazraq

[Signature]
 Hussam Bruijn
 Team - Iraq

NOTE: THE QUANTITY CONFIRMED BY SONO IS IN ACCORDANCE WITH THE MEASUREMENTS PROVIDED BY ROYER TO COVER THE VALUE OF THE SAID CARGO.

5016366

OVERSEAS, The
 J.M. Report, 965 - Oil For Food
 UN Regulations
 UNRWA



SAVBOLT NEDERLAND BV
 Independent Importers
 Only American Service
 Chemical Laboratory



SAVBOLT
 Independent Importers
 Only American Service
 Chemical Laboratory

Report No. : 20162/97
 Date : 27-08-97
 Vessel : HRETA
 Location : Cyprus
 Grade : Heavy Grade Oil

Summary Report
 Final after partly
 discharging

	Vessel loaded Metric, O/G	Bill of Lading	Difference Quantity	O/O
T.C.V. Barrels	509,528			
G.S.V. Barrels	509,528	489,330	2,646	.53
Gross Weight	67,284,819	66,202,327	1,082,492	.53
Gross Volume	66,132,433	65,843,444	288,989	.53
N.S.V. Barrels	501,751	499,105	2,646	.53

	Vessel less O/G Adjusted by V&F	Bill of Lading	Difference Quantity	O/O
T.C.V. Barrels	499,879			
G.S.V. Barrels	499,230	499,230	0	0.00

	Non Liquid Oil	Liquid Oil	Free Water	Total Volume
O.B.Q. Barrels		111	0	111

Vessel Experience Factor Based on 2nd Average : 1.0053
 S & M Volume o/o : .025

	Vessel Tonn	QMG	Vol. Loaded	Bill of Lading
Free Meter Barrels	655		655	135
Total Volume Barrels	777		777	135

N.O.R. Tendered 24-08-97 10:50
 Bill of Lading Issued 27-08-97
 Completed Loading 27-08-97 14:10
 Completed Lading 27-08-97 16:50

SAMPLING : Samples taken : Yes
 Description of the sample : Number of samples taken : 4
 Saline sampler : N.S.S. 1238

Remarks :
 CU Meters at 60 of Bill of Lading : 79,371,080
 CU Meters at 60 of Vessel : 79,194,190
 Difference : 176,890
 No. of samples : 4
 No. of samples by extraction : 4
 No. of samples by viscosity : 4
 No. of samples by density : 4
 No. of samples by water content : 4
 No. of samples by total acid number : 4
 No. of samples by total base number : 4
 No. of samples by total sulfur content : 4
 No. of samples by total nitrogen content : 4
 No. of samples by total phosphorus content : 4
 No. of samples by total chlorine content : 4
 No. of samples by total bromine content : 4
 No. of samples by total iodine content : 4
 No. of samples by total fluoride content : 4
 No. of samples by total calcium content : 4
 No. of samples by total magnesium content : 4
 No. of samples by total iron content : 4
 No. of samples by total copper content : 4
 No. of samples by total zinc content : 4
 No. of samples by total lead content : 4
 No. of samples by total cadmium content : 4
 No. of samples by total mercury content : 4
 No. of samples by total silver content : 4
 No. of samples by total platinum content : 4
 No. of samples by total gold content : 4
 No. of samples by total nickel content : 4
 No. of samples by total cobalt content : 4
 No. of samples by total manganese content : 4
 No. of samples by total potassium content : 4
 No. of samples by total sodium content : 4
 No. of samples by total aluminum content : 4
 No. of samples by total silicon content : 4
 No. of samples by total boron content : 4
 No. of samples by total oxygen content : 4
 No. of samples by total carbon content : 4
 No. of samples by total hydrogen content : 4
 No. of samples by total nitrogen content : 4
 No. of samples by total phosphorus content : 4
 No. of samples by total sulfur content : 4
 No. of samples by total chlorine content : 4
 No. of samples by total bromine content : 4
 No. of samples by total iodine content : 4
 No. of samples by total fluoride content : 4
 No. of samples by total calcium content : 4
 No. of samples by total magnesium content : 4
 No. of samples by total iron content : 4
 No. of samples by total copper content : 4
 No. of samples by total zinc content : 4
 No. of samples by total lead content : 4
 No. of samples by total cadmium content : 4
 No. of samples by total mercury content : 4
 No. of samples by total silver content : 4
 No. of samples by total platinum content : 4
 No. of samples by total gold content : 4
 No. of samples by total nickel content : 4
 No. of samples by total cobalt content : 4
 No. of samples by total manganese content : 4
 No. of samples by total potassium content : 4
 No. of samples by total sodium content : 4
 No. of samples by total aluminum content : 4
 No. of samples by total silicon content : 4
 No. of samples by total boron content : 4
 No. of samples by total oxygen content : 4
 No. of samples by total carbon content : 4
 No. of samples by total hydrogen content : 4

5016216

Report No. : 20162/97
 Date : 27-08-97
 Vessel : HRETA
 Location : Cyprus
 Grade : Heavy Grade Oil



SAVBOLT

Saybolt International B.V.
 Independent Importers
 Chemical Laboratories

P.O. Box 151
 3000 AD Rotterdam
 The Netherlands
 Tel: (31) 10 4609911
 Fax: (31) 10 4830000
 Telex: 21042 879 NL

Date : June 14, 1998
 Vessel : HELLESPOINT ORPHEUM
 Location : Mina al Bahr Terminal, Iraq
 Cargo : Barrat Light Crude Oil

STATEMENTS OF FACTS

To : The master, "Balticport Orpheum"
 Dear Sir,

In accordance with the letter of Credit issued by the United Nations on behalf of Receiver "Zarubinsk", the maximum quantity of cargo to be loaded was 2,000,000 barrels plus 0%. This equals 2,100,000 barrels. This quantity was agreed with terminal personnel, UN monitors and ship personnel. The letter requested that loading would be terminated by means of ship stop.

However, after calculations were completed at end of loading of mentioned cargo there was found to have been a total of 2,116,048 barrels received on board.

This indicates that a quantity of 16,048 bbls U.S. bbls have been over-loaded at the terminal. It will be necessary to obtain an agreement from the bank to the letter of Credit. This matter may be considered in hand.

Signed on behalf of Saybolt UN team

Accepted on behalf of HELLESPOINT ORPHEUM

AS CIP MINIMUM 2,138,000 BBLs

5016216



Saybolt International B.V.
 Independent Inspectors
 Chemical Laboratories

P.O. Box 151,
 3080 AD Rotterdam
 The Netherlands
 Tel: (31) 10 4609911
 Fax: (31) 10 4331000
 E-mail: 216423@SD.NL

Date : August 22, 1997
 Vessel : JAHRE VENTURE
 Location : Mina al Bahir Terminal, Iraq
 Cargo : Heavy Light Crude Oil

STATEMENT OF FACTS

To : The Master, m "JAHRE VENTURE"
 To : S.O.M.O. Mina al Bahir.

Dear Sirs,

This is to advise you that we, acting on behalf of the United Nations as their Inspectors and Monitor, wish to draw the attention of all parties to the following:-

The data is insufficient information on board of this ship to calculate and determine an accurate Vessel Experience Factor (VEF) as per the API Standard, Chapter 17 - Marine Measurement, Appendix C - Procedure for calculating vessel experience factor (VEF).

Due to this fact an experience factor will not be applied to ship's measurements when determining the Bill of Lading Quantity for the amount of Heavy Light Crude Oil loaded. Furthermore, on behalf of our client, the United Nations, we reserve the right to refer to this matter at a later date.

Signed on behalf of Saybolt UN Team

Cdr. Paul Edwards, Team Leader

[Signature]

Accepted on behalf of "JAHRE VENTURE"

Accepted on behalf of S.O.M.O. Iraq *Just the Receiver of Receipts*

Manager

[Signature]

Paul Edwards
Team Leader

S021311

E-01.03
 C) CLOS ANALYSIS
 REPORT

Peer BaudSpreijdl
 10/22/2002 08:58 PM
 To: www@un.org
 CC:
 Re:
 Subject: Audit recommendations

Dear Nelson,

How can I cope with people that do not understand what they are looking at and continuously mix up proposals and contracts.

The audit report on the agreement with the UN for 2002-2003, mentioned in one of the early reports, has a total contract value of USD 2,442,100,-. It should be taken into consideration that after obtaining more knowledge over time, we revised our budget and concluded a contract with the UN for 2002-2003 with a contract value of USD 1,442,100,- per period of 10 days.

I will obviously provide you with a more detailed overview but need to let off steam after observing so much nonsense.

Please note that the final contract for the present contract specifies any and all contracts to come not understand the point the auditors make regarding the contract for 2002-2003.

Apologies for being displeasable.

Kindest regards,
 Peter Boks

If you are satisfied with our services do not object. If you are not satisfied, please contact us at <http://www.saybolt.com/complaint.nsf/>

All our activities are carried out under the supervision of the United Nations. The general conditions can be downloaded from our website. All activities will be carried out upon request free of charge.

The information in this message is confidential. It is intended only for the individual(s) named in the address(es). Access to this message by anyone other than the intended recipient(s) is not authorized. Any unauthorized use, disclosure, copying, or distribution of the information contained in this document is prohibited and may be subject to legal action. This message and its contents are not valid only when supported by an original document.

considerable increased capital costs encountered since the contract inception, and the maintenance and transportation costs. I trust that the above clarifies the misunderstandings. Please do not hesitate to contact me if further explanation is required.

Yours sincerely,
Peter Wols.

Dear Mr. Sevan,
YOUR RECOMMENDATIONS
Your letter of October 21st, 2002, on the above matter is to hand and I would like to comment as follows.

It now becomes obvious that the authors' statements based on their misunderstanding of the documents that they seem to have at their disposal. Firstly, the "request for bid" calls for an all-inclusive price on a per/man per/day basis. There is no requirement to quote a cost for equipment. Indeed the RFP does not require any costs to be itemized. Initially, we were asked to submit a per/man/day for 12 men over a 240-day contract period. This submission was supported by documentation labeled "Tariff Structure" here as an "item selector" to assist in understanding how the costs of US\$ 230,000 against a man/day rate of US\$ 1,020 per day. Subsequently the RFP requirements were discussed and updated, resulting in a man/day rate of US\$ 820, encompassing in a final agreed rate of US\$ 875 per man/day resulting from a long and evolutionary negotiating process, with an additional amount for testing the quality of the crude oil reported.


The OIGS report, under Section D, Contract Issues, Para's 49 and 50, quite openly quotes from the "Tariff Structure" document (the provenance of which is not stated) that the man/day rate was set at US\$ 1,020 per day, and that the RFP requirements for support to quote only a single per/man/per/day rate. Para 49 then proceeds to state that the authors' interpretation of the requirements was not accepted and simply applies this to the total contract cost to produce a percentage of 7.81.

In Para. 50 of the OIGS report this erroneous percentage has then been applied to the man/day rate (that was accepted at a later date) to give a figure of circa US\$ 55 per day and merely multiplied up to a cost over 9 phases, thereby constructing machinery!

As we have itemized a number of times before, there was no equipment cost involved. The authors have referred to the RFP and provided EXACTLY what was requested - nothing more and nothing less - a fully itemized per man per day cost for 14 men for a period of 6 months.

Then the OIGS report, in Para 51, states that 10 OIGS OPINION equipment should have been charged to the OIP as a one-time expenditure with an additional provision for maintenance of the equipment. The OIGS is entitled to an opinion on the equipment, but not on the equipment itself. On the other hand, and obviously cannot be retroactively applied to an existing legally constituted open tender contract.

The OIGS opinion also fails to embrace the fact that without a price increase (indeed a price reduction in later phases) Sabbot has continually replaced and updated equipment situated in Iraq and Turkey, notwithstanding the

UNITED NATIONS  NATIONS UNIES

OFFICE OF THE HEAD PROGRAMME - BUREAU CHARGE EN PROGRAMME IRAQ

NOTE BY THE OFFICE OF THE IRAQ PROGRAMME

Comments by the Office of the Iraq Programme
on the final report submitted by OIOS on 15 April 2002
**OIOS Audit No. A/27/001/30/6: Audit of the management
of the oil transaction services contract**

1. Following the adoption of Security Council resolution 986 (1995) on 14 April 1995 and the conclusion of a Memorandum of Understanding (MOU), on 20 May 1996, between the Secretary-General of the United Nations and the Government of Iraq, 1399666-96, the contract was renewed by the Government of Iraq on 15 April 2002, under the reference PTD/12/0065-96, in which the Government of Iraq requested the assistance of 14 individuals with "particular experience and qualifications to assist in monitoring the export of petroleum and petroleum products from Iraq". The contract was for an initial term of six (6) months, with an option of renewal for up to three (3) successive periods of six (6) months, on the same terms and conditions. Contract PTD/12/0065-96 was subsequently amended several times to provide for an extension of the contract for oil sales points, an "group of oil field (PDO) 14000" situated in June 2000 succeeded contract PTD/12/0065-96. Under the new contract, which is for one year, with an option of renewal for three (3) successive terms on the same terms and conditions, Baybitt would provide 20 inspection agents; 14 to monitor the oil exports and six (6) for spare parts and equipment. The contract has been amended to provide for an increase in the number of oil spare parts inspectors from six (6) to eight (8), tripling the total number of agents to 22.

I. Introduction

- In paragraph 5 of the audit report (hereafter referred to as the Report), it is stated that the Office of the Iraq Programme (OIP) did not arrange for an exit contingency report by OIOS or respond to audit recommendations issued in the report of the OIOS dated 15 April 2002. It is noted that, despite the granting of two time extensions, no response to the draft audit report recommendations has been received up until now.
- As stated in paragraph 1 of the Report, it took from March through August 2001 to conduct the audit and then it took over 10 months to produce the final report. It is noted that the OIP was not able to respond to the audit report until 15 April 2002, during a period when OIP was totally involved with the start of the implementation of a new phase (Phase XI) of the humanitarian programme and consideration of the new distribution plan being submitted by the Government of Iraq.

4. A quick review of the draft report indicated immediately the necessity for a thorough review because OIP could not agree either with the findings or the assumptions made by the auditors. There were also many errors in the calculations made by the auditors, which required us to check in detail. Furthermore, the OIP staff took issue with the assumptions made in the report, particularly those relating to the cost of the oil. It was also necessary to verify the information from Baybitt's headquarters regarding some of the claims made in the draft report, because the auditors, who although had held meetings with the contractor's team leader in the field, had not been in touch with Baybitt's headquarters, or at the least through OIP, to receive authoritative responses to their queries.

5. The above explanations were provided to the Director of the Internal Audit Division and the Chief of the Iraq Programme Unit of OIOS, with a request for extension of the deadline, which was granted. Furthermore, the Director of the Internal Audit Division and the Chief of the Iraq Programme Unit were fully informed of the extreme difficulties being encountered in implementing the programme, which obliged the Executive Director of the Iraq Programme to travel to Iraq on 10 January 2002 with a view to resolving the various issues. The OIP staff was also informed of the difficulties being encountered in Iraq. The Executive Director had to stay longer in Iraq than originally planned, for almost a month. It was taken for granted that OIOS, in addition to being informed by OIP and having two resident auditors in Iraq, was fully aware of the continuing difficulties encountered in programme implementation as the programme had become more politicized than ever. Consequently, the issue of OIP's extension of the deadline for the draft report in Iraq was not raised by the Security Council Committee established by resolution 661 (1999) (hereafter referred to as the Committee) in resolving the difficulties encountered within the Committee itself.

6. The Director of the Internal Audit Division and the Chief of the Iraq Unit will recall that it was through the personal intervention of the Director of the Internal Audit Division that the Iraq Programme Unit was granted Iraq's consent to visit to Iraq. On the return of the Executive Director to Headquarters, it was agreed with OIOS that OIP would prepare its comments on the draft audit report, first as a "non-paper", for discussions with the Internal Audit Division, on an informal basis. It was agreed that such discussions would take place on the return of the Director and the Chief of the Iraq Unit from their visit to Iraq. OIP wanted for the same in order to submit its "non-paper" for discussion. Instead, however, on 5 April 2002, from the Chief of the Iraq Programme Unit, which read as follows: "As previously agreed a response to the above draft report was to be provided by 31 March 2002. This was the second extension given. Since a response has not been received we will be issuing the final report shortly." OIP was not even aware that the Director and the Chief of the Iraq Unit had returned to Headquarters. At the time when the resignation of the Executive Director to invite a new Director was being discussed, the Director of the Internal Audit Division was fully aware of the attitude of Baybitt to be present at the discussions on the "non-paper". Disappointed with the attitude of the Chief of the Iraq Unit and even though the OIP "non-paper" was ready, the Executive Director responded that the Chief of the Iraq Unit could go ahead and publish the report as long as "you are prepared to be fully accountable for your report. If you go ahead and

publish it, however, you must also undertake to publish our comments therein, in no case, either as a separate report or as addendum thereto." Copy of the e-mail exchange of correspondence is attached as an annex to the present Note.

K.S.K

7. The audit objectives as stated in the Report are, *inter alia*, to assess OIP's management of the contract, determine if the contractor provides the required services in an economical, efficient and effective manner, and review the management of other services being provided by the contractor.

8. A review of the Report against the stated objectives of the audit would have to take into full consideration the context in which the contract was entered into. The contract was not executed in a vacuum. This particular contract is being carried out within a very rigorous sanctions regime and managed in a highly sensitive political environment. Any realistic assessment of the management of the contract would have to factor in these considerations. Yet, it would be difficult to see how the audit was conducted without taking full cognizance of either the legal or political context of the contract. There are many aspects of the programme as well as its implementation that are subject to frequent resolutions and decisions of the Security Council and its Committee, which outside the political context may defy logic; however, as the Secretary-General has stated repeatedly regarding this programme, "We take our marching orders from the Security Council".

9. For example, in the introductory paragraph of the Executive Summary, it is stated that "OIP should have considered utilizing UN staff to perform the oil inspection services as well as alternative to hiring a contractor, which would have resulted in substantial savings." Utilizing UN staff to perform the oil inspection services, as recommended by the auditors, would have been in line with the Security Council resolution 986(1995) and the Memorandum of Understanding between the Security Council, the United Nations and the Government of Iraq (MOU), on the implementation of the Security Council's sanctions regime (S/1996/34). Annex II, paragraph 4, of the MOU expressly provides for independent inspection to monitor Iraqi oil exports. Consideration of savings was never the ultimate goal of the decision taken by the Security Council; rather, the goal was to ensure full and thorough inspection of oil exports and full compliance with the decisions taken by the Council.

10. Various amendments of the contract were undertaken in response to the requests of the Security Council and its Committee that required urgent action on the part of the Government. Furthermore, the established good working and highly professional relationship of the Government of Iraq with Seybold presented the United Nations with a considerable advantage, especially in our evaluation, but which has enabled OIP to field the special missions most expeditiously in the granting of visas to the experts who have been deployed. In view of the delays in the granting of visas to the experts who have been deployed, it has been essential to ensure the confidence of not only of the Security Council members but also of the Government of Iraq regarding the impartiality of the work of the experts, as evidenced by the fact that we have had no difficulty in securing visas for one of the auditors from Seybold to visit Iraq on a regular basis, despite his nationality, which is British.

11. The decision to manage the contract by OIP at Headquarters rather than by UNORCI was in order not to unduly compromise the latter's work. The decision taken even before the establishment of OIP in October 1997. The same applies for the fact that the contract was managed by OIP in Geneva, and previously with Loyola. To the extent possible, efforts have been made by OIP to ensure appropriate procedures that would ensure that the contractor fully discharges its contractual mandate in which the contract is managed. However, in acknowledgment that political actions may affect the manner in which the contract is managed, OIP has taken certain preventive actions to ensure common knowledge that oil exports are interrupted periodically. For example, it is taken by the Government of Iraq to suspend all oil exports for 30 days. Furthermore, the Government has refused to allow any additional contractor's staff to be stationed in Iraq on a term basis to cope with the contract. OIP's consent, occasionally deployed more staff on a short-term basis to cope with the contract. It should be noted, however, that irrespective of the number of staff employed by the contractor, payments is effected only for the number provided for in the contract.

12. The contractor also provides expert advice to OIP in its day-to-day operations as well as in the Commission's work. In addition, OIP has a large number of staff in Iraq as well as an oil spare parts and equipment provided under the contract. With regard to the status of the contractor's staff posted in Iraq, it is recommended to the auditors that they review the relevant provisions of the MOU, in particular Section VIII, concerning Privileges and Immunities, to ensure a full understanding of the range of services provided by the contractor would have established an appreciation of the background to the contract, the contract itself, and its management.

13. Although the auditors understand the visits to some of the locations where the independent inspection agents are located, they did not visit all of the locations where the independent inspection agents operate, thereby not being able to verify the work of the independent inspection agents. It is noted that the independent inspection agents may collapse in any time. It is noted that there was no consultation between the auditors and OIP officials, nor with Seybold. Although the auditors held discussions with the contractor's team-leader in Iraq, they should have addressed their questions to Seybold headquarters, or at least through OIP, in order to receive a more authoritative response.

14. Comments on specific audit findings and recommendations are proffered hereunder:
A: Monitoring of invoices payments and financial matters
Procedures have not been implemented to monitor invoice payments.

15. Paragraph 201 states that "a review of 15 monthly invoices and supporting documents found deficiencies in the information stated is ambiguity of the attendance record which reflected from arrival to departure of the auditors. Payments should only be made for remaining the locations in Iraq and Turkey."

21. Regarding the short stationing of staff, as the invoice (June 29 May 1999) was based on staff as per the attendance sheet, an adjustment was required to the invoice for contract staff that were not on duty, as the invoice did not include any charge for an absent Skybolt staff member. As noted above, irrespective of the maximum number of oil spare parts inspectors allowed into Iraq, during the initial stages of that programme monitoring oil spare parts and equipment provided under the programme, the contractor only deployed number of staff members (77) to the site. The attendance sheet for the period of the contract's initial period, an obvious time delay in entering and the actual arrival of the oil spare parts and equipment. It would, then, appear that the auditors did not differentiate between Skybolt's responsibilities.

Communication charges by the Contractor have been excessive

22. Paragraphs 11 and 12 state that the tariff structure of the contract include communication expenses which is about 21 per cent of the total contract amount and that the Contractor did not provide for any requirement to justify the expenses incurred through the use of a satellite communication system (Satcom). The Report also states that the "UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the contract amount significantly, apart from being transparent in terms of identification of all calls including personal calls."

23. The auditors did not seem to take into consideration the geography of Iraq, the location of the sites where the independent inspection agents are stationed, the logistics and difficulties, particularly political, which would have been involved in extending the UN telecommunication system to the sites. It would have been in mind that the United Nations has been operating in Iraq since the 1960s and that the UN telecommunication system has been established in Iraq since the 1970s. The auditors did not seem to consider the possibility of a replacement and/or spare parts for existing UN communication establishments in Iraq.

24. Also, it must be borne in mind that it is essential that the independent inspection agents transmit their reports most expeditiously from the location where they are based, using communication systems available at the remote station units above. Furthermore, it is daily communication to Skybolt's Headquarters in Vienna, Austria, and to the UN Headquarters in New York, New York, and to the UN Headquarters in Baghdad, Iraq, as well as communication with UN Headquarters, as appropriate. Finally, it should be noted that "on-line" costs were unrepresented in the current contract, PDCOI 14/00, resulting in substantial savings on communication costs.

OIP needs to recover personal phone calls made by the Contractor's staff

25. Paragraph 14 states that Skybolt's "minimal policy is to allow each of its staff members the private telephone calls totalling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the total communication cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP."

26. The auditors seem to have confused the cost structure with the agreed billing procedure. As the contract is all-inclusive daily fee, the only mechanism for charging would be

16. Contract number PTD/127/0065-96 (the initial contract) determined the number of inspectors required at particular locations in Iraq and Turkey, and Article 7.1 provides for full payment for complete and satisfactory performance by the contractor of his obligations under the contract. In that regard, it could be argued that once the requirement of satisfactory performance has been met, the contractor is not liable for the attendance record because a non-issue. Nonetheless, since December 2000 the attendance record has shown "Personal Attendance on Location, from arrival to departure".

17. The Report also illustrates that the auditor did not have a full understanding of the contract and the method used in the preparation of invoices by Skybolt. This misunderstanding was the result of an error in billing that Skybolt overcharged some \$70,000 for services provided during the period 29 May 1999 through 28 November 1999. The invoice was based on the attendance sheet, seemingly basing the Contractor's billing was based on contracted staff levels and not on staff on site. The auditors have also confused the contracted number of inspectors for oil spare parts and equipment. There are slight and just life inspectors, as stated in paragraph 8 of the Report.

18. There is a historical procedure in the preparation of invoices in line with the contract-completed date of the current contract. The invoice always covers the period between the 25th day of the previous month until the 25th day of the month the invoice is prepared. Thus, the invoice prepared at the end of June covers the last few days of May until the 25th of June inclusive. Reference is made in this regard to Amendment No. 8 to contract PDCOI 14/00, which covered the period 29 May 1999 through 28 November 1999, after which this invoice was prepared. The invoice for the period 29 May 1999 through 28 November 1999, after the other invoices issued for the month of June 1999. This irregularity does not seem to be any of the other invoices. No over billing occurred as a result of this split-month billing, except for the July 1999 bill that included "31 June 1999". This overcharge (17 Man days) will be deducted from a future payment. That the irregularity was not queried by OIP was because OIP understood very well the billing mechanism.

19. The lump sum payment method provided for in Contract PTD/127/0065-96 (the initial contract) was discontinued with effect from 28 May 1999 in the successor contract. The change was a consequence of Amendment 8 of the original contract.

Overpayment of monthly invoices needs to be recovered

20. Paragraph 10 states that the contractor had overcharged by approximately \$70,000 on short and excess stationing of staff. Except for the 1999 invoice where Skybolt billed for 31 June 1999, there did not appear to be any evidence of over billing. The invoices were in line with the attendance records. It would seem that the auditors have only indicated the first 28 days of the month in their attendance record, and ignored the 29th, 30th and 31st day of the previous month. In fact, the attendance record, and ignored the 29th, 30th and 31st day of the previous month, where Skybolt billed for 421 days for OI inspectors, and 222 days for the attendance sheet, as undercharged by one day, and June 1999, where a wrong code was used on the attendance sheet, although this did not have a financial consequence.

inventory system, and there had been no periodic checks on these assets as required by UN financial rules."

34. The contract is all-inclusive, that is to say, inclusive of the equipment purchased by the contractor. In this regard, the communication equipment, computers and software are not UN property, and therefore there is no corresponding requirement for an inventory.

Charges for additional services provided by the Contractor have been excessive and independently mentioned

35. Paragraph 11.24 states, *inter alia*, that OIP accepted cost proposals from the contractor for additional services "without any evidence of prior assessment of the reasonableness. Moreover, payment for these services had been made without documentation to support it involving such as original bills for purchases, tickets, vouchers, etc."

36. The auditors do not seem to have understood clearly the nature of the work of OIP and the very nature of the services requested by the Security Council and its Committee. The proposal referred to by the auditors was a proposal for the purchase of equipment as the specific request of the Security Council within a very tight timeframe. The proposals by the contractor are "all-in", i.e., including all relevant personnel for technical activities and analysis, as well as for auxiliary services, such as report writing, presentation to the Security Council, etc. In addition to the demands by the Security Council, the Government of Iraq would also have to pay for the services of the contractor. The Contractor's proposal was excessive with Sybolit presenting the United Nations with considerable advantages, one that cannot be cost evaluated, and rendered the mission much more expeditious and effective.

37. It is also an erroneous assumption that OIP does not maintain comparative information on the "reasonableness" of proposals. OIP has always kept such information and has submitted it to the Security Council. The auditors' claim that OIP did not do so, thus has been able to discuss quickly with experts whether technical and financial proposals were reasonable.

38. Reverting the comment on the round-trip from Amman-Baghdad-Amman, it is concluded that the charges were excessive. Consequently, OIP is arranging a deduction of the overcharge, as appropriate.

39. The auditors do not seem to have taken into consideration the question of the time factor established by the Council and its Committee, which had to be taken into consideration in leading missions. Fortunately, Sybolit had and was able to provide experts immediately from having great technical capabilities in the area necessary to undertake such missions, as well as general in the region. Regarding the comments specifically on paragraphs 24 and 25, the "reasonableness" of the charges, it is essential to keep in mind that the contract was based on an "all-in" cost proposal. Furthermore, the contractor's proposals were fully considered by the OI

attendance on site of the contracted personnel and satisfactory performance of their duties.

27. The contract was awarded to Sybolit based on competitive tenders and there is no evidence that alleged communication costs for private calls were not OIP. It should be mentioned that the State Oil Marketing Organization (SOMO) has raised for quite some time upon Sybolit's communication systems, particularly after the military action in 1998. All costs involved amounting to USD 6,000 per month were absorbed by the contractor (Sybolit).

28. However, the point raised in the Report regarding the cost structure could be utilized in the negotiations for the next contract.

Accommodation and local transportation charges included in man-day billing rate have been excessive

29. Paragraph 16.5 and 17 state, *inter alia*, that at Zabho and Minal-Bakar, the Government of Iraq had provided accommodation for the Contractor's staff, and at Zabho, SOMO had also provided two cars for local transportation.

30. With regard to questions related to costs for accommodation, transportation, communications, etc. in Iraq, it is well known that these costs are to be incurred in Iraq would have to be compensated, but under the restriction of sanctions, no such arrangements could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements by the contractor, not just Sybolit, to ensure that these services, etc., are provided, as required.

Transport costs provided for in the Contract have been charged

31. Paragraph 18 states that "notwithstanding specific provisions in the Contract to the contrary, the contractor has provided for computer equipment for two spare parts inspectors at a cost of \$17,000 per month, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for transport was also authorized at \$39,000. In this regard, we note that the man-day rate provided for transport for transportation and justification was given for amending the Contract to provide additional transport. This arrangement was not transparent and appeared to double charge the UN for these costs."

32. To facilitate the execution of the contract, it was decided that Sybolit could purchase three vehicles and operate them independently and the vehicles would be used only in the United Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices.

Non-essential equipment purchased by the Contractor had not been adequately accounted for

33. Paragraph 24 states that "the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like antennas, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inventoried by the UN. Furthermore, the equipment was not entered into OIP's

9.

The Contractor had not conducted "audit visits" as provided for in the Contract

40. Paragraph 26 states that although the contractor's proposal dated June 1996, provided for a contractor from Rotterdam to "audit" their operation in Iraq every six weeks, no audit had been conducted. On the assumption that the cost of the visits would have been included in the overall price proposed by the Contractor, the auditors consequently calculated 36 such missed visits.

41. This assumption is incorrect, as the technical head of the Iraq team for Sabyolt regularly undertakes missions to Iraq and the cost of these visits is included in the overall cost of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for the oil sector, as well as customs experts and the Oil Inspectorate. It is pointed out that it is more effective and efficient to have an overall team leader positioned in the field, rather than a number of experts who are only available on an on-going basis of review and action, than only periodic "audit" visits, which are, after all, just visits.

Services provided by UNOHCI have not been adequately charged to the Contractor

42. Paragraphs 21 and 28 have been duly noted. As stated in paragraph 12 above, it may be useful for the auditors to review Section VIII of the MOU, concerning Privileges and Immunities.

B: Monitoring Contractor's performance

OIP officials charged with monitoring the Contractor had not made inspection visits to Iraq

43. Regarding the comment on paragraphs 29 and 30, it should be noted that the contract is being executed in a highly sensitive political environment. As has been already stated, in order not to compromise UNOHCI's mandate, it was decided to administer the contract from Baghdad. It is not unusual for UNOHCI to have a presence in Iraq, but not to have a group of experts on oil spare parts.

D: Contract Issues

Need to separate the cost of Contractor's equipment from the non-daily fee structure

44. In paragraphs 31 to 37 and the auditors' corresponding recommendations, the Report discusses the sort of equipment purchased under the contract with Sabyolt. While the comments are too vague to constitute a valid finding, it is clear that the auditors did not take into full consideration the ongoing maintenance, repair and replacement costs that are factored into the maintenance by Sabyolt. It is pointed out that the auditors have not reviewed the equipment maintenance by Sabyolt. It is noted that the auditors have in touch with Sabyolt's headquarters, they could have reviewed the information regarding the cost of "lease of the equipment", as the auditors have put it.

Seriousity of CVs of Contractor personnel have been ineffective

45. It would seem that the auditors did not fully understand the background of the issue of early pensioners. It was originally foreseen that the contractor would identify overseas. The idea was subsequently cast aside. In the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the most serious conditions in Iraq.

46. It is also incorrect to state that CVs of contractor's personnel are not reviewed. Whenever Sabyolt sent a recommendation, it was reviewed by the appropriate staff at OIP and then forwarded to the Oil Overviews in OIP, for their comment. OIP has at times raised a number of queries with regard to candidates proposed by Sabyolt, for various reasons, including the candidate's language skills, and the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the most serious conditions in Iraq.

47. In the memorandum, dated 15 April 2002, addressed to the Executive Director of the Iraq Programme, transmitting the Report, the Director of the Iraq Programme, UNOHCI, has stated, *inter alia*, that OIP's "limited resources" (para. 4.8, 8, 16, 17 and 21) contained in the report, "are not sufficient to carry out the tasks assigned to them". In light of the introductory remarks above, as well as the comments on specific paragraphs, it will be necessary to review each of the recommendations as stated hereunder:

Recommendation 3: Establish a contract management unit in Iraq whose functions shall include: monitoring the Contractor's attendance records, monitoring additional requests for equipment and services by the Contractor and providing input for evaluation of the services provided (AEU/04/0003).

48. This recommendation falls in line with the recommendation of the fact that this would require additional resources in UNOHCI's mandate and would not necessarily be agreed to by the Government of Iraq. Furthermore, it should be borne in mind that UNOHCI is an integral part of OIP. We believe that the decision to manage the contract from Headquarters level was the right decision taken. We have the expertise within OIP at the Headquarters, including the Oil Overviews and the group of oil spare parts experts with whom Sabyolt has to work very closely, almost on a day-to-day basis.

Recommendation 4: OIP management should recover the overpayment of \$370,000 as indicated in Annex I, from the Contractor in subsequent billings (AEU/04/0004)

49. This recommendation should be further reviewed by OIOS. The \$370,000 seems to be significantly overstated. Ideally, Sabyolt's review of its invoices revealed undercharging of approximately \$19,000 that might avoid any overcharging.

04/01/02 THU 11:37 FAX @024

04/01/02 THU 11:37 FAX @024

04/01/02 THU 11:37 FAX @024

-1-

-1-

-1-

Recommendation 11: OIP management should establish an appropriate approval process for candidates proposed by the contractor in accordance with the contract (AFU/2006/001).

55. There are similarities between OIP and the contractor in the selection of candidates. However, recommendations will be given to establish a formal procedure for conveying approval of candidates proposed by the contractor.

Recommendation 6: OIP management should in future contracts with the Contractor (or any other contractor) require the Contractor to provide a detailed breakdown of the invoices from service providers (AFU/2006/006).

50. The recommendation is noted and will be taken into account for the negotiation of future contract proposals.

Recommendation 8: OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AFU/2006/008).

51. The contract is an all-inclusive, and there is no evidence that the contractor has separately charged OIP for private calls. Further, it would be contrary to the terms of the contract to demand such reimbursement.

Recommendation 9: OIP management should recover overpayments for accommodation and transportation of approximately \$471,000 from the Contractor (AFU/2006/009).

52. The contract is all-inclusive, therefore under the terms of the contract there is no reimbursement due.

Recommendation 16: Implement procedures for providing urgently required services, which should include obtaining quotations from other suppliers; checking the reasonableness of quotations based on actual costs; and negotiating costs with the selected supplier (AFU/2006/016).

53. As stated above, OIP maintains constant contact with professional societies and industrial organizations and is, therefore, current on the costs of services. However, the recommendation is noted.

Recommendation 17: OIP management should obtain details of "audit trails" undertaken by the Contractor and its sub-contractors, such as the number of visits, such required visits up to phase nine (AFU/2006/017).

54. It is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for "auditing" functions on an on-going basis of review and action, rather than periodic audits, which are done all four years. In this regard, OIP does not consider that any recovery is due.

01/08 '02 MON 14:47 (TEL/RE NR 8477) @025

01/08 '02 MON 14:47 (TEL/RE NR 8477) @024

01/08 '02 MON 14:47 (TEL/RE NR 8477) @024

S025601

S025600



United Nations
OFFICE OF INTERNAL OVERSIGHT SERVICES
Internal Audit Division

UNITED NATIONS NATIONS UNIES
INTERNAL AUDIT DIVISION
OFFICE OF INTERNAL OVERSIGHT SERVICES

3 July 2002

Reference: AUD-7-131 (1023 / 02)

To: Mr. Basim Sevia, Executive Director
Office of the Iraq Programme

From: Esther Stern, Director
Internal Audit Division, OIOS

Subject: OIOS Audit No. AF2001/006: Audit of the management of the oil inspection services Contract

1. A draft audit report on the above-mentioned subject was issued on 7 December 2001 requesting a response by 15 January 2002. The deadline for this response was eventually extended, for approximately 2.5 months, until 31 March 2002. Subsequent to the issue of the final version of the report on 15 April 2002, a reply to the recommendations was received from OIP, addressed to the OIOS USG, under a covering memorandum dated 17 April 2002. In order to address the response to the recommendations, OIOS was decided to issue a revised version of the final audit report incorporating OIP's comments.
2. Based on your response to the report, we are pleased to inform you that we have closed recommendations 004, 005, 006, 012, 015, and 021 in the IAD recommendation database. In order for us to close out the remaining recommendations - recommendations 002 to 004, 007 to 009 to 011, 013 to 018, and 022 to 024 - we are requesting you to provide us with the status of implementation in the text of this report and a time schedule for finishing the work of the recommendations. Please refer to the recommendation number concerned to facilitate monitoring of implementation status.
3. IAD is assessing the overall quality of its audit process and kindly requests that you consult with your managers who deal directly with the auditors and complete the attached client satisfaction survey form.
4. Thank you for the assistance and cooperation provided to the auditors on this assignment.

Copy to: Mr. J. Connor
Mr. J.P. Hiltweck
Internal Audit Division
Mr. D. Kusan
Mr. J. Prasad

Audit subject: Management of the oil inspection services Contract
Audit No. AF2001/006

Report date: 3 July 2002

Audit team:
Daphne Kwan, Audit Director-in-Charge
Jayanti Prasad, Resident Auditor
Gloria Jose, Resident Auditor
Aana Habaan, Audit Assistant

Audit of the management of the oil inspection services Contract (AF2001/06)
Executive Summary

From March through August 2001, OIGOS conducted an audit of the management of the oil inspection services Contract between the United Nations and Skybolt Eastern Hemisphere B.V. (the Contractor). The focus of the audit was on administrative and management aspects of the Contract. The audit found that there are substantial costs that should be recovered from the Contractor. The audit also identified areas where the Contractor has incurred unnecessary expenditures. Moreover, OIGOS identified areas where the Contractor could have made arrangements in order to ensure more cost effectiveness.

Results in brief:

- o A review of 10 monthly Contractor's invoices found inadequate procedures to monitor invoice payment and embargoes in supporting documentation leading to estimated overpayments of approximately \$186,000.
- o Excessive charges have been made for company and personal communication costs. Substantial savings could have been achieved if communication costs were paid on an actual basis.
- o Charges by the Contractor for accommodation and local transportation were excessive and were not based on the fact that the Government of Iraq often provided these services free of charge. Had this been taken into account, estimated savings of \$471,000 could have been achieved.
- o Despite transportation costs being provided for in the Contract, amendments were made for the purchase of vehicles.
- o The Contractor had made excessive charges for certain additional services such as providing transportation, engaging low additional experts, transportation charges for consultants, etc. In addition, invoices were paid without adequate supporting documentation and justification.
- o \$235,310 was paid to the Contractor for providing a "Comprehensive survey of the oil industry in Iraq" in preparation to bidding for this services was resorted to in awarding the contract (PDA/00/03). The Contractor's proposal and payment was made without any supporting documentation being submitted.
- o Audit visits as provided for in the Contract had not been made by the Contractor, resulting in overpayments of \$270,000.
- o The Contractor had not been charged for the services provided by United Nations Office of the Humanitarian Coordinator in Iraq (UNOHCI). *How much, any?*

5023507

- o No procedures had been established to monitor the services of the Contractor, in the absence of which it is not clear as to how OIGOS had assessed the quality of services provided.
- o Agreeing to pay for equipment costs, built into the per-man day cost structure, had resulted in the UN paying approximately \$30 million for the Contractor's equipment. This cost appeared excessive compared to the value of actual equipment in use by the Contractor.
- o OIGOS had not been scrutinizing the curriculum vitae of the Contractor's staff effectively, even though they are required to do so under the Contract.

Major recommendations:

OIGOS should:

- o Strengthen the procedures for approving the Contractor's invoices by requiring complete supporting documentation and performing detailed verification of them.
- o Establish a contract management unit in Iraq, whose functions should include reviewing invoices supporting documentation, maintaining accurate records for contractors, assessing requests for additional equipment and services by the Contractor, and providing input for evaluation of the services provided.
- o Recover approximately \$186,000 due to overcharging for excess numbers of staff at designated locations and associated transportation costs. OIGOS should review all Contractor invoices to determine the correct recoverable amount.
- o Consider amending the Contract so that communication, local transportation and accommodation costs are segregated from the per-man day cost structure and are reimbursed based on verifiable supporting documentation.
- o Consider amending the Contract to segregate the Contractor's equipment costs from the per-man day cost structure. There should be a one-time reimbursement of the actual cost with some provision for maintenance.
- o Check contracts for additional services for reasonableness, obtain additional quotation and full justification and documentation to support payment.
- o Bill the Contractor for the services provided by the UN to the Contractor at the standard cost for third parties.
- o Develop a clear mechanism to monitor and evaluate the performance of the Contractor, both at the field and Headquarters level.
- o Develop appropriate procedures to approve Contractor's personnel more effectively.

5023508

TABLE OF CONTENTS

Chapter		Paragraphs
I.	INTRODUCTION	1-5
II.	AUDIT OBJECTIVES	6
III.	AUDIT SCOPE	7
IV.	AUDIT FINDINGS AND RECOMMENDATIONS	8-46
	A. Monitoring of invoice payments and financial matters	47-48
	B. Monitoring Contractor's performance	49-55
	C. Contract issues	
V.	ACKNOWLEDGEMENT	57
	ANNEX	

I. INTRODUCTION

1. From March through August 2001, OIGOS conducted an audit of the management of oil inspection services Contract between the United Nations and Skybolt Eastern Hemisphere B.V. (the Contractor). This audit was conducted in accordance with the general and specific standards for the professional practice of internal auditing in United Nations Organizations.
2. One of the functions of the Office of Iraq Programme (OIP) under Security Council Resolution (SCR) 986 (1995) is to oversee the export of oil and oil products from Iraq through approved export points. In addition, OIP is responsible for monitoring the end use of oil equipment and spare parts that are being procured by Iraq to improve its decaying oil industry infrastructure.
3. The initial Contract with Skybolt Eastern Hemisphere Contractor, PD/COM/17/0045/99, for the provision of inspection services to OIP was signed on 12 October 1999 (Contract A) and was amended by the revision of the contract terms in international oil trade in accordance with SCR 561 (1990). Since the initial Contract, twelve amendments have been made, including four amendments for additional labour and travel costs. Recently, a new bidding exercise was conducted by the Procurement Division (PD) which resulted in the Contractor again being awarded the Contract (Contract no. PD/COI/14/00).
4. The new Contract extends from 29 May 2000 until 28 May 2001 with an annual contract value not to exceed \$5,316,150 and an aggregate value of \$21,264,600. Moreover, the new Contract provides for an option to renew it for three successive one-year periods, under the same terms and conditions, including price. In addition to this Contract, OIP has also entered into other contracts with Skybolt to carry out audits separate from this Contract. The Contractor currently employs 14 inspectors to oversee oil exports from Iraq, six to monitor the end use of oil equipment and spare parts imported by Iraq. The inspectors are employed to monitor the end use of oil equipment and spare parts imported by Iraq.
5. A request was sent to OIP to arrange for an exit conference in order to discuss the findings and recommendations resulting from the audit. However, OIP management did not respond to the request. The final audit report was then sent to OIP on 14 October 2001. The audit report was issued on 15 April 2002. The current report has been amended to take into account comments subsequently received from OIP. The comments are indicated by the use of italics.

II. AUDIT OBJECTIVES

6. The major objectives of the audit were to:
 - (i) Assess OIP's management of the Contract, both in Iraq and at Headquarters, with respect to its obligations of the Contractor and OIP under the terms of the Contract, and procedures to verify and evaluate the Contractor's performance, receipt of services, and to review and pay invoices;

satisfactory completion of the Contract. The relevant invoices had no supporting documents, on which to base the payment. Hence, there was a lack of any internal control.

(iv) While the number of the Contractor staff present at a location at the vital parameter for payment, our review of the monthly invoices revealed that the Contractor had often maintained staff at each location both lower than, and at times, in excess of OIP requirements. ~~Discrepancy~~ have been due to the Contractor's rotation/leave policy for staff.

Recommendations 1, 2 and 3:

OIP management should:

- (i) Request the Contractor to modify the supporting invoice document (attendance sheets), to clearly indicate the exact location of their staff which is currently indicated as "from arrival to departure Annex", which would enable OIP to verify the invoice (AFD/1506/001);
- (ii) Review the arrangement whereby the Executive Director certifies invoices, and institute specific procedures for checking and approving invoices (AFD/1506/002); and
- (iii) Establish a contract management unit in Iraq whose functions should include reviewing invoices' supporting documentation, verifying the Contractor's attendance records, monitoring additional requests for equipment and services by the Contractor and providing input for evaluation of the services provided (AFD/1506/003).

10. OIP agreed with recommendation 001, indicating that as of December 2009 the attendance record has shown "perceived attendance on location from arrival to departure." The recommendation has been closed. OIP did not provide a comment on recommendation 002 hence the recommendation remains open.

11. Recommendation 003 was not agreed to and OIP stated that the contract was managed by OIP and the UNMOVIC officers have been made by OIP to institute appropriate procedures that "that to the extent possible, officers have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharges its contractual responsibilities. OIP also stated, "we have the expertise within OIP at the Headquarters, including the OI Overseas and the group of oil spare parts experts with whom Sopohl has to work very closely, almost on a day-to-day basis." OIP has also been to clarify that the UNMOVIC to conduct the audit. Furthermore, the OI Overseas informed us that they have no active part in the management of the contract and only use the information provided by the Contractor. Nonetheless, we are pleased to note that appropriate procedures have been established by OIP. In order to close that recommendation we request that

(vi) Determine if the Contractor provides the required services in an economical, efficient and effective manner; and

(vii) Review the management of other services being provided by the Contractor.

III. AUDIT SCOPE

7. OIGOS conducted a previous audit (A/S/0746) on the procurement aspects of this Contract. The current audit therefore focused on contract management issues. The audit consisted of a review of the Contract, invoices, and OIP's procedures to evaluate the Contractor's performance. In addition, physical inspections of the Contractor's operations were carried out in Iraq and Turkey. We interviewed OIP officials in New York and Iraq, in addition, with OIP's agreement and cooperation, we interviewed OIGOS staff in New York to provide us with explanations and certain documentation concerning their working arrangement.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Monitoring of invoices payments and financial matters

Procedures have not been implemented to monitor invoice payments

8. The Contract and amendments required the Contractor to provide a total of 14 OI Inspectors with a breakdown of six at Mina-al-Bakr, three at Zakho, and five at Ceyhan in Turkey. In addition, amendment number 8 of the Contract provided for six spare parts inspectors (two each at three different locations). The number of inspectors, whether for oil or spare parts, is the only measurable element of the Contractor's performance. Our review of the Contractor's attendance records is essential to support the monthly invoices submitted by the Contractor. Our review of procedures found however, that they were lacking basic financial checks and balances, resulting in a number of incorrect payments.

9. A review of 19 monthly invoices and supporting documents found the following deficiencies:

- (i) The attendance record was ambiguous since in many cases it reflected the attendance "from arrival to departure Annex", whereas the payment to the Contractor should only be made for manning the locations in Iraq and Turkey. This could have resulted in payment for staff not at the work locations.
- (ii) The attendance sheet did not relate to the month written on it. For example, if the month is written as "June" that has 30 days, the attendance details are for 31 days. This irregularity, found in 18 of the 19 invoices reviewed, was never questioned by OIP.
- (iii) In the initial Contract, payments were to be made in lump sums: 30 per cent three months after start of Contract, 30 per cent six months after start, and 40 per cent upon

OIP provide us with a copy of the spreadsheet. We also request that OIP reconsider establishing a formal contract management unit in the field.

Overpayment of Monthly Invoices needs to be recovered

12. A review of invoices found that inadequate scrutiny had led to irregularities resulting in overpayments to the Contractor. These overpayments were identified in the spreadsheet detailed in the Annex) on account of overcharging, and short and errors shortening of staff. The following discrepancies were found:

- (i) On a few occasions, the Contractor had overcharged OIP since the attendance record showed lower man-days than those charged;
- (ii) It was observed that the Contractor had often maintained lower strengths than that required by the Contract. However, OIP did not deduct any amounts for such non-performance; and
- (iii) The Contractor had charged for additional staff in excess of contractual requirements, which had been paid by OIP.

In our opinion, the poor attendance recording practices by the Contractor resulting in overcharging indicates a lack of professionalism and should be immediately rectified as recommended above.

Recommendations 4 and 5:

OIP management should:

- (i) Recover the overpayment of \$186,000, as indicated in Annex from the Contractor in subsequent billings (AF0170/0004); and
- (ii) Review all other monthly invoices to determine if any further over-billing and shorter staffing occurred. The Contractor should also cover those invoices without supporting attendance sheet (AF0170/0005).

13. OIP disagreed with recommendation 004, and stated that the auditors did not understand the billing mechanism. OIP stated that the Contractor had not provided OIP with all the invoices to a date which covered the period from 29th June 1997 to 30th June 1997. OIP further stated that accordingly there was no overpayment involved except for the month of June 1997 (overpayment of 17 man-days) which would be deducted from a future payment. OIOS was aware that the contractor had charged for the staff actually present at the sites instead of the numbers required as per the contract. OIOS had recommended recovery of the amounts which had been overpaid for staff in excess of contractual requirements and (ii) recovery of amounts for staff in excess of contractual requirements on account of mistake for contract. Contractor was aware that the staffing levels agreed to in the contract. OIOS is of the opinion that there should be a penalty

charges in the contract for such non-performance. The Annex has been amended to reflect our revised calculation. OIP management should also ensure that the Contractor provides a monthly report from 29th of the previous month to 29th of the current month, as stated by OIP, for a monthly report calculation of overpayments, which were done by comparing the strength actually present to that required, on a day-by-day basis in accordance with the Contract provisions. Thus, we request OIP to re-consider this recommendation and, accordingly, the recommendation remains open.

14. Paragraph 16 of OIP's reply states that the contractor "... provides for full payment for complete and satisfactory performance for the whole of the contract period. In this regard, it could be argued that once the requirement of satisfactory performance is met, the 'deficiency' in the attendance record becomes a non-issue." This appears to imply that the contract requirement for inspectors is flexible. If this were the case, then it would be appropriate to amend the contract to state the actual requirements and not to pay for additional unneeded inspectors.

15. OIP has indicated in its response to recommendation 004, that a review of invoices had only revealed two minor discrepancies. The recommendation has therefore been closed.

Communication charges by the Contractor have been excessive

16. A review of the staff invoices (Appendix III of the proposal of June 1997) proposed by the Contractor clearly indicated that all expenses such as the telephone, telegrams, telex, fax, air-freight, lodging, travel expenses, local transport, communication, insurance, risk premium, insurance, sample mail-rail transport and equipment were taken into account in arriving at the contract price. Included in the proposal were communication expenses of \$603,000, which is about 21 per cent of the total contract amount. For the initial six months of the Contract this amounted to approximately \$300,000.

17. Despite this large expenditure, the Contractor did not provide the requirements to justify the expenses incurred. The communication expenses were essentially due to the use of a satellite communication system (Satcom). The UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the communication expenses significantly, apart from being transparent in terms of identification of all calls including personal calls. Hence, an opportunity to effect substantial savings had been foregone. With regard to the spare parts for the satellite UN telecommunication system, the Contractor estimated a total of three locations. Later on the communication expenses of \$248 was merged with the staff for inspectors at \$697 per man-day.

18. While PD and OIP attempted to require presentation of actual bills in authorizing payment for communications, the Contractor had not agreed to this stating in an e-mail dated 02/06/98 that "From the communications, the Contractor has agreed to pay for the satellite system which was in the proposal to extract the communication cost from our per man day for the first six months. The Contractor also it is not technically possible. Although our quotations clearly contain estimates, we have based our costs on empirical information from the previous phases. As our communication costs in the contract are not separable in anyway, this can not be substantiated by invoice". In our view, there

is a high probability that the UN may be paying more for the communication expenses, than the Contractor is actually spending.

Recommendations 6 and 7:

OIP management should:

- (6) In future contracts with the Contractor (or any other contractor) request the communication expenses from the man-day tariff structure and reimburse these on presentation of detailed documentation, (e.g. invoices from service providers) (AFD/306/006); and
- (7) Investigate the use of alternative communication options including the use of UNOHCI's telecommunication network with appropriate reduction in the Contract price for communication charges (AFD/306/007).

19. OIP took note of recommendation 006 and stated, "In-line costs were recognized in the current contract. PD/C/O 1460 would be taken into account in the negotiation of future contract proposals. OIP also noted that the Procurement Division questioned the practices of including communication and equipment costs in the man-day rates structure, and indicated they would be approached during the bid process. However, the contractor opposed this approach stating, "From the bid process we have already incurred which cost us in...". Based on OIP's response, we have closed this recommendation.

20. OIP disagreed with recommendation 007 and stated in its reply that the auditors had not difficulty for UNOHCI to determine the location of the inspectors, and the logistics and financial aspects of the contract. OIP stated that it was not aware of any attempts by OIP to determine the feasibility of adding the contractor to the UNOHCI network in Iraq. In our view, the feasibility of doing this should have been looked into. This recommendation remains open pending OIP's review of the feasibility of adding the Contractors to the UNOHCI network.

OIP agreed to recover personal phone calls made by the Contractor's staff

21. We found that the Contractor's internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not substantial to the Contractor's work. Since the Contractor's internal policy is to allow each of its staff members free private telephone calls of the Contractor staff members are being charged to OIP.

22. Based on a cost of \$3 per minute, the estimated fees telephone service being employed by the Contractor's staff (excluding Captain case) using Satcom in Iraq would be on the order of \$3,102.5 per

month or a total of \$12,150 per six-month phase. We are of the opinion that this benefit should not have been charged to OIP.

Recommendation 8:

OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AFD/306/008).

23. OIP disagreed with recommendation 008 and stated in their response that there was no evidence that personal telephone calls are charged to OIP. It also believed it would be contrary to the terms of the contract to demand such reimbursement. OIOS is of the opinion that OIP should obtain a monthly statement from the Contractor indicating telephone usage to ensure that only those calls that are not covered by the man-day rates but rather should be charged separately. In this regard, we found that PD had requested technical billing of telephone calls from the Contractor, but was informed that this was not technically feasible. However, OIOS notes that since the Contractor is able to separate personal phone calls for its staff, presumably it can also do this for charges to OIP. In order to close this recommendation, we request for OIP to ascertain the actual personal calls made by the Contractor staff and to recover the amount of these charges.

Accommodation and local transportation charges included in man-day billing rate have been excessive.

24. Based on the Contractor's proposal of June 1995 and subsequent proposals, expenses for accommodation and local transportation included in the man-day rates for the first nine phases of the programme are 2.85 per cent (\$3,700 out of a total of \$1,294,100) and 5.31 per cent (\$1,56,480 out of a total of \$2,940,100), respectively. However, we found that at Zabho and Min-al-hakr, the Government of Iraq oil company had provided accommodation for the Contractor's staff. Despite specific queries to the Contractor whether they are paying any cost towards accommodation, no response was received. At Zabho, the oil company had provided the Contractor with two cars for local transportation.

25. Based on the Contract proposal, we estimated that cost per person-per day is around \$20 for accommodation and \$37 for transportation. This has resulted in an overpayment of approximately \$471,000 (for nine oil inspectors at Min-al-hakr (6) and Zabho (3)) in the case of accommodation and \$1,000,000 (for nine oil inspectors at Zabho in the case of local transportation charges) for the nine compliance phases.

Recommendations 9 and 10:

30. It was also found that the Contractor proposed and the UN approved (Amendment number 11 to the Contract) for the purchase of three vehicles for the spare parts inspectors at a cost of \$19,500, \$24,000 and \$24,500 respectively. All these vehicles were to be Toyota Land Cruisers Prado STD with the only difference that, while the cheaper one was white in colour, the other two at \$3,000 extra cost were green and beige. We are of the opinion that the UN should have not allowed and paid for different color vehicles which led to unjustifiable expenditure of \$10,000.

Recommendation 12:

OIP management should ensure that specification for vehicles are in accordance with the UN standards and avoid unnecessary specifications involving additional costs (AFU/2006012).

31. OIP stated in its reply to recommendation 012, that because of the urgency of the situation, it was decided to purchase vehicles with different costs and colors that were immediately available. Based on this explanation we are closing this recommendation. However, in the future we urge OIP to standardize the vehicle specifications in accordance with UN standards in order to minimize costs.

32. As noted above, the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like accounts, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inventoried by the UN. Furthermore, the equipment was not entered into OIP's inventory system, and there had been no periodic checks on these assets as required by UN financial rules.

Recommendation 13:

OIP management should ensure that UNOHCI takes stock of the equipment purchased by the Contractor and paid for by OIP, and verify the equipment by means, not routinely perform physical verification (AFU/2006013).

33. OIP disagreed with the recommendation stating, "The contract is all-inclusive... In this regard, the communication equipment, computers and software are not UN property, and therefore there is no corresponding requirement for an inventory. OHS points out that the equipment was purchased by the contractor, not the contractor, under separate transactions. Hence, the equipment is UN property and should be fully accounted for and recorded in UN property records. In order to close this recommendation, we request that evidence be provided showing that this equipment has been recorded in UNOHCI's asset register.

Changes for additional assets provided for by the Contractor have been excessive and inadequately inventoried.

(i) OIP management should receive appropriate receipts for items purchased for approximately \$471,000 from the Contractor (AFU/2006009), and

(ii) Future contracts with the current or other contractors should take into account (free accommodation and transportation provided so that the UN obtains best value for money (AFU/2006010).

26. Regarding recommendation 009 OIP stated "...in Iraq, it is well-known fact that there types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements by the contractors..." OIP also stated, "the contract is all-inclusive, therefore...no reimbursement to date." From this response it is not clear whether the contractor has received OIP for accommodation and transportation provided for the UN. OIP also stated that the UN should have been informed of this arrangement being made and the amounts actually paid to the COI by the Contractor.

27. OIP appears to have agreed with recommendation 010, stating in paragraph 28 of its response "...the points raised in the Report regarding the cost structure, could be utilized in the negotiations for the next contract. In order to close this recommendation we request OIP to confirm that it will amend the cost structure in future contracts.

Itemized costs provided for in the Contract have been changed

28. The initial Contract, as well as the new one, specified that the price includes all costs such as transportation, equipment, and other expenses. However, in the new contract, the Contractor, amendment number three provided for computer equipment for two spare parts inspectors at a cost of \$17,800. Furthermore, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for spare parts inspectors was also authorized at \$39,000. In this regard, we note that the man-day rate provided for transportation costs of 2.35 per cent. In our opinion, adequate provision was made in the Contract for transportation and no justification was given for amending the Contract to provide for transport. This arrangement was not transparent and appeared to enable charge the UN for these costs.

Recommendation 11:

OIP management should ensure that future contracts with this Contractor include transportation cost and not incorporated in the man-day rate (AFU/2006011).

29. OIP appears to have agreed with recommendation 011, stating in paragraph 28 of its response "...the points raised in the Report regarding the cost structure could be utilized in the negotiations for the next contract." In order to close this recommendation we request OIP to confirm that it will amend the cost structure in future contracts.

34. From time to time OIP requested the Contractor to provide proposals for additional services. The cost proposals submitted by the Contractor had been accepted without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc. These are basic procedures when paying for goods and services and should have been performed by OIP as a matter of routine before payment was made.

35. For example, for the purchase of communication equipment for spare parts inspectors valued at \$17,800, no effort was made by OIP or even through UNOHICI to verify that the new equipment had actually arrived or that the equipment was in conformity with authorized standards before payment was released.

36. In another case, \$67,600 was agreed to by OIP for services of four experts for a 10-day period (Amendment number 9, June 1999) without any verification of the reasonableness of the charges. A review of invoices indicated excessively high charges by the Contractor and acceptance by the UN without any questioning. The fees for these experts were \$2,000, \$1,500, \$1,500 and \$900 per day. These were much higher even by the Contractor's standards for senior inspection monitors, which the Contractor had previously used for similar assignments. Moreover, the Contractor's standard rates for Amman-Baghdad-Aman were charged for and paid at the rate of \$750 round trip, instead of the standard cost of \$150 each way. It should be noted that whereas the Contractor charged \$7,200 for the airfares for these four experts, both for inward and outward flights to Amman, \$3,000 was charged just for the Baghdad-Aman-Baghdad round journey.

37. A separate Contract (POC/0003/00) dated 13 January 2000, in the amount of \$234,400 was entered into with the Contractor to provide a report on the state of the Iraqi oil industry. While an exception to bidding was approved by the Department of Management, there was no indication that OIP had checked the reasonableness of the Contractor's proposal, which was accepted exactly as proposed. Considering the high value of the Contract it would have been expected that some of the charges should at least have been checked for reasonableness and quotations obtained from other potential bidders. The Contractor's proposal was accepted without any questioning into a full bidding exercise and within the time constraint required to report to the Security Council.

38. Furthermore, the invoice amounting to \$235,350 (Invoices 987/00 dated 30 March 2000) was subsequently paid without any receipts for any of the expenses claimed by the Contractor, and without any evidence of review of the propriety or reasonableness of the charges. While the per day fee for the Contractor's services was \$235,350, the Contractor's proposal included a 10% discount for the Contractor's airfare (\$21,800), boarding and lodging (\$22,400), meals/drink (\$5,000) and video presentation (\$5,350). In our view, these instances indicate the lack of adequate control procedures.

Recommendations 14, 15 and 16:

10

S023519

OIP management should:

(i) Take immediate steps to ensure that all payments have appropriate supporting documentation before payments are made, and that charges are checked for reasonableness (AFS/120/6014);

(ii) Obtain clarification from the Contractor for the excessive charges of \$3,000 for the round trip to Baghdad and the overpayment of \$2,400 from future invoices (AFS/120/6013); and

(iii) Implement procedures for procuring urgently required services, which should include: obtaining quotations from other suppliers, checking the reasonableness of quotations based on actual costs, and negotiating costs with the selected supplier (AFS/120/6016).

39. OIP did not provide a response to recommendation 014 on whether they would ensure that adequate checks are made for invoices prior to payment. In order to close the recommendation we request a response indicating what steps have been taken to implement it.

40. OIP agreed with recommendation 015, and indicated that it would arrange to deduct the overpayment. The recommendation has therefore been closed, however we request OIP to provide us with documentation indicating recovery of these costs.

41. OIP took note of recommendation 016, stating that it possesses comprehensive information to determine the reasonableness of proposals. It further stated that it was therefore able to "discuss quickly with experts whether technical and financial proposals were reasonable." OIP also stated, "...that the contractor's proposals were fully considered by the Oil Overseers." OIOS points out, however, that during the audit, no documentation was available to indicate that a reasonableness check had been done for this contract. Furthermore, during interviews conducted at UNHQ, the Oil Overseers stated that they had not discussed the proposals with the Contractor's representatives with any contractor. In order to close this recommendation we would therefore appreciate being provided with the analysis done to determine the reasonableness of the proposal discussed in paragraph 37.

The Contractor had not conducted "audit visits" as provided for in the Contract.

42. The Contractor's proposal dated June 1998, provided for a coordinator from Rotterdam to "audit" their operation in Iraq every six weeks. Clearly, the cost of these visits would have been included in the overall price proposed by the Contractor. Accordingly, for the nine completed phases the Contractor should have undertaken 36 such visits (the cost charged by the Contractor for one trip to Iraq was \$7,500). The Contractor was unable to provide any information indicating that such visits had taken place.

11

S023500

sects of the UN, inspectors, etc. to Iraq and the obligations of the GOI and it is not clear how this relates to charging for services provided by the UN under the contract. The services to be provided by the UN are clearly spelled out in the contract as indicated in paragraph 4) above. Services, additional to these, should be charged for. In order to close this recommendation, we request that OIP determine cost of the services provided to the Contractor, and make every effort to recover those costs.

B. Monitoring Contractors performance

OIP officials charged with monitoring the Contract had not made inspection visits to Iraq

47. In Article 11 of the Contract, the UN reserved the right to inspect and test all services performed by the Contractor. The UN also had the right to inspect and test the equipment used in the performance of the contract. OIP had in fact never exercised this right. OIP on all invoices and during pre-mission of the case for extension to the Headquarters' Committee on Contract had stated that the services being provided by the Contractor were satisfactory and in full consonance with the Contract agreement. No formal evaluation had been made by OIP to determine the basis of this assessment.

48. While the Contract is mainly performed in Iraq (other than one location at Ceyhan, Turkey), OIP had not appointed anyone in Iraq to manage the Contract, in the absence of which there can be no assurance that the services were provided in consonance with the spirit and letter of the Contract. This is also indicated by the fact that many of the irregularities pointed out through this report would have had a better chance of being detected had contract management staff been located in Iraq.

D. Contract issues

Need to separate the cost of Contractor's equipment from the man-day fee approach

49. Based on the staff structure proposed by the Contractor, equipment purchased to perform the Contract would cost \$310,000 out of a total of \$2,940,000.

50. This means that OIP pays about \$55 per day per inspector for equipment costs or approximately \$1.2 million for the nine phases. A review of the inventory list provided by the Contractor indicated that the actual cost of equipment was far less than the amount reimbursed through the staff structure. However, the exact amount could not be determined, as the Contractor did not provide the cost of items of the equipment items. In OIG's view, it was clearly not the intent of the Contract for the UN to pay costs of equipment for exceeding their actual value.

51. In our opinion, equipment should have been charged to OIP as a one-time expenditure with the cost of the equipment being amortized over the life of the equipment. We estimated that this has resulted in excessive payments of approximately \$1 million.

Recommendation 17:

OIP management should obtain details of "multi-visit" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$270,000 for 36 such required visits up to plus tax (AFR/306017).

43. OIP disagreed with recommendation 07, stating that it was the Contractor's Iraq team leaders who were responsible for the visits. OIP stated that the contract does not specify "the technical lead of the Iraq team for Support regularly undertakes missions to Iraq and cost of these visits is included in the overall cost of the contract." As such, OIP did not consider that any recovery is due. OIG points out that paragraph 3.2 of the Contractor's proposal, which is an integral part of the Contract, specifically calls for "multi-visit", which in our view are separate from the regular visits by the technical lead. However, since these visits had not taken place under the contract, we do not consider that there is any recovery due to the Contractor. On this basis, we reiterate that the associated costs should be recovered. In order to close this recommendation we request that OIP provide us with documentation indicating that action has been taken to recover the costs paid for the required visits.

Services provided by UNORHC have not been adequately charged to the Contractor

44. Under Article 7 and 8 of the new Contract (Articles 8 and 9 of the old Contract), the UN was to provide only identify and for the Contractors' personnel and allow access to UN transport only in cases of evacuation due to security developments, and medical evacuation. However, it was ascertained that UNORHC provided many services including UN letters for visa support application of vehicle registration, issue of Iraq driving licenses, importation of equipment requiring customs clearance, and other services. OIG stated that the Contractor should have provided the UNORHC with initial phases UNORHC was also providing transport facility to the Contractor. In fact UNORHC has earmarked a senior official to deal with matters relating to the Contractor. It was also noticed that the UN Guards Contingent in Iraq (UNGCC) has provided Motorola radio sets to the Contractor.

45. While these services are necessary to enable the Contractor to function and should continue, in as much as these were not covered by a provision of the Contract, the cost of these services should be recovered from the Contractor. We found that only on seven occasions, between June 1999 and August 2001, had UNORHC charged the Contractor a total sum of \$1,447,21 for various services.

Recommendation 18:

OIP management should quantify the financial implication of services provided to the Contractor by the UN and recover the amount based on standard mission charge-out rates (AFR/306018).

46. OIP disagreed with recommendation 018 stating, "the auditors should review Section VIII of the MOU, concerning Privileges and Immunities." This Section of the MOU deals with the right of

Candidate No.	Age	Educational qualification	Experience (Years) with the Contractor	Other professional experience (Years)
1	53	Several school certificates	23	
2	57	Several school certificates	25	
3	42	High School and nautical academy	11	
4	34	Nautical college	7	
5	58	High School	5	34
6	31	Several School certificates	6	
7	38	O level/A level	7	
8	47	IPND Chemistry	9	
9	33	B.Sc. Electronic Engineering	5 months	5
10	37	High School	4	14
11	N/A	High School	1	6
12	44	Master Mariner	1	11
13	35	Qualified marine Ch. Officer	2	7
14	33	High School (Chennai)	6	
15	37	Marine School	6	13
16	38	1st Class Marine Engineer	10 months	17
17	33	Intermediate (HSC)	8	
18	34	Intermediate (HSC)	14	
19	32	Intermediate (HSC)	8	
20	32	Intermediate (HSC)	9	
21	32	Intermediate (HSC)	9	8
22	34	B.Sc. Degree	8	3
23	32	Triplicane High School	8	2
24	35	Mechanical Engineer	7	2
25	32	Diploma B.Sc.	6	
26	38	Chemical Engineer	6	11
27	N/A	High School	2 months	14

55. A perusal of the above table indicated that, contrary to their assertion that they would form a team of experienced and qualified personnel, the recommendations they submitted in the tender do not comply with the terms of experience. Another factor noted in the above table is that the UN has been approving all candidates as submitted by the Contractor. We found however, that the UN has been approving proposed candidates as a matter of routine, as some of the candidates proposed by the Contractor has

Recommendations 19 and 20:

OIP management should:

(i) Provide for reimbursement of one-time equipment costs in future contracts in order to avoid the uneconomical arrangements of the current Contract (AFI/306/019), and

(ii) Negotiate with the Contractor to recover approximately \$1 million paid for equipment, in excess of its actual cost and to stop further payments for the equipment cost component in the current Contract (AFI/306/000).

52. OIP did not provide a response to recommendation 019. In our opinion, separating the cost of equipment from the man-day contract structure would be a more economical arrangement for the Organization. We therefore reiterate this recommendation.

53. OIP disagreed with recommendation 020 stating, "While the comments are too vague to be taken as a criticism, it is clear that the contractor is not providing the necessary maintenance, repair and replacement costs that are forecast into the contract." OIP also stated, "...had the auditors been in touch with Seybold's headquarters, they could have received the information regarding the costs of the equipment..." OIP may not be aware that OIDS had contacted the Contractor's team leader in Iraq and requested the relevant information from him. This and other information requested was only partially provided. We remain concerned that under the current contract structure, the Contractor is not providing the necessary maintenance and repair costs purchased by the Contractor and the amount paid under the man-day structure of this contract. We therefore request that OIP re-examine this issue and provide us with information on the steps taken to resolve the matter of excessive payments for equipment provided for under the contract.

Security of CVs of Contract personnel have been ineffective

54. The Contractor proposed (paragraph 1.1 of the Contractor's proposal of June 1996) that in view of importance and strict compliance with the relevant Security Council Resolutions (SCRs) and Memorandum of Understanding (MOU) with the Iraqi Government, each member of the team should be fully independent and consist only of people with proven experience, but without any existing connection to the oil industry. According to their recommendation was to form a team of personnel, who are not only experienced but also have a proven track record in the oil industry. The Contractor stated that it was capable of forming such a team of specialists with proven competence, integrity and neutrality within 48 hours. According to Article 1 of the Contract, the Contractor's proposal of June 1996 was an essential part of the Contract with the UN. A review of the CVs of pre-selected candidates (appendix II of the offer of the Contractor of June 1996) is summarized in the following table:

Dec 99		2,540	1 Spare Pt. Insp. extra on 10 th . 3 new days extra for oil Insp. As 1 20 th at GCP.	3,115
Nov 99	19,800	21 new day charged extra at involved for 3 man days instead of 62 per monthbase lines.	4 man days in excess for spare Pt. Insp. at involved extra from 7 th at involved extra from 21 st 2 Oil Inspector extra at Mina from 14 th to 17 th 20 th to 25 th 15 man days charged extra for oil inspector at involved for 435 of 180	36,413
Oct 99		16,150	3 man days charged extra for for 39 instead of 20 for 59 instead of 30 (1 x 30) remaining on 29 th 10 man days at Mina as 1 inspector at involved for 15 14 th to 17 th 20 th to 25 th	11,300
July 99		8,515	Excess 9 man days at Mina as 1 inspector at involved for 15 14 th to 17 th 20 th to 25 th	11,315
June 99		5,240	Excess 4 man days at Zabib as 1 inspector at involved for 15 14 th and 15 th & 1 st (one each)	24,339
Total		102,124	3 man days extra at Zabib on 8 th 1 man day extra at Zabib on 9 th 2 man day extra at GCP on 18 th and 19 th (One each)	186,238

UNITED NATIONS
DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS
NATIONS UNIES
LE DÉPARTEMENT DES AFFAIRES ÉCONOMIQUES ET SOCIALES

OFFICE OF THE INAO PROGRAMME – AIRSANT CHARGES DU PROGRAMME INAO

Mr. Dilip Nair
Deputy Director
for Internal Oversight Services

Benon V. Segas
Executive Director
for Internal Oversight Services

No. A/2301/20(6) - Audit of the management of the oil inspection Programme

17 April 2002

I very much regret that I feel obliged to bring to your personal attention the comments of the Office of Internal Oversight Services (IOS) regarding the management of the oil inspection Programme of the Division of Oil Services, concerning the management of the oil inspection service Contract.

As stated in the report, it took the auditors from March through August 2001 to conduct the above audit, and then it took over three months for the Internal Audit Division to submit the report, 7 December 2001, to the Office for comments thereon by 12 January 2002, during which period the programme was in full operation. It is expected that the implementation of a new phase (phase X) of the maintenance programme will start at the beginning of a new year, and that the report will be submitted to the Government of Iraq. Further details as to what happened thereafter are provided in paragraphs 2 to 6 in the attached Note prepared by this Office.

In brief, I should like to inform you that this Office cannot agree either with the findings or the assumptions made by auditors.

I should like to reiterate that I have always welcomed audits, be they internal or external, but I also expect that auditors should understand very well the environment under which we are operating, and that they should understand the role of the internal audit system and the decisions taken by the Security Council in this regard. It is also expected that auditors should be in the contact of a very rigorous sanctions regime, including the very detailed implementation established by the Security Council for the implementation of the programme. They should also understand well the relevant provisions of the Memorandum of Understanding concluded between the Secretariat of the United Nations and the Government of Iraq (S/1996/256).

We have been implementing the programme pursuant to Security Council resolution 986 (1995) under very difficult, complex and highly sensitive political environment. Reading the report, I do not see any appreciation on the part of the auditors of the difficulties encountered. It always easy to point finger. I do hope that the auditors concerned do not consider themselves infallible.

NOTE BY THE OFFICE OF THE IRAQ PROGRAMME
Comments by the Office of the Iraq Programme
on the final report submitted by OIGOS on 15 April 2002

**OIGOS Audit No. AF/2001/04/6: Audit of the management
of the oil inspection services contract**

1. Following the adoption of Security Council resolution 984 (1995) on 14 April 1995 and the conclusion of a Memorandum of Understanding (MOU), on 29 May 1996, between the Secretariat of the United Nations and the Government of Iraq (UNSC/984), the United Nations Oil Inspection Services Contract (PTI/2270065-56), in force since 1996, provides the services of 14 individuals with "technical experience and qualifications to assist in monitoring the export of petroleum and petroleum products from Iraq". The contract was for an initial term of six (6) months, with an option of renewal for up to three (3) successive periods of six (6) months, on the same terms and conditions. Contract inspectors PTI/2270065-56 was subsequently amended to provide for the employment of additional inspectors for a further two (2) years. The contract was extended to 30 June 2000 at the request of the Security Council. Contract number TD/COI/1400 executed in June 2000 succeeded contract PTI/2270065-56. Under the new contract, which is for one year, with an option of renewal for three (3) successive terms on the same terms and conditions, Syybolt would provide 20 inspection agents; 14 to monitor the oil exports and six (6) to assist in the implementation of the contract. It has been agreed that the number of oil export inspectors from Iraq (6) to eight (8), bringing the total number of agents to 22.

I. Introduction

2. In paragraph 2 of the audit report (hereafter referred to as the Report), it is stated that the Office of the Iraq Programme (OIP) did not arrange for an exit conference requested by OIGOS or respond to audit recommendations forwarded in a draft report, on 7 December 2001, with a deadline of 15 January 2002. It is also stated that "despite the granting of two time extensions, no response to the draft audit report recommendations has been received up until now."
3. As stated in paragraph 1 of the Report, it took from March through August 2001 to conduct the audit, and then it took over three months, until 7 December 2001, to submit the draft report to OIP for comments thereon by 15 January 2002, during a period when OIP was totally involved with the start of the implementation of a new phase (Phase 2) of the oil export programme and consideration of the new distribution plan being submitted by the Government of Iraq.
4. A quick review of the draft report indicated immediately the necessity for a thorough review because OIP could not agree either with the findings or the assumptions made by the auditors. There were also many errors in the calculations made by the auditors which required us to check the work, among them being that the number of inspectors OIP had had been 14, not 20, as stated in the Report. The audit was also conducted during a period when OIP had been seeking detailed information from Syybolt's headquarters regarding some of the claims made in the draft report, because the auditors, who although had held meetings with the contractor's team leader in the field, had not been in touch with Syybolt's headquarters, or at the least through OIP, to receive substantive responses to their queries.

Accordingly, I should be grateful if you could kindly review the comments contained in the attached Note with a view to making the necessary revisions to the final report. Otherwise, I very much regret to inform you that we will be going yet again through the most unfortunate situation with regard to a previous audit regarding independent inspection agents, when the comments from the Secretariat, including the opinion of the Legal Council, were repeatedly ignored for several years. You know exactly the what I am referring to.

Should a decision be taken not to revise the above report, I should appreciate it if the attached Note by that Office is issued either as an addendum to the report or as a separate document.

I should also like to have an appointment with you on your return from official travel, as early as possible. I will be in touch with your Office.

- cc. The Deputy Secretary-General
- Mr. Connor
- Mr. Babercha
- Mr. Syybt
- Mr. Syybt
- Ms. Fralichstone
- Mr. Udeghu

-5-

are not executed in a vacuum. This particular contract is being carried out within a very rigorous sanction regime and managed in a highly sensitive political environment. Any realistic assessment of the management of the contract would have to factor in these considerations. Yet, the fact that the contract was not cancelled when it was clear that it was not being managed, either in the legal or political context of the contract, which is an indicator of its management. There are many aspects of the programme as well as its implementation governed by the relevant resolutions and decisions of the Security Council and its Committee, which outside the political context may defy logic; however, as the Secretary-General has stated repeatedly regarding this programme, "we take our marching orders from the Security Council".

9. For example, in the introductory paragraph of the Executive Summary, it is stated that "OIP should have considered utilizing UN staff to perform the oil inspection service as an alternative to hiring a contractor, which would have resulted in substantial savings." Utilizing UN staff to perform the inspection services, as recommended by the Auditor, would have been in line with the Secretary-General's decision in 1986/1987. Under the terms of the MOU, the Government of Iraq (GOI), on the implementation of the Security Council resolution 984/1995 (S/1996/256), Annex 1, paragraph 4, of the MOU expressly provides for independent inspection agents to monitor Iraq oil exports. Consideration of savings was never the ultimate goal of the mission and the contract was cancelled because of the lack of progress through inspection of oil exports and full compliance with the decisions taken by the Council.

10. Various amendments of the contract were undertaken in response to the requests of the Security Council and its Committee that required urgent action on the part of the Secretariat. The Government of Iraq with Sybroti remained the United Nations with a considerable advantage, one that cannot be cost evaluated, and which has enabled OIP to field the special missions most expeditiously pursuant to decisions taken by the Council or its Committee, avoiding inordinate delays in the granting of visas to the experts who had to travel to Iraq on short notice.

11. The fact that the Government of Iraq was unwilling to accept the responsibility of the work of the experts, as evidenced by the fact that we have had no difficulty in securing visas for one of the lecturers from Sybroti to visit Iraq on a regular basis, despite his nationality, which is British.

12. The decision to manage the contract by OIP as the contractor rather than by UNMOVIC was in order not to enable contractors to take the lead. The same applies for the management of the contract with the establishment of OIP in October 1997. The same applies for the management of the contract with Corcom, and previously with Loyds. To the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharges its international responsibilities. It is realistic, however, to acknowledge that political actions may be taken by the Government of Iraq to suspend all oil exports for 30 days. Furthermore, although the Government has refused to allow any additional contractor's staff to be stationed in Iraq on a permanent basis, Sybroti has, with OIP's consent, occasionally deployed more staff on a short-term basis. The number of staff deployed by the contractor, payment is effected only for the number provided for in the contract.

5023532

-4-

5. The above explanations were provided to the Director of the Internal Audit Division and the Chief of the Iraq Programme Unit of OIGS, with a request for execution of the deadline, which was granted. The Director of the Internal Audit Division and the Chief of the Iraq Programme Unit were fully informed of the extreme difficulties being faced by OIP in implementing the programme, which obliged the Executive Director of the Iraq Programme to travel to Iraq on 10 January 2002 with a view to resolving the difficulties with the Government of Iraq. The request to grant over 200 visas requested for UN personnel involved in the implementation of the programme was granted. It was also agreed that OIGS would be originally planned for almost a month. It was also agreed that OIGS would be continuing to be informed by OIP and having two resident auditors in Iraq, was fully aware of the continuing difficulties encountered in programme implementation as the programme has become more complex than ever. Consequently, the focus of OIP's attention at the time of the submission of the report was on the implementation of the programme as well as assisting the Security Council Committee (1996) (hereafter referred to as the Committee) in resolving the difficulties encountered within the Committee itself.

6. The Director of the Internal Audit Division and the Chief of the Iraq Unit will recall that it was through the personal intervention of the Executive Director of OIGS that the report was issued. The Director of the Internal Audit Division and the Chief of the Iraq Programme Unit were fully informed of the extreme difficulties being faced by OIP in implementing the programme, which obliged the Executive Director of the Iraq Programme to travel to Iraq on 10 January 2002 with a view to resolving the difficulties with the Government of Iraq. The request to grant over 200 visas requested for UN personnel involved in the implementation of the programme was granted. It was also agreed that OIGS would be originally planned for almost a month. It was also agreed that OIGS would be continuing to be informed by OIP and having two resident auditors in Iraq, was fully aware of the continuing difficulties encountered in programme implementation as the programme has become more complex than ever. Consequently, the focus of OIP's attention at the time of the submission of the report was on the implementation of the programme as well as assisting the Security Council Committee (1996) (hereafter referred to as the Committee) in resolving the difficulties encountered within the Committee itself.

7. The audit objectives as stated in the Report are, *inter alia*, to assess OIP's management of the contract, to ensure that the contractor provides the required services in an economical, efficient and effective manner, and review the management of other services being provided by the contractor.

8. A review of the Report, against the stated objectives of the audit, would have to take into full consideration the context in which the contracts were executed and administered, Context

5023531

-7-

inclusive. Reference is made in this regard to Addendum No. 8 to contract PTD/CON/12/0065/9, which covered the period 29 May 1999 through 31 June 1999, after which this wording was deleted from all invoices issued after one month from the end of June 1999. This irregularity does not appear in any of the other invoices. No over-billing occurred as a result of this split-month billing, except for the July 1999 bill that included "31 June 1999". This overcharge (17 Man days) will be deducted from a future payment. This irregularity was not quoted by OIP, was because OIP understood very well the billing mechanism.

19. The lump sum payment method provided for in Contract PTD/12/0065-96 (the initial contract) was discontinued with effect from 28 May 1999 in the successor contract. The change was a consequence of Amendment 8 of the original contract.

Over-payment of monthly invoices needs to be recovered

20. Paragraph 10 states that the contractor had overcharged by approximately \$370,000, on labor and excess stationing of staff. Except for the 1999 invoice where Skybolt billed for 31 June 1999, there did not appear to be any evidence of over-billing. The contractor's invoices for the six dates record the attendance record, and listed the 29th, 30th and 31st day of the previous month, in determining the days of attendance. The other billing errors found were for December 2001, where Skybolt billed for 421 days for OI Inspectors against 422 shown on the attendance sheet, so undercharged by one day, and June 1999, where a wrong code was used on the attendance sheet, although this did not have a financial consequence.

21. Regarding the short stationing of staff, as the invoice (since 29 May 1999) were based on staff as per the attendance sheet, no adjustment was required to the invoice for contracted staff that were not on duty, as the invoice did not include any charge for an absent Skybolt staff member. As noted above, irrespective of the maximum number of staff that were allowed to be employed under the programme, the contractor only deployed number of staff sufficient to effectively carry out the requirements of the Committee. As there was, in the initial period, an obvious time delay in ordering and the actual arrival of the call spare parts and equipment. It would, thus, appear that the auditors did not differentiate between Skybolt's re-employability.

Communication charges by the Contractor have been excessive

22. Paragraphs 11 and 12 state that the tariff structure of the contract include communication expenses which is about 2.1% of the total contract amount and that the contractor has not provided any justification for the excess incurred through the use of a satellite communication system (Skycost). The Report also states that the "UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the communication expenses significantly, apart from being transparent in terms of identification of all calls including personal ones..."

23. The auditors did not seem to take into consideration the geography of Iraq, the location of the sites where the independent inspection against is stationed, the logistics and difficulties, particularly political, which would have been involved in extending the UN telecommunication system to the various locations. It should be borne in mind that the United Nations has been

One United Nations Plaza, Suite 2023-2024, New York, NY 10017 Tel: 1 212 963 1944 Fax: 1 212 963 1944 http://www.un.org/Preface

5023534

-4-

12. The contractor also provides expert advice to OIP in its day-to-day operations as well as to the Committee, including regular briefings on the oil industry of Iraq as well as on oil spare parts and equipment provided under the programme. With regard to the status of the contractor's staff posted in Iraq, it is recommended to the auditors that they review the relevant provisions of the United Nations Security Council Resolution 1483, concerning Privileges and Immunities. A fuller understanding of the range of services provided and an appreciation of the background to the contract, the contract itself, and its management.

13. Although the auditors undertook site visits to some of the locations where the independent inspection against is located, they did not, most unfortunately, visit Mina al-Baker to witness first hand the activities of the independent inspection against. The independent inspection against operates, literally, dispersed on the oil stations which may collapse at any time. In addition, there was no consultation between the auditors and OIP officials, nor with Skybolt headquarters that would have helped clarify for the auditors some of the contract's issues. Although the auditors held discussions with the contractor's team-leader in Iraq, they should have also held discussions with Skybolt headquarters, or at least through OIP, in order to receive a more authoritative response.

14. Comments on specific audit findings and recommendations are prefixed hereunder:

A: Monitoring of invoice payments and financial matters

Procedures have not been implemented to monitor invoice payments:

15. Paragraph 30 states that "a review of 19 monthly invoices and supporting documents issued by the contractor during the audit period showed that the attendance record which is reflected from arrival to departure of the staff of the auditors, payments should only be made for missing the locations in Iraq and Turkey."

16. Contract number PTD/12/0065-96 (the initial contract) determined the number of payments required at particular locations in Iraq and Turkey, and Article 7.1 provides for full payment of the invoice. The contractor's invoices for the period 29 May 1999 to 28 June 2001, is not, the "inefficiency" in the attendance record becomes a non-issue. Nonetheless, since December 2000 the attendance record has shown "Personal Attendance on Location, from arrival to departure".

17. The Report also illustrates that the auditors did not have a full understanding of the contract and the method used in the preparation of invoices by Skybolt. This misunderstanding led to a significant error in "finding" that Skybolt overcharged some \$370,000 for services provided during the period 29 May 1999 to 28 June 2001. The auditors have confused the billing period with the period of the independent inspection against. The contractor's billing was based on contracted staff levels and not on staff on site. The contractor's invoices also included charges for spare parts and equipment. There are 5181 and 14141 inspections, as stated in paragraph 6 of the Report.

18. There is a historical precedent in the preparation of invoices in line with the contract. The contractor's invoices always covers the period 29 May 1999 to 28 June 2001, the invoice prepared at the end of June covers the last few days of May until the 28th of June

One United Nations Plaza, Suite 2023-2024, New York, NY 10017 Tel: 1 212 963 1944 Fax: 1 212 963 1944 http://www.un.org/Preface

5023533

-9-

- encountering considerable difficulties with the Government of Iraq in even importing replacement and or spare parts for existing UN communication establishment in Iraq.
24. Also, it must be borne in mind that it is essential that the independent inspection agents transmit their reports most expeditiously from the location where they are based, using communication not limited to the various Satcom units alone. Furthermore, there is daily such as the authorization of telephone calls, as well as, communication with UN Headquarters, as appropriate. Finally, it should be noted that the UN Headquarters communication costs in the current contract, PD/COI 1400, resulting in substantial savings on OIP needs to recover personal phone calls made by the Contractor's staff.
25. Paragraph 14 states that Symbiol's "internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that these calls were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the communication cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP."
26. The auditors seem to have confused the cost structure with the agreed billing procedure. As the contract is a time and materials, daily fee, the only mechanism for charging would be attendance on site of the contracted personnel and satisfactory performance of their duties.
27. The contract was awarded to Symbiol based on competitive tender and there is no evidence that alleged commission costs for private calls are charged to OIP. It must also be noted that the UN Security Council Mission in Somalia (UNSOM) has relied for quite some time upon Symbiol's cost structure with satisfactory effect the military action in 1998. All costs involved amounting to USD 4,000 per month were absorbed by the contractor (Symbiol).
28. However, the points raised in the Report regarding the cost structure could be utilized in the negotiation for the next contract.
29. Paragraphs 16 and 17 state, *inter alia*, that at Zabaho and Mitha-at-Shar, the Government of Iraq had provided accommodation for the Contractor's staff, and at Zabaho, SOMMO had also provided two cars for local transportation.
30. With regard to questions related to costs for accommodation, transportation, and other services in Iraq, it is a well-known fact that these types of expenses to be incurred in Iraq would have to be paid under the restrictions of sanctions, no payments could be made within Iraq in any other circumstances. It is noted that special arrangements by the contractors, not just Symbiol, to ensure that these services, when, are provided, as required.
31. Paragraph 18 states that " notwithstanding specific provisions in the Contract to the contrary, amendment number three provided for computer equipment for two spare parts for each of the two communication establishments in Iraq. The cost of this equipment was \$39,000. In September 2000, the cost of vehicles for spare part inspections was also authorized at \$39,000. In this regard, we note that the man-day rate provided for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the Contract for transportation and so justification was given for amending the Contract to provide additional transport. This amendment was not transparent and appeared to double charge the UN for these costs."
32. To facilitate the execution of the contract, it was decided that Symbiol could purchase three vehicles and operate them independently and the vehicles would remain the property of the United Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices.
33. Paragraph 20 states that "the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like satcom, computers and software. We found that the cost of the equipment purchased was not included in the contract and had never been inspected by the UN. Furthermore, the equipment was not entered into OIP's inventory system, and there had been no periodic check on these assets as required by UN financial rules."
34. The contract is all-inclusive, that is to say, inclusive of the equipment purchased by the contractor. In this regard, the communication equipment, computers and software are not UN property, and therefore there is no corresponding requirement for an inventory.
35. Paragraphs 21 to 25 state, *inter alia*, that OIP accepted cost proposals from the contractor for additional services "without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc."
36. The auditors do not seem to have understood clearly the nature of the work of OIP and the very sensitive and often most urgent requests by the Security Council and its Committee. The proposal referred to by the auditors relate to specific survey missions that were undertaken by the contractor on "ad-hoc" basis within a very tight timeframe. The proposals by the contractor are "ad-hoc" in nature and all such proposals are approved by the Security Council Committee, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of any contractor, and the Government's experience with Symbiol presented the United Nations with a considerable advantage - one that cannot be overestimated - and reduced the missions such more expeditious and effective.
37. It is also an erroneous assumption that OIP does not maintain comparative information to determine the "reasonableness" of proposals. OIP has always kept such information and has maintained ongoing contact with professional societies and industrial organizations, and has

S023536

-8-

- encountering considerable difficulties with the Government of Iraq in even importing replacement and or spare parts for existing UN communication establishment in Iraq.
24. Also, it must be borne in mind that it is essential that the independent inspection agents transmit their reports most expeditiously from the location where they are based, using communication not limited to the various Satcom units alone. Furthermore, there is daily such as the authorization of telephone calls, as well as, communication with UN Headquarters, as appropriate. Finally, it should be noted that the UN Headquarters communication costs in the current contract, PD/COI 1400, resulting in substantial savings on OIP needs to recover personal phone calls made by the Contractor's staff.
25. Paragraph 14 states that Symbiol's "internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that these calls were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the communication cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP."
26. The auditors seem to have confused the cost structure with the agreed billing procedure. As the contract is a time and materials, daily fee, the only mechanism for charging would be attendance on site of the contracted personnel and satisfactory performance of their duties.
27. The contract was awarded to Symbiol based on competitive tender and there is no evidence that alleged commission costs for private calls are charged to OIP. It must also be noted that the UN Security Council Mission in Somalia (UNSOM) has relied for quite some time upon Symbiol's cost structure with satisfactory effect the military action in 1998. All costs involved amounting to USD 4,000 per month were absorbed by the contractor (Symbiol).
28. However, the points raised in the Report regarding the cost structure could be utilized in the negotiation for the next contract.
29. Paragraphs 16 and 17 state, *inter alia*, that at Zabaho and Mitha-at-Shar, the Government of Iraq had provided accommodation for the Contractor's staff, and at Zabaho, SOMMO had also provided two cars for local transportation.
30. With regard to questions related to costs for accommodation, transportation, and other services in Iraq, it is a well-known fact that these types of expenses to be incurred in Iraq would have to be paid under the restrictions of sanctions, no payments could be made within Iraq in any other circumstances. It is noted that special arrangements by the contractors, not just Symbiol, to ensure that these services, when, are provided, as required.
31. Paragraph 18 states that " notwithstanding specific provisions in the Contract to the contrary, amendment number three provided for computer equipment for two spare parts for each of the two communication establishments in Iraq. The cost of this equipment was \$39,000. In September 2000, the cost of vehicles for spare part inspections was also authorized at \$39,000. In this regard, we note that the man-day rate provided for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the Contract for transportation and so justification was given for amending the Contract to provide additional transport. This amendment was not transparent and appeared to double charge the UN for these costs."
32. To facilitate the execution of the contract, it was decided that Symbiol could purchase three vehicles and operate them independently and the vehicles would remain the property of the United Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices.
33. Paragraph 20 states that "the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like satcom, computers and software. We found that the cost of the equipment purchased was not included in the contract and had never been inspected by the UN. Furthermore, the equipment was not entered into OIP's inventory system, and there had been no periodic check on these assets as required by UN financial rules."
34. The contract is all-inclusive, that is to say, inclusive of the equipment purchased by the contractor. In this regard, the communication equipment, computers and software are not UN property, and therefore there is no corresponding requirement for an inventory.
35. Paragraphs 21 to 25 state, *inter alia*, that OIP accepted cost proposals from the contractor for additional services "without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc."
36. The auditors do not seem to have understood clearly the nature of the work of OIP and the very sensitive and often most urgent requests by the Security Council and its Committee. The proposal referred to by the auditors relate to specific survey missions that were undertaken by the contractor on "ad-hoc" basis within a very tight timeframe. The proposals by the contractor are "ad-hoc" in nature and all such proposals are approved by the Security Council Committee, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of any contractor, and the Government's experience with Symbiol presented the United Nations with a considerable advantage - one that cannot be overestimated - and reduced the missions such more expeditious and effective.
37. It is also an erroneous assumption that OIP does not maintain comparative information to determine the "reasonableness" of proposals. OIP has always kept such information and has maintained ongoing contact with professional societies and industrial organizations, and has

S023535

D: Contract Issues

Need to separate the cost of Contractor's equipment from the monthly fee structure

44. In paragraphs 31 to 37, and the auditors' corresponding recommendations, the Report discusses the cost of equipment purchased under the contract with Sabyoil. While the comments are so vague to constitute a valid finding, it is clear that the equipment cost was not factored into the contract as well, when they speak of constant costs for equipment and recommend reimbursement by Sabyoil. Furthermore, had the auditor been in touch with Sabyoil's headquarters, they could have received the information regarding the cost of "some of the equipment", as the auditors have put it.

Security of CVs of Contractor personnel have been ineffective

45. It would seem that the auditors did not fully understand the background of the issue of early pensioners. It was originally foreseen that the contractor would identify successors, but this was not fully implemented. The auditors' comments are too general, and do not take into account the fact that the contractor had already taken steps to ensure that its workforce was effectively in the most arduous conditions in Iraq.

46. It is also incorrect to state that CVs of contractor's personnel are not up to date. Whenever Sabyoil sent a CV for consideration, it was done by the contractor. CVs are not up to date because the contractor did not provide the necessary information to the OIP for their contract. OIP has at times raised a number of questions with regard to candidates proposed by Sabyoil for various reasons, including experience, language skills, and geographical distribution. This was all discussed during the daily contact between Sabyoil and OIP. Candidates were withdrawn by Sabyoil following these discussions, and therefore there was no need for "rejection" by OIP.

47. In the memorandum, dated 15 April 2002, addressed to the Executive Director of the Iraq Programme, transmitting the Report, the Director of the Internal Audit Division, OIOS, has stated, *inter alia*, that OIOS considered recommendations 3, 4, 6, 8, 9, 16, 17 and 21, contained in the report "as being of critical importance". In light of the introductory remarks above, as well as the comments on specific paragraphs, it will be necessary to review each of the recommendations in detail hereunder:

Recommendation 3: Establish a contract management unit in Iraq whose functions should include reviewing invoices' supporting documentation, verifying Contractor's attendance records, and providing input for evaluation of the services provided (AR/12/01/008).

48. This recommendation fails to take into consideration the fact that this would require the contractor to provide a list of all invoices. The UNOHCI site and would not necessarily be agreed to by the Government of Iraq. Furthermore, it should be borne in mind that UNOHCI is an integral part of OIP. We believe that the decision to manage the contract from Headquarters level was the right decision taken. We have the expertise within OIP at the

thus been able to discuss quickly with experts whether technical and financial proposals were reasonable.

38. Regarding the comments on the road-sign from Amara-Raqshid-Amanah, it is concluded that the charges were overstated. Consequently, OIP is arranging a deduction of the overcharge, as appropriate.

39. The auditors do not seem to have taken into consideration the question of the time factor which is a critical element of the contract. The contractor's personnel are not only working in the field of Iraq, but also in the areas necessary to undertake such missions, as well as their return to their home countries. The contractor's personnel are not only working in the field of Iraq, but also in the areas necessary to undertake such missions, as well as their return to their home countries. The contractor's personnel are not only working in the field of Iraq, but also in the areas necessary to undertake such missions, as well as their return to their home countries.

The Contractor had not conducted "audit visits" as provided for in the Contract

40. Paragraph 26 states that although the contractor's principal head, from 1996, provided for a coordinator from Roussillon to "audit" their operation in Iraq every six weeks, no audit had been conducted. On the assumption that the cost of the visits would have been included in the overall price proposed by the Contractor, the auditors consequently calculated 36 such missed visits.

41. The assumption is incorrect, as the technical head of the Iraq team for Sabyoil regularly undertakes missions to Iraq and the cost of these visits is included in the overall cost of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for the oil sector, as well as customs experts and the OI experts. It should also be pointed out that it is more effective and efficient to have an overall team based in Iraq, rather than having a coordinator from Roussillon. The contractor's personnel are not only working in the field of Iraq, but also in the areas necessary to undertake such missions, as well as their return to their home countries.

Services provided by UNOHCI have not been adequately charged to the Contractor

42. Paragraphs 27 and 28 have been duly noted. As stated in paragraph 12 above, it may be useful for the auditor to review Section VIII of the MOU, concerning Privileges and Immunities.

B: Monitoring Contractor's performance

OIP officials charged with monitoring the Contractor had not made inspection visits to Iraq

43. Regarding the comments on paragraphs 29 and 30, it should be noted that the contract is being executed in a highly sensitive political environment. As has been already noted, in the past, the contractor's personnel have been subjected to harassment and threats from Headquarters. OIP maintains oversight of the activities of Sabyoil on a daily basis through reporting as well as daily consultations with Sabyoil, the OI Overseers, as well as the OIP group of experts on oil spare parts.

-12-

Headquarters, including the Oil Owners and the group of oil state parts experts with whom Skypol met to work very closely, almost on a day-to-day basis.

Recommendation 4: OIP management should recover the payment of \$370,000 as indicated in Annex 1, from the Contractor in subsequent billings (AFU/20/06/004)

46. This recommendation should be further reviewed by OIOS. The \$370,000 seems to be significantly overstated. Ideally, Skypol's review of its invoices revealed undercharging of approximately \$15,000 that might cancel any overcharging.

Recommendation 6: OIP management should in future contracts with the Contractor (or any other contractor) separate the communication expenses from the monthly staff structure and reimburse these on presentation of detailed documentation (e.g. invoices from service providers) (AFU/20/06/006)

50. The recommendation is noted and will be taken into account for the negotiation of future contract proposals.

Recommendation 8: OIP management should take steps to stop payment of personal telephone calls of the Contractor staff recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AFU/20/06/008).

51. The contract is as all-inclusive, and there is no evidence that the contractor has separately charged OIP for private calls. Further, it would be contrary to the terms of the contract to demand such reimbursement.

Recommendation 9: OIP management should recover overpayments for communication services from the Contractor (AFU/20/06/009)

52. The contract is all-inclusive, therefore under the terms of the contract there is no reimbursement due.

Recommendation 16: Implement procedures for providing urgently required services, which should include: obtaining quotations from other suppliers; checking the reasonableness of operations based on actual costs; and negotiating costs with the selected supplier (AFU/20/06/010).

53. As stated above, OIP maintains constant contact with professional societies and industrial organizations and is, therefore, current on the costs of services. However, the recommendation is noted.

Recommendation 17: OIP management should obtain details of "audit visits" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$270,000 for 36 such required visits up to phase nine (AFU/20/06/017).

-13-

54. It is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for "auditing" functions on an on-going basis of review and action, rather than only periodic "audit" visits, which are after all just fees. In this regard, OIP does not consider that any recovery is due.

Recommendation 21: OIP management should establish an appropriate approval process for candidates proposed by the contractor in accordance with the contract (AFU/20/06/021).

55. There are consultations between OIP and the contractor in the selection of candidates. However, it is agreed to establish a formal procedure for conveying approval of candidates proposed by the contractor.

-14-
ABBS

To: Debra Gosselin/UNION/HR
cc: Debra Gosselin/UNION/HR, Deep Nair/UNION/HR, Anne Hissam/UNION/HR, Nienna Uppigala/UNION/HR, Nienna Uppigala/UNION/HR
Subject: Re: Oil Impaction contract audit
Mr. Krutchen,

I am not really impressed with your threat to publish your report which took you from March to August. I would have thought you would have had a draft report by now. I am sure you have a draft report which you had given us a very short period to respond to a draft with a list of errors and amendments, a draft which was prepared without taking into full account, let alone an understanding, of the relevant provisions of the relevant laws. I am sure you have a draft report which you have prepared with the relevant provisions of the relevant laws in mind. I am sure you have a draft report which you have prepared with the relevant provisions of the relevant laws in mind. I am sure you have a draft report which you have prepared with the relevant provisions of the relevant laws in mind.

Accordingly, I am not impressed with your threat to publish your report which took you from March to August. I would have thought you would have had a draft report by now. I am sure you have a draft report which you had given us a very short period to respond to a draft with a list of errors and amendments, a draft which was prepared without taking into full account, let alone an understanding, of the relevant provisions of the relevant laws. I am sure you have a draft report which you have prepared with the relevant provisions of the relevant laws in mind. I am sure you have a draft report which you have prepared with the relevant provisions of the relevant laws in mind. I am sure you have a draft report which you have prepared with the relevant provisions of the relevant laws in mind.

I should appreciate to receive a response as to how you wish to proceed in order for this Office to prepare its response either in the form of a separate document or as a draft non-paper as we had agreed prior to your departure for Iraq.

Sincerely yours,
Samon V. Sivan

To: Debra Gosselin/UNION/HR
cc: Debra Gosselin/UNION/HR, Deep Nair/UNION/HR, Anne Hissam/UNION/HR
Subject: Oil Impaction contract audit

Mr. Sivan,
As previously agreed a response to the above draft audit report used to be provided by 31 March 2002. This was the second estimation given. Since a response has not been received we will be issuing the final report shortly.

Best regards,
Dag

One United Nations Plaza, Room 5023/542, New York, NY 10017. Tel: 1 212 963 9700 Fax: 1 212 963 1804. <http://www.un.org/Depts/press>

5023541

Peter Bax
04/05/2002 01:41 PM

To: Maurice Critchley <mbcritch@un.org>
cc: Maurice Critchley <mbcritch@un.org>
Subject: Auditors report_2

Dear Maurice,

Unfortunately I have not been able to pay you a visit whilst I was in New York during the last few days.

I understood however from Graeme that you met with him and indicated that you were satisfied with the audit. I am sure you have a draft report which you had given us a very short period to respond to a draft with a list of errors and amendments, a draft which was prepared without taking into full account, let alone an understanding, of the relevant provisions of the relevant laws. I am sure you have a draft report which you have prepared with the relevant provisions of the relevant laws in mind. I am sure you have a draft report which you have prepared with the relevant provisions of the relevant laws in mind.

Perhaps we can discuss how to proceed on this, also as we have not taken into consideration the undisputed invoices.

If you can let us know your phone number, I will call you coming Monday.

Kindest regards,
Peter Bax

If you are satisfied with our services do tell others. If you are not satisfied, please contact us at un@un.org or <http://www.un.org>

All our activities are carried out under our general terms and conditions and in accordance with the relevant laws. The general conditions can be consulted at <http://www.un.org> and will be sent upon request (free of charge).

The information in this message is privileged. It is intended solely for the individual or entity named. If you are not the intended recipient, any action taken or omitted to be taken in reliance on it is prohibited and may result in legal action. If you have received this message in error, please notify the system manager. This message and any files transmitted with it are confidential and intended only for the individual named. If you have received this message by mistake, please notify the system manager. This message and any files transmitted with it are confidential and intended only for the individual named.

5023542

ANALYSIS OF SA/BOLT INVOICES

Invoice No.	Invoice Date	Invoice Description	Invoice Amount	Invoice Status
1000	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1001	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1002	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1003	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1004	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1005	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1006	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1007	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1008	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1009	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1010	10/15/00	SA/BOLT INVOICES	1000.00	PAID

ANALYSIS OF SA/BOLT INVOICES

Invoice No.	Invoice Date	Invoice Description	Invoice Amount	Invoice Status
1011	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1012	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1013	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1014	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1015	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1016	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1017	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1018	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1019	10/15/00	SA/BOLT INVOICES	1000.00	PAID
1020	10/15/00	SA/BOLT INVOICES	1000.00	PAID

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

10/15/00 X 10 x 14 2500

S023544

S023543

9P92705

<p>34644 = 1564 3 + 664 = 1964 2 + 664 = 1364 34644 = 1564 34644 = 1564</p>	<p>ANNEX I</p> <p>ANALYSIS OF SAYBOLT INVOICES</p> <p>TABLE I</p> <p>ANNEX I</p>
---	--

<p>34644 = 1564 3 + 664 = 1964 2 + 664 = 1364 34644 = 1564 34644 = 1564</p>	<p>ANNEX I</p> <p>ANALYSIS OF SAYBOLT INVOICES</p> <p>TABLE I</p> <p>ANNEX I</p>
---	--

9P92705

COMMENTS ON THE AUDIT OF THE MANAGEMENT OF THE OIL INSPECTION SERVICES CONTRACT

An audit of the management of the oil inspection contract was conducted by OIOS from March through August 2001. A draft report (AF/2001/28/6), dated 7 December 2001, with findings and recommendations, as well as a request for time substitute for the implementation of accepted recommendations, was forwarded to Mr. Sevald, under cover of memorandum reference number AUP-P-1:31 (175381), of same date.

Following the Security Council resolution 986 (1995) and the MOU, Skybolt Eastern Hemisphere BV (Skybolt) was awarded Contract PTD/127/0065-96, in August 1996, to provide the services of 14 individuals with "particular experience and qualifications" to assist in the oil inspection services for the period from 1 August 1996 to 31 July 2001. The contract has an initial term of six (6) months, with an option of renewal for up to three (3) successive periods of six (6) months, on the same terms and conditions. Contract PTD/127/0065-96 was subsequently amended several times to provide for additional inspectors for oil spare parts, and groups of oil experts to conduct special assignments at the request of the Security Council. The contract was renewed for a second period of six (6) months, from 1 August 2000 to 31 July 2001, under Contract PTD/127/0065-96. Under the new contract, which is for one year, with an option of renewal for three (3) successive terms on the same terms and conditions, Skybolt would provide 20 inspection agents; 14 to monitor the oil exports and 6 for spare parts and equipment. The contract has been amended to provide for an increase in the number of oil spare parts inspectors from 6 to 8, bringing the total number of agents to 22.

The audit objectives as stated in the draft report are, *inter alia*, to assess OIP's management of the contract, determine if the contractor provides the required services in an economical, efficient and effective manner, and review the management of other services being provided by the contractor. A review of the draft audit report indicates that the audit objectives would have to take into consideration the context in which the contract was executed and administered.

Comments are not enclosed in a vacuum. As indicated above, the particular contract is being carried out within a sanctions regime and managed in a politically sensitive environment. Any assessment of the contract should take into account the context in which the contract is being administered. Yes, it would appear from the draft report that the audit was conducted without taking cognizance, either of the legal or political context of the contract which in turn influence its management. For example, the introductory paragraph of the Executive Summary state that "OIP should have considered utilizing UN staff to perform the oil inspection service as an alternative to the contract with Skybolt." The fact that the Security Council resolution by OIP in this regard would not have been consistent with the Security Council resolution

-3-

3004.pdf

number of oil inspectors was increased from six to eight. Paragraph has the total number of inspectors at twenty. This error is significant as it influenced the subsequent findings and recommendations.

Paragraph 3(f) stated that "a review of 19 monthly invoices and supporting documents found 'deficiencies'. Among the deficiencies stated is ambiguity of the attendance record which does not distinguish between inspectors who arrived to departure Amman". In the view of the auditors, payments should only be made for training the inspectors in Iraq and Turkey.

Contract number PTD/127/0065-96 (the initial contract) determined the number of inspectors required at particular locations in Iraq and Turkey, and Article 7.1 provides for full payment for Amman and satisfactory performance by the contractor of its obligations under the contract. Amman is not a location where more oil inspection agents than required are needed under the contract, and is not being paid for the extra agents. The fact that the requirement of satisfactory performance is met, the "satisfactory" in the attendance record "connotes a non-issue. Nonetheless, since December 2000 the attendance record has shown "anomalous Attendance on Location, from arrival to departure".

The draft report also illustrates that the auditors do not have a good understanding of the contract and the method used in the preparation of invoices by Skybolt. This misunderstanding led to a significant error in "finding" that Skybolt overcharged some \$370,000 for services provided during the period 29 May 1999 to 28 June 2001. The auditors confirmed the billing mechanism, finding that Skybolt's billing was based on contracted staff levels and not on staff on duty. On this basis, the auditors need naming of inspectors for oil spare parts and equipment. This is right and not set as stated in paragraph 6 of the draft report.

There is a historical precedent in the preparation of invoices in line with the commencement of the current contract. The invoice always covers the period between the 28th day of the month and the 28th day of the next month. This is the basis on which the invoice prepared at the end of June covers the last few days of May and the first few days of June. Reference is made in this regard to Amendment No. 8 to contract PTD/CCN/127/0065/99, which covered the period 29th of May 1999 through 28th of November 1999, after which this invoicing scheme was implemented. A review of all invoices found one incorrect invoice in October 1999. This irregularity does not appear in any of the other invoices. No over billing was identified in the period from 1 July 1999 bill that included 31 June 1999". This overcharge (17 thousand) will be deducted from a future payment. That the irregularity was not queried by OIP was because OIP understood the billing mechanism, which the auditors did not.

The lump sum payment method provided for in Contract PTD/127/0065-96 (the initial contract) was discontinued with effect from 28 May 1999 in the successor contract. Since June 1999, invoices have been accompanied by an attendance sheet.

-2-

986(1993) and the Memorandum of Understanding between the Secretariat of the United Nations and the Iraq Government of Iraq on the implementation of the Oil-for-Food Programme (UNSCR 986(1995) (MOU), Annex II, paragraph 4, of the MOU expressly provides for independent inspection agents to monitor Iraq oil exports.

Various amendments of the contract were undertaken in response to the requests of the Security Council and its Committee established by resolution 661 (1990). The amendments have been made with a considerable advantage, one that cannot be cost evaluated, and which rendered the missions much more expeditious and effective.

The decision to engage the contract from OIP under the UNOFCI was in order not to unduly compromise the latter's mandate. To the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharge its contractual responsibilities. It is realistic, however, to acknowledge that political actions may be taken that would affect the contractor's discharge its responsibilities. For example, it is common knowledge that oil export from Iraq has been restricted to a level that is far below the permanent basis, therefore occasionally deploys more staff to cope with peak periods of work.

The auditors failed to avail themselves of vital consultations that would have been useful to them in their work. They did not visit Muna Al Bakr to witness first hand the work of the inspectors and to determine out without a proper understanding of the background to the contract, the contract itself and its management.

Although the auditors undertook site visits to some of the locations where the independent inspection agents are located, they did not visit Muna Al Bakr to witness first hand the very difficult conditions under which the independent inspection agents operate. In addition, there was no consultation between the auditors and OIP for the auditors' (the contractor's) headquarters that would have helped clarify for the auditors some of the operational issues. An exit conference might also have helped had one been held.

Comments on specific staff findings and recommendations are proffered hereunder:

A1: Monitoring of invoice payments and financial matters

Procedures have not been implemented to monitor invoice payments:

Paragraph 8 of the draft report stated, inter alia, that the number of inspectors, whether for oil or spare parts, is the only measurable parameter by which the UNOFCI can monitor the contractor. Hence an accurate attendance record is essential to support the monthly invoices submitted by the contractor."

The real parameters to measure the performance of the inspectors, whether for the export of oil or the monitoring of spare parts, are the number of OIP daily, weekly, and in special cases, as stated. It should also be noted that through Amendment number 1 to Contract number PTD/CO/14/00, the

-5-

Paragraph 14 stated that Syybolt's "minimal policy is to allow each of its staff members three private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as those were not included in the Contractor's view of the cost structure. In Iraq, however, staff members were charged for their structure, private telephone calls of the Contractor staff members are being charged to OIP."

The auditors seek to have confirmed the cost structure with the agreed billing procedure. As the contract is all-inclusive daily fee, the only mechanism for charging would be attendance on site of the contractor personnel and satisfactory performance of their duties.

The contract was awarded to Syybolt based on competitive tender and there is no evidence that alleged communication costs for private calls are charged to OIP. It must also be mentioned that the State Oil Marketing Organization (SOMO) has relied for quite some time upon Syybolt's communication systems after the military action in Iraq. The costs involved amounting to USD 6,000, per month were assumed by the contractor (Syybolt).

However, the points raised in the draft report regarding the cost structure could be utilized in the negotiations for the next contract.

Accommodation and local transportation charges included in man-day billing rates have been excessive

Paragraphs 16 and 17 stated, inter alia that at Zabho and Mina-ab-hakr, the Government of Iraq had provided accommodation for the Contractor's staff, and at Zaxuo, SOMO had also provided two cars for local transportation.

With regard to questions related to costs for accommodation, transportation, communications, etc., in Iraq, it is a well-known fact that these types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency in the form of goods and services, etc., would be provided.

Transport costs provided for in the Contract have been charged

Paragraph 18 stated that "resubmitting specific provisions in the Contract to the country, the Contractor number three provided for computer equipment for two spare parts inspectors at a cost of \$17,800. Furthermore, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for spare parts inspectors was also authorized at \$39,000. In this regard, we note that the man-day rate provides for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the contract for transportation and related expenses for the Contractor's staff. This arrangement was not transparent and appeared to double charge the UN for these costs."

To facilitate the execution of the contract, it was decided that Syybolt could purchase three vehicles and operate them independently and the vehicles would remain the property of the

-4-

Overpayment of monthly invoices needs to be recovered

Paragraph 10 of the draft report stated that the contractor had overcharged by approximately \$370,000, on short and excess stationing of staff. Except for the 1999 invoices where Syybolt billed for 31 June 1999, there did not appear to be any evidence of over billing. The invoices were in line with the attendance records. It would seem that the auditors only reviewed the invoices for the month of June 1999, and not for the months of July, August, 29th and 31st of the same month, in determining the days of attendance. The other billing errors found were for December 2001, where Syybolt billed for 421 days for Oil inspectors against 422 shown on the attendance sheet, so undercharging by one day, and June 1999, where a wrong code was used on the attendance sheet, although this did not have a financial consequence.

Regarding the short stationing of staff, as the invoices (since 29 May 1999) were based on staff as per the attendance sheet, no adjustment was required to the invoices for contracted staff that were not on duty, as the invoice did not include any charge for an absent Syybolt staff. As noted above, irrespective of the maximum allowed spare parts inspectors, during the night shift, the Contractor only deployed one spare parts inspector, and only on the requirement of the 663 Contractor staff. It is obvious that the delay in ordering and physical arrival of spare parts and equipment. It would, thus, appear that the auditors did not differentiate between Syybolt's responsibilities.

Communication charges by the Contractor have been excessive

Paragraphs 11 and 12 stated that the tariff structure of the contract include communication expenses which is about 21 per cent of the total contract amount and that the Contractor did not provide for any requirement to justify the expenses incurred through the use of a satellite communication system (Satcom). The draft report also stated that the "UN did not consider the communication system as a necessary expense. It is noted that the Contractor has not provided the communication expenses (significantly) spent from being transparent in terms of identification of all calls including personal ones....."

The auditors did not seem to take into consideration the geography of Iraq, the location of the sites where the independent inspection agents are stationed, the logistics that would have been involved in the UN telecommunication system in the various locations and also the political environment.

It must be noted that time is essential and the independent inspection agents have to transmit their reports from the location where they are based, using communication not limited to the various locations in the field, to transmit data such as the authorization documentation for crude oil loadings. It should also be noted that "on-line" costs were renegotiated in the current contract, PD/COC 14/00, resulting in substantial savings on communication costs.

OIP needs to recover personal phone calls made by the Contractor's staff

S023650

S023651

-7-

overcharge. But again it should be noted that the auditors seem not to have taken into consideration the question of the time factor, in that Saybolt was able to provide experts immediately from their centers who were specialized in the areas necessary to undertake these missions, as well as having great technical familiarity with both Iraq and other countries in the region. And regarding the comments specifically on Paragraphs 24 and 25 on the "audit" program, it is essential to keep in mind that the contract was based on an "audit" cost proposal.

The Contractor had not conducted "audit visits" as provided for in the Contract

Paragraph 26 reads that although the Contractor's proposal dated June 1986, provided for a coordinator from Rotterdam to "audit" their expenses in Iraq, no such audit had been conducted. On the assumption that the costs of the visits would have been included in the overall price proposed by the Contractor, the auditors consequently calculated 36 such unexecuted visits.

The assumption is incorrect, as the technical head of the Iraq team for Saybolt, Mr. Graham Brent, regularly undertakes missions to Iraq, and the Contractor's audit program by OIP experts particularly those involved in spare parts and equipment for the oil sector, as well as customs experts and the Oil Overseers. It should also be pointed out that it is more effective and economical for an overall team leader positioned within Iraq that have total responsibility for auditing functions, as opposed to sending teams on review and action, then only periodic "audit" visits, which are after all *post facto*.

Services provided by UNOHCI have not been adequately charged to the Contractor

Paragraphs 27 and 28 have been duly noted.

By Monitoring Contractor's performance

OIP officials charged with monitoring the Contractor had not made inspection visits to Iraq
Regarding the comments on paragraphs 29 and 30, it should be noted that the contract is being executed in a politically sensitive environment. As has been already stated, in order not to compromise UNOHCI's mandate, it was decided to administer the contract from headquarters. OIP maintains oversight of the activities of Saybolt on a daily basis through regular consultations with Saybolt, the Oil Overseers, as well as the group of experts on oil spare parts.

Need for reduction in contract payment during "no work" periods

In paragraphs 31 and 32, the auditors opine that during times when oil is not being exported from Iraq, the Contractor should be required to reduce the daily amount to be paid to a professional company of that type that would agree to such conditions in the contract with the United Nations. There is no way to know in advance when there will be a disruption in the oil exports, and it is illogical to expect that ships will wait until the

5023553

-6-

United Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices.

Non-expendable equipment purchased by the Contractor had not been adequately accounted for

Paragraph 20 stated that "the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like stations, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inventoried. In other words, the equipment was not entered into OIP's inventory system, and there had been no periodic checks on these assets as required by UN financial rules."

Due to the political environment in which the contract is executed, it is not feasible to conduct physical inventory of the vehicles and equipment at site. The Contractor maintains a record of what has been purchased by Saybolt under the 2.5% contract, and it is necessary wish to cause unnecessary friction with the Government of Iraq.

Changes for additional services provided by the Contractor have been excessive and inadequately monitored

Paragraphs 21 to 25 stated, *inter alia*, that OIP accepted cost proposals from the contractor for additional services "without any evidence of price negotiations or terms of reasonableness. Payment for these services had been made without documentation to support the invoicing with original bills for purchases, tickets, vouchers, etc."

The auditors seem not to have a clear understanding of the nature of the work of OIP and the very sensitive and often urgent requests by the Security Council and its Committee established by resolution 661 (1990). The proposals referred to by the auditors relate to the purchase of spare parts for the equipment of the Security Council within a tight timeframe. The proposals by the contractor are for an audit program, an expert personnel for technical activities and analysis, as well as for auxiliary services, such as report writing, presentations to the Security Council Committee, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of the UN auditors. The Government's experience with Saybolt presented the United Nations with a considerable advantage, which cannot be overestimated - but rendered the missions much more expeditious and effective.

It is also an erroneous assumption that OIP does not maintain comparative information to "reasonableness" of proposals. OIP has always kept such information and has maintained close contact with the contractors and industrial organizations, and has thus been able to discuss quickly with experts whether technical and financial proposals were reasonable.

Regarding the comments on the round-trip from Amman-Baghdad-Amman, it is concluded that the charges were overrated. Consequently OIP is arranging a deduction of the

5023552

-9-

our that nowhere in the United Nations is there an occupational group for petroleum engineers, experts or technicians. To create such an occupational group and 20 posts at the P-4 level for a temporary programme, and then subject those posts to the normal United Nations recruitment and placement procedures, would be a major undertaking. Also, the recommendations regarding these 20 P-4 staff members, i.e., transportation, accommodation, communication, etc.

In regard to the recommendations by the auditors, the memorandum forwarding the draft audit report stated, *inter alia*, that OIOS considered recommendations 3, 4, 6, 9, 16, 17, 21, and 23 contained therein as being of critical importance. In light of the introductory remarks above, as well as the comments on appropriate paragraphs, it will be necessary to review, and if the recommendations are related herewith:

Recommendation 3: Establish a contract management unit in Iraq whose functions should include reviewing invoices supporting documentation, verifying quantities of equipment and services by the Contractor and providing input for evaluation of the services provided (AFU/20/6/008).

This recommendation fits to take into consideration the fact that this would require a staff of about 10 persons and that the Government of Iraq is not a candidate and would not necessarily be agreed to by the Government of Iraq.

(i) **Recommendation 4:** OIP management should recover the overpayment of \$370,000 as indicated in Annex 1, from the Contractor in subsequent billings (AFU/20/6/008)

This recommendation should be reviewed by OIOS. The \$370,000 seems to be significantly overstated. Initially, Syboldt's review of its invoices revealed undercharging that may cancel any overcharging.

Recommendation 6: OIP management should in future contracts with the Contractor (or any other contractor) separate the communication expenses from the man-day tariff structure and reimburse these on presentation of detailed documentation (e.g. invoices from service providers) (AFU/20/6/008)

The recommendation is noted for the negotiation of future contract proposals.

Recommendation 8: OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts expended thereon (AFU/20/6/008) for the first nine phases of the programme (AFU/20/6/008).

-8-

inspections are back in place before they can load. To move inspectors in and out of Iraq on a regular basis would be a major undertaking. Also, the recommendations in regard to monitoring of oil exports. The requirements of the Security Council and the Security Council Committee demand that a full time presence of inspectors be maintained in the designated sites.

Need to separate the cost of Contractor's equipment from the man-day fee structure

In paragraphs 33 to 35, and the auditors' corresponding recommendations, the report discusses the cost of equipment purchased under the contract with Syboldt. While the comments are too vague to constitute a valid finding, it is clear that the auditors did not take into consideration the ongoing maintenance, repair and replacement costs that are factored into the man-day fee. Then they speak of ultimate costs for equipment and recommend reimbursement by Syboldt.

Scrutiny of CVs of Contractor personnel have been ineffective

It would seem that the auditors did not understand the background of the lines of enquiry pursued. It is not only the CVs of the personnel that are reviewed. The idea was subsequently cast aside. In the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the sometimes, arduous conditions in Iraq.

It is also not correct that the CVs of contractor personnel are not reviewed. Whenever Syboldt sent a recommendation, it was reviewed by the appropriate staff at OIP and then forwarded to the Oil Oversight for their comments. OIP has at times questioned the selection of candidates for various reasons, including experience, language skills, and geographical distribution. This was all discussed during the daily contact between Syboldt and OIP. It would seem that the auditors were not given time to time following these discussions, and so there was no need for 'repetition' by OIP.

In-house versus outsourcing of services

As was stated in the introductory comments, the Memorandum of Understanding between the Secretary of the United Nations and the Government of Iraq, under the joint supervision of the Security Council resolution 986 (1995), Annex II, paragraph 4, provides that the "sale of petroleum and petroleum products originating in Iraq will be monitored by United Nations independent oil experts appointed by the Secretary-General of the United Nations to assist the 661 Committee. The monitoring of oil exports will be carried out by independent oil experts who will be appointed by the 661 Committee. The experts will be required to include quality and quantity verification. They would authorize the loading, after they receive the information from the United Nations oil experts that the relevant contract has been approved, and report to the United Nations".

It would therefore not be consistent with the above quoted provisions were the OIP to replace the independent inspection agents with United Nations personnel. It should also be pointed

S023555

S023554

Saybolt Eastern Hemisphere B.V. - Rotterdam

Memorandum

To : Office of the Inq Programme
From : Mr. Stephen Sober
Subject : OOS Audit No. A25001906: Audit of the management of the oil
Date : December 24, 2001

We refer to the draft audit reports as mentioned above, which we received on December 13, 2001. Although you mention in the covering note that the auditors spoke to us in Rotterdam, this is not the case. We only provided some information to our team-leader in Baghdad, in response to questions addressed to him. At that time, we encouraged through our team-leader the auditors to contact us in Rotterdam. Unfortunately this never occurred.

Given the fact that the Executive Summary is overlapping the main body of the document, we will limit our response to the latter.

I. Introduction

In the introduction referenced is made to our current contract, mentioning the present staffing levels. It should however be noted that Amendment No. 1 to Contract No. PDCO11470100 allows us to deploy two additional spare parts inspectors. Given the fact that the GOI has refused to allow any additional spare parts inspectors, we have had to make do with the current staff. It is important to be essential to cope with peak periods of work. It must be understood that under present circumstances the current requirements significantly exceed the allowed number of spare parts inspectors.

III. Audit Scope

Although we noted that the auditors undertook site visits to some of the locations where our staff are located, they unfortunately did not visit Miss Al Bahr, in witness first hand the very difficult conditions under which our staff are forced to operate, which we will refer to later. In addition, we ascertain that our inspectors have not been directly contacted to discuss any of the contentious matters referred to in their report.

IV. Audit Findings and Recommendations

9 (1) Saybolt maintains throughout the year the following staff on site:

- Cyhan - Turkey : 3 Staff members
Miss Al Bahr - Inq : 6 Staff members
Zaido - Inq : 3 Staff members

The contract is all-inclusive, and there is no evidence that the contractor has separately charged OIP for private calls. Further, it would be contrary to the terms of the contract to demand such reimbursement.

Recommendation 9: OIP management should recover overpayment for accommodation and transportation of approximately \$471,000 from the Contractor (ARU/2006/009).

The contract is all-inclusive, therefore under the terms of the contract, there is no reimbursement due.

(1) Recommendation 16: Implement procedures for procuring urgently required services, which should include: obtaining quotations from other suppliers; checking the contract terms and conditions; and negotiating costs with the selected supplier (ARU/2006/010).

As stated above, OIP maintains constant contact with professional societies and industrial organizations and is, therefore, current on the costs of services. However, the recommendation is noted.

Recommendation 17: OIP management should obtain details of "audit visits" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$100,000 from the Contractor (ARU/2006/017).

It is more efficient and efficient to have an overall team leader positioned within Inq that have total responsibility for auditing functions on an on-going basis of review and action, rather than only periodic "audit" visits, which are after all poor value. In this regard, OIP does not consider that any recovery is due.

Recommendation 21: OIP management should negotiate with the Contractor to recover approximately \$1 million per for equipment in excess of its actual cost and to stop further payments for equipment cost components in the current Contract (ARU/2006/021).

This recommendation is rejected. OIP is bound by the terms of contract between Saybolt and the United Nations. However, the recommendation will be considered for future negotiations of contract proposals.

Recommendation 23: OIP management should consider the option of engaging UN staff members at the appropriate level, which is clearly a much more economical alternative to contracting

- (v) Given the fact that there is a historical precedent in changing the invoice covers always the previous month until the 29th day of the month the invoice is prepared. Thus the invoice for the month of May until the 28th of June inclusive. After review of all invoices, we found one incorrect invoice, issued for the month June 1995. This irregularity does not appear in any of the other invoices reviewed.
- 10 (i) A review per invoice is attached for your reference.
- (ii) In spite of the maximum allowed spare parts inspection, during the initial stages of this contract, only a few spare parts were inspected. It is noted that the requirements of the 661 Committee, there is an obvious time delay in ordering and physical arrival of spare parts and equipment.
- (iii) We refer to our review per invoice.
- 12 It must be noted that given the fact that time is essential, that our inspectors have to measure their reports from the location where they are based. We are unaware that there are options to link in to the UN telecommunication system from locations such as Missa Al Bakr. In addition to this communication is not limited to the use of the various alarm units alone. The fact that the UN is not able to use the UN HQ in Baghdad to the various locations in the field, transmit data such as the authorization determination for crude oil loading.
14. Essentially we feel that our contract has been awarded on the basis of a competitive tender.
16. OIP, it will agree that Skybolt has subcontracted the services for transportation and accommodation within Iraq. Initially this was done directly with the Ministry of Oil, which was proven to be in contravention with UN regulations. It was then decided to subcontract this service through a company in Jordan, which to date still is the case.
17. For good order's sake there is no free transportation and/or accommodation within this contract.
18. The auditors refer to the provision of transportation to the spare parts monitors, which was arranged through UNOCHA and taken into consideration in our fee structure. When the United Nations decided to subcontract the transportation services, it was decided that Skybolt could purchase three vehicles and operate them independently. The vehicles will remain the property of the United Nations. Skybolt has never quoted for the provision of transportation of the spare parts monitor.
20. A side-remark is that equipment purchased under this arrangement have in numerous cases been replaced by Skybolt. Are there any guidelines as to how we should cope with that?

26. Given the importance of this contract, it was decided that it would be more effective and efficient to appoint an overall team leader positioned within Iraq to have total responsibility for auditing functions on an on-going basis of review and action. In addition to that, visits were made by Executives from Rotterdam as and when required.
31. Essentially we feel that our contract has been awarded on the basis of a competitive tender. Side-remark is that equipment is an ongoing expenditure, such as laboratory consumables, replacing laboratory equipment, medical equipment, upgrading communication equipment and/or computers, gear for new staff etc.
36. It would seem that the auditors did not understand the background of the issue of early-cessations. This approach was chosen, when the proposal had to contain the provision of all overruns as well. This requirement was however deleted, and therefore a provision in the contract was made for the auditors to be experienced and motivated individuals capable of working efficiently in the sometimes-unknown conditions in Iraq.
38. Again a side-remark. The United Nations in promoting the UNOCHA, decided to subcontract the services for transportation and accommodation within Iraq. When the United Nations decided to subcontract the transportation services, it was decided that Skybolt could purchase three vehicles and operate them independently. The vehicles will remain the property of the United Nations. Skybolt has never quoted for the provision of transportation of the spare parts monitor.

-11-

for oil inspection services keeping in mind the relevant SCRs and MOU with the COT (AFR/30/0703).

This recommendation is in accordance with the relevant Security Council resolution and the MOU.

3000
 1300
 1700
 1100
 1200
 1300
 1400
 1500
 1600
 1700
 1800
 1900
 2000
 2100
 2200
 2300
 2400
 2500
 2600
 2700
 2800
 2900
 3000
 3100
 3200
 3300
 3400
 3500
 3600
 3700
 3800
 3900
 4000
 4100
 4200
 4300
 4400
 4500
 4600
 4700
 4800
 4900
 5000
 5100
 5200
 5300
 5400
 5500
 5600
 5700
 5800
 5900
 6000
 6100
 6200
 6300
 6400
 6500
 6600
 6700
 6800
 6900
 7000
 7100
 7200
 7300
 7400
 7500
 7600
 7700
 7800
 7900
 8000
 8100
 8200
 8300
 8400
 8500
 8600
 8700
 8800
 8900
 9000
 9100
 9200
 9300
 9400
 9500
 9600
 9700
 9800
 9900
 10000

ANNEX I

ANALYSIS OF SABOAT INVOICES

Invoice No.	Date	Amount	Description
1001	15/10/2003	1000	Oil inspection services
1002	20/10/2003	1200	Oil inspection services
1003	25/10/2003	1100	Oil inspection services
1004	30/10/2003	1300	Oil inspection services
1005	05/11/2003	1400	Oil inspection services
1006	10/11/2003	1500	Oil inspection services
1007	15/11/2003	1600	Oil inspection services
1008	20/11/2003	1700	Oil inspection services
1009	25/11/2003	1800	Oil inspection services
1010	30/11/2003	1900	Oil inspection services
1011	05/12/2003	2000	Oil inspection services
1012	10/12/2003	2100	Oil inspection services
1013	15/12/2003	2200	Oil inspection services
1014	20/12/2003	2300	Oil inspection services
1015	25/12/2003	2400	Oil inspection services
1016	30/12/2003	2500	Oil inspection services
1017	05/01/2004	2600	Oil inspection services
1018	10/01/2004	2700	Oil inspection services
1019	15/01/2004	2800	Oil inspection services
1020	20/01/2004	2900	Oil inspection services
1021	25/01/2004	3000	Oil inspection services
1022	30/01/2004	3100	Oil inspection services
1023	05/02/2004	3200	Oil inspection services
1024	10/02/2004	3300	Oil inspection services
1025	15/02/2004	3400	Oil inspection services
1026	20/02/2004	3500	Oil inspection services
1027	25/02/2004	3600	Oil inspection services
1028	30/02/2004	3700	Oil inspection services
1029	05/03/2004	3800	Oil inspection services
1030	10/03/2004	3900	Oil inspection services
1031	15/03/2004	4000	Oil inspection services
1032	20/03/2004	4100	Oil inspection services
1033	25/03/2004	4200	Oil inspection services
1034	30/03/2004	4300	Oil inspection services
1035	05/04/2004	4400	Oil inspection services
1036	10/04/2004	4500	Oil inspection services
1037	15/04/2004	4600	Oil inspection services
1038	20/04/2004	4700	Oil inspection services
1039	25/04/2004	4800	Oil inspection services
1040	30/04/2004	4900	Oil inspection services
1041	05/05/2004	5000	Oil inspection services
1042	10/05/2004	5100	Oil inspection services
1043	15/05/2004	5200	Oil inspection services
1044	20/05/2004	5300	Oil inspection services
1045	25/05/2004	5400	Oil inspection services
1046	30/05/2004	5500	Oil inspection services
1047	05/06/2004	5600	Oil inspection services
1048	10/06/2004	5700	Oil inspection services
1049	15/06/2004	5800	Oil inspection services
1050	20/06/2004	5900	Oil inspection services
1051	25/06/2004	6000	Oil inspection services
1052	30/06/2004	6100	Oil inspection services
1053	05/07/2004	6200	Oil inspection services
1054	10/07/2004	6300	Oil inspection services
1055	15/07/2004	6400	Oil inspection services
1056	20/07/2004	6500	Oil inspection services
1057	25/07/2004	6600	Oil inspection services
1058	30/07/2004	6700	Oil inspection services
1059	05/08/2004	6800	Oil inspection services
1060	10/08/2004	6900	Oil inspection services
1061	15/08/2004	7000	Oil inspection services
1062	20/08/2004	7100	Oil inspection services
1063	25/08/2004	7200	Oil inspection services
1064	30/08/2004	7300	Oil inspection services
1065	05/09/2004	7400	Oil inspection services
1066	10/09/2004	7500	Oil inspection services
1067	15/09/2004	7600	Oil inspection services
1068	20/09/2004	7700	Oil inspection services
1069	25/09/2004	7800	Oil inspection services
1070	30/09/2004	7900	Oil inspection services
1071	05/10/2004	8000	Oil inspection services
1072	10/10/2004	8100	Oil inspection services
1073	15/10/2004	8200	Oil inspection services
1074	20/10/2004	8300	Oil inspection services
1075	25/10/2004	8400	Oil inspection services
1076	30/10/2004	8500	Oil inspection services
1077	05/11/2004	8600	Oil inspection services
1078	10/11/2004	8700	Oil inspection services
1079	15/11/2004	8800	Oil inspection services
1080	20/11/2004	8900	Oil inspection services
1081	25/11/2004	9000	Oil inspection services
1082	30/11/2004	9100	Oil inspection services
1083	05/12/2004	9200	Oil inspection services
1084	10/12/2004	9300	Oil inspection services
1085	15/12/2004	9400	Oil inspection services
1086	20/12/2004	9500	Oil inspection services
1087	25/12/2004	9600	Oil inspection services
1088	30/12/2004	9700	Oil inspection services
1089	05/01/2005	9800	Oil inspection services
1090	10/01/2005	9900	Oil inspection services
1091	15/01/2005	10000	Oil inspection services

5023561

5023561

Audit. DE 1197.

From: Peter Bosa on 10/28/97 06:28 PM
To: Amd@comcast.net
CC: Subject: UN Audit

Steve,

Please find herewith our comments on your telefax dated 27 October 1997:

1) Letters of Credit.

Letters of Credit are often not opened until the last moment and have to be processed via SWIFT. It is not clear to what bank in New York and then to the UN Overseas for their approval. We note the Auditor's comments but feel that this is a subject that should be addressed by the Overseas.

We do all we can to assist, and remain in close contact with the Overseas on this matter to ensure that vessels are not delayed.

2) Trafique Claim.

A number of points are raised in this section.

My letters to Catoch-Brean, led by 26th 1997, and to J. Stephaniades (dtd 27 May 1997) address the issue of Saybolt working directly for the buyer as well as UN. It is a moot point whether Catoch-Brean has an "interest", and captioned letter to J. Stephaniades also advises action in contradiction to the statement by the UN Auditor that normal commercial practices; this is indeed a normal commercial practice.

If required we could furnish evidence of this procedure for removal by means of commercial sale/purchase confirmations, between buyer and seller, mention under the heading inspection:

Quality/quantity to be determined by mutually acceptable independent inspectors, whose findings to be final and binding for both parties, safe fraud or error, costs to be shared 50/50 buyer/seller.

3) Small Interactions: Trading & Shipping - "Nikolosar" Loading.

Our previous report to the UN advises the sequence of events regarding this loading.

The question from the UN Auditor seems to revolve around the statement "How A different crime was loaded?"

Our answer is as follows:-

3.1. The Bosa terminal was originally designed primarily as a loading terminal.

3.2. There has never been more than one valve separation between

the discharge and the loading line systems, a factor which was noted during initial site visits regarding the measuring systems.

3.3. The vessel "Gobas" was discharging, for the account of Topras, during the initial stages of the loading of "Nikolosar".

3.4. On completion of "Gobas" discharge Bosa approached the Saybolt team to verify they had observed a 30,000 barrel shortage in received quantity from the buyer, and that they were concerned as to its eventual destination.

3.5. The Saybolt team initially checked the valves separating the discharge line used for the "Gobas" from the loading line used for registering loaded on the terminal electronic system but proved to be slightly open owing to incomplete testing.

3.6. We then stopped the "Nikolosar" loading, alleged (measured) the ship's tanks and checked the above tanks allocated for the UN loading. We also checked the above tanks for any remaining cargo. The UN team then contacted the buyer, advising them of the problem.

3.7. After some deliberation it was decided that the cargo already replaced with uncontaminated oil. The UN team was advised that the cargo was to be used in a forthcoming transfer to the Mirrikala refinery.

COMMENT

The Bosa terminal was not specifically designed for the use it is being put to. It is a case of disrepair and the UN/Saybolt team are to be commended for their efforts in identifying the problem. The old and unreliable. The agreed format for monitoring loaded volumes is not acceptable. The UN team then contacted the buyer, advising them of the problem.

In the case of the "Nikolosar" the UN/Saybolt team carried out their duties in a professional manner. The UN Auditor's intervention. Saybolt took steps to advise all parties to ensure that the "Nikolosar" loading was in line with UN requirements.

Kindest regards,

Peter Bosa



United Nations HQ, New York
Page 2/2



Saybolt International B.V. - Rotterdam

Telefax

Fax number receiver : 00 1 212 963 1300
To : United Nations Headquarters, New York
Attention : Mr. Steven
From : Saybolt International B.V.
Subject : UN Audit reply
Date : October 27, 1997

Dear Steve,

In reply to your fax dated 24 October 1997, we would like to comment as follows:

Which of the two figures is closer to the actual quantity?

In view of the non-functional metering system, it is, as you know our procedure to measure:

1. The storage tanks before and after loading of a cargo (for reference and check).
2. The vessel is measured after loading, whereas the vessel's measurements are adjusted by Vessel's Experience Factor (VEF) and On Board Quantities (OBQ).

The measurements described under point 1. serve as reference and check, and the figures are recorded, and archived, against possible future requirement but owing to the relatively long time span since the storage tanks were independently calibrated the control mechanism described under point 2. is considered the more accurate determination, in the absence of accurate metering facilities, for monitoring purposes.

The difference of 26,851 barrels GSV can in our opinion be attributed to the loading of the T.V. "Hiberna Prestige". This vessel arrived in Croydon after an extended period in dry dock during which alterations were made to the deck, ullage points to allow use of M/MC-type measuring apparatus. The vessel's calibration charts, as presented, were not adjusted for this structural alteration.

On completion of loading there was an apparent difference between the vessels figures (by reference to calibration charts) and shore figures, as follows:

Vessel	986,182 barrels
Shore	959,106 barrels

Which equates to 28,076 barrels or 2.85 %.

How has the difference been adjusted?

After consultations with the UN OH overseers and local SOMO representatives it was decided not to deviate from the procedure and that on establishment of the outturn of the ullage of the vessel an adjustment with the client would be made. (Either by volume on a future lifting, or financially).

5023704

This adjustment is in view of the difference (26,851 barrels) over the entire period in our opinion justified.

The adjustment has however as far as we know not yet been made.

Did not the buyers claim refund?

Obviously the buyers are, as a rule not involved in the measurements that are done for reference/check by Saybolt in conjunction with their tasks as UN observers. Moreover the bill of lading is based on the vessel's measurements adjusted by Vessel's Experience Factor (VEF) and On Board Quantities (OBQ).

However in the case of T.V. "Hiberna Prestige" the buyer has claimed refund, as they noticed consistent with the differences observed in Liverpool, an outturn due at the discharge port.

Why difference arose?

Explanation is given earlier.

Could Saybolt have prevented this difference?

Separate from the acceptable differences which will always occur, in view of the relatively long time span since the storage tanks were independently calibrated or measurement error's with temperature readings or soundings, the difference in the case of T.V. "Hiberna Prestige" exceeded the acceptable difference and it was brought to the attention of all parties concerned. Subsequently it was decided not to deviate from the procedure.

It is therefore that Saybolt can not be blamed for this difference.

Steve, I trust this answers the queries, please contact me in case you need some clarification.

Best regards,

Peter Bols

5023705

(2)

To: *Handwritten signature*
 From: *Handwritten signature*

Mr. [Name],
 [Address]
 [City], [State]
 [Phone Number]

Re: [Subject]

We noted in the last check that there was by and large no inconsistency in the pricing mechanism.

As per Article 6 of section one of the sales contract the IOC is to be established, confirmed and amended at least seven days prior to the start of the contract.

In all cases, in response to our observation we were informed that no loading had been permitted without a confirmed IOC.

During our discussion with the officers of the *Nome* at Nagasaki, they stated that the IOC had been established and confirmed on 13 April and that 10 per cent delay in shipments of oil was due to delay in confirmation of IOCs.

We feel that time is the essence of this provision. We recommend that the IOC be established, confirmed and accepted at least seven days in advance in accordance with the provisions of the sales contract.

We were informed that two claims, details here below, had been made against *Nome*.

Claim of *Manigara Ltd.* - LC # 70001.

The loading of the above vessel at Ceylon was completed on 24 March 1947 for the account of *Transoceanic Sales Corp.*, Astoria, Oregon. The vessel left Ceylon on 27 March for the *Nome*. The quantity and invoice by *Manigara*, vessel quantity on arrival at port *Nome*, was 20,000 barrels. The vessel was delayed at *Nome*, however, claimed to have been outstripped by 24,000 barrels approx. valuing US\$ 1,000,000.

We note that the Treasurer had on 18 April 47 suggested reservation of US\$ 1,000,000 till the claim was resolved. This had not been done. We recommend that the *Nome* be insured against such a contingency and had reached an agreement on the exact quantity of oil shipped and the date, there was no need to reserve funds as suggested earlier.

We note from the oil purchase letters dated 18 April 47 that the *Nome* had been ordered to *Nome* on 18 April 47. We recommend that such a reservation of US\$ 1,000,000 should have been made. We recommend that the anticipated liability be provided in the budget.

The pricing mechanism is related to the needs and the specification and is designed and amended from time to time. The changes in the published price for Arab light crude oil for the month of loading. The prices are related to the quotations as published in the *Platts Crude Oil Market*.

Present to the IOC on 18 April 1947 the sum of proceeds from sale of Iraqi oil was \$500,000. It was not to exceed a total of one million United States dollars 30 days after the date that the oil is transported to the port of loading. The prices are related to the quotations as published in the *Platts Crude Oil Market*.

We note from accounts that the total proceeds from sale of Iraqi oil and the proceeds from sale of additional oil to meet *Nome* line has amounted to 118 million US\$.

The pricing mechanism is related to the needs and the specification and is designed and amended from time to time. The changes in the published price for Arab light crude oil for the month of loading. The prices are related to the quotations as published in the *Platts Crude Oil Market*.

(2)

(2)

9) R384 INVESTIGATIONS
APR/AUG 2001

Section 1 - Summary

Subject: "Exxon" loading investigations
 Dates: May 16th, 2001 and August 27th, 2001
 Location: Mina al-Bahr, Persian Gulf
 Description: Actions taken

2001 SECURITY COUNCIL: IN SECURITY COUNCIL: 8/3

general terms and conditions of contract which requires the charterer to pay for any actions which may adversely affect the vessel. The charterparty also contains a clause which provides that the charterer shall indemnify the vessel for any claims or actions brought against the vessel by the oil company or its employees or agents in connection with the loading or unloading of oil. The charterparty also contains a clause which provides that the charterer shall indemnify the vessel for any claims or actions brought against the vessel by the oil company or its employees or agents in connection with the loading or unloading of oil.

We may be informed of the action taken by the UN Security Council in this regard.

To our understanding also, action of boycott to act as an agent for both the seller and the buyer is not consistent with the normal commercial practice.

4. Shell International Trading and Shipping Co. - Maritime Loading at Ummal-Qasr

The information that the loading of oil into the cargo tanks of the tanker M/V "OCEANIC" was completed on 17 March 2001 is consistent with the information received from the tanker company. The tanker company advised that the loading of oil into the cargo tanks of the tanker M/V "OCEANIC" was completed on 17 March 2001. The tanker company also advised that the loading of oil into the cargo tanks of the tanker M/V "OCEANIC" was completed on 17 March 2001. The tanker company also advised that the loading of oil into the cargo tanks of the tanker M/V "OCEANIC" was completed on 17 March 2001.

In view of the responsibilities of the tanker company mentioned in Article 4 of the charterparty between the UN and the tanker company, they are required to contact the tanker company for clarification.

We shall be pleased to receive any further information you may have regarding this matter. We shall be pleased to receive any further information you may have regarding this matter. We shall be pleased to receive any further information you may have regarding this matter.

FILE No. / A1/08/12-198

0000 VISIT ENLIGHTENED TO 0000 THIS ONE FOR THE 00111 000 0000/01

Graham Bell
 11/22/2001 04:43 PM
 To: K112@pds.net, K113@pds.net
 cc: Peter Bobb, Saybolt, James@pds.com, Mennas
 Subject: REVISED DAILY REPORTING PROCEDURES - CEYHAN & MINA
 ALABAMA



Gentlemen,

You will no doubt all be aware of the alleged illegal loadings from Mina

involving the vessel "Essen", and the revised reporting procedures instituted at both Ceyhan and Mina al-Bahr to prevent the possibility of such occurrences in the future.

It is noted that the Report monitoring system at Ceyhan and Mina al-Bahr are under the closest scrutiny from the U.S. Coast Guard and are particularly disappointing to have to advise you that the quality of reporting to this office and the U.S. Coast Guard has significantly deteriorated.

Examples, in no particular order of merit, are:

- 1) Same loop with no completion, or sailing.
- 2) Sailing with incorrect Bill of Lading.
- 3) Incorrect reporting of the contents of manifests loaded. The Office of the Iraq Program of the United Nations has written to Saybolt on this matter.

I do not have to add the point that this level of performance is unacceptable for a U.S. Administration concern to carry out an important task. If we are not seen to act in a professional manner, our credibility is lost and our reporting function is the only one that is not being performed. Once established, confidence is hard to rebuild.

Since the inception of the "Oil for Food" program in late 1996 Saybolt has done a commendable job of reporting and the quality and content of our reporting function is the only one that is not being performed. Our performance has been excellent. Our mistakes and omissions have been too many. Mistakes and omissions will not be tolerated.

THE FOLLOWING ACTIONS WILL NOW BE TAKEN:

As from receipt of this message, both the U.S. Coast Guard and the U.S. Department of State will be notified of the daily report, comprehensive time

December 20th, 2001

Core Labor Administration
 U.S. Headquarters,
 6316 Windoffem--77040
 Houston
 Texas
 U.S.A.

FAO: Kinnz Dantz--Assttann General Counsel

RE: "T V" "Essen"

Dear Kings,

As per our telephonic conversation of yesterday, regarding the matter of the vessel "T V" "Essen", please find attached copies of documents from the working file held in Rotterdam.

Should you need any assistance on the identification of any of these documents please feel free to call me in my office in Rotterdam, or my office in the U.S. Division in London. We will be traveling in Iraq during the earlier part of January, 2002.

Kindest regards,

Graham Bell
 cc: Peter Bobb, Saybolt, Rotterdam

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 applicable laws and regulations. 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 privileged. It is intended solely for the addressee(s) named above. If you are not the intended recipient, any action taken or omitted to be taken in reliance on it, is prohibited and may be considered an offence. Any disclosure contained in this document are subject to our general terms and conditions and will be held in strict confidence. If you are not the intended recipient, please contact the person mentioned in the original document.

log activities per vessel covering at minimum daily entries as they occur. I expect to see all items being reported; further pertinent details regarding any entry can be added as appropriate.
 END OF SEA PASSAGE/ARRIVAL AT ANCHORAGE
 NOTICE OF READINESS TENDERED
 LEFT ANCHORAGE
 LEFT PORT
 LEFT PORT USE ADDRESS
 NOTICE OF READINESS RECEIVED
 COMMENCED UNLOADING
 FREE PRACTICE GRANTED
 ONE SURVEY COMPLETED
 COMMENCED LOADING
 COMPLETED LOADING
 DISCONNECTED
 UNLASHED AND SAMPLES COMPLETED
 UNLASHED AND SAMPLES COMPLETED
 VESSEL SAILED

If, in face receipt of this message, the sailing wire to the ON OIL Overseas MUST be counter-checked by at least one other member of the saybolt monitoring team, as follows:
 C.1) The Inspector who prepares it, and, C.2) The Inspector who checks it.
 D) Whenever you have a problem, need advice, or require guidance on equipment, call the saybolt team. If available, we need to know about, and react to, problems BEFORE they happen, rather than after.

For the record, my contact numbers are:
 Mobile 31-652-218291
 Home 44-1707-21134

SEANNA.BIKAL@POLSKA.PL
 We have an important job to do, and we must all work together as a team to provide the level of professional service expected of us.

Thank you,
 Graham Brett

If you are satisfied with our services do tell others. If you are NOT satisfied,

New 22, Labl

You will no doubt all be aware of the alleged illegal loadings from Mina al-Bakr involving the vessel "Essex", and the revised procedures that have been instituted at both Ceyhan and Mina al-Bakr to prevent the possibility of such occurrences in the future.

Bearing in mind that the Saybolt monitoring operations at Ceyhan and Mina al-Bakr are being conducted by a very small team, it is particularly disappointing to have to advise you that the quality of reporting to this office and to the UN Oil Overseas has, of late, significantly deteriorated.

- Examples, in no particular order of merit, are:
- 1) Time logs with no complaints, or sailing times
 - 2) Sailing wires with incorrect Bill of Lading dates, and incorrect notification of barrels loaded. The Office of the Line Program of the United Nations has written to Saybolt on this matter.

I do not have to labour the point that this level of performance is unacceptable. We are a professional company appointed by a major humanitarian concern to carry out an important task. If we are not seen to act professionally, especially so soon after alleged illegal activities have taken place under our very noses, then we will all suffer the consequences.

In our monitoring function we are the "eyes and ears" of the United Nations, and the quality and content of our reporting function is the only benchmark by which the United Nations can judge our performance. Once discredited, confidence is hard to rebuild.

Since the inception of the "Oil for Food" program in late 1996 Saybolt has done a tremendous amount of work for the United Nations, and we have been very well noticed, and of late there have been too many. Mistakes and omissions will not be tolerated.

THE FOLLOWING ACTIONS WILL NOW BE TAKEN:

A) As from receipt of this message, both the Ceyhan and Mina al-Bakr operations will advise, as part of the daily report, comprehensive time logs, including, as necessary, covering at minimum the following times, split over a number of daily entries as they occur. I expect to see all these times reported; further pertinent details regarding deballasting etc can be added as appropriate:

- END OF SEA PASSAGE/ARRIVAL AT ANCHORAGE
- NOTICE OF READINESS TENDERED
- PILOTS ON BOARD
- LEFT ANCHORAGE
- FIRST LINE ASHORE
- LEFT BERTHING ?
- NOTICE OF DEPARTURE RECEIVED
- GANGWAY IN POSITION

- FREE PRATIQUE GRANTED
- OBO SURVEY COMPLETED
- LOADING ARMS/FLEXES CONNECTED
- LOADING ARMS/FLEXES DISCONNECTED
- COMPLETED LOADING
- LOADING ARMS/HOSES DISCONNECTED
- ULLAGES AND SAMPLES COMPLETED
- DOCS ON BOARD
- VESSEL SAILED

B) As from receipt of this message, the sailing wires to the UN Oil Overseas MUST be counter-checked by at least one other member of the monitoring team before despatch.

C) The sailing wire will now be signed by two members of the Saybolt monitoring team, as follows:
 C.1) The inspector who prepares it, and
 C.2) The inspector who checks it.

D) Whenever you have a problem, need advice, or require guidance on any matter, call I, or Peter Boks, are always available; we need to know about, and need to, problems BEFORE they happen, rather than after.

For the record, my contact numbers are:
 Office 44-207-222-0171
 Mobile 31-653-973896
 Home 44-1707-271794
 E-mail graham_boks@unoil.org

We have an important job to do, and we must all ensure we work together as a team to provide the level of professional service expected of us.

Thank you,
 Graham Boks

To: kefauver@peterbois.com
cc: Graham.Brett@sybsoft.com; Robert.Bernard@sybsoft.com
Subject: MESSAGE FROM PETER BOIS



From: Peter.Bois@sybsoft.com
Sent: 02/16/2002 04:45 PM
Subject: Mr. AMANDO'S Overtures

Dear Jorge,

Unfortunately, we have to discontinue Mr. Amando's participation in the UN Program. Please let me know if you have an alternative candidate. The reason is a recent error of judgment, which we can not tolerate from a team leader.

I look forward to hearing from you.

Kindest regards,
Peter Bois

If you are satisfied with our services do call contact. If you are NOT satisfied, please contact us at <http://www.sybsoft.com/complaint.nsf/>

All our activities are carried out under our general terms and conditions and in accordance with our code of practice. These are available on our website at <http://www.sybsoft.com/> and will be sent upon request free of charge.

The information in this message is confidential. It is intended solely for the addressee(s). Access to this message by anyone other than the intended recipient(s) is not the intended recipient's responsibility. Copying, distribution or any other use of the information contained in this document is prohibited and may result in legal action. If you are not the intended recipient, please notify the sender immediately. This message and any attachments are supported by an original document.

TO: MR. JORGE OCHOAQUE

Dear Jorge,

As per message from Peter Bois regarding Amando's participation in the UN Program, please be advised that I have spoken to Amando and he has indicated that he is not interested in the program. The letter of credit approval for this vessel expired before the vessel left the port. I have also spoken to the UN Oil Overseers and they have indicated that they are not interested in the program. I have also spoken to the UN Oil Overseers and they have indicated that they are not interested in the program. I have also spoken to the UN Oil Overseers and they have indicated that they are not interested in the program.

I think you will agree that the message is quite unambiguous - it says: 1) The L/C approval for the "GLORIFY" has expired on Feb 15th, 2002, and this vessel may not commence loading until an amendment has been received from the UN Oil Overseers.

The message further says that "if you have any problems, call me". I called Mr. Bois and he said that he had not received any call at home. I then called Mr. Bois and he said that he had not received any call at home.

I therefore called Amando and asked him why the vessel had commenced loading. He said that he had not received any call at home. I then called Mr. Bois and he said that he had not received any call at home.

I asked him why he had not called me. He said he did not think there was anything wrong. I then called Mr. Bois and he said that he had not received any call at home.

The situation then required me to call the United Nations Oil Overseers in the United Kingdom. I called them and they said that they had not received any call at home.

The amendment to the letter of credit was not available until Saturday AM CET. I think Ochoaque's comment would be redundant.

Kindest regards,
Graham Brett

Graham Brett

661 COMMITTEE MEETING
ON 07 NOV 2002 TO 07 NOV 2001
ADDRESS: JAH

THINGS TO DO:

1. Write/Update Screenshot operational procedures for Mina al-Baqar and Cothan, based on API Chapter 17 Crude Oil Loading requirements, and factoring in additional requirements resulting from 661 Committee Meetings, for the following:
 - > sailing of ship's manifold on completion of U/V approved loading volume;
 - > inclusion of seal numbers on vessel's Notification Letter, and the
 - > re-announcement of vessel if seal visually inspected with on-board
 - > sailing check in conjunction with vessel and BOMU loading master, with
 - > advice to UN Oil Overseer if loaded volume increased over original
 - > and possible M.F. intervention.
 - > Having emergency on board after loading to remain on vessel until vessel
 - > loading.
 - > Full care with vessel's having >100,000 barrels ullage on completion of loading.
2. Prepare Action Plan for submission to OIP, for consideration by the 661 Committee, to include Item 1 points above, and:
 - > recommendations for operational, calibrated monitoring system at Mina al-Baqar
 - > checking of tanks prior to discharge
 - > independent custom certification per parcel of U/V approved cargoes
 - 3. *Jah - PMH --*
 - > *6/10/02, updating to the current of the loading process at Mina al-Baqar and Cothan to include twice daily telephone contact and discussion of the handling of vessel's with >100,000 barrels ullage after loading.*
 - 4. Team Leaders to advise, verbally and by "email", of any problems encountered during a loading including OSQ and VESZ disputes.
 - 5. Arrange audit of Mina al-Baqar (and Cothan?) crude oil loading operations. *possibly better carried out by JAH. PMH --*
 - > *replacement*
 - 6. Arrange close relations in which *Memorandum will be signed.*
 - > *Review of staying levels*

Identify

14/07/2002 17:22
 CC: mha@spoil.com
 SUBJECT: L/C's


Dear Amanda,
 Refer to our recent conversation please note that I have discussed the Letter of Approval (LOA) with the OIP and their current wish. The OIP OIL Overseer Alexander Kikar as follows:
 1) The L/C approval for the "CW/WT" has expired on Feb 13th, 2002, and this will expire on Oct 31st, 2002. The OIP OIL Overseer will not commence loading until an amendment has been received from the UN OIL Overseer.
 2) The L/C approval for the "RMOB Company" is valid until Feb 14th, 2002 and if the vessel is load-ready before this approval expires (ie 23:59 hrs Eastern Standard Time) the OIP OIL Overseer will accept an amendment to allow the vessel to not start to commence loading by this time. Then it will have to await an amendment to the L/C approval.
 If you have any problem, please call me at home (my mobile has ceased to function) or please call the land-line on 41-100-21794.
 Kindest regards,
 Graham Bretz

If you are satisfied with my services do not call me. If you are NOT satisfied, please do tell me. For complaint, read: http://www.spoil.com/complaints.html. If you are not satisfied with my services, please email me at: mha@spoil.com. I will be glad to assist you with any problem. I will be glad to assist you with any problem. I will be glad to assist you with any problem.

If you are satisfied with my services do not call me. If you are NOT satisfied, please do tell me.

Section 2 - Summary

Subject: "Excess" loading investigations
 Dates: May 16th, 2001 and August 27th, 2001
 Location: Mina al-Bahr, Persian Gulf
 Description: Legal papers and correspondence

 Peter Bala To: mwan@un.org
 CC: Subject: "A. Bahr"

02/26/2001 03:40 PM

Dear Brian,

Just to advise you that two investigators visited our offices regarding the illegal crude oil loadings from Mina Al Bahr in 2001. Apart from an interview they held claim to the following documents:

- Our report on the alleged loading of Crude Oil from Mina Al Bahr outside the UN COC for Food Programme dated October 17, 2001

- Four photographs from Mina Al Bahr

- two maps of the region

- a copy of our time sheet and voyage report of the loading dated 16 May 2001

From the discussions, it became clear that Sheikh is not suspect and that they are still investigating whether Tirdgura will face criminal prosecution.

Kindest regards,

Peter

25/10/2005

ECD De heer Boer
M. V. G. Lens.

TV. "Esteo"

Document.

overalls inc.

MAB

4 photos MAB

Time sheet 1/2 bedeminy

Report seen de VM.

Ultras report.

overalls kwart.

memory. Our stance towards the legislation will be similar. I have an extract from the *Red Star* journal and this indicates that we had some significant difficulties with the food for all program. My colleagues believe in a better system of economic policy. I think it is important to have every single industry and company in this country that wants to do things the right, fair way. I will never walk away from defending a small country man.

Mrs. HILL (Blairgowrie) (11:47 a.m.)— I have an item that has been covered in the past by the member for Waverne, Mr. Telford. I find the article and the personal aspects of the member for Waverne in this regard very interesting. I am sure the member for Waverne speaks of this company, the company that is small business. I will never walk away from defending a small country man. I will never walk away from defending a small country man.

The member for Waverne continually in the past has spoken of the National Party cause in and out of the rights of the Chamber (Chamber Party) Scheme Bill 2002.

CHAMBER

MONITORING OF CRUDE OIL EXPORTS FROM IRAQ

The measurement of crude and refined petroleum product volumes and weights is carried out internationally to recognized published standards resulting in uniform reporting thus allowing accurate comparison between loaded and discharged volumes for finalization and loss control activities.

The standards adopted are those published by various technical committees of experts acting independently under the guidance of non-profit making international standards organizations such as the American Petroleum Institute (API) and the Institute of Petroleum (IP).

The monitoring of crude oil exports from Iraq differs from normal international practices in that:-

1. There are currently no internationally acceptable measurement systems operating in either of the loading facilities involved in the "Oil for Food" contract; the reported quantities are therefore ascertained by reference to the loading vessel's calibration charts.
2. The monitoring role requires that all crude oil exported from Iraq under the "Oil for Food" program is fully accounted for, and that no diversion of the oil from this intended use can be made.

LOADING TERMINALS

Crude Oil Exports from Iraq are currently delivered to sea-going vessels from either the Ceyhan Tank Farm in Turkey, at the end of the Iraq/Turkey pipeline (ITP), or from the Mina Al-Bakar oil terminal at the head of the Gulf and are reported to the UN Overseers on a ship-by-ship basis.

LOADED VOLUMES

The volume delivered at each loading is established by reference to the vessel's calibration charts and the volume of oil and water ascertained on board prior to loading (the OBG figure) and the vessel's calibration charts. The OBG figure is reported to the UN Overseers by the Ceyhan or Mina Al-Bakar, or accurate tank calibration meters or systems operating at

DELIVERIES FROM IRAQ

Deliveries from Iraq to Turkey, via the ITP, are monitored out of Iraq via the MS-1 metering station at Zakhro, and into the Ceyhan Tank Farm, Turkey, and reported to the UN Overseers on a 24 hr basis.

REPORTING PROCEDURES

All loadings to vessels are monitored by Seybolt staff at both installations, and a full loading report is issued to the UN Overseers from the Seybolt Rotterdam office, who monitor and collect the relevant data, reporting direct to the UN Overseers both by Fax and electronically by the UN Database which is updated automatically every 12 hrs.

I. CEYHAN

Storage Tanks

There are 12 tanks in the terminal available for receiving and deliveries of crude oil with a capacity of approximately 780,000 US Barrels each, at the moment unit D-602 is out of order. Maximum usable capacity is currently 7,480,000 US Barrels.

Measurement

The storage tanks have Enraf level indication (automatic tank gauging system) but it is unreliable and is not acceptable for calculation of vessels' loaded quantities, or for quantities delivered by the ITP from Iraq. All such measurements are therefore effected by hand measurement.

The metering system is not functioning, although the meter prover have been recalibrated at the commencement of the "Oil for Food" program.

Loading facilities

There is one jetty with four loading platforms for vessels from 25,000 Mt. to 300,000 Mt.

There are 3 segregated lines for loading from the terminal and one line for discharging into Tuzla Terminal and the discharge of ballast.

The in-line sampling apparatus is not efficient, and needs replacing. Manual line samples are therefore drawn by the skylight inspector every 10% of the loading, for quality analysis.

Quantification of oil received from Iraq via the ITP

Every 24 hours a comparison is made between the Enraf (auto-gauge) figures and those derived from MS-1 on the board of Iraq.

Both manual measurements and temperatures of the shore tanks are recorded before and after receiving from the ITP, and volumes ascertained, calculated to Gross Standard Volumes.

A comparison of received quantity e.g. the MS-1 measured quantity is made on both a daily and monthly basis. Any unusual discrepancies are investigated and resolved.

Loading of vessels

Prior to commencement of loading, Seybolt ensures - in conjunction with the UN Overseers in New York - that for each cargo there is written evidence of a current contract between the buyer and SOFAC; there is a Letter of Credit in place (approved by the Overseers); and that the volume to be loaded is fully covered by the Letter of

Use plus and berths 1, 2 and 4 can accommodate ships up to 250,000 deadweight tons. In between the loading platforms are other platforms for Main Generators and for mooring dolphins. There are two generator platforms with two diesel-powered generators per platform. The total number of platforms making up the terminal is 12.

The Terminal was commissioned in 1972. It was destroyed during the Iranian war during the eighties. At the end of this war the accommodation block and Loading Platform A were rebuilt by international contractors, however, during the 1991 war both were again destroyed. Since the 1991 war the terminal has been completely rebuilt by Iraqi labor only. Concrete structures, pipes and equipment have come mainly from the United States. Some Oil Spill skids have been completely destroyed. There has been very limited and there is still a lot of evidence remaining of the war damage.

There are two 48-inch diameter Crude-Oil Sea Lines from Al Fao that extend to the terminal. A 48-inch diameter touch line from each sea line is connected to each loading arrangement.

Loading arrangements.

On each loading platform are two berths, equipped with four 16-inch diameter steel hydraulically operated chibhan loading arms.

Metering. The Meter Skid on platform A consists of Turbine meters with local and remote readout. The Meter Skid on Platform B consists of PVD meters with local and remote readout. There are prover loops fitted to each platform.

Sampling. Berth No. 4. On platform B has a 'walker' automatic sampling device. This device is old and relies only upon pre-set grab settings and therefore is not accurate when loading rates are fluctuating as much as they do in the present circumstances. The metering and prover loops are also not accurate. Sampling devices at any other berth. Sampling each shipment is carried out by drawing from a sampling pipe on the main Crude line at each berth at predetermined intervals. It has been considered that under the present circumstances and conditions that this is the only way a representative shore sample may be obtained but this is far from ideal or accurate.

Bill of Lading and Cargo Documents.

Calculations are based upon the ship's measurements of quantity of crude oil received on shore. The shore tank measurements are used for the shore tank standard volume into the Vessel Experience Factor (VEF) applied. For calculation purposes ASTM tables 24A and 29 are used for volume and weight determination.

Credit.

After berthing the vessel is inspected and any residues of previous cargo left on board - the 'OBQ' quantity (either oil or water) - is determined by the Skybolt inspector.

The Vessel Experience Factor (VEF) is agreed with the master of the vessel and is used for calculating the Bill of Lading figures.

The nominated shore tanks will be manually measured and manual temperatures taken, for comparison only.

The in-line sample container will be inspected for cleanliness.

After loading the vessel will be manually measured and temperatures taken.

The in-line sample will be collected and analyzed by the Skybolt team. The Relative Density will be used for calculation of the Bill of Lading Figures; gross and net figures are calculated.

The oilhead shore tanks will be manually measured and manual temperatures taken for comparison only.

The Bill of Lading figures will be calculated taking into account the OBQ and VEF measurements, and after comparison with the shore tank figures, advised to the Iraq personnel present at Coydon.

Pipeline transfer to Kirkuk Refinery, Anbara-

The same process occurs except that the oil is transferred to the Kirkuk Refinery rather than being in to a tank!

2. MINA AL-BAKR

Mina Al Bakr is located about 50 km out sea from the Port of Al Fao. It is a steel structure about 1000 meters long.

The Terminal consists of two loading platforms with two berths per platform inter-linked with mooring platforms, generator platforms and an accommodation block. At the southern end of the platform is a platform supporting the accommodation block and at the southern is the platform supporting 8 helicopter landing pads.

The Main Loading platform support all crude oil pipes, meter skids, chibhan loading arms, independent control rooms and emergency generators. Platform A is the northernmost platform.

Berth numbers 1 and 2 are located at Platform A, berths 3 and 4 are located at Platform B. Berth No. 3 is designed to accommodate the larger ships up to 300,000 deadweight

**Report on alleged loadings of Crude Oil from Mina Al Bakr
outside the
United Nations Oil for Food Program.**

Preamble

On 9 October 2001, the United Nations Oil Overseen received a letter from a Mr. Chiadakis Theofanis. Mr. Theofanis was the Master of TV "Essex" which has frequently loaded Basha Light Crude Oil at Mina al-Bakr.

According to Mr. Theofanis, there have been two occasions whereby after completion of UN Oil for Food operations, the vessel, the UN Overseen, left the vessel. Additional volumes were loaded on board the vessel. Mr. Theofanis enclosed with his letter supporting evidence.

The Loading Platform at Mina al-Bakr

Mina al-Bakr is located in the Persian Gulf, about 50 km offshore from the port of Basra, Iraq. The terminal has a total area of 1,000 m². The terminal consists of two loading platforms with two berths per platform interconnected with mooring platforms, generator platforms and an accommodation block. At the northern end is the platform supporting the accommodation block and at the southern is the platform supporting a Helicopter landing pad.

The Main Loading platforms support all crude oil pipes, meter skids, chokes, loading arms, independent control rooms and emergency generators. Platform A is the northernmost platform.

Berth numbers 1 and 2 are located at Platform A, berths 3 and 4 are located at Platform B. Berth No. 3 is designed to accommodate the larger ships up to 300,000 deadweight tons plus and berths 1, 2 and 4 can accommodate ships up to 250,000 deadweight tons.

In between the loading platforms are other platforms for Main Generators and for the Main Diesel Engines. The platforms are interconnected with two diesel-powered generators per platform. The total number of platforms making up the terminal is 12.

The Terminal was commissioned in 1972. It was destroyed during the Iraq/Iraq war during the eighties. At the end of this war the accommodation block and Loading Platform A were rebuilt by international contractors however, during the 1990s war both were again destroyed. Since the 1990s the terminal has been rebuilt by the UN Oil for Food Program. The only construction materials, pipes and equipment have come mainly from the

Page 1 of 11

October 16th, 2001

5023765

3. ZAKHO.

The Zakho metering station is situated close to the border between Northern Iraq and Turkey and is therefore entirely suited as being the point at which the exported volumes from Iraq are accounted. There are two pipelines that run from Iraq into Turkey one (46") is currently in use, the second (46") is not used and has no current metering facilities in operation.

40" Kirkuk Crude Oil Metering Station

Three of the four metered oil metering combinations are operational and functioning. The fourth flow meter/computer combination and accumulator (Denscan - which is faulty) cannot be used owing to lack of spare parts and this system is currently mechanically isolated from the pipeline flow.

The original telecommunications and data acquisition system (SCADA) which had been designed to communicate data and safeguard the interlocks between the metering station MS-1, ITI/2 Pump station/boiler firms and Ceyhan in Turkey have been destroyed. Operators at MS-1 are working blind with no pumping/pressure data with respect to up/downstream pumping operations and pipeline flow. The operators are also working blind with respect to pipeline flow capacities at this moment have been also decreased (33 bar instead 300%) due to pipeline leakages at design operational pressures (23 bar).

46" Kirkuk / Basher Crude Oil Metering Station

The metering station is mechanically isolated (padded off) from the main pipeline and is non-operational. It is presently being repaired and prepared for future use together with the 40" pipeline to Ceyhan.

Metering Operations.

All meters are read once every hour, and collated into twelve-hour batches. Every 24 hrs (i.e. two batches) a comparison is made with the received quantity in Ceyhan. All data is recorded locally both in hard copy and electronically, and sent to Rotterdam on a 24 hr basis.

As a further back up (in case of catastrophic meter failure) the storage tanks at ITI-A (where the oil for transfer to Turkey is bulked prior to transfer) are gauged every 12 hrs and volume calculated by reference to their calibration check. This volume is then compared to the metered volume over MS-1.

The metered volumes recorded at MS-1, and the received volumes in Ceyhan, both daily and cumulatively per program, are reported electronically to the UN Overseen on a daily basis.

5023765

document entitled "Total Quantity on Board", verifying the additional quantity loaded on top of the initial quantity which was allowed by the Letter of Credit approved by the United Nations, was signed by the terminal representative and the representative of Falcon Navigation, the Greek representative of Trafiguna who was aboard the vessel at that time.

The vessel is scheduled to discharge its cargo at South Sabine, US Gulf Coast on, or about, October 14th, 2001.

The Master of the vessel at the time of both the above loadings has submitted to the United Nations Oil Overseers copies of all relevant documents.

The Facts

1st Loading

This loading was covered by the United Nations Oil Overseers Letter of Credit Approved on May 7th, 2001 containing a Letter of Credit (B/L Ref No. D72185) in favor of the United Nations Oil Overseers, for the benefit of the Charter Party No. M40981 for 1,800,000 barrels +/- 5% of Barah Light Crude Oil to USA on MT "Easen" or sub with latest shipment date of May 25th, 2001.

The vessel berthed on Berth No 1 at Mina al-Bahr, commenced loading at 17:45 hrs 130501 and completed loading at 01:50 hrs 160501 and the flexible hose (Gulfstream arm) were disconnected at 02:10 hrs 160501.

Measurement of vessels tanks and subsequent calculations were completed at 04:00 hrs 160501, and loaded volumes submitted to the SOMMO shipping office at 06:00 hrs 160501. The vessel subsequently sailed at 19:00 hrs 160501.

At no time after the completion of the loading of the volume approved by the United Nations Oil Overseers were the United Nations monitors advised by the terminal that a further loading was contemplated.

2nd Loading

This loading was initially covered by the United Nations Oil Overseers Letter of Credit Approved on July 24th, 2001 confirming a Letter of Credit (B/L Ref No. D72174) in favor of the United Nations Oil Overseers, for the benefit of the Charter Party No. M41068 for 2,800,000 barrels +/- 5% of Barah Light Crude Oil to USA on MT "Stena Companion" or sub with latest shipment date of July 26th, 2001.

the terminal manager, and a Bill of Lading for the amount of US Barrels 1,799,735 or gross metric tonnes 247,831,254 was presented by the Mina al-Bahr terminal, to be signed by the UN monitors. The same quantities were reported by the UN monitors to the UN Oil Overseers.

After the completion of this loading, and all documents were signed and the UN monitors had left the vessel, loading was resumed after one hour without informing the UN monitors. The vessel loaded an additional 229,756 barrels, after which the vessels tanks were re-measured. The revised ullage report was signed by the master and the terminal representative, and the representative of Falcon Navigation, the Greek representative of Trafiguna who was aboard the vessel at that time. The revised ullage report was signed by the master and the terminal representative, and the representative of Falcon Navigation, the Greek representative of Trafiguna who was aboard the vessel at that time. By comparison with the "official" Bill of Lading this document can be seen to be prepared with a different font/type-face and has no SOMO logo. Another document entitled "Total Quantity on Board", verifying the additional quantity loaded on top of the initial quantity which was allowed by the Letter of Credit approved by the United Nations, was signed by the terminal representative and the representative of Falcon Navigation, the Greek representative of Trafiguna who was aboard the vessel at that time.

The vessel then proceeded to the East Coast, USA, where part of the cargo was discharged at the Loop, and the balance at South Sabine. On arrival at the Loop the vessel's cargo tanks were measured by the charterer's cargo inspector and the receivers cargo inspector who confirmed the cargo on board to be 2,024,358 barrels or some 234,623 gross barrels in excess of the volume measured in the vessel tanks by the United Nations monitors at Mina al-Bahr on completion of the loading.

2. 2nd Loading

Vessel was fixed by Trafiguna to load 1,800,000 barrels Barah Light at Mina al-Bahr terminal. The same procedure as the first loading was followed. On completion of loading, the volume discharge prepared in the normal way by the vessel was presented to the UN monitors. The vessel's ullage report was signed by the Master and the terminal manager, and a Bill of Lading for the amount of US Barrels 1,788,820 or gross metric tonnes 246,475,319 was presented by the Mina al-Bahr terminal and signed by the Master. The same quantities were reported by the UN monitors to the UN Oil Overseers.

After the completion of this loading, and all documents were signed and the UN monitors had left the vessel, loading was resumed after one hour without informing the UN monitors. The vessel loaded an additional 271,884 barrels, after which the vessels tanks were re-measured. The revised ullage report was signed by the master and the terminal representative, and a second Bill of Lading was issued by the terminal covering the additional quantity, which was signed by the Master. Another

calculations on the second loading were carried out by the Team Leader himself.

It is normal practice that on completion of measurements and calculations the monitor returns to the Saybolt office (in the accommodation module) to prepare the report. The Team Leader was not present at the time of the report on to the SOMO representative for the Bill of Lading presentation; and to prepare the official "notification" document which is then returned to the vessel where the Master signs for receipt.

The Team Leader added that, as is the case on Mina al-Bahr (and indeed most off-shore loading platforms) he had met with Captain Chudakina (Theodan) over dinner on more than one occasion and noted that he was a very pleasant person. On the evening of 27/08/01, the Team Leader did not appear nervous but commented that this was his last trip and that he was looking forward to his forthcoming retirement after completing the voyage in question. At no time did the Team Leader meet with, or was introduced to, a representative of Falcon Navigation.

The Team Leader was slowly questioned as to how, on two separate occasions, the vessel was able to load oil into the tanks of the United Nations monitors noticing these events. The team leader, who was visibly shocked by the events as described to him, answered that on completion of their monitoring duties the Saybolt staff tended to remain within the accommodation module as the external temperatures at that time of the year (May 27-42°C, August 42-46°C both with 100% humidity) were such that any outside activity meant severe discomfort, and was therefore avoided. The Team Leader stated that the vessel was not equipped with any accommodation modules, and rarely ventures outside unless there is a vessel to be attended.

The Team Leader confirmed that a loading could take place without the monitors hearing as one needed to be within a few feet from the incoming sea-lines to hear the vibration of the moving oil. At this point there are several monitors on the vessel, the temperature of the moving oil, which is easily visible would be around 40-45°C. The Team Leader stated that the Saybolt office and the mastery of the monitors accommodation faces North and therefore there is no "line of sight" to the bunks; the Team Leader's accommodation, below which is the Saybolt mess room, is on the East side of the accommodation module but the view to Berth No 1 is limited by the window construction (the mess room is set back on a floor below the accommodation) there is no "line of sight" to the centre of the vessel where line re-connection would be noted.

In his professional opinion, the Team Leader considered that the alleged volume of oil loaded to the TV "Eases" after the official loading on both occasions would, under normal circumstances, take 5 to 7 hours but could

October 18th, 2001

Page 6 of 11

5023769

This was later amended as per Amendment No. 2 of August 20th 2001 changing the number of barrels to be shipped from 2,000,000 to 1,800,000, changing the name of the vessel from "Sierra Companion" to "Eases" and extending the validity date to October 13th 2001 and the latest shipment date to August 30th 2001.

The vessel berthed on Berth No 1 at Mina al-Bahr, commenced loading at 07:00 hrs on 27/08/01 and completed loading at 19:20 hrs 27/08/01 and the flexible hoses (Giro-san arms) were disconnected at 19:20 hrs 27/08/01.

Measurement of vessels tanks and subsequent calculations were completed at 22:00 hrs 27/08/01, and loaded volumes submitted to the SOMO shipping office at 24:00 hrs 27/08/01. The vessel subsequently sailed at 11:00 hrs 28/08/01.

At no time after the completion of the loading of the volume approved by the United Nations Oil Company monitors were the monitors advised by the terminal that a further loading was contemplated.

Remarks

It is not uncommon that on completion of a loading the vessel remains on the pier alongside the terminal (sometimes with the hoses still connected) for the following reasons:

- > The vessel is waiting for the next high tide before sailing.
- > The pilots and/or tug-boats are not available (these craft are used for staff transfer to and from shore)
- > The weather conditions, especially strong winds, are such that the pilots will not move heavily laden vessels.
- > Malfunction of the hydraulic systems, may require manual operation to disconnect the loading arms.

The subsequent investigation

In order to thoroughly investigate the allegations made by the Master of the vessel "Eases" on both the loadings reported above, the Team Leader who was present at the time of the loading of the vessel, and a Saybolt employee (Mr G. J. van der Vliet, previously Petrogal loading master for 16 years) was flown to the Saybolt Head Office in Rotterdam.

He confirmed that the standard Saybolt procedures for the calculation of volume loaded to vessels under the Oil for Food Program was applied in all cases, and that nothing untoward was noted during the procedures. The standard procedures for the calculation of the first loading of the "Eases" were carried out by one of the Saybolt inspectors and the measurements and

October 18th, 2001

Page 5 of 11

5023769

- a) "Kaka" arrived 01:50 hrs May 14th, 2001
 b) "Astro Bar" arrived 10:00 hrs May 14th, 2001 and confirmed by SOMCO
 c) "Scopelore" arrived 17:30 hrs May 15th, 2001 and confirmed by SOMCO

Normal SOMCO procedure would be to berth vessels in laycan rotation; following that there were attempts to berth the "Astro Bar" during the day of May 16th, 2001 which failed as a result of very strong winds; berthing of that vessel was also cancelled during the day of May 17th, 2001.

As a result of the above, we may conclude that it was a deliberate decision to delay berthing of the "Astro Bar" to make certain that chances of Sypport staff attending the platform's were minimized.

The second loading of the TV "Easen" commenced on Berth No 1 at 15:00 hrs on August 25th, 2001 at which time the "Sotabello" was loading on Berth No 3. The "Sotabello" completed loading at 22:55 hrs on August 26th, 2001 and sailed at 11:30 hrs on August 27th, 2001. In the meantime the "Barro de Manar" had berthed on Berth No 4 at 06:35 hrs on August 27th, 2001 and the tanks were impounded 100 hrs before the start of the loading operation. The tanks were impounded 100 hrs before the start of the loading operation. The loading area was connected at 11:45 hrs on August 28th, 2001 and loading commenced at 11:45 hrs August 28th, 2001.

The loading of the "Easen" completed at 19:20 hrs on August 27th, 2001 meaning that from this time until the time she sailed at 11:00 hrs on August 28th, 2001 no monitors were required on the platform as the tanks were not connected to the "Barro de Manar" until 11:45 hrs on August 28th, 2001.

Also here, we may conclude that it was a deliberate action, all the more as we have noticed that initially the TV "Sena Companion" was nominated to load 2,000,000 bbls +/- 5 % under the contract #M/1008 (nomination was dated 24 July 2001) and on 20 August 2001 the nomination was changed to 1,800,000 bbls to be loaded on TV "Easen".

The implications on other loadings

For the purposes of this investigation it was considered necessary to review all loadings from Mina al-Bahr during Phase 9, and Phase 10 to date. These two periods were chosen as they coincide with the heightening of tension surrounding the loadings exemplified by the issue of port charges, extra payments overwith the Oil for Food program direct to the supplier and the issue of bi-monthly pricing (OSP) policy.

All loadings during these two Phases were therefore investigated and the results are summarized on the attached spreadsheet.

For each vessel we calculated (where published) the difference between the published 95% loading volume capability, and the volume of oil actually

5023771

have been accomplished within 3 to 4 hours, but was astonished at the potential risks taken by those parties involved in that it would only have taken one monitor to walk down the platform to witness the operation being undertaken. It is noted that the operation required the presence of shore personnel to stop and start the pumps to deliver the oil and to ensure the availability of oil, terminal staff to connect and disconnect the loading arms, re-measure the vessel after the additional loading and prepare the documentation; and the positive involvement of both officers and crew on the vessel.

Finally the Team Leader confirmed that the United Nations Monitoring and Reporting Mechanism (UNMRM) was not involved in any oil shipments and hand-working staff with no evidence of any personal problems whatsoever.

Recommencement of loading would therefore only be noticed by the United Nations monitors if there was occasion to walk South along the platform towards the 4 berths and the helicopter pad at the South end. This would only be required if a vessel was berthing or completing loading, or at the specific request of SOMCO.

The choice of when to carry out such an additional loading – when there is no other activity on the platform requiring the presence of the United Nations monitors – would therefore be of paramount importance, to which would also apply a number of other factors including:

- > A vessel on which the officers and crew were willing to become involved in an illegal activity, and which would have sufficient capacity to load a significant extra volume of oil after loading the official UN approved volume without exceeding the limited draft availability at Mina al-Bahr.
- > A buyer in the chain of sale that was capable of arranging such an illegal activity with the supplier, and had the capacity to sell the extra oil and – presumably – obtain payment and distribute the extra oil on shore.
- > The implicit involvement of the supplier, both on the platform and on shore.
- > The availability of Berth No 1 (used in both loadings in question) as this was the berth least likely to be overlooked from the accommodation module by the United Nations monitors.

An investigation into the berthing situation at Mina al-Bahr either side of the two loadings reveals that the first loading of the "Easen" was scheduled 15:30 hrs on May 15th, 2001 after which the "Easen" continued loading until completion of the official parcel loading at 01:30 hrs on May 16th, 2001. At this time there were no other vessels berthed, and 3 vessels on the anchorage as follows:

5023770

loaded. Loadings where sufficient space to load more than 100,000 extra barrels was available were highlighted (any volume below this being considered not worth the risk involved).

For each of these vessels we considered the draft available (the maximum draft available at Mina al-Bakar is 21.00 metres on the top of the side) and deleted those where the actual sailing draft after the official loading was close to this limit.

We then considered the amount of time available between the end of the loading and the sailing time and vessels where there was insufficient time to complete the loading were deleted. A vessel where there was a sufficient "window" (time period) to consider a second loading further loadings were deleted if there was other berthing or completing activity on other berths requiring the physical presence of monitors.

This investigation suggested that it was extremely unlikely that further unapproved loading(s) could have been effected during Phases 9 and 10.

Actions taken since the information on these two unofficial loadings was advised

1. On completion of all loadings at Ceyhan and Mina al-Bakar after the completion of the shore-side loading hoses all valves on the vessel at the loading facilities were closed and the loading numbers recorded.
2. The seal numbers are noted on the "Notification" document presented to the vessel before sailing, which is signed by the Master, which should be checked as being intact prior to discharge.
3. If the vessel does not sail immediately on completion of loading and the normal formalities, these seals will be checked before the vessel sails. If found to be broken the vessel will be re-measured and the United Nations Oil Overseers informed accordingly of any significant changes.

Recommendations

In addition to the above actions it is recommended that the United Nations consider making it a requirement of the contract holders submitted by SONO to be approved by the United Nations Oil Overseers that they ensure that the formalities are completed, the loading numbers are checked and that they undertake to supply documents, including evidence of the measurements on arrival at discharge port, and the official shore discharge figures compared to the Bills of Lading issued by SONO.

APPENDIX No.1

Monitoring of Crude Oil Exports from Iraq

The measurement of crude and refined petroleum product volumes and weights is carried out internationally to recognised published standards resulting in uniform reporting thus allowing accurate comparison between loaders and discharge volumes for identification and loss control benefits.

The standards adopted are those published by various technical committees of experts acting independently under the guidance of non-profit making international standards organisations such as the American Petroleum Institute (API) and the Institute of Petroleum (IP).

The monitoring of crude oil exports from Iraq differs from normal international practice in that:

1. There are currently no internationally acceptable measurement systems operating in either of the loading facilities involved in the "Oil for Food" contract; the exported quantities are therefore ascertained by reference to the loading vessel's calibration charts.
2. The monitoring role requires that all crude oil exported from Iraq under the "Oil for Food" program is fully accounted for, and that no diversion of the oil from that intended use can be made.

LOADING TERMINALS.

Crude Oil Exports from Iraq are currently delivered to sea-going vessels from either the Ceyhan Tank Farm in Turkey, at the end of the Iraq/Turkey pipeline (ITP), or from the Mina Al-Bakar oil terminal at the head of the Gulf and are reported to the UN Overseers on a ship-by-ship basis.

LOADED VOLUMES.

The volume delivered at each loading is calculated by reference to the vessel's calibration charts adjusted for any volume of oil and water ascertained on board prior to loading (the OSO figures) and the vessel's experience factor (VEF). This system, as previously agreed with the Iraqi

10/10/01 12:43 FAX 212 843 8847 UN/31P @02

SATWOLJ INT. @01

```

*****
VERZENDING OK
TELE. NR 1813 067048472
ID AANKUJTING 24/10 13:14
ID AANKUJTING 24/10 13:14
OET. TID 18
PAC. 18
RESULTAAT OK
*****

```

Page 1

CHILDAKIS THEOFANIS
IRINIS 27-29, tel: (01) 692097
ATIAPARAKSEVI 133.41
ATHENS, GREECE

TO: UNITED NATIONS
UN PLAZA DCI-172
NEW YORK, NY 10017
U.S.A.

Attention: Mr Martin Blair Jensen
Subject: T/T ESSEX Loading at AL BAKER Oil Terminal IRAQ, ignoring UN
loading instructions.

- Companies Involved:
- A. TRAFIGURA LONDON, CHARTERS/TRADERS
TEL: 92118792165
 - B. ELKA LONDON, OWNERS OF T/T ESSEX
TEL: 44 171 238 337 FAX: 44 171 774 1390
 - C. SOMO LONDON, IRAQI OIL COMPANY, TLX: 212198
 - D. EUROPEAN NAVIGATION, ATHENS, OPERATORS FOR T/T ESSEX
TEL: (01) 8981581, FAX: (01) 8981588
 - E. FALCON NAVIGATION, ATHENS, REPRESENTATIVES OF TRAFIGURA
TEL: (01) 9667250 FAX: (01) 9616801

FIRST LOADING MAY 16TH 2001 (UN, code : missing)

The above named vessel (T/T ESSEX) was fixed by TRAFIGURA to load

S023802

authorities, is required, so there are no accurate and "in calibration" metering systems operating at either Coyman or Mitha Al-Baker, or accurate tank calibration charts at Coyman.

DELIVERIES FROM IRAQ.

Deliveries from Iraq to Turkey, via the ITP, are monitored out of Iraq via the UN Reporting Staff at Malindi, and into the Coyman Tank Farm, Turkey, and reported to the UN Overseers on a 24 Hr basis.

REPORTING PROCEDURES

All loadings to vessels are monitored by Seybolt staff at both installations, and a full loading report is issued to the UN Overseers from the Seybolt installation. The report contains all oil movement data, both by Fax and electronically by the UN Database which is updated automatically every 12 hrs.

S023774

 "1613" <1613@spknet.com> on 08/31/03 09:25:31 AM
 To: Graham Brent@spknet.nl (Reply); Peter Stahler@spknet.nl
 CC:
 Subject: Re: 248201 - Mina Al Bakr Week Report for Wk. 32/2001



Date: January 31, 2003
 Time: 10:13 LT
 Dear Graham,
 Report for Week No. 32, 2001
 Support/AM Monitoring Staff on rotation:
 Alfredo Olivares
 Anthony Boudry
 Brian C. Kelly
 Rajiv Pathak
 On Beach resthouse :
 Denny Simpson

Vessels loaded during the period: 24/08 to 31/08 (Fri-Thurs)

Name	load date	blts
*****	24/08	2,092,740
*****	26/08	2,131,902
*****	27/08	2,793,428
*****	31/08	1,879,438
*****	30/08	1,577,071
*****	TOTAL	14,474,580

 CUSTOMER NUMBER LADINGS
 Terminal Manning
 Terminal fully manned (app. 85 persons)
 Molding plants/Trigs

 Terminal fully staffed at the terminal
 Tugs "TAU AL BAKR", "ALTAHWATI" and new tug "PATRI AL HOSEINI" and "ALBAYTANI" on stand-by.

Power
 Only one power failure during the week (c. 3 minutes)
 Generator are working on alternating basis.
 Transport to / from terminal

 Transport and maintenance used for transportation of personnel to PAD.
 Relief schedule is on Saturday (pilots), Sunday and Wednesday, but schedule is unworkable.

5023606

 12/10 01 TEL 04:48 FAX 05:11:40:40:50

 SANGHVI INT.

 TELE REPORT ***

 VENDORING DE
 1583 0509715434
 12/10 01:47
 01:28
 GBR, T.
 RESULTANT
 OK

06/08/01 TEL 10:38 FAX 11:53:13:13:13
 UNRES. RTK *** SANGHVI
 06:01

UNITED NATIONS



NATIONS UNIES

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990)
 CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT

TO: MS RIZVANE BISHOPIC THE ASLDER	FROM: THE OE OVERSEERS UNDER SECURITY COUNCIL RESOLUTION 986 (1995)
FAX NO.: 3-2086	FAX NO.: (012) 963-1928
REF.: OIL-FOR-FOOD ARRANGEMENT	
TOTAL NUMBER OF TRANSMITTED PAGES INCLUDING THIS PAGE: 1	

SUBJECT: LETTER OF CREDIT

PLEASE BE ADVISED THAT THE OVERSEERS HAVE CONFIRMED THAT THE
 TERMS AND CONDITIONS OF THE LETTER OF CREDIT NO. 104570053 (IN
 D7714) IN THE AMOUNT OF EURO 14,800,000 TO BE ISSUED ON BEHALF OF BDEX
 ENERGY FRANCE (CONTRACT #M/98/1) CONFORMS TO THE TERMS
 AND CONDITIONS OF THE CONTRACT PREVIOUSLY APPROVED.

- BDEX ENERGY FRANCE from MINA AL-BAKR covering 1,400,000 bbls
 15% of BAGHMAR LIGHT CRUDE OIL to USA on M/T "ESSEK" or SUB.

(Shipper/Date: AT THE LATEST 15th MAR)

5023606

From: Peter Boka
 Date: 10/09/2001 11:10 PM
 To: sevan@un.org
 cc: [Michael Talbot](mailto:Michael.Talbot@un.org), [James Jensen](mailto:James.Jensen@un.org), [Stephan Schaefer](mailto:Stephan.Schaefer@un.org), [Marlene Bauer](mailto:Marlene.Bauer@un.org), [John Malkin](mailto:John.Malkin@un.org)
 Subject: Re: Alleged loadings of Crude outside UN Control

Dear Simon,
 I confirm reading of Norton's email and will investigate this matter thoroughly. Will revert asap.

Kindest regards,
 Peter Boka

"Norton Baur-Jensen" <jensen@un.org> on 10/09/2001 08:44:29 PM
 Subject: "Marlene Bauer-Jensen" <marlene@un.org> on 10/09/2001 08:44:29 PM

From: Marlene Bauer-Jensen
 To: sevan@un.org, [Michael Talbot](mailto:Michael.Talbot@un.org), [James Jensen](mailto:James.Jensen@un.org), [Stephan Schaefer](mailto:Stephan.Schaefer@un.org), [John Malkin](mailto:John.Malkin@un.org)
 Subject: Alleged Loadings of Crude outside UN Control

Simon,
 Today we received documents which indicate that on two occasions oil has been loaded on board the vessel DORSET. The documents also certify UN official supervision of the loading process. The total amount involved is approximately 400,000 barrels (which represents 18 million approximately).
 We have brought this to the attention of Boka and are investigating the matter. We will keep you informed of the outcome.
 Oil Overcast.

From: Peter Boka
 Date: 10/17/2001 01:08 PM
 To: NS106@un.org
 Subject: Tankers possibly associated with Essex

Dear CDR Hansen,
 Further to our telcon regarding your list, I can confirm that following vessel's have been loading at PMBCT:

Date	Vessel	Gross Standard Volume	Perc. of Capacity
07/15/01	Sea Sea	3,456,415 barrels	approx. 98 %
07/15/01	Sea Sea	3,456,415 barrels	approx. 98 %
07/19/01	Dorset	3,421,362 barrels	approx. 86 %

The above would lead us to believe that the TV, "Dorset" is suspect, also because the vessel prior to sailing was 18.5 m and Aft 19.0 m. However, the vessel is currently loading the vessel with additional barrels, this seems very unlikely.

Time log:

Operation	Time	Date
Completed loading	09:09	07/19/01
Documents delivered to BMD	12:00	07/19/01
Documents delivered on board	13:30	07/19/01
Vessel sailed	16:00	07/19/01

Kindest regards,
 Peter Boka
 Boka 3. + independent surveyor.
 P. Schaefer - alongside Boka 1.
 14.24 hrs 19/01.

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

"Morris Bur-Jones" <mburj@un.org> on 10/09/2001 08:44:28 PM



To: "Boran Swan" <swan@un.org>, P@Seybolt
cc: "Mikael Velting" <Velting@OP_OIP.UN-DAV.NY.U.S.GOV>, "Alexandre
Kramer" <Kramer@un.org>, "Bernard Seltzer" <Seltzer@un.org>
Subject: Alleged Landings of Cruise outside UN Control

Boran,
Refer to attached document which indicates that on two occasions all the
been loaded at Lima all under control of Seybolt's control on vessels which
also carried UN official shipments.
approximately 28 million approximately.
We have brought this to the attention of Seybolt who are investigating the
case.
We will keep you informed of the outcome.

Oll Overness.

All our activities are carried out under
general terms and conditions and in
accordance with the following conditions:
The general conditions can be consulted
at: <http://www.seybolt.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 other than the addressee(s)
are not the intended recipient. If you
disclosure, copying, distribution or any
other use of the information contained
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.

9882208

Switzerland
LASKOIL
BREITBILP

SEVENLEY ROAD
DIRECT LINE BUILDINGS
LONDON W1G 9JH

101 Schenck Road, NY
New York, NY 10020-2115
Tel: 212 512 3300
Fax: 212 512 3309
www.laskoil.com

October 21, 2001

VIA FACSIMILE

United Nations Oil for Food Overseas
United Nations Oil for Food Programme
First Avenue
DCL Room 1516
New York, NY 10017

Re: m/v Essex

Dear Sirs:

I am writing on behalf of my client, Trafiqua Bourse BV ("Trafiqua") to seek your assistance in resolving the urgent matter of the Linq crude oil aboard the m/v Essex.

Trafiqua is an oil trading company incorporated in the Netherlands with offices in Amsterdam, London and New York. It is a subsidiary of the Linq Group, a public company listed on the New York Stock Exchange. Trafiqua is the sole owner of the m/v Essex and has sold many cargoes to U.S. refiners. Until this latest cargo loaded on the m/v Essex, it has not encountered any problems.

In August, Trafiqua purchased the Essex cargo from Iber Energy, which is based in Paris but is a Dutch company. Iber Energy is a subsidiary of the Linq Group. The cargo was loaded under two separate contracts. The first contract is for approximately 1.8 million barrels. Iber then asked Trafiqua whether it would take another approximately 200,000 to 300,000 barrels to top off the ship on a delivered ocean basis. This is reflected in a second contract. Iber provided Trafiqua with a copy of its allocation of 7 million barrels of oil and Iber's contract. Iber also provided Trafiqua with a copy of its allocation of 7 million barrels of oil and Iber's contract. Iber believes that everything was amiss with the purchase or unauthorized by the UN.

As you know, the vessel loaded on August 27, 2001. There are two bills of lading submitted by SOMCO, one for 1,817,407 barrels and another for 200,000 barrels. The bills of lading are in favor of the UN account at BNP-Paribas. Trafiqua paid Iber for the second parcel directly at Iber's direction.

WJ37881

Address • Amster • New York • Tel Aviv • Washington, DC

9882208

United Nations Oil for Food Overseas
October 21, 2001
Page 2 of 3

Trafiqua sold one million barrels of the oil loaded onto the Essex to a U.S. refiner, Koch Refining, for delivery to its facility in Corpus Christi, Texas and one million barrels to a U.S. refiner, PAVSA, for delivery to its facility in Corpus Christi, Texas. The vessel arrived at Corpus Christi last week and discharged the one million barrels into two 500,000 barrel lightering vessels. The first lightering vessel was discharged into Koch's tankage.

Before the second one could discharge, Koch received information from PAVSA that there could be a problem with some of the oil not being covered by the UN Oil for Food Program. PAVSA had been informed through the U.S. Embassy in Caracas, as well as received communications from U.S. E.M. Rosner, the inspector of import duties and excises in Caracas. Koch has not yet received any information from PAVSA regarding the problem. My understanding is that PAVSA based that authorities were questioning whether some of the oil may not have been paid through the Oil for Food program.

Koch refused to let the second lightering vessel discharge and will not pay Trafiqua for any of the oil that is not being covered by the UN Oil for Food Program. The Office of Foreign Assets Control will come back and assess it of sanctions violations. The second lightering vessel is sitting in the port at Corpus Christi and is costing my client over \$35,000 a day and the shipowner wants its vessel back.

I am told that the vessel Essex arrived at Caracas yesterday and was inspected by the Caracas authorities. I have not been able to find out what happened and the UN will not talk to me about it. I heard third-hand that the vessel is not being allowed to berth and discharge. PAVSA (Pavsa) will not allow discharge of the oil until approved by the Caracas government and the UN. It is clear that the UN will not pay Trafiqua for the oil until approved by the Caracas government. We are trying to get the vessel to discharge and we will be permitted to let it discharge at Caracas or what the Caracas authorities are doing.

My client has paid over \$45 million for the oil and needs to get paid from its customers soon or its bank's money faces it as cash business. We have offered to the State Department and to the UN to put my money that was not properly paid to the UN account (assuming that is the case) in escrow pending resolution of this matter so that we can get the oil discharged and vessels returned to their owners. The UN Office of Iraq Programs will not let us do this. The UN government has directly refused to let us do this. We are now trying to seek assistance of the Netherlands authorities.

UNITED NATIONS NATIONS UNIES



OFFICE OF THE IBAO PROGRAMME - BUREAU CHARGE DU PROGRAMME IBAO

THE EXECUTIVE DIRECTOR
LE DIRECTEUR EXECUTIF

REF: ED/04/GEN/S

31 October 2001

Dear Ms. Rudy,

I should like to refer to your letter dated 29 October 2001, which was received at this Office on 30 October 2001. In your letter, you stated that you had received a copy of the "Energy Security Council Committee established by resolution 661 (1990) was between Iraq, Energy S.A. and SOMO. This approval had nothing to do with Trafigura's arrangements with Iraq, and the United Nations is not a party to the contract between them."

The questions raised in your letter of 29 October 2001 concerning the legality of the export of oil would have to be investigated by a State or States having jurisdiction over that matter. In my letter of 27 October 2001, I advised that Trafigura seek the assistance of the Dutch authorities in this regard, which I understand you have done.

You will also recall that, in my letter of 27 October 2001, I informed you that this matter had been brought to the attention of the Security Council Committee established by resolution 661 (1990), which is responsible to monitor the sanctions regime imposed on Iraq by the Security Council. The findings of a relevant investigation will also have to be brought to the attention of that Committee.

It follows from the foregoing that, as the Security Council Committee has not thus far taken any action regarding the sources of the oil, the matter of the Iraq oil is a matter between Trafigura and Iraq, in which the United Nations Secretariat cannot involve itself.

Ms. Beverly J. Rudy
Counsel to Trafigura B. V.
Sutherland, Asbill & Brennan LLP
1700 Pennsylvania Avenue, N.W.
Washington, DC 20004-2415

-2-

With regard to the cancellation of the letter of credit, I should like to draw your attention that the letter of credit is irrevocable, and it has been confirmed by BNP Paribas. As noted above, since no action has been taken with respect to the approved letter contract, that contract remains in effect. In addition, accordingly, the United Nations cannot agree to the cancellation of the letter of credit.

Sincerely yours,

Bruno V. Seven
Under-Secretary-General

0882205

**Sutherland
Asbill &
Brennan LLP**
attorneys at law

1275 Pennsylvania Ave., NW
Washington, DC 20004-2415
Tel: 202.331.1100
Fax: 202.331.2593
www.sablaw.com

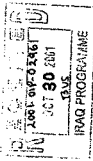
CONFIDENTIAL

Date: October 30, 2001
Pages (including cover): 3

TO:
Richard Nunez
Becca V. Swann
United Nations
Office of Legal Counsel
United Nations
Sewan Katz
212.963.3155 212.963.3359

FROM:
Eliot Garbarino
United Nations
Programme
212.963.8986 212.963.4341

FROM: BEVERLY J. RUDY
Telephone: 202.331.0865
Message:
User number: 2239 Client number: 18238.0002
Email address: brudy@sablaw.com



Alaska ■ **Austin** ■ **New York** ■ **Tallahassee** ■ **Washington, DC**
NY 10151

0882205

**Sutherland
Asbill &
Brennan LLP**
attorneys at law

1275 Pennsylvania Avenue, NW
Washington, DC 20004-2415
Tel: 202.331.1100
Fax: 202.331.2593
www.sablaw.com

October 30, 2001

VIA FAX SIMPLE
Mr. Bowen V. Swann
Under-Secretary-General
Office of Legal Programme
United Nations
New York, NY 10017

Re: Trafigora Babcoer B.V. — /f/ Ergaz Ode/

Dear Mr. Swann:

In reference to my letter dated October 29, 2001, I am writing to update you on events concerning the vessel /f/ Ergaz Ode/ which was nominated to lift a cargo of approximately 1.8 million barrels of Kuwait light crude under contract to purchase from Babcoer. Due to the issues arising from the *Ergaz*, we had requested that the UN provide us with written assurances that lifting of the cargo would not violate any applicable UN procedures.

Trafigora today accepted the charterparty with the vessel owner. In view of the lack of definitive guidance and assurances from United Nations, including documentation that the oil is properly authorized to be sold to them under the Oil for Food Programme, Trafigora could not assume the high risks of loading a cargo that did not comply with the relevant procedures and UN resolutions.

Thus, Trafigora had no choice but to decline to the vessel owner that the charterparty contract was honored. The Company also could not take the risk of incurring continuing damage in connection with the vessel's operations. The Company also has requested that its bank, BNP Paribas (Paris), arrange with the UN to cancel the letter of credit in favor of the UN account which had been posted on Babcoer's behalf.

Sincerely,

Beverly J. Rudy
Counsel to Trafigora Babcoer B.V.

cc: Steven Katz, Esq.

Alaska ■ **Austin** ■ **New York** ■ **Tallahassee** ■ **Washington, DC**

UNITED NATIONS NATIONS UNIES



OFFICE OF THE DPO PROGRAMS - BUREAU CHARGÉ DU PROGRAMME DPAQ

THE EXECUTIVE DIRECTOR
LE DIRECTEUR GÉNÉRAL

REF: ED/2001/GEN/4

27 October 2001

Dear Ms. Rudy,

I should like to thank you for your letter dated 25 October 2001, written on behalf of Trafigara BV, concerning Iradj crude oil, aboard the ship Basec.

As you already have been informed, on 24 October 2001, this Office brought the matter to the attention of the Committee of Experts (COE) on the basis of a letter from the Republic of the Netherlands and the comments shown by the COE. In my understanding, the Committee intends to review the matter in early November.

In connection with the difficulties you have referred to in your above letter, Trafigara may wish to seek the assistance of the Dutch authorities. I have noted that you have already contacted the Dutch authorities to seek their assistance.

Remon V. Sevón
Under-Secretary-General

Ms. Beverly J. Rudy
Counsel to Trafigara B.V.
1725 Main Street, Suite 200
Washington, DC 20004-2415

Z06E2Z05

Mr. Bronn V. Sevan
October 29, 2001
Page 2 of 2

concerns to the vessel owners for breach. I would greatly appreciate if the UN could sign as
million barrels or whether such remaining portion of Iraq's allocation will be cancelled. Given
the experience with the *Ezzar*, I also would appreciate if you could inform me what written
authorizations that the UN can provide us so that we know that there is authorized to procure the
entire cargo from SOMO, and that the cargo has been properly loaded and approved by the
United Nations.

Sincerely,

Beverly J. Rudy

Beverly J. Rudy
Counsel to Trafifigura Behner B.V.

cc: Steven Katz, Esq.

S023901

1375 Pennsylvania Avenue, NW
Washington, DC 20004-1102
www.ashill.com

**Sutherland
Ashill &
Brennan LLP**
ATTORNEYS AT LAW
DIRECT: 202.331.4141
FAX: 202.331.4142
www.sutherlandashill.com

October 29, 2001

VIA FACSIMILE

Mr. Bronn V. Sevan
Under-Secretary-General
Executive Director
Commodity Programs
United Nations
New York, NY 10017

Re: Trafifigura Behner B.V. — Urgent Guidance Requested Regarding *El Berge Odeh*

Dear Mr. Sevan:

I received your October 27, 2001 letter and thank you for your prompt response. I understood
that the UN Security Council's 661 Sanctions Committee is scheduled to take place early next week to
review the matter and we will assist the Committee in any way we can. To that end, I am in the
process of drafting a letter explaining my client Trafifigura's understanding of the chronology of
the findings in question about the *El Berge*.

I am writing for your further assistance regarding the vessel *El Berge Odeh*, which Trafifigura
chartered some time ago to load a cargo of approximately 1.8 million barrels of Basrah light
crude under contract in purchase from Iraq (which we are told by Iraq is covered by Iraq's 7
million barrel Basrah light allocation). The vessel will en route to the Persian Gulf when
lighterage is loaded on board. The vessel is currently in the Persian Gulf. The vessel is
chartered under a time charter party with a charterparty that provides for the vessel to be
employed in the Persian Gulf. The vessel is currently in the Persian Gulf. The vessel is
proceeding to the SOMO terminal for loading by Iraq in order to first obtain assurances from all
appropriate UN authorities that the lifting is in compliance with all 661 Sanctions Committee
procedures, and will be continuously supervised by the UN or its contractors so as to prevent any
issues as have occurred with the *El Ezzar*.

Trafifigura's bank, BNP Paribas (Swiss), has posted a letter of credit for the entire volume of the
loading to the BNP Paribas, New York Branch, Euro Sub Account, Account Number 0200-
207352-002-05. BNP Paribas also is concerned about the vessel's cargo and has advised us in the
past and we understand that the bank has contacted the United Nations as well.

The vessel is now accruing demurrage of over USD \$40,000 per day, and Trafifigura must decide
very shortly whether to cancel the charter party, notwithstanding a potential risk of incurring

Atlanta • Austin • New York • Thibault • Washington, DC



to: The Oil Overseers

date: 5 November 2001

at: Add

Mr. Teklay Afewerki, Senior Finance Officer,
Treasurer

reference:

reference:
TO: ME

from: Mr. Victor-Mikhael, Deputy Director,
in charge of the General Legal

subject: Stand-by letter of credit issued by Rafiqiya

date:

URGENT

1. I refer to a memorandum from Mr. Afewerki of 2 November 2001 to the Oil Overseers. Attached to that memorandum is a letter of credit issued by Rafiqiya Bank S.V. in favour of the UN, for an amount of 271,699 barrels of oil. The letter of credit is styled as a "stand-by" credit, and purports to cover 271,699 barrels of oil. The letter of credit is issued by Rafiqiya Bank S.V. in favour of the UN, for an amount of 271,699 barrels of oil. The letter of credit is styled as a "stand-by" credit, and purports to cover 271,699 barrels of oil. The letter of credit is issued by Rafiqiya Bank S.V. in favour of the UN, for an amount of 271,699 barrels of oil. The letter of credit is styled as a "stand-by" credit, and purports to cover 271,699 barrels of oil.

2. In its cover memorandum, BNP-Paribas notes that the letter of credit is issued in the standard format of Council resolution 986 (1995). BNP-Paribas further states that, as the letter of credit gives no destination, it cannot be used to cover the purchase of oil. BNP-Paribas states that it cannot add its contribution to the letter of credit.

3. It appears that this letter of credit may relate to the purchase of 271,700 barrels of oil in Iraq. The letter of credit, which Mr. Sevan has brought to the attention of the 661 Committee in his letter of 24 October 2001 to the Chairman of the committee, from information previously provided to us

UNITED NATIONS - INTEROFFICE MEMORANDUM DATE: 05 NOV 2001 MEMORANDUM INTENT

concerning this matter, including a fax dated 21 September 2001. The letter of credit is issued in the standard format of Council resolution 986 (1995). BNP-Paribas further states that, as the letter of credit gives no destination, it cannot be used to cover the purchase of oil. BNP-Paribas states that it cannot add its contribution to the letter of credit.

5. From the information provided to us, we understand that this portion of oil may be covered by an approved contract between Iraq and EOMG, and that Rafiqiya has agreed to purchase this oil from Iraq. We further understand that, even if the oil is not purchased by Iraq, the letter of credit is a "stand-by" letter of credit, and purports to cover 271,699 barrels of oil. The letter of credit is issued by Rafiqiya Bank S.V. in favour of the UN, for an amount of 271,699 barrels of oil. The letter of credit is styled as a "stand-by" credit, and purports to cover 271,699 barrels of oil.

6. We understand that the Committee is scheduled to meet on Tuesday, 6 November 2001, to discuss this matter. Accordingly, we suggest that the letter of credit and the correspondence between the Oil Overseers and BNP-Paribas be discussed at that meeting, and that the Oil Overseers, which are to report any irregularities to the Committee (see 661 Committee Procedures, paragraph 13), be prepared to inform the Committee of the relevant facts relating to this matter.

7. If the Committee determines that the purchase of the oil was in violation of the sanctions regime against Iraq, pursuant to Council resolution 661 (1990) and 661 (1991), the oil should be sold at fair market value and the proceeds paid into the escrow account provided for in Security Council resolution 706 (1991) and 712 (1991). Consequently, such oil could be sold to Rafiqiya. However, it would have to be determined whether

the amount of the "stand-by letter of credit" presented by the vessel. The Oil Overseas should be advised of the amount of the credit. Moreover, it should be pointed out that, if the "stand-by letter of credit" were accepted as a condition of sale, it would not be received until at least 160 days after the date of the statement, which was 1 November 2001.

cc: Mr. Gollitsyn

Switzerland
ASBIL &
BRENHOLD
AG

1000, 1000
1000, 1000
1000, 1000
1000, 1000

1000, 1000
1000, 1000
1000, 1000
1000, 1000

November 2, 2001

VIA FACSIMILE

Mr. Brian V. Sevan
Lieut. Colonel-General
Executive Director
Office of the Iraq Programme
United Nations
New York, NY 10017

Re: Trafigura Bahseer B.V. - M. Essex

Dear Mr. Sevan:

In further reference to your letter dated October 27, 2001, I am writing to provide you and the Security Council Committee established by Resolution 661 concerning the situation between Iraq and Kuwait with information regarding the location of Bahseer light crude oil at Mina Al-Bahseer on the vessel M. Essex. The information is current to the best of our knowledge, as of the date of this letter.

We would appreciate it if you would pass this letter on to the members of the Sanctions Committee in advance of their meeting to review this matter.

I. General Background

Established in 1993, Trafigura is an oil and metals trading company incorporated in the Netherlands, with offices in Amsterdam and Lucerne, Switzerland. The parent company, Trafigura Bahseer, trades worldwide through a network of offices managed by its Lucerne headquarters. Trafigura AG, a Swiss company affiliate based in Lucerne and with a branch office in Stamford, Connecticut, focuses on trading with the United States. Trafigura Ltd., another company affiliate, is managed and operated out of the London office of Trafigura Ltd.

Over the past few years, Trafigura regularly has purchased Iraqi crude oil from third parties who have sold it to Trafigura. In 2000, Trafigura purchased Iraqi crude oil from a third party. Until this latest cargo loaded on the M. Essex, it was not aware of and did not encounter vessels.

Atlanta Atlanta New York Tallahassee Washington, DC

8065205

Mr. Brian V. Sevan
November 2, 2001
Page 2 of 8

any problems with its suppliers, and in particular with Box Energy France ("Box"), or with Box's compliance with the procedures for oil purchases established by the Sanctions Committee. Traffigua has entered into several purchase and sale contracts with Box France since 1997, including two contracts to purchase Kirok in 1999, without incurring any comments or legal difficulties.

4. The First Erase Cargo

In April 2001, Box France offered Traffigua a cargo of approximately 1.8 million barrels of Barak light oil under a charterparty with the vessel *Al-Bahr* (Contract No. M09981). The cargo was sold by Box's affiliate, Box Energy (Bermuda) Ltd. It would have been standard industry practice for Traffigua to pay Box through a letter of credit, as Box is the contract holder liable for remitting the funds to the seller. However, as Box did not have the credit facility to issue such a large letter of credit, it asked Traffigua to arrange for the letter of credit payable to the UN on its behalf.

Box then asked Traffigua if it would subcharter space on the vessel for a top-off parcel of 200,000 to 300,000 barrels, which Box wanted to sell to a U.S. buyer on its own. Traffigua agreed, but initially refused Box's informal request that it had found it difficult to issue a cargo note (which has been excessive for *Al-Bahr* fittings destined for the United States). However, for credit security and insurance reasons, Traffigua wanted to acquire title to the cargo and thus agreed to purchase the oil FOB, adjusted for customs volume.

Box executed a detailed warranty to Traffigua that the second parcel was covered by the UN allocation, that it had complied with all UN and national regulations and that all proceeds would be paid into the UN account. The language of this warranty is similar to those customarily used in U.S. contracts to purchase Iraq-origin crude oil from both contract holders and downstream third-party purchasers.

Box was able to finance the purchase of the smaller parcel from SOMO based on its own credit and requested that Traffigua pay it directly and post a standby letter of credit for the payment with the bank. Credit Agricole Indosuez, Geneva branch, issued the letter of credit for the smaller parcel. Traffigua's bank, Citibank, advised it was not to issue a bank to open a letter of credit that is at the same time the supplier's bank to receive the letter of credit payment. Additionally, Swiss banking law provides an automatic right of offset without prior notice to the account holder. Thus, Roundhead, Inc., a wholly-owned Traffigua subsidiary domiciled in the Bahamas (which does not have a bank in the Bahamas), advised Traffigua to open a different branch of Credit Agricole Indosuez opened the standby letter of credit for Roundhead. Traffigua explicitly informed the bank that the standby letter of credit requested by Box, it to be issued under the full risk and responsibility of Traffigua Bletter.

8065205

8065205

Mr. Brian V. Sevan
November 2, 2001
Page 3 of 8

The vessel completed loading on May 14, 2001 with 2,077,622 net U.S. barrels of cargo (based on the UN tally) and departed for the United States. Traffigua received the bill of lading and shipping documents required by its contract with Box for export, and the bank issuing the letter of credit to the UN received copies of the documents required for presentation in the letter of credit. The full cargo was paid for 30 days after bill of lading date. The cargo was discharged partially at the Louisiana Offshore Oil Port and purchased by Marathon Ashland Petroleum LLC and the two lighter vessels sold to Koch Petroleum Group LP ("Koch") at Corpus Christi, Texas.

5. The Second Erase Cargo

On May 14, 2001, Traffigua offered Traffigua another cargo of Barak light oil and provided a copy of its SOMO allocation for seven million barrels, dated July 13, 2001. Traffigua entered into a contract to purchase approximately 1.8 million barrels, Box represented to Traffigua that the oil was covered by the UN allocation. The contract was issued under contract number M10108, UN Ref: S/C.25/2001/OIL/1360/COMM.08.

Box then asked Traffigua whether it would purchase another approximately 200,000 to 300,000 barrels of Barak light oil with the vessel *Al-Bahr*. Traffigua did not agree to purchase the cargo for it with the view toward selling the cargo itself, but as that Traffigua transport the cargo for it with the view toward selling the cargo itself, but Traffigua did not think that this was unusual as it is customary in the industry for smaller oil companies to purchase part cargoes in order to establish a good credit history. The separate contract for this parcel (in the name of Roundhead, Inc.) was issued by Citibank, Geneva branch. Traffigua had no reason to believe that anything was amiss with the purchase or unauthorized by the UN. For both parcels, Traffigua paid Box the official selling price in effect at the time of loading, plus a premium.

The vessel began to load at the terminal on August 25, 2001. Traffigua received two bills of lading for the cargo, one for 1,797,407 barrels and one for 271,669 barrels. Traffigua paid for the large parcel by setting up a letter of credit on Box's behalf in favor of the UN account at BNP-Paribas. As explained, Traffigua assumed that Box did not have its own credit to do this. Traffigua paid Box for the second parcel directly at Box's direction as with the first cargo.

Traffigua obtained the customary shipping documents, including (1) two separate bills of lading issued and endorsed by the vessel Master, Captain Chahadik Theophanis and (2) a cargo report signed by the vessel Master and the SOMO tally clerk. Traffigua also obtained a reconciliation of with typewritten notes on the vessel based on the combined bills of lading, the ullage report and a verbal verification from Captain Mavroulis Mavroulakis, Traffigua's on-site lost control

8065205

6082205

5023910

Mr. Bruno V. Servas
November 2, 2001
Page 4 of 8

representative, who attended the loading of the *Uz Exzer*. Tradfigura appointed Captain Manousaki to attend the loading because historically there have been substantial unexplained losses reported from the Miles A-1-Ber terminal of around 10,000 barrels between the vessel figure and discharge figure the respective facilities in the United States.

Captain Manousaki informs us that the vessel berthed at A1-Ber on August 23 and that the port authorities, the SOMO representative and Soybech-surveys boarded at the same time. The vessel was discharged on August 27. Both the Soybech surveyor and the SOMO representative boarded the vessel on August 27 and remained on board by that time. When these arrangements were completed a short while later, the loading resumed for another seven hours until the Terminal gave a stop load order to the vessel Master.

On completion of loading on August 28 of both parcels, the *Uz Exzer* departed for the SOMO representative boarded the vessel again and prepared a report for the port authorities which were signed by the SOMO representative and the vessel Master. The SOMO representative presented the two sets of bills of lading, which the vessel Master signed. To ensure that the entire cargo complied with UN procedures, Captain Manousaki asked the SOMO representative and Captain Manousaki. Given these official documents and vessel confirmation from Captain Manousaki, Tradfigura could only assume that both parcels were within their allocation and were properly authorized by the Soybech inspector to load; it had no reason to believe otherwise.

3.2 Payment Information

Tradfigura arranged for payment for the first parcel, 1,787,407 net U.S. barrels at the official selling price of \$20.25 per barrel, to be paid to the UN account, Euro 36,145,333.31 (USD equivalent \$39,211,501.31). Tradfigura instructed its bank, the Basel branch of BNP Paribas (Swiss) S.A., to issue an irrevocable documentary letter of credit, Ref. LCIM 511892/GROG, by order of BNP Paribas (Swiss) S.A. in favor of The United Nations. The letter of credit was paid on September 25, 2001, by BNP Paribas (Swiss) S.A. into the UN account.

BNP requested that Tradfigura pay it for the second cargo of 271,669 U.S. net barrels directly and asked that Tradfigura post a standby letter of credit in favor of BNP Paribas (Swiss) S.A. in London, B.V.I. which had purchased the cargo for the second parcel. Tradfigura paid BNP Paribas (Swiss) S.A. account with Credit Agricole Indosuez, London Branch, into BNP Paribas (Swiss) S.A. account with Credit Agricole Indosuez (Swiss) S.A.

WFO 10/01

Mr. Bruno V. Servas
November 2, 2001
Page 5 of 8

3.3 Sale to Koch

Tradfigura sold one million barrels of the oil loaded onto the *Exzer* to Koch for delivery to its facility in Corpus Christi, Texas. PDVSA arranged for delivery to its refinery in Corpus Refinaria S.A. (Cruzar) S.A. The *Exzer* arrived at Corpus Christi on October 14. By October 18, 316,000.54 barrels was discharged into the first lighter vessel *Uz Alabazera*, and approximately 53,000.54 barrels onto the second lighter vessel *Uz Berne* (these figures are Koch's as the oil because the lighter vessel is not yet loaded). The lighter reports provided to Tradfigura show that after the second 11,000.54 barrels remained on the vessel.

The product lightened onto the *Alabazera* was discharged into Koch's tanks at the jetty side terminal. Before the entire cost of the oil not being covered by the UN Oil for Food Programme, PDVSA had been informed through the U.S. Embassy in Caracas and had received communications from Mr. E. M. Rowland, the Inspector of Import duties and excises in Caracas. We understand that the U.S. government did not and has not contacted Tradfigura or Koch since the vessel's departure. Tradfigura has not received any information that authorities were notified. Whether some of the oil might not have been sold or paid through the Oil for Food Programme.

Koch refused to let the second lightning vessel discharge and will not pay Tradfigura for any of the oil (yet the vessel has been in port for four days). The Treasury Department's Office of Foreign Assets Control (OFAC) will assess it of sanctions violations. The second lightning vessel is sitting in the port at Corpus Christi and is costing over \$15,000 a day in demurrage. The shipowner is insisting that Tradfigura return the vessel. Koch has sought guidance from OFAC and permission to import the cargo and pay Tradfigura.

3.4 Sale to PDVSA and Disposition of Cargo on *Uz Exzer*

The *Exzer* arrived at Caracas on Wednesday morning, October 24, with approximately one million barrels onboard. The ship's agent, A. A. Whitelaw (Caracas General), Messrs. E. A. J. Sandoval (Caracas) and Mr. W. A. Dornaz (United Nations). These individuals are reported to have examined the cargo, taken samples, obtained copies of the vessel's cargo documents, log book, oil record book and obtained the original vessel Certificate of Registry and Tonnage Certificate (presumably so that the vessel could not sail).

On Friday, October 26, Mr. H. de Jong, a Chinese Public Prosecutor, advised the vessel owner's representative that the vessel was cleared insofar as his jurisdiction was concerned and would proceed with berthing and discharge, if PDVSA agreed to the conditions. The vessel owner is waiting for Tradfigura to give discharge instructions, but Tradfigura is unable to do so as PDVSA has not

WFO 10/01

1182205

Mr. Benon V. Swann
November 2, 2001
Page 6 of 8

yet authorized discharge. PDVSA will not allow discharge of the oil until approved by the Curaçao government and the United Nations oil owners or other UN authorized parties and the UN oil owners will be held responsible for any subsequent losses, including demurrage, sustained as a result of the unauthorized oil.

The flagra's counsel in Curaçao, the Spightoff law firm, has been working with the Curaçao government and the United Nations oil owners, including Mr. H. C. M. Willemse, who is a member of the Cabinet of the Governor of the Netherlands Antilles, and his colleague Mr. Brachdop, to achieve a speedy resolution of this matter. Although it is an innocent party in the matter and has already paid for the unauthorized oil, in order to seek the expeditious governmental approval of the discharge and sale of the cargo of oil, flagra has posted a letter of intent to the UN oil owners for USD 2 million to cover the UN demurrage, which represents the official selling price of the second parcel at the time of loading.

Upon receipt of the letter of credit (which was issued and confirmed yesterday), the Attorney General of the Netherlands Antilles confirmed in writing that there will be no further action against flagra. He also has received approval from the Bureau of Foreign Affairs of the Netherlands Antilles and the Ministry of the Foreign Affairs of the Netherlands written confirmation of their approval. We understand that this written approval will be issued on Monday, November 5.

As noted, PDVSA refuses to accept the cargo unless it receives written approval from the United Nations. Meanwhile, the vessel owner has notified flagra that it will hold it accountable for all demurrage and other expenses attendant the delay. The cost of demurrage is in excess of USD \$40,000 per day. We do not know how long the vessel will be permitted to sit at anchorage at Curaçao.

4. Consequences to Tradfigura and Other Purchasers of Iraqi Crude under the Oil for Food Programme

Given the facts known to us, it appears that flagra, with the complicity of several parties, simply authorized the loading of oil on the vessel without the necessary approvals from the UN Oil for Food Programme. Tradfigura purchased the oil with customary assurances from its supplier that the entire cargo was approved under the UN Oil for Food Programme and received customary documentation supporting that fact. There would not have been any way to know that the oil had been lifted outside of the Oil for Food Programme.

The cost to Tradfigura is potentially enormous. Tradfigura has paid over USD \$45 million for the oil, and it must obtain payment from Kooch and PDVSA soon or its banks may close it to make business. In addition, to obtain release of the oil, Tradfigura must pay for the UN oil for Food Programme to obtain payment for the unauthorized oil. Tradfigura also may be liable for the UN demurrage on the Kooch (lighter vessel) and on a vessel *Berge Chief*—a vessel that it had chartered for lifting of another cargo from that but which it cancelled given the

NO 011841

Mr. Benon V. Swann
November 2, 2001
Page 7 of 8

absence of UN assurances that the flag lifting would be authorized. Now Tradfigura faces the costs of cancellation of the charter party. The total cost to Tradfigura of this debacle could exceed USD \$9 million, exclusive of the cost of attempting to recover its losses from the various parties involved.

We are mindful that the Sanctions Committee does not ordinarily communicate with private oil companies. However, this is an unprecedented situation, and we believe that the Sanctions Committee should be aware of how an innocent party can be entrapped and how SOGOFIT can be used to circumvent the sanctions. Although the UN oil owners and the UN oil for Food Programme officials need to conduct their own investigations, the complicity or inaction of various parties likely contributed to this situation.

First, the vessel Master signed all the bills of lading and shipping documents. The original of the bills of lading and shipping documents were issued to the UN oil owners. The UN oil owners, for their part, made the letter of credit proceed in favor of the UN Oil for Food Account. The master kept the full set of the bills of lading of the 271,000 barrels onboard and when he disembarked from the vessel while it was en route, he kept one of the original bills of lading.

Second, all of the shipping and loading documents were endorsed by the SOMO terminal. Tradfigura's representative and flagra's representative were endorsed by the SOMO terminal. Tradfigura and flagra had to have involved the active participation of SOMO and the loading terminal.

Third, the lifted oil outside its allocation and failed to pay the UN Account. This could not have been done without flagra's involvement in organizing the scheme, the banking channels and the loading and unloading instructions.

Fourth, if flagra's bank was aware that the payment received through the letter of credit was covering Iraqi oil, no payment should have been authorized other than to the UN account with BNP Paribas.

X
Fifth, a vessel of this size cannot load significant volumes of oil without the knowledge of the UN-appointed inspector. According to Tradfigura's line control representative onboard the vessel, it took seven hours to load the 271,000 barrels. This is not a large vessel. Tradfigura's representative and flagra's representative were onboard. All copies of bills of lading and all required bills of lading were submitted. We do not think it credible that a vessel can remain on the berth with bills of lading for seven hours without questions or knowledge of the UN-appointed inspectors. *Inspected by UN representative of UN 27/01*

Without change to the procedures, other purchasers of Iraqi crude easily could find themselves in the same situation. The cost of recovering the remaining losses is sure to be significant and with uncertain success given that, at present, the allocation holders are small companies and it is very difficult to reach. We know of no SOMO account that has been controlled by a vessel owner. In any event, the liability of other parties will be difficult to prove absent a finding of criminal wrongdoing.

NO 011841

1182205

Page 2

After the completion of loading of 1,800,000 bbls and all the documents signed the UN cargo inspectors left the vessel without informing the UN cargo inspectors and was completed when the vessel loaded the additional 229756 bbls.

Ullage report (doc 3) was signed by Master and Terminal Representative, B/L (doc 4) was issued and signed by Master, (doc 5) was signed by Terminal Representative and by FALCON representative cpt Manousakis Marouli verifying the additional quantity was loaded on top of the quantity which was allowed by letter of credit issued by UN.

After loading vessel South Sea, where she discharged part of her cargo On arrival at the LOOP the vessel was measured by charterer's cargo inspector (doc 6) as well as by SGS receiver's cargo inspector (doc 6a) and the total quantity of cargo on board found to be 2,034,538.00 bbls or 280,121.07 metric tons, thus more than the letter of credit about 229756 bbls.

SECOND LOADING AUG 27th 2001 (U.N. code: SAC2572001/CIL/1360LC23)

The vessel T/T ESSEX was fixed by TRAFIGURA to load a cargo of 1,800,000 bbls Basrah light crude oil from Al Baker oil terminal, IRAQ. The same procedure as the first loading was followed.

As per (doc 1) and (doc 2) vessel loaded 1,788,820.00 bbls equal to 246,475.219 metric tons.

As per (doc 4) vessel loaded additional 271,894.00 bbls or 37,461.957 metric tons which was over the U.N. letter of credit.

Vessel is proceeding to U.S. GULF (South Station) to discharge and site is expected to arrive there on or about October 14th 2001.

Attachments

first loading : doc 1, doc 2, doc 3, doc 4, doc 5, doc 6, doc 6a.

second loading : doc 1, doc 2, doc 3, doc 4, doc 5.

5023616

Page 1

CHILADAKIS THEOFANIS
IRINIS 27-29, tel: (01) 6392097
AVIA PARASKEVI 153.41
ATHENS, GREECE

To:
UNITED NATIONS
1 UN PLAZA, DC1-1572
NEW YORK, NY 10017
U.S.A.

Attention: Mr Morten Bjar Jensen

Subject: T/T ESSEX, Loading at AL BAKR OH Terminal IRAQ, ignoring UN loading instructions.

Companies involved:

A. TRAFIGURA LONDON, CHARTERS/TRADEERS
TEL: 44 171 238 3337 FAX: 44 171 724 1390

B. ELKA LONDON, OWNERS OF T/T ESSEX
TEL: 44 171 238 3337 FAX: 44 171 724 1390

C. SOMO LONDON, IRAQI OIL COMPANY, TLX: 212198
TEL: (01) 8941581, FAX: (01) 8941588

D. EUROPEAN NAVIGATION, ATHENS, OPERATORS FOR T/T ESSEX
TEL: (01) 9607230 FAX: (01) 9616801

E. FALCON NAVIGATION, ATHENS, REPRESENTATIVES OF TRAFIGURA
TEL: (01) 9607230 FAX: (01) 9616801

FIRST LOADING MAY 16th 2001 (U.N. code : missing)

The above named vessel (T/T ESSEX) was fixed by TRAFIGURA to load at AL BAKR oil terminal IRAQ, a cargo of 1,800,000 bbls Basrah light crude oil. As per attached doc 1, vessel loaded 1,800,000 bbls Basrah light crude oil. Ullage report (doc 1) signed by Master and Terminal manager, B/L (doc 2) issued and signed by Master verifying the quantity the vessel was fixed to load 1,800,000 bbls or 247,847.80 metric tons.

5023617

Page 3

10/10/01 12:44 FAX 212 843 5847 (N/D)P

10/10/01 12:44 FAX 212 843 5847 (N/D)P

www

www

FORM01160501

MASTER'S COPY NOT NEGOTIABLE

BILL OF LADING

304/3113

dpc 2

Shipped in apparent good order and condition by **SOMO** in the **S/S - M/T** called the **"SOMOS"** Wharfed **OUT-CHINA/ATLANTIC OCEAN** is Master for this present voyage now lying at the Port of **AL-SUMAR'S TERMINAL**, **IRAQ CRUDE OIL (BARRELE LIGHT)** in Bulk

Cub. Meters	U.S. Barrels	Long Tons	Metric Tons
28734.468	175715	24396.08	24701.654
28719.836	175636	24375.20	24701.077

and to be delivered (subject to the unmentioned conditions and exceptions) in like good order and condition at the Port of **AL-SUMAR'S TERMINAL** upon order **BY THE MASTER** of or as near thereto as she may safely get (always subject to the provisions of the Charter Party) to their consign upon payment of freight as per charter party, all conditions and exceptions of which charter party, including the negligence clause, are deemed to be incorporated in this Bill of Lading.

The Ship has liberty before or after proceeding on the voyage to proceed to and stay at any port or ports in any order for any purpose and not withstanding that same may be out of the direct route to the port of discharge, with liberty to call without pilots, and to tow or to be towed and to tow and make vessels in distress or otherwise in all positions, and to **deviate** for the purpose of saving life or property.

In witness whereof the Master of the said ship has affirmed to **3002** Bills of Lading, all of this tenor and date, one of which being accomplished the others to stand void.

BY THE MASTER
 YOUSSEF FAKHRE EL DIN AS ABUSHERY

Dated at **AL-SUMAR'S TERMINAL** **BARRELE** day of **NOV** **2001**.



I will be very glad if I can be helpful to any additional information and or clarifications required concerning the above.

Thanking you, I remain,

Yours faithfully,

 C. Chikadakis - Theobania

cc: AMERICAN EMBASSY
 Vasiliadis Sophia 91
 Athens, Greece

cc: U.S. Coast Guard
 1400 Blount Island
 P.O. Box 446
 Galena Park, TX 77447-0446

913-671-859

EUROPEAN MARITIME INC. 1/10/1987

SHIP'S NAME: **VIT VESSEN** DRAUGHT: 19.58

DATE & Time: 11/23/87

TABLE USED: GA

YARD: **ABC-3**

TANK	ULLAGE	TOV	FREE WATER	COV	DRAUGHT	GRAV	GAZ
1B	1.16	85,190	0.08	85,275	84	0.852	84,345.02
1C	1.59	72,330	0.11	72,441	85.5	0.852	71,587.97
2C	1.59	72,330	0.11	72,441	87.5	0.852	71,587.97
3C	1.53	119	0.03	122	86.7	0.852	119,442.53
4C	1.63	144,888	0.03	144,921	86.7	0.852	144,112.53
5C	1.87	123	0.04	127	86.7	0.852	123,782.62
6C	3.80	342	0.00	342	86.3	0.852	338,939.38
7C	1.82	138	0.00	138	86.3	0.852	137,152.78
8C	1.80	119	0.00	119	86.3	0.852	117,481.61
9C	1.54	119	0.00	119	86.3	0.852	117,481.61
10C	1.19	77,684	0.05	77,739	86.3	0.852	76,762.99
11C	1.87	123	0.04	127	86.7	0.852	123,782.62
12C	2.18	174	0.03	177	86.8	0.852	174,650.00
13C	1.59	119	0.00	119	86.3	0.852	117,481.61
14C	5.44	4,07	0.00	4,07	86.3	0.852	4,072,282.58
15C	2.31	247	0.42	247.42	86.3	0.852	245,333.19
16C	0.00	-0.44	1.574	1.574	86.3	0.852	1,574.27
TOTALS		2,071,619	2.383	2,069,237	87.9	0.852	2,051,622.22

Total Observed Volume (bbl)	2,071,619.27	Weight Factor (Vol 15)	0.13770
Less Free Water	2,383	Time Corrected Applied	N/A
Gross Observed Volume (bbl)	2,069,236.24	Lat correct, Applied	N/A
Gross Standard Volume (bbl)	2,027,822.22	Temp	15.577
Less O.M.C. & Sludge	0	Receiver's Signature	[Signature]

SOMIQ POLYMERIZATION

BBL/3113

Shipped in apparent good order and condition by SOMIQ in the U.S.A. as per the bill of lading.

is Master for this present voyage one being in the care of A. J. MAER VERSTEREN B.V. in Rotterdam.

GROSS: 36,472,094	U.S. DEMO	LONG TONS	METS TONS
NET: 36,445,703	229,237	31,054.10	31,595.16
		31,067.20	31,565.83

and to be delivered (subject to the undetermined condition and exception) in like good order and condition to the consignee or his agent at the place and to the order of the consignee at the place named above.

is their assign upon payment of freight as per charter party, all conditions and exceptions of the charter party, including the stipulation clause, are deemed to be incorporated in this bill of lading.

The Ship has liberty before or after proceeding on the voyage to proceed to and stay at any port or ports in any order for any purpose and not withstanding that there may be no cargo on board, or that the cargo is not in conformity with the mate's receipt, provided that the cargo is to be received and to be stored and to be shipped in strict accordance with the bills of lading and for the purpose of saving life or property.

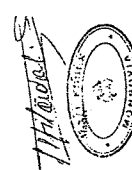
In witness whereof the Master of the said ship has affixed his STAMP and signature.

Bill of Lading, all of this tenor and date out of which being accomplished the others to stand void.

CLASH OF BOARD

FREIGHT PAYABLE BY BUYER AS ARRANGED

Chemical MAER VERSTEREN, B.V. 2001



Nov 22, 2001

doc 5

TOTAL QUANTITY ON BOARD

TOTAL QUANTITY LOADED ON BOARD VESSEL. E:1:5:2:7
ON (/652001) AS FOLLOWS:-

	GROSS	NET
CUBIC METERS :	322,607.513	322,165.533
U.S. BBLs :	2,029,744	2,023,622
LONG TONS :	275,030.718	274,392.48
METRIC TONS :	279,444.472	279,202.891

SIGNATURE


SIGNATURE:


You will no doubt all be aware of the alleged illegal loadings from Mina al-Bahr involving the vessel "Eason", and the revised procedures that have been instituted at both Ceyhan and Mina al-Bahr to prevent the possibility of such occurrences in the future.

Bearing in mind that the Seybolt monitoring operations at Ceyhan and Mina al-Bahr are under the closest scrutiny from the United Nations, it is particularly disappointing to have to advise you that the quality of reporting to this office and to the UN Oil Overseers has, of late, significantly deteriorated.

Examples, in no particular order of merit, are:

- 1) Time logs with no completion, or sailing, times
- 2) Sailing wires with incorrect Bill of Lading dates, and incorrect notification of barrels loaded. The Office of the Flag Program of the United Nations has written to Seybolt on this matter.

I do not have to labour the point that this level of performance is unacceptable.

We are a professional company appointed by a major humanitarian concern to carry out an important task. If we are not seen to act professionally, especially so soon after alleged illegal activities have taken place under our very noses, then we will all suffer the consequences.

In our monitoring function we are the "eyes and ears" of the United Nations, and the quality and content of our reporting functions is the only benchmark by which the United Nations can judge our performance. Once discredited, confidence is hard to rebuild.

Since the inception of the "Oil for Food" program in late 1996 Seybolt has done a tremendous amount of good work. Unfortunately it is only our mistakes that are noticed, and of late there have been too many. Mistakes and omissions will not be tolerated.

THE FOLLOWING ACTIONS WILL NOW BE TAKEN:

A) As from receipt of this message, both the Ceyhan and Mina al-Bahr operations will advise, as part of the daily report, comprehensive time log activities per vessel covering at minimum the following times, split over a number of daily entries as they occur. I expect to see all these times reported; further pertinent details regarding debussing etc can be added as appropriate:

- END OF SEA PASSAGE/ARRIVAL AT ANCHORAGE
- NOTICE OF READINESS TENDERED
- PILOTS ON BOARD
- LEFT ANCHORAGE
- START OF UNLOADING
- ALL FAST BERTHS ?
- NOTICE OF READINESS RECEIVED
- GANGWAY IN POSITION

MINA AL-BAYAR ADIT
NOV 27 2002

Saybolt UN Trip, Mina Al Bahr.
Report.
Following Report based on observations from field trip to Mina Al Bahr; November 27th to 30th, 2002.

General Observations.
Saybolt Master, Alex.
The office space especially well organized with all reference notices and files on hand. Working space remains limited. Storage space shows signs of the increased number of files produced over the year. Suggest steps are taken to organize the active files and have these sent to Baghdad for storage.

Office equipment:
Two (two) laptop 2350 OSS (General Services used due to breakdown of standard system).
Checked but should be run to ensure successful operation.
Two (two) laptop: 4000 COI. Back up unit. SMS Reporting system and Outlook express. Programs were
checked but should be run to ensure successful operation.
Three and Three action.
Canon LBP100 B&W Laser printer.
2. Motorola HiLevel VHF Radio unit. (Battery operational but will need renewal for full performance time.)
New shipping unit in better office in Baghdad.

Star accommodation maintained at 3 accommodable cabins, 1 office cabin, Dayroom, Kitchen and bathroom.

General Accommodation Areas and Facilities.
General Accommodation Area (GAA) is in good condition for most (1200). Significant improvement in the condition of walkways and platform due to the delivery of hydraulic seals and fittings for the hydraulic valves. Walkways were found free of hydraulic oil films normally appears, improving safety conditions and will be replaced with recent MOX delivery of speciality epoxy paints.

Water supply is still restricted due to the breakdown of the 7m³ Jubair RO unit. Supply of the accommodation area is approximately 20 M³ per day, approximately half the terminal requirement. Water is available for the bathroom and is returned for accommodation area, to approximately 10 minutes per day in the evening, including limited hot water.

Good supply of fresh fruit and drinking water was evident during the visit period, though Saybolt staff took it upon them to bring extra during the visit period.

Transportation.
Weather conditions were not suitable for the use of vehicles or boats to access the accommodation area. Participation is given to the weather conditions. If the weather is not acceptable, transport by available tug is further restricted by tide. This continues to pose significant additional danger in the necessary event of emergency medical evacuation.

Terminal observations.
Walkways are considerably improved as noted above. Safety rails remain absent in a number of areas. There are no emergency escape routes from the accommodation area to the accommodation area on the walkway. The survival in the process of being rigged outside the accommodation area.

- FREE PRATIQUE GRANTED
- ORO SURVEY COMPLETED
- LOADING ARMS/FLEXES CONNECTED
- COMMENCED LOADING
- COMPLETED LOADING
- LOADING ARMS/SHOSES DISCONNECTED
- DISCONNECTED SAMPLES COMPLETED
- DOCS ON BOARD
- VESSEL SAILED

B) As from receipt of this message, the sailing wire to the UN OBI Overseers MUST be counter-checked by at least one other member of the monitoring team before dispatch.

C) The sailing wire will now be signed by two members of the Saybolt monitoring team, as follows:
C.1) The inspector who prepares it, and,
C.2) The inspector who checks it.

D) Whenever you have a problem, need advice, or require guidance on any matter, call I, or Peter Bois, are always available; we need to know about, and react to, problems BEFORE they happen, rather than after.

For the record, my contact numbers are:
Office 44-1707-271971
Mobile 31-653-975896
Home 44-1707-271794
E-mail graham_breit@arxcellul

We have an important job to do, and we must all, ensure we work together as a team to provide the level of professional service expected of us.

Thank you,
Graham Breit

SO24029

SO24028

of chief items. This includes an inventory analyst notebook, showing clear development of conclusions to match as well as ship deck notes.

Inspections in vessels immediately arrival is being performed. (Cases where vessels berth but await instructions to berth).

The filling of tanks to bulk first and ship deck machinery prior to tank measurement was noted. The procedure being to check the buoyancy of the tank prior to the vessel sailing, particularly in cases where the vessel has remained alongside for some hours.

It was noted that staff currently have only one glass thermometer for use on deck. More to be ordered with next equipment configuration. No Seyboth tank measurement equipment is available on the terminal. One MUCB type remains in storage, out of service. (This should be sent to the Seyboth for repair. My preference would be to replace with a calibrated port type and glass thermometer).

The laboratory is well maintained and equipment in good order. No results are published on four points in the terminal. The laboratory is currently performing. I am not aware at this time of when these have been tested or on what basis.

Problems with the long terminal perimeter are satisfactory. No problems were defined or noted.

In a final meeting with the Seyboth Alia Al Blair staff, prior my departure the above points were raised in general discussion. Staff were asked to comment on any of the above points. The discussion that followed was that the long terminal perimeter was satisfactory. It was noted in the discussion that conditions at the terminal remain difficult, due to the lack of available water and food supplies, as well as the general living conditions and isolation of the terminal.

My thanks to Jim-Erik Simonsen, Rogaric DeSouza, Danny Skippen, Heidi Luutmaa, Steggy Akshay and Hanna O'Brien for their kind hospitality and co-operation.

Richard Barnes
27/08/02
Bangalore

- Observations as Office Procedures.
- Notice boards are well utilized and accurate for easy reference as required.
- Team back comments of lack of historic availability of ERP systems which is now being addressed. It was discussed to have a CD burner installed with the new computer unit for archiving reports for report back up purposes, which will become an integral part of the report procedure.
- Procedure for removal of vehicle fleet to Bangalore will be implemented.

Review of documentation produced and kept on file per loading includes the following:

- Ship Loading Report, Hard Copy File Report.
- Seyboth/ Alia Al Blair Documents
- Ship Documents (Bills of Lading, Certificate of Origin, etc.)
- Goods & Weight Calculations for Bills of Lading. (Total & B/L split)
- UN Letter of Credit. (Shipment details).
- UN Notification Letter.
- UN Letter - VEF.
- Seyboth Report Documents;
- Loading Summary Report.
- UN Notification Letter.
- UN Letter - VEF.
- Vessel Experience Report (VEER).
- UN Letter - VEF.
- Master Report, (Uncompressed).
- Seyboth Field Reports.
- Vessel's Measurement Report.
- Vessel's Time Sheet.
- Business Report - UN/COI. (Handwritten Reference copy only)
- Business Report - UN/COI. (Handwritten Reference copy only).
- Business Report - Diesel Oil. (Handwritten Reference copy only).
- Ship Documents (Bills of Lading, Certificate of Origin, etc.)
- Ship Documents (Bills of Lading, Certificate of Origin, etc.)
- Ship Experience Factor Log.
- Ship's Personnel Data. Including Ship's Cargo Truck Operations.
- Ship's Cargo Truck Operations (Computer Database).
- Optional Documents.
- Ship's Cargo Truck Operations Report. (In recent draft/flight phase).
- Ship's Crew List.

Summary comment.

In contrast to the previous visit and reports, where specific issues required addressing, a more general overview of the team's activities, reporting and conditions was made.

Since the previous visit, 6 copies of AHT Chapter 17.1 and 17.2 have been provided to Miss Al Blair.

General observations indicated that all necessary reporting requirements are covered, though a number of the specific issues raised in the previous report remain necessary to highlight as concerns particularly in view of the staff isolation, where staff not associated with an inquiry may need to report

I would recommend this is done before the end of this year.

C G Bree
August 31st, 2002

- > Not immediately necessary, and subject to what happens to SRS system under review by management.
- > Room costs for food/recommendation.
- > Air conditioning in laboratory.
- > Discussed above.
- Uniform
 - > Discussed with team, uniform to be worn when working and on-call in terminal.
 - > As staff are mainly resident on the terminal, reasonable dress code is to be observed within the terminal. The uniform will be provided by management. The uniform will be made available to staff who do not choose to wear T-shirts and tie-dies and are not represented (whereas the staff does not mean we should follow their poor example).
- Safety:
 - > Medical kit are considered superfluous, there is a well-equipped hospital on the Base terminal available to our staff.
 - > Fire equipment can only be supplied by Base.

BOTAS MANAGEMENT:

On 28/08/02 I had an appointment to meet with the new manager, Mr Peter Ashmore, (I was accompanied to his office by Mr Adam Webb (GM, farm manager), Ben Mr Webb (Business JTP chief engineer) and then introduced to Mr Alan Eddis (General GM, and technical manager) who advised Mr Ashmore had gone on holiday. No apologies were offered.

Mr Eddis speaks fluently in English, and was most obviously not been pleased at being interrupted. A Base team member was introduced to me as a manager. We discussed:

- > The current situation of the Base, and my appointment to my duties. (This, not unexpectedly, did not translate and will need to be followed up by the team leader).
- > Hearing Eddis state system "nearly ready" he was on Bill of Lading calculations, I reminded him that the system was not ready for use, and any change from the present system would have to be discussed before finalisation was, and any change from the present system would have to be discussed and approved by the 461 Committee. He was not impressed.
- > The current situation of the Base, and my appointment to my duties. (This, not unexpectedly, did not translate and will need to be followed up by the team leader).
- > Additionally, he stated he is only carrying out instructions received from Ankara.

As noted by PE, and fortified by above, the attitude of the Base management and staff seems to be hostile towards the Soyuz team, and is certainly interpreted as such by our people, who nevertheless try as far as possible to ignore the perceived injustices.

SOMG:

Met with Mr Sabin (ex NOC), Mr Zia and Mr Jial all of whom I know from SOMG, Baghdad and from previous visits to the North.

- > Their major concern is with the retroactive pricing and the (apparent) effect on sales.
- > They are currently working on the pricing of the Soyuz team.
- > They would like to know what permission will be given to use Odeh Al-Amyry; interesting discussion ensued.

CONCLUSION:

I will report wider aspects cover on a number of the issues that I have discussed locally with CJIP, Sord and the team.

Certainly PE's recommendation that regular visits be made by management should be acted on. In the response received I find an air of complacency has developed in the Cyprian operation. I have noted this opinion to CJIP Sord who, out of loyalty to his team leader, deigns to comment further than to say that the team is doing well. It is my opinion that the team is doing well, but that the team will state the same to Hub at Basle. Only a report will can ascertain whether things have improved.

MINA AL-BALF A0017
 DEC 16 2001

From: "Richard Barner" <richard_barner@saybolt.com> on 05/12/2004 07:52 PM
 To: "Graham Bent" <gbent_bent@saybolt.com>
 Subject: MAS Reports

Dear Graham,
 Please find attached 2 most recent reports from MAB. Easier ones are only in hard copy. My complaint does not go into that far.
 Mine regards,
 Richard

SAYBOLT - FAST TO THE POINT.
 If you are satisfied with our services do call others. If you are NOT
 satisfied, please contact our customer service department at
 http://www.saybolt.com/complaint.nsf/

ANY INFORMATION CONTAINED HEREIN IS UNCLASSIFIED AND IS BEING RELEASED IN FULL ACCORDANCE WITH THE NATIONAL ARCHIVES RELEASE AUTHORITY AND IS NOT TO BE REPRODUCED OR TRANSMITTED IN ANY FORM OR BY ANY MEANS, ELECTRONIC OR MECHANICAL, INCLUDING PHOTOCOPYING, RECORDING, OR BY ANY INFORMATION STORAGE AND RETRIEVAL SYSTEM, WITHOUT PERMISSION IN WRITING FROM THE NATIONAL ARCHIVES. ALL RIGHTS ARE RESERVED. FOR MORE INFORMATION, CONTACT THE NATIONAL ARCHIVES AT (301) 837-2000.

FROM: "Richard Barner" <richard_barner@saybolt.com>
 TO: "Graham Bent" <gbent_bent@saybolt.com>
 SUBJECT: MAS Reports
 DATE: Fri, 12 Dec 2001 12:43:15 -0500
 MIME-Version: 1.0
 X-MSMail-Priority: Normal
 X-Mailer: Microsoft Outlook Express 5.00.2919.6600
 Content-Type: multipart/alternative;
 boundary="*****_NextPart_000_01C89A1D_0F6B8320"

Saybolt UN Insp. Mina Al Balf.

Report 19.12.01.

Following Report based on observations from field trip to Mina Al Balf, December 16th to 18th, 2001.

General Observations, Support Facilities Areas.
 It was impressive to see the improvements to Saybolt staff common areas, meeting the standard of accommodation facilities in the Kitchen and Dry room areas.
 The office space is also better utilized allowing for more workspace. All these areas were found tidy and well organized.
 Whilst the dryroom offers good space for the current team of 6 staff, the kitchen/dining area remains cramped for this number. The office space and two staff cabins are without heating. The dryroom, accommodating a currently one of other.

General Accommodation Areas.
 Terminal facilities remain adequate though in poor condition, with continuing concerns over safety facilities and procedures. The 2 "RO" units currently supply sufficient water, though the quality can be poor in appearance, likely due to lack of filtering of the storage tank. Hot water supply is inadequate, with little available over the period of rain, Dec 16th to 17th.

The general standard of housekeeping in the terminal has improved with recent painting of internal and external accommodation areas. The general level of cleanliness in the accommodation areas has improved. Also staff food storage areas remain a concern due to poor condition of surfaces and cooling equipment, fresh vegetables and other perishables are only represented on a weekly basis which leaves little food of any quality available in the latter part of the week.

Transportation.
 Access to the terminal is still provided by tug boat, often with a mid trip boat change. This remains an unreliable procedure due to restrictions of tide vs. bag depth requirements. Bearing the tug boats remain dangerous, with no gangway access at any point of transfer. (Particularly so in bad weather conditions).

Terminal observations.
 Walkways remain deceptively slippery due to constant film of hydrocarbon in evidence. Areas around the loading areas are additionally hazardous from both hydraulic and credit oil spills. High humidity in the summer and rain in the winter months compound this danger.

Ground housekeeping showed an improvement, though sections of damaged machinery remain on walkways, fire extinguishers were noted in poor condition and without proper fortnightly servicing.
 The details for the escape boats are in the process of being 'fitted' outside the accommodation area, though

5024037

5024036

Project - Saybolt UN Ceyhan
~~Debriefing report~~
CONFIDENTIAL

Dear Graham,

Rather than spend too much time on expensive phone calls I think it may be more expedient to write you some de-briefing notes first so that we have something to refer to when we speak. By so doing you will also have some guidelines to refer to during your visit.

1) CMS As already fully described in recent messages. Both were in a very unsafe condition and not properly cleaned or taken care of. Bodywork damage can be seen on them as evidence from minor accidents.
In addition 14 YG 742 had not been fitted with a flame arrester to the end of the exhaust pipe. This is a local Bolas safety regulation; the Team Leader had been advised by letter from Bolas Management on 11 Nov 2001 (No. 11028) to do so.
Action Taken
Renovels and repairs carried out to bring carp back to a safe and roadworthy condition (see recent messages already sent) ✓
Flame arrestor fitted ✓
Carp cleaned and repaired ✓
Car cleaning routine established - weekly ✓
Saybolt Company "Logos" stuck on the car for clear representation and identification purposes. ✓

2) Office Exercise and Jamming. In an attempt to clean up and de-briefable office. The carpet was stained, walls were generally dirty.
All four office chairs were broken and in poor condition.
Walls are marked. The office Notice board was full of out of date notices.
On the doors were inconvert Saybolt Logos and signs that dated back to 1997.
Action Taken
The carpet was moved immediately to the TV lounge area and out of the office.
The photocopier that was in the lounge area was brought back into the office.
Floors carpet cleaned and scrubbed twice. Unfortunately not all the stains and bums could be removed.
Doors were cleaned and marked.
Alternative
A cleaning routine has been established with the contract cleaning staff.
There is still a lot of room for improvement although to achieve the desired effect, a complete redecoration and refitment would be required.
A request by letter has been made to Bolas management for office refurbishment. ✓

3) Office Tools. There are two desktop computers in the office and one "notebook" kept as a spare.
Both computers were very dirty on the outside and festooned with old notes and bits on sticky tape. The keyboards were really dirty and full of tobacco bits and cigarette

23/002 09:42 Page 1 of 5 pages Author: P. Edwards

5024054



SAYBOLT NO. 07 at
SAYBOLT/REG/COMM/1
cc: Saybolt/REG/COMM/1
06031988.0737794
Subject: Station Review - Ceyhan.

Date : August 20, 1998
To : Mr Graham Brett
cc: Mr Graham Brett
; Team Leader, Mr Heinz Schunke, Saybolt UN, Ceyhan.
Subject : Station Review - Saybolt UN, CEYHAN

Dear Peter,
Between August 17 and August 21 I visited Saybolt UN, in Ceyhan.
The following is the report of my station visit. I was shorted.

Exact shipments:
Marine Vessels:

Shipments are mainly loading programme going on at this present time. *Handwritten: Heavy*
Average at least 1 ship per day is being loaded and at least one ship *Handwritten: 10000*
Upon my arrival at Ceyhan port on August 18 there were three ships *Handwritten: 10000*
in port. All loading is done by gravity, no pumps are required. *Handwritten: 10000*

Our team is carrying out full inspections on each ship. Shore tanks are also measured before and after use in order to have a comparison back to shore tanks. Experience Factor applied when applicable. This method is in accordance with the agreement made between the UN and with Bolas.

It was noted that very little measurement or Bill of Lading calculation was carried out on board the ships. *Handwritten: 10000*
Official papers are being passed in any shape or form between Saybolt UN and the Terminal or with Saybolt UN and Bolas.

Although this is contrary to the terms as laid out in the contract with Bolas, this is not the case. At the present time there is simply not the smooth and efficiently. At the present time there is simply not the procedures to determine Bill of Lading quantities. *Handwritten: 10000*
The terminal operations manager states that in the future it may be necessary to use a more accurate method of measuring quantities. *Handwritten: 10000*
Internationally recognized measuring procedures.

Only one UN Monitor is in attendance on board the ship at the end of loading. Ship's tank readings are not being double checked by shore tanks. This is contrary to what has already been requested by Bolas.

Transfer to Turkish Tank (Mitsubishi) *Handwritten: 10000*

All tanks on the location of Ceyhan (13 off) belong to Iraq, Just Turkey which feed the Mizkhal refinery. *Handwritten: 10000*
Mitsubishi transfer about 10 times a month. The quantities reported quantities are determined from shore tank measurements carried out on

Code of conduct:
 With the present UN Team on the terminal the Code of Conduct has been amended to include the following:
 1. All staff are to be on duty during the working day and when Staff are attending ships. There is no evidence of any person on the terminal being upset with our staff's conduct, in fact quite the opposite.
 Conditions:
 1. Living conditions are reasonable. All staff live in a local type of building on the terminal. The building is over ten years old, each room is approximately 100 sq. meters. It is noted that furniture and carpets look old although in a reasonable state of repair.
 2. All meals are consumed on the terminal at a special restaurant in a separate building. Meals served are reasonable although the service can be improved.
 3. The office space is in a separate building which is together with the Turkish Operations staff, the Pilots and SOMO.
 4. For recreation there is a small club which also serves various alcoholic drinks. The beach has its own staff for safety and cleaning. It is kept open to all installation staff and their families.
 5. Installation staff live in various types of accommodation. All over the terminal there are a total of about 500 men, women and children live in the Terminal.
 Housekeeping:
 1. The terminal is cleaned daily. There is also a laundry service which is not at all reliable, most of the UN staff were hand washing their own laundry except for items that required ironing, this service could be improved considerably.
 2. Restaurants and a canteen is not to be attended. Office menu items are prepared by the staff and the staff can speak a word of English which alleviates the problem.
 3. I have suggested that the Team Leader makes sure that all complaints are made known to the local Cacon Team manager and to ensure that he explains everything to the Terminal management. Before he pays any bills.
 4. It appears that there are no copies of invoices for payment of accommodation, meals etc., with the Team Leader. All bills are in Turkish which the Cacon Manager interprets to his own advantage. The Cacon staff have been advised to forward their own invoice to Sypsof International in Holland. There is no copy whatever on the terminal for reference or cross checking.
 5. I suggest that in order that a better contact is maintained, a list of receipts should be in the Team Leader's possession for reference.
 6. The Terminal Management should be made more aware that the Team Leader is responsible for Team welfare and that Cacon is paying the UN Team's bills. Cacon may even be thinking that Cacon is paying the UN Team's bills

the Ceyhan Tanks only.
 measured by the Caltex Brett Inspection Company.
 Import from Iraq:
 1. A total reception of between 900,000 and 1,000,000 barrels per day to Ceyhan Tanks.
 2. The amount of oil in the tanks being filled and ships.
 3. The amount of oil in the tanks being filled and ships.
 Monitoring the amount imported from Iraq is carried out by manual inspection of tanks by the UN Team members.
 On some occasions, due to the present demand for exporting the oil much more quickly than before, it can be seen that Terminal Operators do their best to comply with this requirement.
 Filing Systems:
 1. All day to day messages and correspondence are filed.
 2. Files are kept with regards to the amount of oil imported and exported daily, weekly, and monthly comparisons.
 3. All SIP reports are filed at the beginning of the month for OIL Programme have been filed.
 SIP Reports:
 1. A full SIP report is completed for each shipment (SIP Code Version).
 2. All day to day messages and correspondence are filed.
 3. Files are kept with regards to the amount of oil imported and exported daily, weekly, and monthly comparisons.
 4. All SIP reports are filed at the beginning of the month for OIL Programme have been filed.
 Investigation reveals that the ship reports are calculated in work. The amount of oil in the tanks being filled and ships.
 All UN staff present were fully experienced and conversant with the SIP Programme.
 Terminal Relations:
 1. The terminal is very good and a regular exchange of information takes place.
 2. Perhaps the greatest barrier that exists is language. Amongst the Turkish staff there are very few who can understand or speak the English language. This can cause minor problems, particularly at the local communication level with the Pilots who also act as the loading masters. All the Pilots speak English and have a good relationship with Sypsof UN. They do however sometimes forget that this has caused misunderstandings when information and documents are requested which we are not at liberty to release to them.
 SOMO Relations:
 1. Relationship with SOMO and the Iraq North Oil Company staff remains extremely good. Once again they are relying on the UN Team to solve our situation is clarified to them.

There is no notes or procedures in place with regards to a relieving Team Leader. Full reliance has been placed simply upon a hand over since no record of my backup in writing. This is not a good procedure since my relief will be dependent upon the laboratory and equipment inventory should be checked and signed over in writing to the succeeding Team Leader.

The Laboratory Inventory should also be checked and signed over each time the laboratory person is changed.

By implementing the above a better continuity can be maintained and controlled.

Conclusion
I feel that my visit was well justified useful. I would now like to review the station condition and to help assist familiar with everything that is going on.

Action items:

- 1) Each SIP alignment report to be copied to diastets.
- 2) Action : Team Leader
3) Action : Team Leader and Computer Department.
4) Action : Team Leader and Computer Department.
5) Action : Team Leader
6) Action : Team Leader and Computer Department.
7) Action : Team Leader and Computer Department.
8) Order following equipment.
9) Inventory of all Office and Inspection equipment and consumable whenever the Team Leader is changed and whenever the Team Leader is changed.
10) Inventory of all Laboratory Equipment and consumable to be made and kept up to date. To be checked and signed over whenever the Team Leader is changed and whenever the Team Leader is changed.
11) Prepare handing over notes. Start a proper handing over procedure contract number.
12) Operating manuals for all equipment to be checked if available in English language of the station. User manuals as necessary and kept them in the Office for future reference.

out of their own pocket and that they are responsible.
Computers:
It is noted that both computers originally supplied to Cayman in 1986 as the disk operating system. This is still in use. Any Team member assigned before he can work. I am familiarising myself with a different system before he can work.

The contents and operation of both computers were investigated. The Team Leader's computer had problems with the SIP programme, these were investigated and corrected. It was found that the address book was well out of date. The Team Leader's computer had problems with the SIP programme, these were investigated and corrected. It was found that the address book was well out of date.

On the computer designated for the Monitor's use there are larger and smaller programmes. It was found that the address book was well out of date. The Team Leader's computer had problems with the SIP programme, these were investigated and corrected. It was found that the address book was well out of date.

It was also noted that the Team Leader's computer had problems with the SIP programme, these were investigated and corrected. It was found that the address book was well out of date. The Team Leader's computer had problems with the SIP programme, these were investigated and corrected. It was found that the address book was well out of date.

With regards to copies of the original programme, none exist on site. I would suggest that a full back up of the Team Leader's computer is made once a month and that full standby computer programme are supplied. This computer needs urgent investigation and correction before further damage is done.

Equipment:
The equipment is in constant use by the team every day. There are insufficient spares on site. To my mind minimum required is one complete MC plus two spare tapes.

Recently a replacement MC was ordered from Holland and sent by DHL clearance. On August 21 it was still with DHL in Turkey awaiting Customs clearance.

Delays such as above only highlights the need for spares to be on site. I would suggest that an "AVTERR" thermoprobe is kept on site as a back up in case the "AVTERR" thermoprobe is broken down. A comprehensive inventory of all equipment should be kept in the laboratory. The good order and reference of each Team Leader.

Handing Over to relieving Team Leaders.

note book :- work, need for some files

40

Project - Saybolt UN, Ceyhan

~~De-Inflection report~~

CONFIDENTIAL

with even to touch the keys fell "sticky". The Team Leaders' computer keyboard was faulty and with broken keys and spacebar. This was replaced with a new keyboard. There was only one printer in service, which was actually the Fax/Scanner/Printer system in the event of a breakdown. There was no back up to this system in the event of a breakdown. The cash locked up safely. Apparently it appears there was no place to keep the cash. The Team Leader has been either carrying the cash with him or keeping the cash in his room. For computer back-ups, sole reliance was maintained on keeping up a floppy disk system. This method was both time-consuming and somewhat unreliable.

Action Taken.
 Everything was given a good clean. A serviceable gear replaced one keyboard. Another inkjet printer was brought for a cost of about £78.00. This printer is also compatible with the ink cartridges for the existing system, so duplication is unnecessary when purchasing replacement cartridges. A metal cash box with both a key and a lock, made of brass, for about £20. All cash is now kept locked in the safe. The Team Leaders draw in the office. The A file apparatus was supplied from Rotterdam Office. This system is excellent, fast and user friendly. Archive zip-disks have been made. Regular back-up zip disks are being kept updated.

4) **Office Administration.** Very tedious. The "Archives" consisted of old ships reports which were kept with aging binding and then stored in no apparent order in the filing cabinet. The same went for all the old task history files and report files. To find any single file was a nightmare, because nothing was clearly marked and it was all mixed up.

Daily filing was not so bad. But finding instructions, bills or even claims was very unpleasant. The "Library of Dutch Paperback" was kept in the Team Leaders draw for some reason.

You know already about the "VEF Letter" being issued to each shipmaster. Awaiting further instructions.

5) **Computer Filing** was poor. Most documents and archives in the Team Leaders' computer (for instance "HUJIB") were in "Word" format. Very neat, but of little use to anybody, except for reading. The filing system adopted was unwieldy and inflexible.

The Monitors' computer (monomonitor "GUST") was much better, sensible use of Excel format files and spreadsheets and here are some excellent "home made" reports and daily use to assist in the work. Filing is logical and flexible and can be used in a variety of ways.

Handwritten notes and signatures at the top of the page.

Handwritten notes and signatures at the bottom of the page.

Action : Team Leader and Rotterdam Office.
 13) Start the double checking procedure by another UN monitor of ship's collaboration tables against villages measured. Please refer to my message and request sent during 1997.
 Paul Edwards, August 30, 1998.

NOTE TO FILE :- work, need for three files
 40

Project - Saybolt UN, Ceylan

CONFIDENTIAL

Background Report

ash, even to touch the keys for "switch" of the Team Leaders' computer keyboard was faulty and with broken keys and speaker.
 There was only one printer in service, which was actually the Fax/Scanner/Printer. This was connected by a switchbox to either computer. There was no back up to this system in the event of a breakdown.
 There was no plan to keep the office cash locked up safely. Apparently it appears that each cashier has been either carrying the cash with him or keeping the cash in his room.
 For computer back-ups, sole reliance was maintained on keeping up a floppy disk system. This method was both time-consuming and somewhat unreliable.
 Backup tapes were given a back-up. A new visible spare replaced one keyboard.
 Keyboards were replaced in "Classified" mode.
 Another night printer was bought for a cost of about \$78.00. This printer is also compatible with the ink cartridges for the existing system, so duplication is unnecessary when purchasing replacement cartridges.
 A neat cash box with both a key and a lock code was bought for about \$20. All cash is now kept in the Team Leaders draw in the office. The office is always kept locked when not in use.
 A zip file apparatus was supplied from Rotterdam Office. This system is excellent, fast and user friendly. Archive zip-disks have been made. Regular back-up zip disks are being kept updated.

4) Office Administration. New machines. The "archives" consisted of old ships reports bundled up together with strong binding. These were kept in a large filing cabinet. The same went for all the old task history files and reports. To find any single file was a nightmare, because nothing was clearly marked and it was all mixed up.
 Daily filing was not so bad. But finding instructions, bills or even claims was very haphazard. The "Library of Dutch Petroleum" was kept in the Team Leaders draw for some reason.

You know already about the "VEF Letter" being issued to each shipmaster. Awaiting further instructions.

5) Computer filing was poor. Most documents and archives in the Team Leaders' computer (non-machinable "HUB") were in "Word" format. Very neat, but of little use to anybody, except for reading. The filing system adopted was unwieldy and inflexible.

The Monitor's computer (non-machinable "GLIS") was much better, sensible use of Excel format files had been made and there was a variety of programs in daily use to assist in the work. Filing in logical and flexible and can be used in a variety of ways.

23/8/02 09:42

Page 2 of 3 pages

Author: P Edwards

5024082

CONFIDENTIAL

15

To: [Handwritten names]
 From: [Handwritten name]
 Date: 24 Oct 1997
 Subject: [Handwritten text]
 [Handwritten signature]

TO THE ATTORNEY GENERAL
 20, 21 & 22, 1997
 [Handwritten text]
 [Handwritten signature]

1998

5024213

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - IN SECURITY COUNCIL - 201

... and conditions of contract which require the contractor to furnish such and such...

... the responsibility for the... the responsibility for the... the responsibility for the...

... the responsibility for the... the responsibility for the... the responsibility for the...

... the responsibility for the... the responsibility for the... the responsibility for the...

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - 201

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - 201

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - 201

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - 201

S024215

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - IN SECURITY COUNCIL - 201

(S)

... the responsibility for the... the responsibility for the... the responsibility for the...

... the responsibility for the... the responsibility for the... the responsibility for the...

... the responsibility for the... the responsibility for the... the responsibility for the...

... the responsibility for the... the responsibility for the... the responsibility for the...

... the responsibility for the... the responsibility for the... the responsibility for the...

... the responsibility for the... the responsibility for the... the responsibility for the...

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - 201

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - 201

SECRET - SECURITY INFORMATION - SECURITY COUNCIL - 201

S024214



Saybolt International B.V. - Rotterdam

Telex

For number receiver : 00 1212 903 1510
To : United Nations Headquarters, New York
Attention : Mr. Steve Avellan
From : Saybolt International B.V.
Subject : UN Audit reply
Date : October 27, 1997

Dear Steve,

In reply to your fax dated 24 October 1997, we would like to comment as follows:

Which of the two figures is closer to the actual quantity?

In view of the non-functional taring system, it is, as you know our procedure to measure:

- 1. The storage tanks before and after loading of a cargo (for reference and check).
2. The vessel is measured after loading, whereas the vessel's measurements are adjusted by Vessels Experience Factor (VEF) and On Board Quantities (OBQ).

The measurements described under point 1. serve as reference and check, and the figures are received, and archived, against possible future requirement but owing to the relatively long time span after the measurement, they are not used for the purpose of the present dispute. It is considered the most accurate determination, in the absence of accurate taring facilities, for monitoring purposes.

The difference of 26.451 barrels GSY can in our opinion be attributed to the loading of the 7v. "Hercules" (the difference of 26.451 barrels GSY is the difference between the two figures) which was made to the deck village points to allow use of BARGE-type monitoring equipment. The vessel's calibration charts, as presented, were not adjusted for this structural alteration.

On completion of loading there was an apparent difference between the vessel's figure (17y reference to Vessels Experience Factor) and the figure, as follows:
Shore 986,142 barrels
Vessel 959,691 barrels
Which equates to 28,475 barrels or 2.84 %.

How has the difference been adjusted?

After consultations with the UN Oil overvoers and local SOMO representative it was decided not to deviate from the procedure and that on establishment of the output of the vessel an adjustment with the client would be made. (Either by volume on a future billing, or financially.)



United Nations HQ, New York
Page 22

This adjustment is in view of the difference (26.451 barrels) over the entire period in our opinion justified.

The adjustment has however as far as we know not yet been made.

Did not the loading differ widely?

Obviously the figures are, as a rule and involved in the measurements that are done for reference/check by Saybolt in connection with their work as UN observers. Moreover the bill of lading is based on the vessel's measurements adjusted by Vessel's Experience Factor (VEF) and On Board Quantities (OBQ).

However in the case of 7v. "Hercules" the cargo has claimed instead, as they noticed consistent with the difference observed in Rotterdam, an output loss at the discharge port.

Why difference arose?

Explanation is given earlier.

Could Saybolt/ you generated this difference?

Separate from the acceptable difference which will always occur, in view of the relatively long time span since the figures were taken, the vessel's measurements were fully calibrated or measurement error's with temperature correction. In the case of 7v. "Hercules" the difference in the case of 7v. "Hercules" exceeded the acceptable difference and it was brought to the attention of all parties concerned. Subsequently it was decided not to deviate from the procedure.

It is therefore that Saybolt can not be blamed for this difference.

Steve, I trust this answers the queries, please contact me in case you need some clarification.

Best regards,

[Handwritten signature]

Peter Boks

UN 11/14/98 FAX 113 843 8877 IN OFFICE DIR
 11/14/98 11:45 FAX 113 843 8877 IN OFFICE DIR
 11/14/98 11:45 FAX 113 843 8877 IN OFFICE DIR

UN 11/14/98
 11/14/98 11:45 FAX 113 843 8877
 11/14/98 11:45 FAX 113 843 8877

UN BOARD OF AUDITORS
 AUDIT OBSERVATIONS No. 3
 UN SECRETARIAT
 EXECUTIVE OFFICE
 OFFICE OF THE HEAD PROGRAMME
 FROM: E. MANNING SINCE
 TEAM LEADER
 UN ACCOUNT AUDIT TEAM
 UN 11/14/98
 Date: 11/14/98
 From: 11/14/98

UNITED NATIONS NATIONS SERIES
 OFFICE OF THE HEAD PROGRAMME
 PROGRAMME

To: Mr. Peter Blich, Secretary General, UN Secretariat, 3000 AD Business, Netherlands	Date: 31.10.1998 (GDP)
From: Stephen J. Scher, Chief of Office/Special Assistant to the Executive Director	Date: + 1.11.1998 Time: + 1.11.1998 6:00
Subject: Lack of communication between the two secretariats	Number of pages (including cover page): 2

These find attached copies of three memoranda, dated 10 November, 14 November and 16 November 1998 from the auditors requesting information on the work of the audit in line. In the two memoranda dated 10 November and 14 November, the auditors inquire about the lack of communication between the two secretariats in the working facilities. It would be appreciated if you could inform me as to what the final outcome was in this matter, and the reaction of the Government of Iraq. It is our understanding that it is the responsibility of the Government to ensure that such working devices are in place. On the question of facilities in Miss Al-Sabir, I have received Christian Bort's e-mail and will make this available to the auditors.

In the memo dated 14 November, the auditors raise the issue of the incident in which Report was providing services to both the United Nations and a layer of Iraq oil. The auditors would appreciate if you could inform me as to what the final outcome was in this matter. It would be appreciated if you could inform me as to what the final outcome was in this matter.

In view of the fact that I will leave the auditors on Friday, I would appreciate it if you could provide me with the information by Thursday 26 November 1998. The auditors would appreciate if you have any questions concerning this matter please contact my mobile phone (017) 42-2246.

Your assistance in this matter is very much appreciated.
 Name: Stephen J. Scher, UN 11/14/98 + 113 843 8877 + 113 843 8877 + 113 843 8877 + 113 843 8877

Stephen J. Scher

11-17-59 MAIL ROOM 415 411 1001 1001 OFFICE 314

Office of the
Auditing
NOV 17 1959

UN BOARD OF AUDITORS
AUDIT OBSERVATIONS NO. 18

TO: MR. ROBERT TOLLANI
EXECUTIVE OFFICER
OFFICE OF TBAQ PROGRAMS

FROM: K. MARSH KINKE
TEAM LEADER
TEAM NO. 4-501
ROOM NO. 400

DATE: 16.11.1959
SUBJECT: Instructions in OB Report.

- In the said report, the Members have indicated that the Storage Units have been level indicators (automatic tank gauging system) but it is unreliable and is not acceptable for indication of vessel's liquid quantities, or for operation authorized by the ITC from Iraq. All these measurements are therefore effected by hand measurement.
- In the same report, it is stated that though the meter services were provided at the commencement of the "Oil for Peace" programme, the Metering system is still not functioning fully, hampering the smooth running of the programme.

Remedial off the programme was finally communicated within two days

Necessary steps have been taken being considered to improve facilities in the following points in the extension of generation of revenue by sale of oil in the amount recorded by SCR 1942 and related transactions. Since the Oil for Peace Programme is intended for carrying into the Yth 6-monthly phase, adequate attention is required to be directed to the issue of reliability of the information. Mr. Saybakh is the agency for monitoring of all aspects and reports for the Programme.

1. It is noted that letter dated 23 May 1959 addressed to Directorate Division, TBAQ that there is a lack of automatic measuring devices in Ceyhan as a result of which all tanks need to be measured manually. Mr. Saybakh has arranged that manual measuring of all tanks concerned by the lack of automatic measuring devices in Ceyhan is a time-consuming activity. At the end of Phase III the OIL Movement in Iraq is reported to the Security Council for the week ended 29 May 1959, have reached about 92 per cent of all Billings have been made at Ceyhan at Turkey. This implies that there has been delay caused in 55 per cent of Phase III Billings simply on account of lack of automatic measuring devices. Owing to this delay, the world

S024221

S104770

... 01/14/84 ...

... 01/14/84 ...

... the mean that 50 per cent of all Phase III things have been made monthly, causing ...

1. In Appendix I to the above - contained letter, Mr. Spychal has highlighted ...

*regular
6/21/84
Spychal
Baker*

- A. Specifically with regard to facilities, Mr. Spychal has mentioned that:
(O)Cryhan A. Measurement
Here the average tank level automatic tank gauging system but it is ...

... the commencement of the "Oil for Food" Programme.

B. Loading Facilities
The ... the sampling apparatus is not efficient and needs ...

(U) Miss A. Ghannem

> The ... the ... the ...

> The ... the ... the ...

(U) Baker

A. Ghannem
It is the ... the ... the ...

B. Oil Field Calibration Monitoring System
The ... the ... the ...

S024273

S024222

SECRET

SECRET

SECRET

SECRET

SECRET

Meeting room. This situation, however continued till 20-5-68 when one hour was made available.

> In its report of 27-4-68 no Motor launch service was reported functional from Uman Qatr. Journey time was considerably extended and was far from satisfactory.

> As per report of 22 May 1968 the oil impurities picked out the power unit were causing several times a day and night. No generators were operating for an hour or more. Power was reported to have been restored only by Zangany generator. This was reported to be not a safe situation in the event of any incident of fire or breakdown there would have had no power to run machinery or supply illumination.

> In Min-A1-Bahr, the power situation was reported to be badly deteriorated in its report of 2-4-68. Numerous power out were reported every day and night for periods upto three hours. The main generators are reported to be operating only occasionally with the result that only Zangany generator was being used continuously which could be hardly a safe procedure.

3.1 Board recommends that necessary steps be taken to improve facilities in the meeting room in the interest of generation of revenue by sale of oil to the extent possible.

3. Board noted in connection with the vulnerability of infrastructure that a group of reports unaccompanied by two United Nations Oil Convoys visited Iraq from 12 to 12 March 1968 to observe the condition of the production and transportation facilities necessary for the export of petroleum and petroleum products. After physical inspection of the various facilities, an in situ observation and on the basis of information supplied by various Iraq Government Agencies and analysis of historical data, the group of experts had concluded in their report that without rapid and

- mechanically inclined from the pipeline flow.
- > The original telecommunication and data acquisition system (SCADA) have been destroyed and the operators are working blind with no pump/flowmeters data with respect to infrastructure pumping operation.
- > C. 62 Min-A1-Bahr, Check Oil Monitoring Station
- > The monitoring station is mechanically inclined (spiked up) from the main pipeline and is non-operational.

At the Iraq Oil Ref. Road Programme is underway in the final month of the fourth year. Board recommends that these problems be resolved expeditiously.

3. Board have observed from the Weekly reports sent by MA, Baghdad to Omeir that various operational difficulties persist despite the experience gained by the authorities implementing the Oil Ref Road Programme which commenced very work in December 1966. Some of these are detailed below:

> As per report of 5-12-1967 no 7000 tons were available at Min A1 - Bahr for loading of "ANDROS GEORGIOF". There was no improvement in Service launches and transportation. Transportation to Shara required at least 15 hours with one change of boat each time. Outgoing No 1 was reported to be under repair.

> As per report of 12-12-67 only one Meeting boat was available at Min A1 Bahr which too was stated to be unreliable. Also, transport within Shara was reported to be scarce. Tugboat was reported to be at sea enabling repairs and delivery of parts from Uman Qatr.

> In its report of 13-2-68 the inspectors indicated that no Meeting Boat was on Station at Min A1 - Bahr and were reported to be under repair. It was pointed out that for the last 3 Weeks morning was done without use of

S024225

S024224

MEMORANDUM FOR THE DIRECTOR, IN OFFICE OF THE DIRECTOR, FEDERAL BUREAU OF INVESTIGATION

Form with handwritten entries: Office of the Inspector General, NOV 15 1978, [initials]

UNION OF ADVERTISING AGENTS; ADVERTISING AGENT; TO: MR. NORTA TOLANT; FROM: MR. MARSHALL BERRY

DATE: 11/15/78

SUBJECT: CONTRACT FOR THE INVESTIGATION

It is noted that the "scope of work" in Contract entered with MFB Bayliss the Contractor was to provide independent investigation agents to achieve the objectives of the work as set forth in the contract. During the first phase, Bayliss had observed that MFB Bayliss had been working at the same time for the FBI and the target. In view of the results of the investigation and the fact that the target was working for the FBI and the target, the Administrator recommended that MFB Bayliss be terminated and that the contract be terminated.

As MFB Bayliss had agreed not to take the work to Bayliss's behalf and also to use the same firm as originally agreed, the contractor was required to fulfill the contract. It was noted that the target had been advised of the contract and that the target had agreed to the contract. The Administrator recommended that the contract be terminated and that the target be notified of the termination.

adequate investment in spare parts and repair of production units, as well as the development of a number of smaller fields, the gap between the existing decline and the projected investment in spare parts and production would grow wider for each month that financing was delayed. The recommendations made by in this Report of this Report Group, and the action taken thereon, may likely be used to assist.

It is requested that results of the Management may please be communicated within two days.

TO: [initials]

S024227

S024226

11-23-94 2:14 PM 213 843 917 CC 01P/02 018
 / 11-23-94 2:14 PM 213 843 917 CC 01P/02 018

11-23-94 2:14 PM 213 843 917 CC 01P/02 018

Improvements for working with also expand and clear some of reference, including a list of
 leads to be performed will be included in the new criteria. However, the criteria has
 been extended through 31 November 1998. As such recommendations on ground with
 appears to have been taken into of. Any specific reasons for this needs to be included in
 Audit.

11-23-94 2:14 PM 213 843 917 CC 01P/02 018
 / 11-23-94 2:14 PM 213 843 917 CC 01P/02 018

11-23-94 2:14 PM 213 843 917 CC 01P/02 018

THE BOARD OF ADDITONS
 AUDIT OBSERVATION REPORT
 FOR THE YEAR ENDED 31 MARCH 1998
 IN THE MATTER OF THE
 MANITOBA TELEVISION
 CORPORATION

88

Office of the Auditor General Manitoba		
- APR 12 1999		
APPROVED:	DATE:	BY:

The Board of Additions is pleased to have been included in the historical perspective of some
 of the activities of the Auditor General's Office in the past few years. It is an honor to
 have been included in the historical perspective of the Auditor General's Office.

The Board of Additions is pleased to have been included in the historical perspective of some
 of the activities of the Auditor General's Office in the past few years. It is an honor to
 have been included in the historical perspective of the Auditor General's Office.

The Board of Additions is pleased to have been included in the historical perspective of some
 of the activities of the Auditor General's Office in the past few years. It is an honor to
 have been included in the historical perspective of the Auditor General's Office.

COMMENTS ON THE AUDIT OF THE OIL INSPECTION SERVICES

As a result of the management of the oil inspection contract was conducted by OIGS from March through August 2001. A draft report (A/2906/2006), dated 21 August 2001, contains findings and recommendations, as well as a list of recommendations that were accepted or rejected. In the report, under cover of memorandum reference number A/D-7/121 (17530), of same date.

Following the Security Council resolution 986 (1995) and the MOU, Skybolt Eastern Hemisphere BV (Skybolt) was awarded Contract PTD/12/17/95 for the implementation of the services of 14 tankers on the Persian Gulf and Indian Ocean. The contract was for an initial term of 6 (six) months, with an option of renewal for up to three (3) successive periods of six (6) months, on the same terms and conditions. Contract PTD/12/17/95 was subsequently awarded several times to provide the same services. The contract was awarded to a group of oil companies. In June 2000, a second contract PTD/12/17/00-06, for the same services on the same terms and conditions, was awarded to a group of oil companies. Under the new contract, which is for one year, with an option of renewal for three (3) successive periods of six (6) months, Skybolt would provide 20 tankers on the Persian Gulf and Indian Ocean to monitor the oil exports and 6 for the open port oil inspection from 6 to 8, bringing the total number of tankers to 22.

The audit objective as stated in the draft report was, *inter alia*, to assess OIP's management of the contract. Comments on the findings and recommendations are included in the draft report. A review of the draft audit report, against the stated objectives of the audit, would have to take into consideration the context in which the contract was executed and administered.

Comments are not executed in a vacuum. As indicated above, the particular context in which the contract was executed is a sensitive region and managed in a politically sensitive environment. Any realistic assessment of the management of the contract would have to take into account these considerations. Yet, it would appear from the draft report of the contract which in turn influence the management of the contract. In the introductory paragraph of the Executive Summary, it is stated that OIP should have considered utilizing UN staff to perform the oil inspection services as an alternative to hiring a contractor, which would have resulted in substantial savings. This option by OIP in this regard would not have been consistent with the Security Council resolution

986(1995) and the Memorandum of Understanding between the Secretaries of the United Nations and the Government of Iraq on the Implementation of the Security Council resolution 986(1995) (MOU). Annex II, paragraph 4, of the MOU expressly provides for independent inspection against to monitor Iraq oil exports.

Very few weaknesses of the contract were undertaken in response to the requests of the Security Council and the Committee established by resolution 661 (1990) that required urgent action. Furthermore, the experience of the Government of Iraq, with Skybolt presented the United Nations with a considerable advantage, one that cannot be overestimated, and which rendered the mission's task much more expeditious and efficient.

The decision to manage the contract from OIP rather than UNOHCI was in order not to unduly or "replicate the latter's mandate. To the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharge its contractual responsibilities. It is noted, however, that responsibility for the contract was a common knowledge that oil exports are interrupted periodically. The contractor, who has a permit to issue, therefore occasionally employs more staff to cope with peak periods of work.

The auditors failed to spell themselves of vital considerations that would have been useful to them in their work. Thus, the audit objectives were carried out without a proper understanding of the background to the contract, the contract itself and its management.

Although the auditor undertook site visits to some of the locations where the contract was being implemented, they did not visit Al-Baker to witness first hand the very difficult conditions under which the independent inspection against operates. In addition, there was no communication between the auditors and OIP officials, nor with Skybolt (the contractor) headquarters that would have helped clarify for the auditors some of the contentious issues. An exit conditions might also have helped that can be taken.

Comments on specific audit findings and recommendations are provided hereunder:

A. Mis timing of invoice payments and financial matters:

Procedures have not been implemented to monitor invoice payments. Paragraph 8 of the draft report stated, *inter alia*, that the "number of inspectors, whether for oil or spare parts, is the only measurable parameter by which the UN authorized payment to the contractor. The contractor's management cannot be expected to support the monthly invoices submitted by the contractor."

The real parameter to measure the performance of the inspectors, whether for the export of oil or the monitoring of spare parts, are the detailed reports of all activities under Skybolt's contract. Contractual requirements that are not explicitly stated in the contract but are required. It should not be noted that through Amendment number 1 to Contract number PTD/CO/1400, the

4.

Overpayment of monthly invoices needs to be recovered

Paragraph 10 of the draft report stated that the contractor had overcharged by approximately \$70,000, on short and excess rationing of staff. Except for the 1999 invoice which was \$170,000, the contractor's invoices were not in line with the attendance records. The draft report also noted that the contractor only indicated the first 28 days of the month shown on the attendance record, and ignored the 29th, 30th and 31st day of the previous month, in determining the days of attendance. The other billing errors found were for December 2001, where Saybolt billed for 421 days for the month of December 1999, when there were only 31 days in the month. The contractor also billed for 1999, which was a wrong code was used on the attendance sheet, although this did not have a financial consequence.

Regarding the short rationing of staff, as the invoice (since 29 May 1999) were based on the attendance records, the contractor's invoices were not in line with the attendance records. Staff did not work on duty, as the invoice did not include any change for an absent Saybolt staff. As set out above, irrespective of the maximum allowed given parts inspectors, during the initial stages of this work the contractor only deployed sufficient staff to effectively carry out the requirements of the 561 Committee, as there is an obvious time delay in obtaining and processing of the data and reports. It would, thus, appear that the auditor did not differentiate between Saybolt's responsibilities.

Communication charges by the Contractor have been excessive

Paragraph 11 and 12 noted that the bulk provision of the contract include communication charges which amount to about 21 per cent of the total contract amount and that the Contractor did not provide for any requirement to justify the expenses incurred through the use of a satellite communication system (Satcom). The draft report also stated that the "UN did not consider alternative options such as using the UN (communication) system, which would have reduced the cost of the contract significantly, apart from being transparent in terms of identification of all calls including personal costs."

The auditor did not seem to take into consideration the geography of Iraq, the location of the sites where the independent inspection agents are stationed, the logistics that would have been involved in the use of a satellite communication system to the various locations and also the political environment.

It must be noted that time is essential and the independent inspection agents have to transmit their reports from the location where they are based, using communication facilities to the various locations in the field, to transmit data such as the subcontractor documentation for the audit. It should also be noted that "no-line" costs were recognized in the current contract, PPOCI 1400, resulting in substantial savings on communication costs.

OIP needs to recover personal phone calls made by the Contractor's staff

number of billings was increased from six to eight. Paragraph has the total number of inspectors as twenty. This error is significant as it influenced the subsequent findings and recommendations.

Paragraph 9(1) noted that "a review of 10 monthly invoices and supporting documents found 'deficiencies'. Among the deficiencies noted is irregularity of the attendance record which reflected "from arrival to departure hours". In the view of the auditor, payments should only be made for manning the location in Iraq and Turkey.

Contract number PTD/017/0065-06 (the initial contract) determined the number of inspectors required at particular locations in Iraq and Turkey, and Article 7.1 provides for full attendance complaints and satisfactory performance by the contractor. The contractor was to be paid for all inspectors under the contract, and is not being paid for the excess number of inspectors. It could be argued that the contractor was not being paid for the excess number of inspectors, but the contractor showed "irregular Attendance on Location, from arrival to departure".

The draft report also illustrates that the auditor do not have a good understanding of the contract date of the current contract. The invoice always covers the period between the 28th day of the previous month and the 29th day of the month the invoice is prepared. Thus, the invoice during the period 29 May 1999 to 28 June 2001. The auditor confused the billing mechanism, seemingly thinking that Saybolt's billing was based on contracted staff levels and not on staff on site. Also, on this matter, the auditor confused the contracted number of inspectors for all spare parts and equipment. This is right and set out as stated in paragraph 8 of the draft report.

There is a historical precedent in the preparation of invoices in line with the communication date of the current contract. The invoice always covers the period between the 28th day of the previous month and the 29th day of the month the invoice is prepared. Thus, the invoice during the period 29 May 1999 to 28 June 2001. The auditor confused the billing mechanism, seemingly thinking that Saybolt's billing was based on contracted staff levels and not on staff on site. Also, on this matter, the auditor confused the contracted number of inspectors for all spare parts and equipment. This is right and set out as stated in paragraph 8 of the draft report.

The lump sum payment method provided for in Contract PTD/017/0065-06 (the initial contract) was discontinued with effect from 28 May 1999 in the successor contract. Since June 1999, invoices have been accompanied by an attendance sheet.

-4-

Lilled Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices. Non-espionable equipment purchased by the Contractor had not been adequately accounted for.

Paragraph 20 stated that "the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment (the antenna, computers and software). We found that the equipment purchased by the UN did not have any of the above mentioned characteristics and there had been no periodic checks on these assets as required by UN financial rules".

Due to the political environment in which the contract is executed, it is not feasible to conduct physical inventory of the vehicles and equipment purchased by Saybolh under the 2.2% account, and does not necessarily wish to cause unnecessary friction with the Government of Iraq.

Charges for additional services provided by the Contractor have been excessive and unacceptably inflated.

Paragraphs 21 to 25 stated, *inter alia*, that OIP accepted one proposal from the contractor for additional services "without any effort to obtain additional documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc".

The auditors seem not to have a clear understanding of the nature of the work of OIP and the very generally well known fact that the UN Security Council has authorized OIP to purchase specific army vehicles (the UN Security Council resolution is S/RES/661 (1990)). The proposals referred to by the auditors relate to general services such as telephone, electricity, fuel, etc. The proposals by the contractor are "all-in", i.e., including all relevant personnel for technical activities and analysis, as well as for auxiliary services, such as support for the UN Security Council, the Government of Iraq and the UN. It is noted that the contractor and the Government of Iraq would also have had to agree to the presence of any contractor, and the Government's experience with Saybolh prevented the United Nations with a considerable advantage - one that cannot be overestimated - and rendered the intentions much more expeditious and effective.

It is also an erroneous assumption that OIP does not maintain comprehensive information to determine the "reasonableness" of proposals. OIP has always kept such information and has maintained on-going contact with professional societies and technical organizations, and has thus been able to discuss quickly with experts whether technical and financial proposals were reasonable.

Regarding the comments on the round-trip from Amman-Baghdad-Amman, it is contended that the charges were overstated. Consequently OIP is arranging a justification of the

S024235

-5-

Paragraph 14 stated that Saybolh's "normal policy is to allow each of its staff members five private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not admissible in the Contractor's view. Since the total communication cost is included in the one-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP".

The auditors seem to have confused the cost structure with the agreed billing procedure. As the contract is all-inclusive daily fee, the only mechanism for charging would be attendance on site of the contractor personnel and satisfactory performance of their duties.

The contract was awarded to Saybolh based on competitive tender and there is no evidence that alleged communication costs for private calls are charged to OIP. It must also be mentioned that the State Oil Marketing Organisation (SOMO) has waived the quite some time upon Saybolh's communication systems after the military action in 1998. All costs involved amounting to USD 6,000, per month were absorbed by the contractor (the fact).

However, the points raised in the audit report regarding the cost structure could be utilized in the negotiations for the next contract.

Accommodation and local transportation charges included in one-day billing rate have been excessive

Paragraphs 16 and 17 stated, *inter alia*, that at Zabho and Minabikhal, the Government of Iraq was not able to provide the Contractor's staff, and at Zabho, SOMO had also provided two cars for local transportation.

With regard to questions related to costs for accommodation, transportation, communications, etc., in Iraq, it is well known that these types of expenses to be reimbursed by the Government of Iraq. It is noted that the Contractor's proposals for special arrangements being made by the contractor, not just Saybolh, to ensure that these services, etc., would be provided.

Transporter costs provided for in the Contract have been charged

Paragraph 18 stated that "notwithstanding specific provisions in the Contract to the contrary, annexment number three provided for computer equipment for two spare parts inspectors at a cost of 17,000 US Dollars. In paragraph 19, it is stated that the Contractor had provided the equipment, as per its proposal in the Contract, but that the Government of Iraq had not paid for it. The Contractor's proposal was that the Government of Iraq should not pay for the equipment, but that the one-day rate provide for transportation costs of 2.55 per cent. In our opinion, adequate provision was made in the Contract for transportation and no justification was given for amending the Contract to provide additional transport. This arrangement was not transparent and appeared to double charge the UN for these costs".

To facilitate the execution of the contract, it was decided that Saybolh could purchase three vehicles and operate them independently and the vehicles would remain the property of the

S024234

-3-

inspectors are back in place before they can leave. To move inspectors in and out of Iraq on that kind of resumption would render the United Nations incapable of fulfilling its mandate in regard to monitoring of oil exports. The requirements of the Security Council and the Security Council Committee demand that a full time presence of inspectors be maintained in the oilfields of Iraq.

Need to separate the cost of Contractor's equipment from the non-duty fee structure

In paragraph 33 to 35, and the addendum corresponding recommendations, the report states that the OIP officials are not satisfied with the cost of the equipment. The report comments are too vague to constitute a valid finding. It is clear that the auditors did not take into consideration the ongoing maintenance, repair and replacement costs that are factored into the cost-out as well, when they speak of machine costs for equipment and recommended reimbursement by Skyplot.

Suitability of CV's of Contractor personnel have been ineffective

It would seem that the auditors did not understand the background of the issue of early resignations. It is originally assumed that the contractor would identify personnel. This idea was rejected because of the fact that the contractor would not be able to identify personnel. The report states that, "In one clearly made experienced and motivated individuals capable of working effectively in the sometimes, arduous conditions in Iraq."

It is also not correct that the CV's of contractor personnel are not reviewed. Whenever Skyplot provides a CV for a contractor personnel, it is reviewed by OIP and then forwarded to the OIL Overviews for their comments. OIP has at times questioned the selection of candidates for various reasons, including experience, language skills, and geographical distribution. This was all discussed during the daily contacts between Skyplot and OIP. The report states that, "The OIP has not been able to time following these discussions, and so there was no need for resignation by OIP."

In-house versus outsourcing of services

As was stated in the introductory comments, the Memorandum of Understanding between the Government of the United Nations and the Government of Iraq on the implementation of the Security Council resolution 986 (1995), Annex II, paragraph 4, provides that the "sale of petroleum and petroleum products originating in Iraq will be monitored by United Nations inspectors appointed by the Secretary-General of the United Nations to assist the OIL Overviews." The OIL Overviews are to be assisted by a team of inspectors. The inspection agents at the loading facilities at Cophan and Mira al-Bihar and, if the 661 Committee so decides, at the pipeline remaining stations at the Iraq-Turkey border, and would include quality and quantity verification. They would authorize the loading after they receive the information from the United Nations oil experts that the relevant contract has been approved, and report to the United Nations."

It would therefore not be consistent with the above quoted provisions were the OIP to replace the independent inspection agents with United Nations personnel. It should also be pointed

SCD/0137

-7-

overcharge. But again it should be noted that the auditors seem not to have taken into account the fact that Skyplot was able to provide experts immediately from their own ranks who were specialized in the areas necessary to undertake these missions, as well as having great technical familiarity with both Iraq and other countries in the region. And regarding the comments specifically on Paragraphs 24 and 25 on the reasonableness of the charges, it is essential to keep in mind that the contract was based on an "all-in" cost proposal.

The Contractor had not conducted "audit visits" as provided for in the Contract

Paragraph 26 stated that although the Contractor's proposal dated June 1996, provided for 4 audits per month, the Contractor had not conducted any audits in Iraq every six weeks, no audit had been conducted. On the assumption that the costs of this visits would have been included in the overall price proposed by the Contractor, the auditors consequently calculated 36 such missed visits.

The assumption is incorrect, as the technical head of the Iraq team for Skyplot, Mr. Graham, stated that the cost of the visits and the cost of these visits is included in the overall price of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for the oil sector, as well as other experts and the OIL Overviews. It should also be pointed out that it is more alternative to efficient to have an overall team that provides visits with the OIL Overviews, rather than having a team of review and action, that only provides "audit" visits, which are after all post-facto.

Services provided by UNOIC/CT have not been adequately charged to the Contractor

Paragraphs 27 and 28 have been duly noted.

Bi Monitoring Contractor's performance

OIP officials charged with monitoring the Contractor had not made inspection visits to Iraq

Regarding the comments on paragraphs 29 and 30, it should be noted that the contract is being executed in a politically sensitive environment. As has been already stated, in order not to compromise UNOIC/CT's mandate, it was decided that the OIL Overviews would be reporting as well as daily consultations with Skyplot, the OIL Overviews, as well as the group of experts on oil spare parts.

Need for reduction in contract payment during "no work" periods

In paragraph 31 and 32, the auditors opine that during times when oil is not being exported from Iraq, the contractor should not be paid. In this connection, it would be truly difficult to imagine any professional company of this type that would agree to such conditions in its contract with the United Nations. There is no way to know if the contract was truly a "no work" contract in the oil exports, and it is difficult to expect that the contract will end until the

SCD/0136

that together in the United Nations is there an operational group for personnel... to create the operational group of 20 people... P-4 level for a very short period...

In regard to the recommendations by the auditor, the... recommendations 3, 4, 5, 6, 9, 10, 17, 21, and 23... of critical importance...

Recommendation 3: Establish a contract management unit in Iraq... whose functions should include reviewing invoices, supporting documentation, verifying Contractor's attendance records...

This recommendation falls to take into consideration the fact that this would require additional resources and staffing, which are extensive to UNOCI's mandate and would not necessarily be agreed to by the Government of Iraq.

(i) Recommendation 4: OIP management should recover the overpayment of \$370,000 as indicated in Annex 1, from the Contractor in subsequent billings (AFU/2006/009)

This recommendation should be reviewed by OIOS. The \$370,000 seems to be significantly overstated. Initially, Seybolt's review of its invoices revealed undercharging that may cause any overcharging.

Recommendation 6: OIP management should in future contracts with the Contractor (or any other contractor) require the communication of expenses from the non-day tariff structure and reimburse those on presentation of detailed documentation (e.g. invoices from service providers) (AFU/2006/006)

The recommendation is noted for the negotiation of future contract proposals.

Recommendation 8: OIP management should take steps to stop payment of personal telephone calls of the Contractor staff... for the first nine phases of the programme (AFU/2006/008).

The contract is an all-inclusive, and there is no evidence that the contractor has separately charged OIP for services called. Further, it would be contrary to the terms of the contract to demand such reimbursements.

Recommendation 9: OIP management should recover overpayments for accommodation and transportation of approximately \$471,000 from the Contractor (AFU/2006/009)

The contract is all-inclusive, therefore under the terms of the contract, there is no reimbursement due.

(i) Recommendation 16: Implement procedures for direct company contracts which should include obtaining quotations from other suppliers; checking the reasonableness of quotations based on actual costs; and negotiating costs with the selected supplier (AFU/2006/016).

As stated above, OIP indicates contract costs with professional fee/dates and industrial organizations and is, therefore, correct on the costs of services. However, the recommendation is noted.

Recommendation 17: OIP management should obtain details for "with value" contracts by the Contractor and if no such value is shown please, recover an estimated amount of \$270,000 for 36 such required visits to please sites (AFU/2006/017).

It is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for adding functions on an on-going basis of review and action, rather than a only periodic "audit" visits, which are after all post-facto. In this regard, OIP does not consider that any recovery is due.

Recommendation 21: OIP management should negotiate with the Contractor to receive approximately \$1 million paid for equipment in excess of its actual cost and to stop further payments for the equipment cost component in the current Contract (AFU/2006/021).

This recommendation is rejected. OIP is bound by the terms of contract between Seybolt and the United Nations. However, the recommendation will be considered for future negotiations of contract proposals.

Recommendation 33: OIP management should consider the option of engaging UN staff members at the appropriate level, which is clearly a much more economical alternative to contracting.

for oil inspection services being in mind the relevant SCRs and MOU with the OOI (AFU/206/02).

This recommendation is inconsistent with the relevant Security Council resolutions and the MOU.

Ref: 53

UNITED NATIONS



NATIONS UNIES

UNITED NATIONS UNIVERSITY TRAINING CENTER

NOTE TO MR. BEVAN

FOR ONOS AUDIT NO. AF201/006: AUDIT OF THE MANAGEMENT OF THE OIL INSPECTION SERVICES CONTRACT

I refer to the memorandum of 29 November 2001 from Mr. Peter Stein, addressed to you, entitled ONOS AUDIT NO. AF201/006: AUDIT OF THE MANAGEMENT OF THE OIL INSPECTION SERVICES CONTRACT. In this connection, as discussed, I have had extensive consultations with Mr. Peter Stein, Managing Director of Symbiot Holdings, S.V. Mr. Stein has provided extensive and comprehensive comments on various portions of the report. I have also had extensive consultations with Mr. Stein regarding the various responses in paragraph 27, in particular in the context of the sample of Symbiot invoices. With regard to all questions raised to specific charges covered by invoices submitted by Symbiot, you may wish to cross check these responses with the OIP Executive Office.

Further to this, I would like to offer some additional comments. I would first agree that it is very clear from the audit report that there was a lack of general understanding regarding the responsibilities of Symbiot. This would have been avoided had the auditors followed all of our advice and consulted with Symbiot at their headquarters and with OIP at Headquarters, in particular with respect. For our part, we certainly should have had a comprehensive set of instructions, which would also have included clarifying OIGB to prepare this report in a timely manner.

With regard to specific comments, I would like to address the following:

In the OIGB report under "Audit Findings and Recommendations" the auditors state: "The number of inspectors, whether on oil or grain ports, is the only measurable parameter by which the UN authorized payment to the Contractor. Hence, an increase in attendance would be essential to support the monthly invoice submitted by the Contractor. Our review of procedures found however, that they were lacking basic financial controls and hence, resulting in a number of errors in the calculation of the number of inspectors. The report also stated that the manner the performance of the inspectors, whether for the export of oil or the monitoring of ports parts, is first done to OIP daily, weekly, and in special cases as required in the form of detailed reports of all activities under Symbiot's area of contractual responsibility.

Under paragraph 8, which Mr. Stein has addressed subsequently, you may wish to discuss the first three items with the Executive Office. With regard to recommendations 1 and 2, you may wish to discuss this also with the Executive Office, as this would be a forward-looking action. As to number 3, this is very unclear since here in the report the auditors indicate that under paragraph 27 there is a focal point assigned by UNOCI for Symbiot to provide the information on the number of inspectors and the number of activities which have been conducted the fact that this would require additional resources and staffing, which

...are extremely to UNOCEC's mandate and would not necessarily be agreed to by the Government of Iraq.

As of paragraph 10, it appears that OCEC is to be the provider of monitoring and reporting services, although, as previously indicated, it was unclear as to whether OCEC was able to differentiate between Sypchak's responsibilities.

With regard to paragraph 15, the questions raised to date for accommodation, transportation, and other services, it is well understood that the type of services to be provided in Iraq would have to be covered, but not the manner in which they are to be provided. It is noted that the Government of Iraq has had to make special arrangements being made by the contractors - all of them - to ensure that these services, etc., would be provided. As long as the arrangements do not violate sanctions, the Government of Iraq should be able to provide the type of services that the Legal Council, and you may wish to obtain additional information on this matter from OLA.

With regard to paragraph 20 and the military contractors related to the construction of equipment, such as vehicles, computers and communications equipment by the contractors, it is noted that the Government of Iraq has indicated that the ownership of equipment purchased under the 2.2% account. In this connection, I am attaching relevant communications between OLA and OIP on this issue. The military should have been made aware of the overall political sensitivity of bringing vehicles in under the 2.2% account. It is noted that a report of work has been produced by Sypchak under the 2.2% account, and does not include any information on the equipment of Iraq. You may wish to obtain additional information from OLA on this matter as well.

In addition, as the Sypchak contract is administered in New York by OIP, the responsibility for ensuring that UNOCEC be responsible for Sypchak inventory rights would create work for UNOCEC that is unnecessary to its mandate.

With regard to paragraph 21, the authors refer to proposals by the contractor for additional services. The contract indicates that these proposals were accepted without any further review by the Government of Iraq. The authors yet again failed to understand the nature of the work of OIP and the Security Council. The authors refer to the Security Council and its Committee established by resolution 661 (1990). The proposals referred to by the authors relate to specific survey missions that were undertaken by the request of the Security Council within a tight timeframe. The proposals by the contractor are "high-level", i.e., they are not routine and are of a high level of complexity, as well as for military services, such as report writing, presentation to the Security Council, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of any contractor, and the Government of Iraq would also have had to present the United Nations with a considerable advantage - one that cannot be over-evaluated - that resulted in the mission being more expeditious and effective. Finally, it is a ludicrous

...examples that OIP does not maintain comparative information to determine the "value-added" of proposals. OIP has always kept such information and has maintained ongoing contact with professional societies and industrial organizations, and has thus been able to discuss readily with experts whether technical and financial proposals were reasonable.

Under paragraph 22, it is impossible to comment without a definition from OCEC as to the phrase "authorized materials."

Paragraph 23 relates also to paragraph 21 and again fails to take into consideration the operations of the Iraq Ministry of Defense. It is noted that the Government of Iraq has been maintaining in the past some very substantial stockpiles of weapons and munitions, and has been having great technical familiarity with both Iraq and other countries in the region.

Paragraph 24 and 25 again relate to the comments in the above paragraphs and failed to mention that it was essential to contract Sypchak based on an "audit" cost proposal. In paragraph 26, the authors are incorrect in their statement as to the technical level of the Iraq team for Sypchak, Mr. Graham River, regularly undertakes missions to Iraq and the cost of these visits is included in the overall price of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for all oil users, as well as various reports and the Oil Overviews.

With regard to paragraphs 27 and 28, the authors failed to understand again the difficulties and sensitive situation in Iraq. OIP is very grateful to UNOCEC for its assistance, but it is rather surprising that such assistance would be sought in reimbursement. In addition, the authors should consider reimbursement vis-a-vis the Sypchak contract. The authors should also provide clear evidence of the changes to which they refer.

Regarding paragraphs 29 and 30, the authors again tried to force context upon the authors. The authors are incorrect in their statement that the Sypchak contract is completely incorrect as all of the activities of Sypchak were overseen on a daily basis through reporting as well as daily consultations between OIP and Sypchak, mainly with respect to the focal points, with the Oil Overviews, as well as the group of experts on oil spare parts. In paragraphs 31 and 32, the authors state that during these visits all is not being approved. In fact, the contract should not be used in this connection. It would be truly difficult to imagine any professional company of this type that would agree to such conditions in its contract with the United Nations. There is no way to know in advance when the Government of Iraq will or will not report out, and we cannot expect that state will wait until the inspectors are back in place before they report out. The authors are clearly not taking into account the requirements of the Security Council and the Security Council's mandate to maintain oil exports. The requirements of the Security Council and the Security

Seydihi Estamin (containing) B.V. - Rotterdam

Memorandum

To : Office of the Inq Programme
Attention : Mr. B. Savan
Cc : Mr. S. Colner
From : Peter W.G. Bolder
Subject : OOS Audit No. AF200/2016; Audit of the management of the oil inspection services Contract.
Date : July 12, 2002

We refer to the draft audit reports as mentioned above, which we received on December 13, 2001. Although you mention in the covering note that the auditors spoke to us in Rotterdam, this is not the case. The auditors did not visit us in Rotterdam. They only visited the site in Rotterdam. Unfortunately this never occurred.

Given the fact that the Executive Summary is overlapping the main body of the document, we will limit ourselves to the latter.

I. Introduction

In the introduction reference is made to our current contract, including the present staffing levels. It is noted that the contract is for a period of 12 months, starting on 1 January 2002. The contract also envisages two additional seven month inspectors. Given the fact that the GCII has refused to allow any additional staff on a permanent basis, we occasionally deploy more staff when considered absolutely essential to cope with peak periods of work. It must be understood that under present circumstances the current requirements significantly exceed the allowed number of seven parts inspectors.

III. Audit Scope

Although we noticed that the auditors undertook site visits to some of the locations where our staff are located, they unfortunately did not visit Miss A.I. Bakir to witness first hand the very difficult conditions that our Helicopters are faced to operate, including the fact that the Helicopters are not being directly contacted to discuss any of the circumstances mentioned in their report.

IV. Audit Findings and Recommendations

9 (1) Seydihi maintains throughout the year the following staff on site:

- Ceyhan - Turkey : 5 Staff members
Miss A.I. Bakir - Iraq : 6 Staff members
Zakho - Iraq : 3 Staff members
Baghdad - Iraq : 6 - 8 Staff members

Council Committee deemed that a full time presence of inspectors be maintained in the designated sites.

In paragraph 33 to 35, and the authors' corresponding recommendations, the report discussed the equipment problems with Seydihi. While the concerns are too vague to permit a valid finding, it is considered that the time spent for equipment and recommended replacements by Seydihi, they have failed to take into consideration the on-going maintenance, repair and replacement costs that are factored into the contract as well.

Paragraphs 36 and 37 indicate a confusion as the part of the auditors related to the original consideration in 1995-1996 regarding Oil Drivers. It was originally foreseen that the contractor would identify owners. This idea was subsequently cast aside.

The auditors then proceed to criticize the manner in which OIP reviewed Seydihi recommended candidates for hire. They state that none of the candidates were interviewed before sending the documents to the Oil Drivers for their comments. At times, I questioned conditions for various reasons including experience, language skills, and when we seemed to have no further comments. This was all discussed during the daily contact between Seydihi and OIP. Comments were subsequently given to them then to them following these discussions - and so there was no need for "rejection" by OIP.

Finally, paragraphs 38 and 39, with corresponding recommendations, truly surprise me. The text is completely wrong. In fact, this idea was that workers in the United Nations is there as occupational group and 20 posts at the P-4 level for a temporary programme, and then subject these posts to the normal United Nations recruitment and placement procedure. It is clear that it is thoroughly unreasonable and clearly detrimental to the work of the programme. The auditors in making this recommendation largely completely ignore the related items of the contract, including the fact that the contractor is responsible for recruitment, communication, etc. Perhaps if they had contemplated these, their recommendation would have been advised.

Stephen L. Baker
12 February 2002

To my mind there should be no connection whatever with Resolution 1151 - entity with nothing connected with our Oil Inspectors. The recent attempt to deny the inspectors in Zahra are sending the wrong message to everybody involved.

Kind regards,
Paul

Subject: Oil Inspectors
Author: Peter.Barnfield.com at SAVBOIT
Date: 05/12/98 20:38

Reply Separator

Dear Paul & Ruib,
At present I am working on the new contract with the DN for the coming 6 months.
I am wondering what your feelings are on the occupation of our staff at present. And also bearing in mind the attempts to

Do you feel that we have reasons to increase our staff?
Or can we manage under the present conditions?
Look forward to hearing from you.
Kindest regards,
Peter Bobs

Author: GARDNER, M J at SHELLUK
Priority: Normal
Message Subject: WATER
Subject: FW: RESOLUTION 986, WATER at NEMA AL BAKR

Date: Monday, June 21, 1998
Time: 17:00

Subject: WATER SUPPLY AT NEMA AL BAKR TERMINAL.

Dear Peter,
Reference is made to my last weekly report concerning a cut in supply last week.
This week the water was cut on Saturday morning June 20. To date there is no sign of replenishment.
Upon investigating the situation this morning with the Terminal Manager and the Harbour Master it was explained to me that there is now a shortage of water at the Port of Ham Gasf, therefore the barge was not fully loaded by Saturday when she was originally scheduled to come to the Terminal.

Instead, the barge had to go to Basra over the weekend to top up to full. She is now apparently broken down and when she will arrive is purely conjecture.
In order to replenish supplies temporarily the Harbour Master has asked a tanker to come from Basra to the Terminal. From previous experience this water will be contaminated with chemical oil upon delivery. This is not really good enough.

Peter, may I ask if anything can be done to correct this situation? The same situation was being reported at this time last year and as far as I know whatever has changed except that there are more ships now in the port. I am sure that the Harbour Master will be able to advise you. I am sure that NEMA AL BAKR will be able to advise you.

We are now with the South Oil Company and the Ministry of Oil has been asked for a 10% water supply until June & considerable time (over 10 months).
In these conditions that can be done very quickly to ensure that there will be an adequate supply on the terminal. With the water supply cut, the ambient temperatures are now in excess of 48 deg C and without water even for sanitation things are already in a very poor condition.

I ask you please if you can assist in any way it would be most appreciated by everybody concerned.
Kind regards,
Paul.

5046501

5046575

Author: SAVERS, W.L.G. at SAVILDRON
 Date: 05/21/98 11:58
 Priority: Normal
 TO: Frank Edwards
 CC: Robert (d008)@po1.a1.mil at MCIMAIL
 Subject: W/ Recruitment 988, Transport to Kias al Blair, Memphis Consulate

Date: Thu 10 1998
 Time: 12:00
 To: S O C Beane
 From: S O C Beane
 Subject: Marine Transport to and from Kias al Blair Terminal

Dear Sir,
 I am writing to you to highlight the details and effects of the poor transport facilities that exist at the present time to the S O C terminals in the Arabian Gulf.
 The original reason that the UN team began looking at Kias al Blair as a transport to and from the Terminal to Al Fao Port. This would have meant that the staff would have to be transported to the terminal. At that time two staff members would take a boat service at the S.O.C port house in Beane.

Since the month of August last year the tender boat service was severely restricted due to boats still and BUD constantly breaking down. There were no boats to take the staff to the terminal. Consequently the journey time increased dramatically from 1 hour to 4 hours. The staff had to wait for the boat to arrive. The tender boat service has been restricted and then only for very short periods. Because of this increase in journey time, as well as the poor and unsafe conditions on the tug boats, our staff have been reluctant to take this journey and have therefore gone without any rest periods for some of the time. This has meant that the staff have had to work in very poor conditions outlined.

As observers the UN Staff has also noted that due to this long journey in poor conditions the regular terminal staff have found this equally as unacceptable. This has meant that the staff have had to work in very poor conditions. This has meant that when it's toll is the good service of the men who have to work here.
 For the UN Staff the changes have meant that for most of the time the 6 staff have had to live. The solution to the problem would be to find a way to transport the staff to the terminal. I ask you to help with regards to this time.
 It is noted that in the more years just for the Southern region that marine transport is also listed. I would suggest that having reliable staff on men as possible may be a splendid solution.
 Your reply and opinions to this item would be highly appreciated.

Yours sincerely,
 Captain Paul Edwards
 for and on behalf of

SALOPF

Author: SAVERS, W.L.G. at SAVILDRON
 Date: 05/21/98 11:58
 Priority: Normal
 TO: Frank Edwards
 CC: Robert (d008)@po1.a1.mil at MCIMAIL
 Subject: W/ Recruitment 988, Transport to Kias al Blair, Memphis Consulate

Date: Thursday May 21, 1998
 Time: 12:00
 Subject: W/ Recruitment 988, Transport to Kias al Blair, Memphis Consulate

Dear Frank,
 I am writing to you to highlight the details and effects of the poor transport facilities that exist at the present time to the S O C terminals in the Arabian Gulf.
 The original reason that the UN team began looking at Kias al Blair as a transport to and from the Terminal to Al Fao Port. This would have meant that the staff would have to be transported to the terminal. At that time two staff members would take a boat service at the S.O.C port house in Beane.
 Since the month of August last year the tender boat service was severely restricted due to boats still and BUD constantly breaking down. There were no boats to take the staff to the terminal. Consequently the journey time increased dramatically from 1 hour to 4 hours. The staff had to wait for the boat to arrive. The tender boat service has been restricted and then only for very short periods. Because of this increase in journey time, as well as the poor and unsafe conditions on the tug boats, our staff have been reluctant to take this journey and have therefore gone without any rest periods for some of the time. This has meant that the staff have had to work in very poor conditions outlined.

As observers the UN Staff has also noted that due to this long journey in poor conditions the regular terminal staff have found this equally as unacceptable. This has meant that the staff have had to work in very poor conditions. This has meant that when it's toll is the good service of the men who have to work here.
 For the UN Staff the changes have meant that for most of the time the 6 staff have had to live. The solution to the problem would be to find a way to transport the staff to the terminal. I ask you to help with regards to this time.
 It is noted that in the more years just for the Southern region that marine transport is also listed. I would suggest that having reliable staff on men as possible may be a splendid solution.
 Your reply and opinions to this item would be highly appreciated.

Yours sincerely,
 Captain Paul Edwards
 for and on behalf of

SALOPF

the attached documents. Additionally, the Oil Overseers will discuss with SOMMO amendments to the oil sales contract and to the Bill of Lading in order to clarify issues that an change of destination is permitted without 661 Committee approval.

Accept, Sir, the assurance of our highest consideration.

The Overseers



Morton Blue-Frazer



Alexander Krasser



Michael Mullins

SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT
S/AC.25/2001/OIL/COBLL17
S/AC.25/2001/OIL/COBLL17
CONFIDENTIAL - SECURITY

Letter dated 13 March 2001 from the Overseers addressed to the Chairman of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

***** S/AC.25/2001/OIL/1330OC.23

13 March 2001

Sir,

In accordance with 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 required by paragraph 12 of the Security Council resolution 986 (1995) the Oil Overseers would like to bring to your attention the following irregularity.

The company Menzies Trading (PTY) Ltd. (contact M090906, approved 2 January 2001) on 2 February 2001 lifted a cargo on the vessel the "Ocean Jewel" of approximately 2 million barrels of Basrah Light crude oil. According to the letter of credit, endorsed by the Oil Overseers, the cargo had a US destination. Rather than sailing for the US, the ship eventually set sail to the Far East for discharge in Singapore. The Oil Overseers were not aware of this until 1 March 2001 when they were informed by the ship's agent that the cargo was to be discharged in Singapore. The following day the process was received based on an invoice drafted for the US destination. The invoice was dated 27 February 2001 and Euro less than the invoice that should have been issued based on a Far East destination. Following SOMMO's urgent request on 2 March, UN Treasury approached BNP Paribas, New York Branch, for an appropriate amendment to the initial letter of credit in order to collect the difference. This amendment was received on the 6 March and has been endorsed by the Oil Overseers.

In order to provide proper monitoring of Iraqi crude oil sales, especially to avoid any potential damage to the revenue generated, and according to established practice, the Oil Overseers do not endorse any amendment to a letter of credit calling for a destination change after the ship has loaded and sailed. The irregularity in this case is that the Buyer did not ask permission to change the destination, possibly out of concern that the full would not be granted.

The Oil Overseers are concerned that this case may be seen as an inappropriate precedent which may be followed by other companies and could potentially be damaging to the income to the UN. The request from the Buyer that the Oil Overseers in consultation with the Office of Legal Affairs, item and a specific request for a second invoice, which is explained in the attached documents. Additionally, the Oil Overseers will discuss with SOMMO amendments to

"1111 111111111111 111111111111 111111111111 111111111111"

"1111 111111111111 111111111111 111111111111 111111111111"

OFFICE OF THE Iraq PROGRAMME - BUREAU CHARGE DU PROGRAMME IRAQ

OFFICE OF THE Iraq PROGRAMME - BUREAU CHARGE DU PROGRAMME IRAQ

FACSIMILE

20 February 2001

To:	Mr. Peter Boks Skybolt Nederland B.V.	Fax:	3110 4481 399
From:	Stephane L. Scherer Chief of Office	Fax:	+1 212 963 1984
Subject:	Additional Skybolt oil monitors in Iraq	Tel:	+1 212 963 6560
Date:	20 February 2001	Number of pages (including cover page):	3

I refer to previous correspondence regarding the necessity to increase the number of Skybolt oil monitors in Iraq.

In this connection, please find attached a self-explanatory letter from the Executive Director to the Permanent Representative of Iraq, informing the Government of Iraq of this matter. We will keep you apprised of any developments.

Best regards,

Stephane Scherer

Copies to:
Mr. Swain
Mr. Zarif
Mr. Nair

5046853

REP: BUZGAK 000/11

Excellency,

I have the honour to refer to Security Council resolution 986 (1995), and subsequent resolutions, relating to the humanitarian programme in Iraq and its full implementation, through cooperation between the Government of Iraq and the United Nations Secretariat, i.e. the Office of the Iraq Programme, as prescribed in the Memorandum of Understanding.

In this connection, I should like to refer to the tremendous increase in the scope of the programme, and thus, the exponential increase in the workload being handled by my office, as well as the work being handled in the field.

One of the areas in which the workload has increased significantly is that of the monitoring of oil and oil spare parts and equipment, which is handled by the secretariat inspection as well as by the field offices under contract with the United Nations. According to our figures, in January 2000 there were approximately 159 weekly communications from the Security Council Committee established by resolution 661 (1990) on which to follow up and report. By comparison, in January of this year, the number of communications was approximately 259, a 280 per cent increase. This percentage, however, does not reflect the fact that the number of communications in the field has increased by 70 per cent from 148 in January 2000 to 228-30 in January of this year. Furthermore, a large number of the communications need special handling, i.e., end-use monitoring.

As a direct result of this increase in the workload of the oil spare parts monitors in Iraq, it has become necessary to increase their number from the present 18 to eight, with a total of 12 eventually. These additional monitors would be employed, should it become necessary, to ensure that the workload is handled in a timely and efficient manner. Your assistance in obtaining entry visas for the new inspectors, once identified, as well as internal travel permits, especially to new end-use sites, would be greatly appreciated.

His Excellency
Mr. Mohammed Al-Douri
Ambassador Extraordinary and Plenipotentiary
Permanent Representative of Iraq
to the United Nations
New York

5046954



U.S. Department of State
Office of the Spokesman
Press Statement

Press Statement by James B. Foley, Deputy Spokesman
December 10, 1999

Iraq Oil Smuggling

Recently declassified satellite photography reveals that Iraq continues to smuggle oil in violation of UN sanctions. This comes at a time when the Government of Iraq has refused to participate in an extension of the oil-for-food program. While Iraq's refusal to sell oil during this period has not caused an immediate disruption to the humanitarian program, it is vital to fund UN-approved purchases while filling the region's continued oil deficit in order to avoid a humanitarian crisis. The UN Security Council has repeatedly urged Iraq to cooperate with the program. The UN Security Council has repeatedly urged Iraq to cooperate with the program. The UN Security Council has repeatedly urged Iraq to cooperate with the program.

Satellite photography taken on November 26 of this year shows oil tankers loading gasoil in the Persian Gulf. The UN Security Council has repeatedly urged Iraq to cooperate with the program. The UN Security Council has repeatedly urged Iraq to cooperate with the program. The UN Security Council has repeatedly urged Iraq to cooperate with the program.

Once again, the evidence shows that Saddam Hussein has no compunction about preventing the international community from helping the people of Iraq, while at the same time ensuring that he has enough money to use his family's pocket, to build his own infrastructure, and to reward his regime supporters, and to buy prohibited goods, including imported food. WMD.

http://www.fda.org/news/fda/1999/12/ps991210b.htm

P. Belsky <P. Belsky@compuserve.com> on 12/10/2000 10:18:03 PM

To: Peter Belsky <Peter_Belsky@compuserve.com>; Peter Belsky@spj.net
Subject: Iraq

DATE=4/1/99/ITER-CORRESPONDENT REPORTS=3-21432777R-01-8 / IRAQ OIL
SILVER-DAVID COLLETON/DIVISION-WHITE HOUSE/CORRESPONDENT-VOICED AT:
LAWYER. THE CUSTOMS INSPECTION UNIT IS IN AFRICA. THE UNIT IS
SAYS THE CHAIRMAN AND MY LASH. NO-A'S DAVID COLLIER,
REPORTS THAT THE UNIT HAS ABOUT 15 THOUSAND BARRELS OF IRAQI OIL
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE

THE CUSTOMS INSPECTION UNIT IS IN AFRICA. THE UNIT IS
SAYS THE CHAIRMAN AND MY LASH. NO-A'S DAVID COLLIER,
REPORTS THAT THE UNIT HAS ABOUT 15 THOUSAND BARRELS OF IRAQI OIL
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE

THE CUSTOMS INSPECTION UNIT IS IN AFRICA. THE UNIT IS
SAYS THE CHAIRMAN AND MY LASH. NO-A'S DAVID COLLIER,
REPORTS THAT THE UNIT HAS ABOUT 15 THOUSAND BARRELS OF IRAQI OIL
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE

THE CUSTOMS INSPECTION UNIT IS IN AFRICA. THE UNIT IS
SAYS THE CHAIRMAN AND MY LASH. NO-A'S DAVID COLLIER,
REPORTS THAT THE UNIT HAS ABOUT 15 THOUSAND BARRELS OF IRAQI OIL
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE
IS BEING SMOGGED FROM IRAQ TO BE SMOGGED TO THE GULF. THE

6/4/7/96

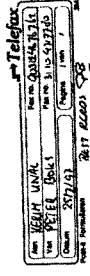
181 720 633
501 1751

AMENDMENT NO. 1
TO
CONTRACT NO. FTD/117/0065/86
BETWEEN
THE UNITED NATIONS
AND
SAYBOLT EASTERN HEMISPHERE BV
FOR THE
PROVISION OF INDEPENDENT
INSPECTION AGENTS

Under provisions of Article 2 of the original contract, this amendment shall be in force for a period of six (6) months additional six (6) months period through 30 November 1987. All other terms and conditions (including prices) shall remain unchanged.

IN WITNESS WHEREOF, the Parties have executed this amendment.

For: Saybolt Eastern Hemisphere B.V. For: United Nations
Signature: *[Signature]*
Name: Peter V.G. Boks
Title: Manager Business Development
Date: June 2, 1987
Signature: *[Signature]*
Name: ALAN R. ROBERTSON
Title: OFFICIAL-IN-CHARGE, FTD/0065
Date: 6 June 1987



0017553

CONTRACT FTD/117/0065-86
between
THE UNITED NATIONS
and
SAYBOLT EASTERN HEMISPHERE BV
FOR THE PROVISION OF INDEPENDENT INSPECTION AGENTS

This Contract is entered into by and between the UNITED NATIONS, an international inter-governmental organization, with its headquarters in New York, N.Y. 10017, U.S.A. (hereinafter referred to as the "United Nations" or "UN"), and SAYBOLT EASTERN HEMISPHERE BV, a private law company incorporated in the Netherlands (hereinafter referred to as the "Contractor"). The Netherlands (hereinafter referred to as the "Contractor"). The United Nations and the Contractor are collectively hereinafter referred to as the "Parties".

WITNESSETH

WHEREAS the UN, in furtherance of the mandate of United Nations Security Council Resolution 986 (1995), wishes to engage the Contractor to provide services of individuals employed by the Contractor with particular experience and qualifications in the field of petroleum and petroleum and petroleum products from Iraq to the terms and conditions set forth in this Contract;

WHEREAS, the Contractor represents that it is qualified, ready, able and willing to provide these services on the terms and conditions set forth in this Contract;

NOW, THEREFORE, the Parties hereto mutually agree as follows:

0017553

the expiration of the then current term. After the expiration of all such extensions, the UN shall terminate this Contract on the same terms and conditions for successive periods of six (6) months each by giving the Contractor written notice of its intention to do so not less than fifteen (15) days prior to the expiration of the then current term, subject, however, to mutual agreement by the UN and the Contractor to a revised price for the Contractor's services.

ARTICLE 3. Objectives of Contract

UN Security Council Resolution 986 (1995) directs the Security Council Committee established by UN Security Council Resolution 661 (1990) (hereinafter referred to as the "Committee"), inter alia, to monitor the sale by Iraq of petroleum and petroleum products. Under this Contract, the Contractor will provide personnel and all related supplies and services, to monitor on a 24-hour basis the movement of such petroleum and petroleum products in and out of the State of Kuwait and the oil-camps referred to in Section I of the Procedures (Contracter referred to as the "Overseers").

B. RESPONSIBILITIES OF THE CONTRACTOR

ARTICLE 4. Scope of Work

4.1. The Contractor undertakes to provide independent inspection agents (hereinafter referred to as the "Agents") as required to achieve the objective of this Contract. In particular, the Contractor shall provide all services and material set forth in the RFP and the Proposal.

4.2. The Contractor shall provide fourteen (14) Agents selected by the UN from among the individuals identified in the Proposal as experienced and qualified to conduct the inspection work. There shall be no substitution of the Contractor's personnel without the UN's prior written consent in each instance. The UN reserves the right, in its sole discretion, to increase or reduce the number of Agents at any time, in which event the Parties shall mutually agree on a proportional adjustment in the contract price set forth in Article 7.1, based on a labor cost of US\$375.00 per man-day.

4.3. The Agents shall monitor the exports of petroleum and petroleum products from Iraq in accordance with the requirements and specifications set forth in the Resolution, the MOU, the Procedures, the RFP and the Proposal, including without limitation the testing procedures set forth in the Proposal. Such monitoring will be based on the documentation provided by the Overseers, on direct observation, as well as on quality and quantity verification procedures. The Agents shall monitor the flow of petroleum and petroleum products through the pipeline at the Kuwait/Yamouk border, through the pipeline at the Kuwait/Yamouk pipeline and, by cross-checking the quality of oil measured by the meters with that measured at the Ceyhan tank farm, will verify that no petroleum is unaccounted for. If the Agents detect any irregularity, they shall immediately halt the loading of the petroleum or petroleum products and report such irregularity to the Committee and the UN Secretary-General.

4.4. The Contractor shall be responsible for making the necessary arrangements to ensure the fulfillment of its obligations under this Contract. The Contractor shall perform its obligations under this Contract in accordance with the highest professional standards.

3

CHRYSLER

1.1 This document and all annexes hereto, together with the following named documents, which are incorporated herein by reference, constitute the entire Contract (herein referred to as the "Contract") between the UN and the Contractor:

(a) The Request for Proposal issued by the UN and dated 11 June 1996, under reference "Request for Proposal for the Provision of Independent Experts to International Oil Trade", as modified by the communications transmitted to the Contractor by facsimile dated 25 June 1996, 15 July 1996 and 31 July 1996, (hereinafter referred to as the "RFP"); and

(b) The Contractor's Proposal dated 17 June 1996, as modified by the communications transmitted to the UN by facsimile dated 28 June 1996 and 18 July 1996 and by an undated facsimile sent in response to the UN's facsimile dated 31 July 1996, (hereinafter referred to as the "Proposal").

1.2 The following Annexes shall form an integral part of this Contract:

Annex I: UN General Conditions for General Contracts;
Annex II: Security Council Resolution 986 (1995) (hereinafter referred to as the "Resolution");
Annex III: Memorandum of Understanding between the Secretary of the United Nations and the Committee of Iraq on the Monitoring of Oil Exports from Iraq (hereinafter referred to as the "MOU");
Annex IV: Procedures of the 661 Committee (hereinafter referred to as the "Procedures");
Annex V: Transportation Release Form;
Annex VI: Medical Release Form.

1.3 In the case of any inconsistency among the documents constituting this Contract, the following order of priority shall apply:

(a) this document and Annexes I - VI hereto;
(b) the RFP; and
(c) the Proposal.

1.4 It is expressly agreed that this Contract embodies the entire agreement of the Parties with respect to the subject matter hereof, and that no promises, understandings, obligations or agreements, verbal or otherwise, exist between the Parties except as herein expressly set forth.

ARTICLE 5. Term of Contract

From the Effective Date of this Contract, specified in Article 15 below, this Contract shall be in force for an initial term of six (6) months, unless terminated in accordance with the terms of this Contract. The UN shall have the right, at its sole option, to extend this Contract on the same terms and conditions (including price) for up to three (3) successive periods of six (6) months each by giving the Contractor written notice of its intention to do so not less than fifteen (15) days prior to

2

CHRYSLER

6.5. The Contractor shall ensure that the Agents are at their stations and ready to commence work under this Contract within five (5) days of the Effective Date. The Agents shall be stationed as follows:

Location	No. Inspectors	No. Supervisors
Cyprus	3	1
Minor Al Bateh	1	1
Major Al Bateh	2	1
the Iraq/Turkey border	2	1

The UN reserves the right, at any time, to alter the assignment of the Agents set forth above, at no additional cost to the UN.

ARTICLE 6. Reporting Requirements

6.1. The Contractor shall submit to the Committee, through the Overseers, weekly report in writing, describing in detail the services performed under this Contract during the preceding week, including such information as the Overseers, the Committee or the Procedures may require. Such report shall be transmitted to the Overseers via satellite facsimile or, if available, electronic mail.

6.2. Immediately after the loading of oil under each sales contract approved by the Overseers is complete, the Contractor shall inform the Overseers on the details of such loading for comparison with its original approved sales contract. Such details shall include such information relating to the loader as the Overseers, the Committee or the Procedures may require. Such details shall be transmitted to the Overseers via satellite telephone, satellite facsimile or, if available, electronic mail.

5. CONTRACT PRICE AND PAYMENT

ARTICLE 7. Contract Price

7.1. In full payment for the complete and satisfactory performance by the Contractor of all its obligations under this Contract, the UN will pay the Contractor a price not to exceed a total of U.S. dollars One Million Eight Hundred Sixty-Nine Thousand (US\$1,869,000.00), subject to any adjustment in such price pursuant to Articles 4.2 or 12 hereof. This price includes all costs relating to the services to be provided under this Contract, including without limitation, salaries, benefits, taxes, social security, housing, communications, security, transportation and equipment. Such amount shall be payable to the Contractor in accordance with the following schedule:

30%	-	after 3 months from the Effective Date of this Contract.
30%	-	after 6 months from the Effective Date of this Contract.
40%	-	upon satisfactory completion of this Contract.

4.5. In performing their obligations under this Contract, the Contractor and its personnel shall comply with the Resolution, the MOU, the Procedures and all procedures and instructions stipulated by the Committee and the Overseers.

4.6. Within four (4) weeks of the Effective Date, the Contractor shall submit to the UN for its approval a detailed plan describing the control and supervisory mechanisms it intends to implement. The Contractor shall implement the plan promptly after its approval by the UN, subject to any reasonable modifications the UN may require.

ARTICLE 5. Contractor's Personnel

5.1. No person shall be assigned by the Contractor to provide services under this Contract unless the United Nations has approved in advance the selection of such person in writing. Without limiting the United Nations' rights of approval under Articles 4.2 and 5.2, in addition to the four (4) Agents selected by the United Nations under Article 4.2, the United Nations shall have the right to select and approve from among the individuals identified in the Proposal who are acceptable to serve as replacement Agents under this Contract.

5.2. The United Nations may request, at any time, the withdrawal or replacement of any personnel of the Contractor assigned to perform services under this Contract. The Contractor shall, at its own cost and expense, withdraw or replace such personnel forthwith. The assignment by the Contractor of any personnel to the UN is subject to the UN's prior written approval. A request by the United Nations for withdrawal or replacement of the Contractor's personnel shall not be deemed a termination of this Contract.

5.3. The Contractor shall be fully responsible for all work and services performed by its employees, agents, servants and sub-contractors. The Contractor shall take all reasonable measures to ensure that they respect the host country's and conform to the highest standards of moral and ethical conduct.

5.4. The Contractor shall ensure that all personnel used to perform services under this Contract are adequately covered by insurance for any service-related illness, injury, death or disability. The Contractor shall submit proof of such insurance satisfactory to the UN before commencing any work under this Contract.

5.5. The UN shall not be liable for any action, omission, negligence or misconduct of the Contractor's employees, agents, servants or sub-contractors nor for any insurance coverage which may be necessary or desirable for the purpose of this Contract, nor for any costs, expenses or claims associated with any illness, injury, death or disability of the Contractor's employees, agents, servants, or sub-contractors performing services in connection with this Contract.

E. MISCELLANEOUS MATTERS

Article 10. Contractor's Obligations Upon Expiration or Termination

Upon expiration or termination of this Contract, the Contractor shall take immediate steps to terminate its operations in a prompt and orderly manner and shall provide such information and take such actions as may be necessary to ensure the proper completion of (a) the work under this Contract and (b) the work under any other contract awarded to the Contractor and the results thereof and (c) all property of the UN provided to the Contractor.

Article 11. Indemnity and Insurance

11.1 The UN reserves the right to inspect and test all services performed by the Contractor under this Contract to the extent deemed necessary, at all reasonable places and times during the term of this Contract. The UN shall perform inspections and tests in a manner that will not unduly hinder the performance of the services by the Contractor.

11.2 If any work or services performed by the Contractor do not conform with the requirements of this Contract, the UN shall have the following options:

- (a) If the UN determines that the improper performance can be remedied by way of re-performance or other corrective measures by the Contractor, the UN may request the Contractor in writing to take and the Contractor shall take, at no expense to the UN, the measures necessary to re-perform or take other appropriate actions to remedy the improperly performed work or services within fourteen (14) days of receipt of the written request from the UN. The UN may request that the work be re-performed or other corrective measures be performed under conditions as required, as determined by the UN.
- (b) If the Contractor does not promptly take corrective measures or if the UN reasonably determines that the Contractor is unable to timely remedy the improper performance, the UN may obtain the assistance of other entities or persons and have corrective measures taken at the expense of the Contractor.
- (c) If the UN reasonably determines that the improper performance cannot be remedied by re-performance or other corrective measures by the Contractor, the UN may terminate the Contract in accordance with Article 15 of the UN General Conditions for General Contracts without prejudice to any of its other rights and remedies under this Contract.

11.3 Notwithstanding the RFP and Proposal, site visits by the UN to inspect the services performed by the Contractor shall not be funded under this Contract.

Article 12. Termination at UN

In addition to the termination rights provided in Article 15 of the UN General Conditions for General Contracts, the UN may terminate this Contract without cause, in whole or in part, upon thirty (30) days written notice to the Contractor. In the event of termination pursuant to this clause, the UN shall only be responsible for payment to the Contractor for services satisfactorily performed

7.2 Payments under this Contract shall be made only against receipt of Contractor's written invoices and certification by the UN that the services represented by the invoice have been satisfactorily completed. The Contractor shall submit its invoices to the UN, Accounts Payable Unit, 866 United Nations Plaza, Room A-6050, New York, N.Y. 10017, together with supporting documents and evidence of verifiable performance. All invoices shall be addressed to the number of this Contract (PTD/1127/0045-94) and shall be payable on a net thirty (30) day basis.

D. RESPONSIBILITIES OF THE UN

Article 8. Identification Cards

The UN shall provide the Contractor's personnel with appropriate identification cards.

Article 9. Access to Transport and Medical Facilities

9.1 The United Nations agrees to allow the Contractor's personnel to travel on UN-provided transport to, in and from Iraq strictly for the following purposes:

- (a) evacuation due to security developments, on the understanding that such evacuation shall be to the nearest safe area; and
 - (b) medical evacuation due to serious medical conditions, provided that emergency medical evacuations of the Contractor's personnel will be from in-country sites to an in-country medical facility or transportation out of Iraq to an out-of-country medical facility in an appropriate neighboring country.
- 9.2 In consideration of the Contractor's personnel being permitted to travel on UN-provided transport, each of such personnel shall sign a release from liability in the form attached hereto as Annex V, prior to their transport on any UN-provided transportation. The Contractor understands that the release shall be signed by the employee and shall be delivered to the UN prior to the employee's initial use of any UN-provided transportation.
- 9.3 In the event that the Contractor's personnel require emergency medical treatment, the UN agrees to allow such personnel access to available UN medical facilities. In consideration of the Contractor's personnel being permitted to utilize such UN medical facilities, and prior to their using such facilities, each of such personnel shall complete and sign the release from liability in the form attached hereto as Annex V. The Contractor understands that the release from such employees and to deliver the signed original to the UN prior to the employee's initial use of any UN medical facility.

9.4 The Contractor hereby releases the UN and its officials, employees and agents from any and all liability of any nature arising in connection with the provision of any services to the Contractor's personnel by the UN and its officials, employees and agents. The Contractor may not sue, claim, or demand any damages from the UN, its officials, employees or agents arising in connection with the provision of such services.

IF TO THE UN (communication/notice of an operational nature):

United Nations
42nd Street and First Avenue, Room No. 5-3055A
New York, NY 10017
Attn: Mr. Joseph Sappanakis, Chief
Contract Administration Office
United Nations Secretariat Services Branch
Fax No. (212) 963-1300

Notice by overnight mail or recognized overnight delivery service shall be effective on the date it is officially recorded as delivered to (or refused by) the intended recipient by return receipt or equivalent. All notices and other communications required or contemplated by this Contract shall be delivered in person, by messenger, by air mail, or by other means of rapid delivery, and shall be delivered to and received by the addressee and shall be effective on the date of the actual receipt.

ARTICLE 13. Effective Date of Contract

This Contract shall take effect upon the UN's written notification to the Contractor that the Agent should complete mobilization (letter for return of the Agent's equipment, etc.). If the UN shall fail to complete mobilization within six (6) months of the signing of this Contract, this Contract shall be null and void.

IN WITNESS WHEREOF, the Parties have executed this Contract.

FOR SAVOULT-BALFERN HEMISPHERE BV

Name: P. Balfr
Title: President
Date: 16-8-1996

Name: Swift

Title: OAC / P.T.D.
Date: 16-8-1996

ATTACHMENTS

- Annex I : UN General Conditions for General Contracts
- Annex II : Memorandum of Understanding
- Annex III : Memorandum of Understanding
- Annex IV : Procedures of the 465 Committee
- Annex V : Transportation Release Form
- Annex VI : Medical Release Form

in accordance with this Contract prior to the effective date of termination. In the event of partial termination, the contract price shall be proportionately reduced, based on a labour cost of US\$575.00 per man/day.

Article 13. Customs Clearance, Insurance, Etc.

The Contractor shall be responsible for customs clearance and obtaining all licenses, permits and authorizations from governmental or other authorities necessary for the performance of this Contract. The UN shall provide reasonable assistance to the Contractor, by issuing appropriate visas, and relevant authorities, in obtaining visas for the Contractor's personnel and permits for clearing through customs any equipment, material and supplies in connection with this Contract.

Notwithstanding the foregoing, the UN's sole obligation with respect to customs clearance shall be to provide the Contractor with the necessary information and documents to enable the Contractor to obtain such items as for the sole consumption or use of the Agent. If any further documentation is required in the future by Government authorities in Iraq or elsewhere, the Contractor will advise the UN and the UN will provide reasonable assistance to the Contractor in obtaining such documents.

ARTICLE 14. NOTICES

Except as otherwise specified in this Contract, all notices and other communications required or contemplated under this Contract shall be in writing and shall be delivered either by: (i) personal delivery; (ii) recognized overnight delivery service; (iii) postage prepaid, return receipt requested, certified mail; (iv) confirmed facsimile transmission, or (v) telegram, addressed to the Party or Parties for whom listed at the address shown below or such other address as the intended recipient(s) previously shall have designated by written notice previously given pursuant to this Contract.

IF TO THE CONTRACTOR:

Savolet Eastern Hemisphere BV
P.O. Box 151
3000 AD Rotterdam
The Netherlands
Attn: Mr. Graham Brett / Mr. Peter Bolka
Fax No.: 31-10-4334600

IF TO THE UN (communication/notice of a contractual nature):

Procurement and Transportation Division
865 United Nations Plaza, Room No. A-6104
New York, NY 10017
Attn: Mr. Allan Robertson, Office-in-Charge
Procurement and Transportation Division/OCS
Fax No. (212) 963-9858



FAX

REPORT OF UN INDEPENDENT INSPECTION AGENTS
PROVIDED BY
SAYBOLT INTERNATIONAL

OIL MONITORING

STATUS at May 19th, 2000

I. MONITORS ON STATION

1.1. Min Al-Baker's staff numbers in total. (one en-route)

- Russian
- Nigerian
- Ukrainian
- Russian
- Russian
- Russian

1.2. Zubko: 3 staff members in total

- V. Alkayev
- V. Babitsky
- V. Poljotov
- V. Kuznetsov
- A. Papor

1.3. Ceyhan: 5 staff members in total

- S. Busykh
- P. Kuznetsov
- P. Kuznetsov
- Gija Bostoj
- A. Kuznetsov

2. ACTIVITIES

MINA AL-BAKR

2.1. Vessels loaded in period:

NAME	LOAD DATE	SEV. BBL'S
Hohmann Pacific	13/05/00	2,033,315
Enns Marek	14/05/00	1,997,715
Suez Chocorda	15/05/00	1,333,223
Cherov Athanic	18/05/00	994,380
Tina	18/05/00	2,219,071
Stammar	19/05/00	1,628,493

ZAKHO

2.2. Volume metered in the period was 6,027,991 barrels

CEYHAN

2.3. Volume received in storage tanks was 6,184,475 barrels

2.4. Vessels loaded in the period:-

NAME	LOAD DATE	SEV. BBL'S
Enns Marek	13/05/00	995,167
Cherov Athanic	14/05/00	1,051,629
Stammar	14/05/00	1,000,000
Cherov Athanic	16/05/00	596,531
Libra	18/05/00	995,152
Cherov Athanic	18/05/00	1,000,000
Cherov Athanic	19/05/00	594,031
Stammar	19/05/00	1,817,500

3. OBSERVATIONS

3.1. MINA AL-BAKR

3.1.1. Morning Meeting: Terminal fully manned, approximately 80 persons. Morning Meeting/Pager. No mooring boats on station at the terminal. Four tugs on station off the platform.

Power. Power was cut several times this week. Operators are working on alternating basis.

Transport for staff: The feeder No. 403 is still out of service. Transport for staff (from reception area) is provided to Feo. Relief schedule is on Saturday (station). Sunday and Wednesday, but schedule is unreliable. The tugs used for Feo are restricted to pass the river bar at high tide, and sometimes only at daylight high tide. No safe gateway or means of access available at either shore or terminal location for staff to embark or disembark.

Services. The new Water Purification Unit is still out of service as the new RO unit is not yet installed. The old RO unit is still out of service as the new RO unit is not yet installed. The old RO unit is still out of service as the new RO unit is not yet installed.

Water supply. There is no pump to transfer the purified water from the RO unit to the storage tank as there is still no fresh water supply. The original RO unit is only intermittently as the vibrations resulting from it's operation damage the piping (whenever removed) within a few days. Fresh water from shore always slightly improved quality, but still busy with a strong odour.

Food. Food is still being supplied from the shore. The water supply is not sufficient. A hot water supply is still out of service. The hot water supply is still out of service. The hot water supply is still out of service.

Waste disposal. All waste is collected in the terminal. The waste disposal is still out of service. The waste disposal is still out of service. The waste disposal is still out of service.

Accommodation. Standard of cleanliness remains poor. Excessive outside oil and grime walks into the accommodation. Hygiene. Insect population is still evident. No de-insectization carried out.

Supply. No improvement in supplies. No fire alarm system installed. No fire alarm system installed. No fire alarm system installed.

Security. The terminal is still not secure. The terminal is still not secure. The terminal is still not secure.

Other. The terminal is still not secure. The terminal is still not secure. The terminal is still not secure.

Other. The terminal is still not secure. The terminal is still not secure. The terminal is still not secure.

Other. The terminal is still not secure. The terminal is still not secure. The terminal is still not secure.

Other. The terminal is still not secure. The terminal is still not secure. The terminal is still not secure.

UNITED NATIONS TRANSMISSION REPORT

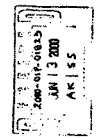
United Nations Nations Unies
INTERNATIONAL ORGANIZATION ORGANISATION INTERNATIONALE

Geneva, 13 June 1966

TO: Mr. Alexander V. Kozlov

FROM: Oil Overseas

RE: *[Handwritten Signature]*
Mr. Assistant Secretary-General
for the Office of Legal Affairs



SUBJECT: Liability of port charges in Iraq

- This is in respect of your memorandum of 30 May 2000 with reference to the communication from the International Association of Independent Oil Producers (IAIOP) to the United Nations Secretariat for the Government of Iraq of port charges at N. Nahr Oil Terminal, the dispute about the equality of Iraq's charging such port costs.
- We took note in this regard of the fact that mentioned in its communication refers to these charges as "traditional port costs" and that the IAIOP's communication provided to the Office of the Legal Affairs of the United Nations Secretariat for the Government of Iraq programs by which the IAIOP has proposed that the port charges be imposed on oil tankers and that the increased charges imposed by the Iraqi authorities are modest in comparison to those charged at other ports.
- In their communication regarding the increase in port charges, a copy of which was received by the United Nations Secretariat for the Government of Iraq, the Iraqi authorities state that these charges are levied in order to cover cost of maintenance of N. Nahr Oil Terminal and cost of security/insurance, etc.
- In the light of the foregoing, please be advised as follows with reference to your inquiry.
 - In accordance with paragraph 4 of Security Council resolution 661 (1990), the United Nations Secretariat for the Government of Iraq is prohibited from making available to the Government of Iraq, any funds or any other financial or economic resources, and the required

- to prevent Iraqi nationals from making available to that Government or to any such undertaking any such funds or resources and from facilitating such funds or resources to the Government of Iraq or to any such undertaking of that Government or to any such undertaking of that Government. Making operation which was agreed upon between the United Nations Secretariat for the Government of Iraq and the Government of Iraq does not fall within the scope of paragraph 4 of resolution 661 (1990) and, therefore, the Government of Iraq may continue to make payments to the United Nations Secretariat for the Government of Iraq and to any such undertaking of that Government or to any such undertaking of that Government. With reference to the question of whether payment to Iraq of port charges of fees and other expenses deriving from port services would contravene the requirements of paragraph 4 of Security Council resolution 661 (1990), the United Nations Secretariat for the Government of Iraq would not be in a position to state that such payments would not fall within the scope of paragraph 4 of resolution 661 (1990) and, therefore, the Government of Iraq may continue to make payments to the United Nations Secretariat for the Government of Iraq and to any such undertaking of that Government or to any such undertaking of that Government. It is noted in every other respect in terms of the relevant Security Council resolution every provision that such fees and charges do not exceed what is customary in such circumstances.
- This position was subsequently reiterated in another letter of this Office to the Chairman of the 4th Committee, dated 30 June 1996. It was stated that the United Nations Secretariat for the Government of Iraq is not responsible for the charges levied on oil tankers at N. Nahr Oil Terminal. It would be better in mind that any duty or charges which might be levied in respect to the services rendered, in the light of the fact that the Government of Iraq is not a member of the Organization of Arab States, industrial or public utility undertaking in Iraq. Any such charges should be levied on a non-discriminatory basis, be based on a non-discriminatory basis, and be commensurate with whatever administrative expenses might reasonably be expected in this respect.
- It was also emphasized in the second letter, as well as in other letters, that the United Nations Secretariat for the Government of Iraq is not responsible for the charges levied on oil tankers at N. Nahr Oil Terminal. In resolution 661 (1990), such fees and charges must be paid in Iraqi dinars only.
- Therefore, with reference to your question we are of the view that payment of port costs to the Iraqi authorities will not fall within the scope of paragraph 4 of Security Council resolution 661 (1990) and, therefore, the Government of Iraq may continue to make payments to the United Nations Secretariat for the Government of Iraq and to any such undertaking of that Government or to any such undertaking of that Government. It is noted in every other respect in terms of the relevant Security Council resolution every provision that such fees and charges do not exceed what is customary in such circumstances.
- We noted from the correspondence that the Iraqi Government requests that port charges be paid not to the Iraqi authorities, but to "its for

5046741

5046740

transportation and general trade company, Amman - Jordan, which has been established in Amman, Jordan, and is to be deposited in the account of that company in the Jordanian National Bank.

11. If and in so far as "viva" for transportation and general trade company, Amman - Jordan, are a Jordanian company and are not an instrumentality of agency of the Government of Iraq, the measures which have been imposed by the Security Council in respect of Iraq would not apply to the company. In the event that the Security Council should be conditional on observance of the limitations enumerated in paragraph 9 above, that having been said, it would appear from the statements to Amman - Jordan that the company has been established and is intended to provide port services in Iraq. The supply of services of this nature to Iraq is a matter which is not prohibited by the Security Council. It would appear that the rendering of such services in Iraq would be prohibited only in the event that the Security Council should determine that such services might only be rendered provided in the event that their rendering is conditional on observance of the limitations enumerated in paragraph 9 above, no application has been made to the 661 Committee in respect of the provision of port services by "viva" for transportation and general trade company, Amman - Jordan, and the 661 Committee granted approval to any such arrangement.

12. That being so, no objection should be made to the company mentioned above and until, in the event that the Security Council should determine that such services might only be rendered provided in the event that their rendering is conditional on observance of the limitations enumerated in paragraph 9 above, no application has been made to the 661 Committee in respect of the provision of port services by "viva" for transportation and general trade company, Amman - Jordan, and the 661 Committee granted approval to any such arrangement.

cc Mr. Stephan L. Scher

S048742

Peter Bahr
06/02/2006 04:07 PM

To: whwee@un.org
Subject: Port charges in Iraq

Dear Stephan,

It seems that until recently a fee of USD 1,500.- was asked for each container that was unloaded from a ship in Iraq. This was not limited to Mith Al Bahr but also applied for a S. Dem Quar. The practice was that some Captain's paid this fee from their party cash. Others refused to pay based on the embargo.

Only recently we learned that the port charges were increased and informed Al-Bahar accordingly.

It must however be said that it is common practice that port charges are not based on the weight of the cargo. In the case of the table attached to your table, the charges proposed are not set in competition to other ports.

Kindest regards,

Peter Bahr

S048743

UNITED NATIONS NATIONS UNIES
 OFFICE OF THE IRAN PROGRAMME

URGENT

FACSIMILE

To:	Mr. Peter Mohs Stephens, Neill & Adams B.V.	Fax:	3110 4601 299
From:	Stephan L. Schme Chief of Office	Fax:	+1 212 963 1884
Subject:	Port charges in Iraq	Tel:	+1 212 963 6550
Date:	7 June 2000	Number of pages (including cover page):	3

Dear Stephan,
 In addition to my previous email, port charges applied at e.g. Qary Island in Iran are 20.22 per metric ton.
 for loading a vessel with 100,000 metric tonnes, this would give:

Country	Iran	Iraq
-----	----	----
Port charges	41,800.-	17,880.-

Fax to follow.
 Best regards,
 Peter Mohs

Please find attached a copy of a letter received by Mr. Kramer from Imranenko, which he forwarded for comment to the Office of Legal Affairs.

I am from the letter from Imranenko that "until recently vessels loading at this terminal was normally charge USD 1,500,00".

I would be grateful if you could provide us with some information as to standard practices, particularly how this money was being paid and at what point port costs were increased. I would also like to know how this compares in relation to other oil-producing countries.

I would particularly note that in view of the sanctions imposed on Iraq by the Security Council, it would appear that the payment of these charges would be in violation of these sanctions.

Thank you for your prompt attention to this matter and urgent reply.

Best regards,

Stephan L. Schme

Copies to:
 Mr. Schme
 Mr. Collins
 Mr. Kramer

Phone: 212 963 6550, New York, NY 20001 • Telex: 133 963 6550 • Fax: 212 963 6550 • <http://www.un.org/irprog>

UNITED NATIONS Page 1 30 May 2000

We are pleased to have recently disclosed to the Association.

DEW' (East coast) INCREASE MAINLINE OIL Terminal Iraq

Based on advice from the Iraq State Co. for Water Transport, March (east) of our mainline oil terminal at Al-Badr Oil Terminal, Iraq has increased its monthly oil terminal charges from USD 1,400.00 to USD 1,500.00.

Effect of the "charge rate" cost in USD based on GT:

Less than 50,000 11,250.00
180,001 - 190,000 17,500.00
270,001 - 280,000 21,000.00

The complete tariff is available by contacting INTERTANKO.

Email: tariff@intertanko.com

The 10% against increase that the sector behind the new tariff is to cover maintenance cost for the terminal (including the cost for expanding the mainline services (pilots, harbor master, mooring/lumpsum, etc.) to a foreign company.

INTERTANKO endeavours to have the implementation postponed in order for the industry to adapt to the new situation in the Middle East. Performance distribution amount calculated on the new tariff have already been received by member operators.

The Middle East Association has been informed. INTERTANKO is also seeking advice from various sources including investigating the validity of such increase via the UN Sanctions.

INTERTANKO would like to have the recent status of the sanctions against Iraq, and we are in some urgency to clarify this issue in order for the Worldscale Association and INTERTANKO to advise the world oil transport operators.

We kindly request your assistance in directing this file to the correct section/person within the United Nations.

Kind regards

[Signature]

Stefan E. Dign
Peter & J. van der Sluis
E-mail: stefan.dign@intertanko.com

UNITED NATIONS Page 1 30 May 2000

We are pleased to have recently disclosed to the Association.

INTERTANKO
The International Association of Independent Tanker Owners
FOR OIL TANKERS, CHARTERS AND OIL TANKER CONSTRUCTION

HEAD OFFICE
P.O. Box 2904, M. J. Ghera
0100 Oslo, Norway
Phone: +47 22 12 26 40
Fax: +47 22 12 26 41
E-mail: info@intertanko.com
Marketing Offices: Delfzijl, Lunde
Asian Representative: Mitsui & Co. Ltd.
Latin American Representative: Petrobras S.A.
US Representative: Shell A. International

30 May 2000
32091 UNITER01.DOC

Dear Sirs,

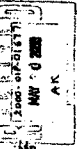
First of all we will introduce INTERTANKO (The International Association of Independent Tanker Owners), on what we do, what we stand for.

INTERTANKO today comprises 265 Member companies in 45 maritime countries, now operating over 2,000 vessels, totaling about 175 million DWT of tanker and combined tonnage, or some 75% of the globally independently owned tonnage. We also have 302 Associate Members, which include oil companies, shipping agents, port authorities, charterers, oil refiners, oil processors, oil traders, oil suppliers and a host of other companies related to the tanker industry.

INTERTANKO's primary goals are to promote a free and competitive tanker market, to work for safety at sea and the preservation of the environment.

INTERTANKO serves as the spokesman for independent tanker owners and represents its members in international forums. We provide our members with a comprehensive information service in the form of our monthly circulars, letters, and acts as a forum for discussion on tanker related issues.

INTERTANKO is represented on all major IMO committees and sub-committees, and Member companies often participate actively in INTERTANKO work within the IMO.



6552905

2562905



TELEFAX
NUMBER OF PAGES: 2
 Ms Stephanie L. Schier
 United Nations, Office of the Iraq Programme
 New York
 U.S.A.


HEAD OFFICE
 Rosendalen 71 B
 P. O. Box 804 Majorstua
 0308 Oslo Norway

Phone: +47 22 12 26 46
Fax: +47 22 12 26 41
Web Site: www.intertanko.com

Managing Director: Svein A. Ringbakk
Asst Representative: Milner A. Alfnes
London Representative: Robert M. Bishop
US Representative: Steven A. Ringbakk

Fax No: 00 1 212 963 1994

Thursday, October 05, 2000
GAMZTUNITE00LDCG

Best regards

 Gunnar A. Knudsen
 ☎ (direct): +47 22122638
 E-mail: gannar.knudsen@intertanko.com
 Manager, Ports and Terminals Section
 INTER-TANKO

Dear Ms Schier,

Further deterioration in Misa al Bakr

Reference is made to my fax dated 2 October 2000.

INTER-TANKO has today received further alarming reports related to port operations in Misa al Bakr. A member vessel was about to be chartered for a crude oil cargo from Misa al Bakr but was finally turned down by the charterers as the Iraqis refused the ship load port clearance. The reason was the vessel's refusal to pay requested port disbursement during its previous call in June 2000. The owner understands that the black listing is pegged to the vessel and not to the owner, at least in the mentioned case.

We are extremely concerned to find that the announced black listing has developed into far more than an empty threat. In combination with the recent seven day "punishment" of another tanker, we see every reason to expect that the black listing is about to be escalated. It is most disturbing that main victims are owners refusing to breach UN Sanctions.

INTER-TANKO therefore reiterates the urgent need for UN action against this Iraq aimed to remove black listing and bring port conditions back to normal.

We shall thank you to give this matter your urgent attention, and are awaiting your response.





TELEFAX
NUMBER OF PAGES: 2

HEAD OFFICE
 Rogalandveien 27 B
 P. O. Box 2804 Majorstua
 0108 Oslo Norway

Ms Stephen L. Schierz
 United Nations, Office of the Iraq Programme
 New York
 U.S.A.

Phone: +47 22 12 26 40
Fax: +47 22 12 26 41

Web Site: www.intertanko.com

Managing Director: Svein A. Rugebakken
Asia Representative: Robert A. Bishop
Latin American Representative: Robert A. Bishop
US Representative: Svein A. Rugebakken

Fax No: 00 1 212 963 1994

Monday, October 02, 2000
GDDFT\UNIT901.DOC

Dear Ms Schierz,

Deviation of tanker at Mina al Bakr due to non-payment of port disbursements

We are INTERTANKO, the International Association of Independent Tanker Owners. INTERTANKO today comprises 260 Member companies in 45 maritime countries, now operating some 2,050 vessels, totalling about 162 million DWT of tanker and combined tonnage, or approximately 70% of the eligible tonnage. We also have 307 Associate Members, including shipping agents, charterers, brokers, insurers, shipbuilders, insurance companies, consultants, marine suppliers and a host of other companies related to the tanker industry.

The issue of threatened black listing of ships has recently taken a turn for the worse as INTERTANKO has received a fresh report of a tanker being kept waiting for seven days due to non-payment of the dues. The owner's daily requests for berthing prospects were met with total silence and no explanation for the waiting time was offered.

The fact that the Iraqi suppliers now have decided to punish an operator who refuses to operate in Iraq is clearly contrary to the spirit of the UN Sanctions. It is especially difficult for owners and charterers. As per the Legal Department of the UN, payment of port cost as per the new tariff of 1 July 2000 has been termed illegal and in violation of the UN Sanctions, unless settled in Iraqi Dinars. As far as the writer and others consulted are informed, this currency is inaccessible for international banking purposes and can therefore not be considered a viable solution.



As an organisation representing the tanker industry, INTERTANKO finds it unacceptable that owners and charterers are faced with two impossible choices. Ships apparently risk either being detained for an unspecified period at the daily loss of some USD 600/0,000, or be forced to violate the UN Sanctions in order to ensure loading as per charter party. Alternatively owners may refuse to pay the requested port cost and take the chance of not being detained, which will introduce further uncertainty.

It will in light of the current situation we hereby invite the UN to inform us which efficient means can be used to resolve the present situation. We are ready to accept the UN Sanctions. These should be applied to port an immediate stop to the unacceptable harassment of owners lifting crude from Mina al Bakr under the Oil-Freeze-Programme, or to introduce a method of payment, which owners can legally follow.

We hereby urgently invite your guidance and appropriate action on this vital issue, which will be brought to the prompt attention of the INTERTANKO membership.

In case you should wish to discuss the issue on the phone, I shall be pleased to hear from you.

Best regards

Gumar A. Knudsen
Manager, Ports and Terminals Section
☎ (direct): +47 22122638
E-mail: gumar.knudsen@intertanko.com
INTERTANKO

UNITED NATIONS NATIONS UNIES

OFFICE OF THE HEAD OF DEPARTMENT

EXCELLENCE

The (SOURCE: PROTECTED)	
From: Richard L. Blythe Chief of Office	Date: 11/23/2000 Time: 11:52 AM EST
Subject: Irish port charges	
Date: 6 September 2000	Number of pages (including cover page): 2

I refer to your checklist of policy and the attached letter sheets regarding the contents of item 4 of Annex I to the report of the Commission of Enquiry.

In this connection, the question of port charges of Annex I has not been taken into account by the Commission of Enquiry.

In their view, and in accordance with paragraph 4 of Security Council resolution 663 (1990) of 4 August 1990, the Commission of Enquiry should continue to work on the basis of the information available to it at the time of its report. It should not be required to provide information on matters which were not before it at the time of its report. It should not be required to provide information on matters which were not before it at the time of its report. It should not be required to provide information on matters which were not before it at the time of its report.

The Office of Legal Affairs, in a letter to the Chairman of the Security Council Committee established by resolution 661 (1990), dated 6 November 1997, took the position that the Commission of Enquiry should continue to work on the basis of the information available to it at the time of its report. It should not be required to provide information on matters which were not before it at the time of its report.

Any such action and changes, should, in principle, be limited to changes in the Commission of Enquiry's report. The Commission of Enquiry should continue to work on the basis of the information available to it at the time of its report. It should not be required to provide information on matters which were not before it at the time of its report.

Quinn Knudsen <Quinn.Knudsen@un.org> on 09/10/2000 12:56:08 PM



To: **Richard L. Blythe** <Richard.L.Blythe@un.org>
Cc: **Richard L. Blythe** <Richard.L.Blythe@un.org>, **Management** <Management@un.org>

Subject: **INTERFACO request to UN TR. situation in Mozambique**

Dear Sir,
As a member vessel recently was detained at Mila al Bahr due to non-payment of Interfac port dues, INTERFACO has sent the attached request to the UN TR. situation in Mozambique, to Interfac's legal department for the handling of port dues.

You will be kept informed of all developments.

Kindly direct any questions and relevant new information to the undersigned.

Kind regards

Quinn A. Knudsen

INTERFACO
P.O. Box 9074, Harare
Zimbabwe
Tel: +263 25 24 56 / Fax: +263 25 24 41
E-mail: quinn.knudsen@interfaco.com
Website: www.interfaco.com
(0452500.2 (20000911))

UNITE001.DOC

UNITED NATIONS



NATIONS UNIES

OFFICE OF THE UN SECRETARY GENERAL

Therefore, the payment of port fees to the Iraqi authorities is not inconsistent with the sanctions regime imposed by the Security Council against Iraq...

We have learned, however, that the Government of Iraq is requesting that port charges be paid not to the Iraqi authorities, but to the International General Trade Company, Amman - Jordan...

It is in an effort to facilitate the transportation and payment of port charges to Jordan, a Jordanian company and not the Government of Iraq, that the Government of Iraq has requested that the Security Council...

Therefore, no payment should be made to the company concerned unless and until in accordance with the Iraqi authorities has been approved by the Security Council Committee...

In a letter dated 27 June 2000, addressed to the Permanent Representative of Iraq to the United Nations, the Executive Director advised that the nature of concern be brought to the attention of the relevant authorities in Iraq.

Copy to:

Best regards, Stephen A. ...

502567

0152505

Quaham Burt
15/09/2000 06:37 PM
mailto:qbu@un.org

To: STEPHEN A. ...
Cc: STEPHEN A. ...
Subject: PORT FEES AT MINA AL-BAKR, IRAQ.

Dear Sir,

In response to your fax dated 11th August, 2000, regarding the so-called 'Port Fees' at Mina Al-Bakr, and the copy of a message from the Security Council Committee...

Regarding the issue of the 'Port Fees' we can only reiterate that we have been verbally advised by the United Nations that, in the opinion of their legal department, any payment of such fees to any entity in Amman would be in violation of the sanctions regime...

Kindest regards,
Grabbas Burt

All our activities are carried out under the strictest security and confidentiality conditions. The general conditions can be consulted at http://www.sagepub.com, and will be sent upon request free of charge. The information in this message is confidential and may be legally privileged. If you have received this message in error, please notify the sender immediately. Access to this message by anyone else is unauthorized.

PR62505

JCL - 31
 JRM - 29
 FCS - 31
 MTR - 30
 MTR - 31
 MTR - 31

(183)

New Box
10/08/2000 10:02 AM

To: Graham Brett@Sytek
cc:
Subject: 90 Day's report

The Oil Sector

1. MINA AL-BARR

Conditions at Mina al-Barr Terminal continue to be of considerable concern. A team of experts reviewed Mina Al-Barr in the afternoon and only limited improvement has been seen observed since the attendance at Mina al-Barr of the United Nations Team in April 1999, and unsafe and unhygienic working conditions and practices continue.

Notwithstanding, during the period, a total net volume of 183 A-19, 105 barrels of Bosphorus Light Oil has been loaded from Mina al-Barr, averaging 1,035,282 barrels per day.

Wear and tear of the loading terminal is apparent and certainly influenced by the increase in the export of Crude Oil through the terminal in comparison to the start of the program.

2. BOTAS TERMINAL, CEYHAN, TURKEY

3.1. Transfer of Kichik Crude Oil from Iraq to Turkey via the Iraq/Turkey Pipeline has continued uninterrupted throughout the period, and have averaged 732,402 barrels per day.

3.2. The flow of oil from Iraq to Turkey is continuously monitored at both the receiving terminal in Ceyhan and the loading terminal at Ceyhan. A daily reconciliation of these volumes is made to ensure that no crude oil can be diverted.

3.3. The volume of oil loaded to vessels at Ceyhan is 132,383,383 barrels under the supervision of the UN Monitors as of 11 August 2000.

3. MONITORING OF OIL SPARE PARTS AND EQUIPMENT

3.1. The arrival of oil spare parts and equipment under Phase 4 (_____) of the UN Monitoring Programme (_____) and Phase 8 (_____) continues at an increasing pace, of 11 August 2000 a total of _____

"New Box" - c:\new@un.org > on 15/11/2000 08:22:38 PM

To: Graham Brett@Sytek
cc:
Subject: New Handshake

Dear Graham:

Can you please kindly enlighten me regarding the latest moves by Iraq regarding 50 cents per barrel charge they want from the operators of oil pipelines in the area. I have seen the news reports on the subject. Do hope these matters will be resolved soon. I am in contact with them. What the please do give me a call on his return to Holland.

With warm personal regards,

Basim

5052673

Rate, is within [] ok?

Graham Kent
2011/2000 10:47 AM

To: gkent@unoc
Cc: gkent@unoc

Subject: 180 Day Report

Dear Stephanie,
Please see below input for 180 day report. I have incorporated the figures from our Baghdad office (which you received under copy) and made some alterations to the SOP's (as discussed over the weekend).
Please note we have only been able to calculate the arrival details for period June 1st to Oct 1st 2007. If you specifically require from June 8th this will require a lot of reprogramming in Baghdad but can be done. Please advise me if you require direct, especially as the cut-off date is somewhat before the 180 day, is critical.

OIL PRODUCTION & RATE OF PRODUCTION AND PRODUCTION PROBLEMS

- 1.1. Mina al-Bahr
1.1.1. During the period of revised crude oil loadings have continued from the Mina al-Bahr oil tanker and the equipment under the supervision of the Saybolt monitoring team which consists of six members.
1.1.2. During the review period the total net volume of Crude Oil delivered to the vessel was 1,285,111 barrels per day.
1.1.3. There has been a total of 16 days of equipment in the loading conditions encountered on Mina al-Bahr. The replacement Marine Omega unit continues to function, and the original unit remains under repair. The meter quality output from a B/O unit is acceptable for general use, albeit somewhat discoloured on improvements have been noted in the general safety arrangements on the platform, nor in the transportation arrangements to and from shore. The two life boats delivered under the BOP are stored on platform. The two life boats for the platform, the "Emergency", have yet to be delivered to Mina al-Bahr. The quality of food remains poor.

2. NE-1 Metering Station - Babo

- 2.1. During the period under review the transfer of Crude Oil from Iraq via the NE-1 Metering Station, Babo, was 20,317,318 barrels.
2.1.1. During the period under review the Saybolt monitoring team which consists of three members.
2.1.2. During the period the volume of Crude Oil monitored through the metering tanks at the NE-1 Metering Station, Babo, was 20,317,318 barrels.

3. NE-1 Metering Station - Turkey

- 3.1. During the period under review the receipt of Crude Oil from Iraq via the NE-1 Metering Station, Turkey, was 1,285,111 barrels.
3.1.1. During the period under review the Saybolt monitoring team which consists of five members.
3.1.2. During the period the volume of Crude Oil monitored into the metering storage tanks, as ascertained by reference to an average tank calibration chart, was 1,285,111 barrels, equating to an average of 841,760 barrels per day.
3.1.3. The total net volume of Crude Oil delivered to vessels was 120,569,340 barrels, as ascertained by reference to the vessel calibration charts. This equates to an average of 87,288 barrels per day.

4. DORRAL Crude Oil Receipts

- 4.1. The total net volume of Crude Oil imported from Mina al-Bahr and Cocha during the period, as mentioned by Saybolt, was 304,632,217 barrels at an average of 2,122,199 barrels per day.

5. DORRAL Crude Oil Receipts

- 5.1. The total net volume of Crude Oil imported from Mina al-Bahr and Cocha during the period, as mentioned by Saybolt, was 304,632,217 barrels at an average of 2,122,199 barrels per day.

MONITORING OF THE SPARE PARTS & EQUIPMENT

6. DATA REGARDING THE RECEIPT OF OIL FROM SAUDI & KUWAIT

- 6.1. Analysis
6.1.1. Complete inventories delivered and accompanied by the relevant contracts arrived, but not checked or awaiting technical report from receivers
6.1.2. Total shipwrecks
6.1.3. These values calculated as per formula applied in previous 90 and 180 days reports.
6.1.4. This is a negative value thrown up by the system as the value in this period - for the sector - is less than value for previous period.
Please note: from 1 to 15th November 2006, an amount of US \$ 30.2 M of contracts were opened, the bulk accounted for by US \$ 14.25 M for contracts 4007, US \$ 4.712 M for items 20 02994 and US \$ 4.18 M for item 400397.

7. FREQUENCY OF PRODUCTION VISITS

- 7.1. During the period the Saybolt monitoring team carried out 866 site visits throughout Iraq.

8. NUMBER OF MONITORING AND SUPPORT PERSONNEL

- 8.1. The Saybolt oil spare parts & equipment monitoring team is based in Baghdad.

9. FREQUENCY OF PRODUCTION VISITS

- 9.1. During the period the Saybolt monitoring team carried out 866 site visits throughout Iraq.

10. NUMBER OF MONITORING AND SUPPORT PERSONNEL

- 10.1. The Saybolt oil spare parts & equipment monitoring team is based in Baghdad.

UN
Reply

Address: Graham Brett at SAVILEM
 Date: 1.5.97 14:49
 Priority: Normal
 From: Peter Bobs at LAMP
 To: CONCERT (A/C) 121981310 at CONCERT
 CC: Peter Bobs at LAMP
 Subject: '011 FOR FOOD' PROGRAM - 'HISTRIA PRISTON' A/C TRAFALGUA
 Message Contents

TO: UNITED NATIONS, NEW YORK
 FM: UN CHILD RIGHTS DIV
 CC: UNITED NATIONS, NEW YORK
 FM: MR JOSEPH STRONAFIDES
 CC: UNITED NATIONS, NEW YORK
 FM: THE OVERSEAS
 CC: MR PETER BOBS
 FROM: SAVILEM SAUTRES HONDIEMHAR BV
 DATE: MAY 1ST 1997
 TIME: 1449 HRS LOCAL TIME
 RE: TV 'HISTRIA PRISTON' A/C TRAFALGUA W/L DO 26/03/97
 SUBJECT: CHILD RE CYPRAN

Dear Mr Jig,

Your Fax to Mr Peter Bobs dd 22 April 1997 refers. As Mr Bobs is currently in Cyprus with the United Nations I am replying to same.

Regarding the loading of the above vessel at Ceyhan which completed loading at 0845 Hrs 26/03/97 for the amount of 17844.98 metric tons. The vessel was loaded on 26/03/97 and L/C No. 1203111 is held like to clarify the following points:-

- 1) The agreed format between SAMP and the UN for the calculation of loaded quantities at Ceyhan, in the absence of a certified metering system and accurate shore tank calibration charts, is to measure vessel tanks on completion of loading and adjust for OMO quantity only.
- 2) The vessel 'Histria Priston' presented at Ceyhan after an inspection of the shore tank calibration charts, was found to have the deck edge points to allow use of wet-type measuring apparatus. The vessel's calibration charts, as presented, were not adjusted for this structural alteration.
- 3) V/F factor calculations require reference to the last can (10) full cargo measurement; these were not available.
- 4) In view of 2) and 3) above, shore tank measurements were taken for reference and as a check.
- 5) On completion of loading there was an apparent difference between the vessel figures (by reference to calibration charts) and shore figures, as follows:-

8054466

Peter Bobs
 1711/2000 08:54 PM

To: Graham Brett
 CC: SAMP@un.org
 Subject: 90 DAY REPORT

Graham,
 This is an old version of our report for the 90 day's report

From: Peter Bobs at UN/10498 02:30 PM
 To: SAMP@un.org
 Subject: 90 DAY REPORT

Dear Graham,

Please find herewith our reply to your telefax concerning the 90 day report. I hope it's sufficient, if not please call me.

1. OIL REPORT

1.1. Mina al-Bahr.

Since the publication of the oilrow report on Mina al-Bahr there has been absolutely no action taken.

In fact, conditions have significantly deteriorated in that:-

- a) The reverse osmosis unit was, as of 4/6 June 1996, operated on a reduced basis (3 hrs a day) and as of 4/6 July 1996 water supplies supplies for personal hygiene (again) on a reduced basis. The quality of the water supply is steadily dubious origin and quality and intermittent romine.
- b) The quality of food, food preparation and availability of fresh produce has further deteriorated.
- c) There is none herby any maintenance on the terminal which has resulted in an unhygienic environment with unsafe working conditions.

8052703

8C, 85, M
AM, 2, 2, 2

United Nations Nations Unies
INTERNATIONAL ORGANIZATION

18 April 1977

TO: Mr. Joseph Stiglitz, Deputy Chief of Staff, Security Council Subsidiary Organs Branch

FROM: Suzanne Bihagovic, Treasurer

RE: Anticipated claim from Trafalgar, Ltd.

1. On Tuesday 13 April 1977, Mr. Maurice L'Esperance, OIL Overseer, advised me that the bill of lading for oil purchased by Trafalgar, Ltd. may have overvalued the quantity actually loaded on the ship by 1,000 barrels. This overvaluation would result in a claim of \$1,000,000. The established report, number 29054877 dated 26 March 1977 from Seybolt refers.

2. The bill of lading, commercial invoice from S.O.M.O., 30 days' draft and the other documents required under the letter of credit had already been presented to Banque Nationale de Montreal on 13 April 1977. The bill of lading was issued on 13 April 1977. The amount of letters of credit number L203131 and the payment in the amount of \$16,027,000.14 would be made into the United Nations Inq. Account on 23 April 1977.

3. The UN OIL Overseer were advised by Trafalgar, Ltd. that the figures presented in the bill of lading are incorrect. The bill of lading was issued on 13 April 1977. The amount of letters of credit number L203131 and the payment in the amount of \$16,027,000.14 would be made into the United Nations Inq. Account on 23 April 1977.

4. Under the circumstances, it would be advisable to reserve \$1,000,000 of the amount anticipated to be deposited into the United Nations Inq. Account until the potential claim is resolved.

5. I should appreciate it if the Overseer would notify Treasury at the earliest possible moment if there should ever be a demand regarding the value of cargoes shipped, in light of the expedited procedures. Such notification would reduce the risk that funds might be allotted or distributed which should be reserved for the settlement of claims.

cc: Mr. Yulman
Mr. Runklow
Mr. Hanson
Mr. Cright

Vessel: 385,183 barrels
which equates to 23,076 barrels or 1,878.

6) The DN/Shipbill was completed with the UN Overseers and SOCO. There is no doubt that the vessel's figures are overstated as a result of the overvaluation of the quantity actually loaded on the vessel. The UN Overseers advised that the loaded figure should be based on the vessel's figures following normal procedures at the port of loading. The UN Overseers take on responsibility for the accuracy of the vessel's figures. The UN Overseers will advise with Trafalgar either by volume on a future lifting, or financially.

7) The bill of Lading was prepared and issued by SOCO at Ceylan.

8) Antoni Ferrer, acting on behalf of Trafalgar, issued a letter of reserve to SOCO, Ceylan, regarding the aforementioned discrepancy between ship and shore.

There is no doubt that the vessel's figures are overstated as a result of the overvaluation of the quantity actually loaded on the vessel. The UN Overseers advised that the loaded figure should be based on the vessel's figures following normal procedures at the port of loading. The UN Overseers take on responsibility for the accuracy of the vessel's figures. The UN Overseers will advise with Trafalgar either by volume on a future lifting, or financially.

Vessel's figures on arrival at Constanza were reported as 490,183 barrels against 496,183 barrels after loading at Ceylan.

This gives an outturn shortage against vessel's figures at loadport of 37,644 barrels (7.6%) and outturn shortage against vessel's arrival figures of 41,618 barrels (8.5%).

Ship's arrival figures at Ceylan (484,183 barrels) only differ from ship's arrival figures at Constanza (496,183 barrels) by 3,771 barrels (0.6%).

Comparison between the shore figure at Ceylan (484,183 barrels) and discharged quantity at Constanza (484,538 barrels) gives a difference of 3,355 barrels (0.7%).

Given that there is an established difference between:

- shore Ceylan and shore Constanza of 1.9%
- ship's loading figures and shore Constanza of 3.8%
- ship's loading figures and shore Ceylan of 2.8%

the apparent overstatement of the vessel's figures, used to establish the bill of lading at loadport, equates to the 11% barrels difference between shore and ship's arrival figures at Constanza. The shore figure (484,183 barrels) would therefore be the most equitable estimate, given above circumstances, of shipped volume.

On the matter of the most recent pipeline shortage we are advised that the repairs will be completed today; on resumption of deliveries via the pipeline we will advise you immediately. The apparent spillage of oil here as a result of the incident should you require any further information on the "Historia Prestige" please do not hesitate to contact us.

Regards,

Suzanne Bihagovic
Treasurer
United Nations

SC54467

is advised that the loaded figure shown on these... figures and ROMO verbally advised that on establishment of the output of the vessel they would make an adjustment which... 1) The Bill of Lading was prepared and issued by ROMO at Ceyhan. 2) Captain Veres, acting on behalf of Freagfigure, issued a Letter of Receipt to ROMO, Ceyhan, regarding the unreasonably discrepancy between ship and shore.

There is no doubt that the vessels figures are overstated as a result of the discrepancy between ship and shore. This is supported by the arrival output in Comstana which Triadigou advise as per their independent inspector, Yonias Gili, that the arrival output was 284,338 barrels.

Vessel's figures on arrival at Comstana were reported as 284,123 barrels against 286,123 barrels after loading at Ceyhan. This gives an output shortage against vessel's figures at loading of 20,000 barrels (7.03%) and output shortage against vessel's arrival figures of 2,000 barrels (0.71%).

Ship's sailing figures at Ceyhan (286,123 barrels) only differ from ship's arrival figures at Comstana (284,123 barrels) by 2,000 barrels (0.70%).

Comparison between the above figure at Ceyhan (286,123 barrels) and discharged quantity at Comstana (284,123 barrels) gives a difference of 2,000 barrels (0.70%).

Given that there is an established difference between:-

- ship loading figures and shore Comstana of 2,824 barrels (the apparent over-shipment of 2,000 barrels); and
- ship's loading figures and shore Ceyhan of 2,814 barrels (the apparent over-shipment of 2,000 barrels).
The above figures indicate a difference of 10 barrels between ship and shore on completion of loading. The above figure Ceyhan (286,123 barrels) would therefore be the most equitable estimate, given above circumstances, of shipped output.

Regards,

Ozhan Bekt

Handwritten initials and notes: 'D/L' and 'to be checked'

Author: Ozhan Bekt at ANTWEDEN
FAO/ICP/Normal 11:57
TO: COMERT PANAFUT 1222951100 AT COMERT
TO: PATER BOGA AT LAMP
TO: COMERT PANAFUT 1122951100 AT COMERT
TO: COMERT PANAFUT 1122951100 AT COMERT
TO: COMERT PANAFUT 1122951100 AT COMERT
TO: COMERT PANAFUT 1122951100 AT COMERT

TO: UNITED NATIONS NEW YORK
TO: MR. JOSEPH STEPHANZAK
TO: UNITED NATIONS NEW YORK
TO: MR. JOSEPH STEPHANZAK
TO: ROMO, BUREAU
TO: MR. ROMO
CC: TRAFICORA, LONDON
FROM: STUART WELTLOCK
CC: MR PETER ROMO
FROM: RAYMOND BARTON HINGLINGS BY
DATE: APRIL 24TH 1987
TIMED NT:

RE: NY - HERRERA REAGTION - A/C TRAFICORA B/L NO 26/03/87
LONDON COMERT AT CEFIMAR

Concerns:
Regarding the loading of the above vessel at Ceyhan which was reported at 286,123 barrels for the account of Triadigou, it is requested that you advise the following information:-
1) The agreed format between ROMO and the ship for the calculation of loaded quantities at Ceyhan, in the absence of a certified quantity and VPE.
2) The vessel's arrival figures presented at Ceyhan after an apparent over-shipment of 2,000 barrels.
3) VPE factor calculations, as presented, were not full cargo movements; they were not available to the shore on completion of loading there was an apparent difference between the vessel's figures (by reference to calibration charts) and shore figure, as follows:-
Ship 286,123 barrels
Shore 284,123 barrels

which equates to 20,000 barrels or 7.03%.
Mr. Pater Boga was contacted both by the UN Overseas and ROMO representatives at Ceyhan to advise this large discrepancy. The

SC54466

MEMORANDUM OF UNDERSTANDING
BETWEEN THE SECRETARIAT
OF THE UNITED NATIONS

AND
THE GOVERNMENT OF IRAQ
ON THE IMPLEMENTATION OF
SECURITY COUNCIL RESOLUTION 986 (1995)

Section I
General Provisions

1. The purpose of this Memorandum of Understanding is to ensure the effective implementation of Security Council Resolution 986 (1995) (hereinafter the Resolution).
2. The Distribution Plan referred to in paragraph 6 (a) (ii) of the Annex which has to be approved by the Secretary-General of the United Nations, constitutes an important element in the implementation of the Resolution.
3. Nothing in the present Memorandum should be construed as infringing upon the sovereignty or territorial integrity of Iraq.
4. The provisions of the present Memorandum pertain strictly and exclusively to the implementation of the Resolution and, as such, in no way create a precedent. It is also understood that the provisions of the present Memorandum are not intended for, in the Memorandum is an exceptional and temporary measure.

Section II
Distribution Plan

5. The Government of Iraq undertakes to effectively guarantee the distribution of essential supplies to the Iraqi population throughout the country of medicines, health supplies, foodstuffs, and materials and supplies for essential civilian needs (hereinafter humanitarian supplies) through the process of the sale of Iraqi petroleum and petroleum products.
6. To this end, the Government of Iraq shall prepare a Distribution Plan which shall be subject to the following procedures to be agreed upon between the competent Iraqi authorities with a view to ensuring such distribution. The present distribution system of such supplies, the prevailing market conditions and the conditions of sale shall be taken into consideration with due regard to the sovereignty of Iraq and the national unity of its population. The plan shall include a categorized list of essential supplies and the Iraqi undertakes to purchase and import for this purpose on a six-month basis.

- 3 -

7. The part of the Distribution Plan related to the three banks in Iraq and the three banks outside Iraq shall be approved in accordance with Annex I, which constitutes an integral part of this Memorandum.

8. The Distribution Plan shall be submitted to the Secretary-General of the United Nations for approval. If the Secretary-General is satisfied that the plan adequately and equitably distributes the proceeds of the oil exports to the Government of Iraq throughout the country, he will so inform the Government of Iraq.

9. It is understood by the Parties to this Memorandum that the Secretary-General will be in a position to report as required in paragraph 13 of the Resolution unless the plan prepared by the Government of Iraq meets with his approval.

10. Once the Secretary-General approves the plan, he will forward a copy of the categorized list of the supplies and goods, which constitutes a part of the plan, to the Secretary-General, which constitutes a part of the Resolution (S/RES/661 (1990)) concerning the situation between Iraq and Kuwait (hereinafter the 661 Committee) for information.

11. After the plan becomes operational, each Party to the present Memorandum may suggest to the Secretary-General a modification to the plan, in order to improve the distribution of supplies and goods, and their adequacy.

Section III

Establishment of the secret account and audit of bank accounts

12. The Secretary-General, after consultations with the Government of Iraq, will select a major bank in Iraq and establish there an account to be known as the United Nations Iraq Account (hereinafter the "Iraq Account"). The Secretary-General will keep the Government of Iraq advised of his actions in choosing the bank and opening the account. All transactions and

deductions mandated by the Security Council under paragraph 8 of the Resolution shall be made from the "Iraq Account", which will be administered under the supervision of the United Nations. Regulations and Rules of the United Nations.

13. The Iraqi authorities shall designate a major banking institution to administer the "Iraq Account". The Secretary-General will monitor all banking matters relating to the "Iraq Account".

14. In accordance with the United Nations Financial Regulations, the Board of Auditors will be audited by the Board of Auditors who are external independent public auditors, as provided for in the Regulations, the Board of Auditors will submit reports on the accounts of the Government of Iraq to the Secretary-General. Such reports will be submitted by the Board to the Secretary-General who will forward them to the 661 Committee and to the Government of Iraq.

15. Nothing in this Memorandum shall be interpreted to create a liability on the part of the United Nations for any purchase made by the Government of Iraq from the "Iraq Account" on its behalf pursuant to the provisions of the Resolution.

Section IV

Sale of petroleum and petroleum products originating in Iraq

16. Petroleum and petroleum products originating in Iraq will be exported via the Kirkuk-Turkmenlik pipeline through Turkey and from the Mina al-Bahr oil terminal. The 661 Committee will monitor the exports and ensure that the proceeds of the sale are used to pay the transportation costs in Turkey. The 661 Committee will be kept advised of the amount of oil, as foreseen in the Resolution and in accordance with procedures between Iraq and Turkey. The Secretary-General will monitor the use of Turkish oil installations concerning the tariffs and payment modalities for the use of Turkish oil installations has been provided to the 661 Committee.

17. Each export of petroleum and petroleum products originating in Iraq shall be approved by the 661 Committee.

23. As noted above, the 661 Committee will take action on applications for change of status of the bank accounts with paragraph 12 of the Resolution. The 661 Committee will inform the Government of Iraq, requesting states, and the Secretary-General of the United Nations of the change of status.

24. After the 661 Committee has taken action on the applications for export in accordance with its procedures, the bank account of the beneficiary shall be referred to the bank holding the "Iraq Account" to the United Nations. Such requests shall be referred by the bank holding the "Iraq Account" to the United Nations, allowing payment from the "Iraq Account" upon presentation of "credit conform documents". The letter of credit will require the bank condition of "Iraq Account" of the documents to be determined by the procedures established by the 661 Committee, including the confirmations by the applicant and the Government of Iraq. The Government of Iraq shall determine the alms to be inserted in all purchase orders, contracts and letters of credit regarding the goods from the Iraq Account. Whereas all charges outside Iraq are for the account of the beneficiary.

25. The status of goods in Iraq purchased under the plan will be confirmed by independent inspection agents to be appointed by the Secretary-General. No payments can be made until the independent inspection agents have confirmed that the exported goods concerned have arrived in Iraq.

26. The independent inspection agents may be stationed at ports, airports, customs points, customs areas or other locations where the functions set out in paragraph 27 of this section can be performed. The number and location of independent inspection agents shall be determined by the Government of Iraq in consultation with the Government of Iraq.

27. The independent inspection agents will confirm delivery to the beneficiary of the goods. They will compare the appropriate documentation, such as bills of lading, other shipping documents or cargo manifests, and the documents issued in Iraq. They will also have the authority to perform other necessary for such.

18. Detailed provisions concerning the sale of Iraqi petroleum products and other commodities, which constitute an integral part of this Memorandum.

SECTION V

PROCUREMENT AND ACQUISITION PROCEDURES

19. The purchase of medical, health supplies, foodstuffs, and other essential supplies for essential civilian needs of the Iraqi population throughout the country, as referred to in paragraph 20 of resolution 667 (1991), will, subject to paragraph 20 below, be carried out in accordance with the commercial practices and on the basis of the relevant resolutions of the Security Council and procedures of the 661 Committee.

20. The purchase of humanitarian supplies for the three northern Governorates of Arbil, Dohuk and Sulaymaniyah, as provided for in the Distribution Plan, will be carried out in accordance with Annex I.

21. The Government of Iraq will, except as provided for in Annex I, negotiate directly with suppliers to arrange the purchase of supplies, and will conclude the appropriate contractual arrangements.

22. Each export of goods to Iraq shall be at the request of the Government of Iraq pursuant to paragraph 3 (a) of the Resolution. Accordingly, exporting states will submit all claims for exported goods to the 661 Committee for appropriate action according to its procedures. It is understood that payment of the supplier from the Government of Iraq shall be subject to the exceptional circumstances arise, applications for the export of goods to Iraq that are included in the categorized list referred to in Section II of the present Memorandum. Should additional circumstances arise, applications for the export of goods to Iraq may be submitted to the 661 Committee for its consideration.

S059302

S059301

33. The distribution of humanitarian supplies in the three months following the cessation of hostilities shall be undertaken by the United Nations Inter-Agency Humanitarian Programme on behalf of the Government of Iraq under the leadership of the United Nations High Commissioner for the Territorial Integrity of Iraq in accordance with Annex I.

Section VII

Observation of the equitable distribution of humanitarian supplies and determination of their adequacy

GENERAL PROVISIONS

34. The United Nations observation process will be conducted by the United Nations personnel in Iraq under the overall authority of the Department of Humanitarian Affairs at United Nations Headquarters. The procedures for such observation shall apply to the distribution of humanitarian supplies financed in accordance with the procedures set out in the Resolution.

35. The objectives of the United Nations observation process shall be:
- (a) to decide whether the equitable distribution of humanitarian supplies to the Iraqi population throughout the country has been assured;
 - (b) to ensure the effectiveness of the operation and determine the adequacy of the available resources to meet Iraq's humanitarian needs.

OBSERVATION PROCEDURES

36. In observing the equitable distribution and its adequacy, United Nations personnel will use, inter alia, the following procedures.

confirmation, including quantity inspection by weight or count, quality inspection including visual inspection, sampling, and, when necessary, laboratory testing.

38. The inspection agents will report all irregularities to the Secretary-General and the Committee. The Committee will inform the Government of Iraq of such irregularities. The Committee will also inform the Government of Iraq of any irregularities which it has identified, but normal commercial resolution procedures (the claims) go on. The inspection agents will hold the shipment in question pending guidance from the 661 Committee.

39. As regards the export to Iraq of parts and equipment which are essential for the safe operation of the Kirkuk-Ummalqala Pipeline system in Iraq, the requests will be submitted to such 661 Committee by the Government of Iraq for approval by the Committee in accordance with its procedures.

40. If the 661 Committee has approved a request in accordance with paragraph 29, the provisions of paragraph 24 shall apply. However, since the supplier can expect payment for the goods, as stated in paragraph 29, the bank will be required to issue a letter of credit stipulating that payment of the amount of the letter of credit shall be made only if the United Nations Secretariat approves the payment.

41. The requirement of substantiated confirmation of arrival of the equipment mentioned in paragraph 29 shall apply also to the parts and equipment mentioned in paragraph 29.

Section VI

Distribution of humanitarian supplies purchased under the Kirkuk-Ummalqala

22. The distribution of humanitarian supplies shall be undertaken by the Government of Iraq in accordance with the Distribution Programme set out in Section II of the present Resolution. The Government of Iraq will keep the United Nations observation personnel informed about the implementation of the plan and the activities that the government is undertaking.

Food Items

37. The observation of the availability of food distribution will be based on information obtained from local markets available to the United Nations and its specialized agencies on food imports, and on sample surveys conducted by United Nations personnel. The observation will also include the quantity and prices of food items imported under the Association.

38. To provide regular updated observation of the most pressing needs, a survey undertaken by the United Nations will serve as a baseline for the continuing observation of nutritional status of the population of Iraq. This information will take account of public health surveys made by the Ministry of Health (MNH) and the relevant United Nations agencies.

Medical supplies and equipment

39. Observation regarding distribution of medical supplies and equipment will include visits to hospitals, clinics as well as medical and pharmaceutical facilities where such supplies and equipment are stored. Such observation will also be conducted by United Nations agencies.

Water/sanitation supplies and equipment

40. Observation of distribution of water/sanitation supplies and equipment will be conducted for the purpose of confirming the intended purposes. Confirmation will be carried out by collecting data on the incidence of water-borne diseases and by water quality control checks by visiting the relevant United Nations agencies. In this regard the United Nations will rely on all relevant indicators.

Other materials and supplies

41. With reference to materials and supplies which do not fall within the above areas indicated above, in particular, those needed for the rehabilitation of infrastructures essential to

most humanitarian needs observations will focus on confirmation that such materials and supplies are delivered to the pre-defined destinations in accordance with the Distribution Plan and that they are used for their intended purposes, and on the determination of minimum quantities of such supplies available to their respective geographical areas of the Iraqi population.

COORDINATION AND COOPERATION

42. The United Nations observations activities will be coordinated with the United Nations Mission for the United Nations Headquarters in New York. Observation will be undertaken by United Nations Personnel. The exact number of such personnel will be determined in consultation with the Government of Iraq and the relevant United Nations agencies. The Government of Iraq will be consulted in this regard.

43. The Iraqi authorities will provide to United Nations personnel the assistance required to facilitate the performance of their functions. United Nations personnel will coordinate with the Iraqi competent authorities.

44. In view of the importance of the functions which United Nations personnel will perform in accordance with the Distribution Plan, the performance of such personnel shall have, in connection with the performance of their functions, unrestricted freedom of movement, access to documentary material which they find relevant having regard to the purposes of the observation, and the possibility to make such contacts as they find essential.

Section VIII

Privileges and Immunities

45. In order to facilitate the successful implementation of the Association the following provisions concerning privileges and immunities shall apply:

SECTION IX

Consultations

49. The Secretariat of the United Nations and the Government of Iraq shall consult each other on the most effective implementation of the present Memorandum.

Section X

Final Clauses

50. The present Memorandum shall enter into force following the ratification of the present Memorandum by the Government of Iraq and shall remain in force until the expiration of the 180 day period referred to in paragraph 3 of the Resolution.

51. Pending its entry into force, the Memorandum shall be given effect by the United Nations and the Government of Iraq provisional.

SIGNED this _____ day of _____ 1956 at _____

For the United Nations For the government of Iraq

Hans Correll Under-Secretary-General The Legal Counsel Abdul Mahr Al-Subari Ambassador Plenipotentiary Head of the Delegation of Iraq

S056306

(3) officials of the United Nations and of any of the Specialized Agencies performing functions in connection with the present Memorandum shall enjoy the same privileges and immunities applicable to them under Articles 1 and 17 of the Convention on the Privileges and Immunities of the United Nations, or Articles 1 and 17 of the Convention on the Privileges and Immunities of the Specialized Agencies to which Iraq is a party;

(4) independent inspection experts, technical experts and United Nations or by heads of the Specialized Agencies concerned and performing functions in connection with the present Memorandum shall enjoy the same privileges and immunities accorded to experts on mission for the United Nations or to experts on mission for the Specialized Agencies of the United Nations or the relevant Annexes of the Convention on the Privileges and Immunities of the Specialized Agencies respectively;

(c) persons performing contractual services for the United Nations or for any of the Specialized Agencies of the Government of Iraq, shall enjoy the privileges and immunities referred to in sub-paragraph (3) above concerning experts on mission appointed by the United Nations.

46. In addition, officials, experts and other personnel referred to in paragraph 45 above shall enjoy the same privileges and immunities as those which shall be issued visa by the Iraqi authorities promptly and free of charge.

47. It is further understood that the United Nations and its Specialized Agencies shall enjoy freedom of entry into and exit from Iraq without delay or hindrance of supplies, equipment and means of surface transport, and that the Government of Iraq shall, in accordance with the Convention on the Privileges and Immunities of the United Nations, temporarily, import such equipment free of customs or other duties.

48. Any issue relating to privileges and immunities, including safety and protection of the United Nations and its personnel, not covered by the provisions of this Section shall be governed by paragraph 15 of the Resolution.

S056307

Annex I

1. In order to ensure the effective implementation of paragraph 4 (b) of this Annex, the following information shall be supplied in respect of the Iraqi Governorates of Arbil, Dinkak and Sulaymaniyah. These arrangements shall be presented with due regard to the principle of equitable distribution of humanitarian supplies throughout the country.

2. The United Nations Inter-Agency Humanitarian Programme shall collect and analyze pertinent information on humanitarian needs in the three northern Governorates. On the basis of that information, the Programme will determine the humanitarian requirements of the three northern Governorates in consultation with the Government of Iraq and subsequent incorporation in the Distribution Plan. In preparing estimates of food needs, the Programme will take into account the special circumstances in each of the three northern Governorates and in the rest of the country, in order to ensure equitable distribution. Specific rehabilitation needs in the three northern Governorates shall receive the necessary attention.

3. Within a week following the approval of the Distribution Plan, the Government of Iraq will request the Government of Iraq to hold discussions to enable the Programme to determine how the procurement of humanitarian supplies for the three northern Governorates can be undertaken most efficiently. The Government of Iraq will be requested to give due consideration to the bulk purchases by the Government of Iraq of standard food commodities and medicines may be the most cost-effective means of procurement. The Government of Iraq for the three northern Governorates, may be more suitably procured through the United Nations system in view of technical aspects related to their proper use.

4. To the extent that purchases and deliveries are made by the Government of Iraq in response to the recommendations of the Programme, the cost of the delivered goods will be deducted from the amount allocated to the Programme from the "Iraq Account".

5. Humanitarian supplies destined for distribution in the three northern Governorates shall be delivered by the Programme to warehouses located within these Governorates. Such supplies can also be delivered by the Government of Iraq on the Programme, as

appropriate, to warehouses in Kirkuk and Mosul. The warehouses shall be managed by the Programme. The Government of Iraq shall ensure the prompt customs and administrative clearances to enable the and quick transit of such supplies to the three northern Governorates.

6. The Programme shall be responsible in the three northern Governorates for the equitable distribution of humanitarian supplies, distribution and confirmation of equitable distribution of humanitarian supplies. The Programme will keep the Government of Iraq informed on the implementation of distribution.

7. Whenever possible and cost-effective, the Programme shall use appropriate local distribution mechanisms which are comparable to those existing in the country. In order to ensure that the Programme will pay a fee for internal transportation, handling, and distribution in the rest of the country, the Programme will make arrangements with the Government of Iraq to ensure that patients, refugees, hospital in-patients and other vulnerable groups in need of supplementary food are appropriately met, and will keep the Government of Iraq informed.

8. The Programme will observe that humanitarian supplies are used for their intended purposes, through visits to sites and by the Government of Iraq. The Programme will also observe the Department of Humanitarian Affairs at United Nations Headquarters in New York and the Government of Iraq any violation observed by the Programme.

ANNEX II

1. The State Committee or, if the oil committee so decides, the national petroleum purchaser authorized by the oil Committee, shall be responsible for the application and submission of the application including the relevant contractual documents covering the sales of such petroleum and petroleum products, for the purpose of purchase of Iraqi petroleum and petroleum products, to the Marketing Organization (Marketing 2000) on behalf of the Government. Such endorsement could be done by sending a copy of the application to the Marketing Organization on the express details of the purchase price at fair market value, the export route, opening of a letter of credit payable to the Iraq Account, and other necessary information required. The shall be covered by contractual documents. A copy of these documents shall be included in the information provided to the oil Committee. The Marketing Organization shall be responsible for the inspection agents described in paragraph 4 of this Annex. The contractual documents should contain the following information: quantity of contract, credit and payment terms and pricing mechanism. The pricing mechanism for petroleum should include the following points: market crude oil and type of quotations to be used, adjustments for transportation and quality, and pricing basis.

2. Irrevocable confirmed letters of credit will be opened by the beneficiary's bank in favor of the Marketing Organization. The proceeds of the letter of credit will be paid directly to the Iraq Account. For this purpose, the following clauses will have to be inserted in each letter of credit:

- "- Provided all terms and conditions of this letter of credit are complied with, proceeds of this letter of credit shall be irrevocably paid into the Iraq Account with Bank."
- "- All charges within Iraq are for the beneficiary's account, whereas all charges outside Iraq are to be borne by the purchaser."

Author: Graham Bretz/Saypol/ML at SAYPOL
Date: 14/07/2001 10:51 AM
Subject: 18-DAY REPORT
----- Message Contents -----

Dear Richard,
The good news is, you may be interested in the text of the finished 18-DAY REPORT, as it was submitted in respect of our submission. It doesn't look quite the same but as long as we follow the format you finally agreed with Georges that we should be in good shape.

Kindest regards,
Graham
----- Forwarded by Graham Bretz/Saypol/ML on 14/07/2001 10:49 -----
"Amas Sult" Coughlin.osp on 14/06/2001 23:26:22
cc: Graham Bretz/Saypol/ML@saypol
Subject: 18-DAY Report

18-DAY REPORT

P.17

- 16 -

3. All such letters of credit will have to be directed by the purchaser's bank to the bank holding the "Iraq Account" with the request that the latter add its confirmation and forwards it to the Central Bank of Iraq for the purpose of advising SOMO.
4. The sale of petroleum and petroleum products originating in Iraq will be monitored by United Nations independent oil experts assisted by the 661 Committee. The monitoring of oil exports will be carried out by independent inspection agents at the leading border, and would include quality and quantity verification. They would also monitor the loading and unloading of oil tankers at the relevant station at the Iraq-Turkey border. The 661 Committee will be kept informed of the progress of the contract has been approved, and report to the United Nations.
5. The United Nations will receive monthly reports from SOMO on the actual volume and type of petroleum products exported under the relevant sales contracts.
6. The United Nations Secretariat and SOMO shall maintain continuing contact and in particular United Nations oil experts shall meet routinely with SOMO representatives to review market conditions and oil sales.

TOTAL P.17

S056912

S056913

Security Council



Chair: Gennadi

18 May 2001

Original: English

Report of the Secretary-General pursuant to paragraph 5 of resolution 1350 (2001)

I. Introduction

1. The present report is submitted pursuant to paragraph 5 of resolution 1350 (2001) of 18 May 2001. It provides a comprehensive report to the Council 90 days after the entry into force of the resolution on the one hand, and 180 days after the end of the 180-day period, on the other hand, in the implementation of the developments in the period covered by my previous report, which was submitted to the Council on 2 March 2001 (S/2001/18). Unless stated otherwise, the cut-off date for the data contained in the present report is 26 April 2001.

II. Revenue generation

A. Oil production and sale of petroleum and petroleum products

2. Since the beginning of the phase IX on 6 December 2000 and as at 30 April 2001, the oil and petroleum products exports under the programme established by resolution 461 (1990) concerning the situation between Iraq and Kuwait, hereinafter referred to as the programme, have been approximately 2.3 billion barrels of oil, of which approximately 1.9 billion barrels of oil have been sold to 157 countries, including 59 countries from the latter part of phase IX, the reduced rate of export at phase VIII extended into phase IX, involving purchases from 41 countries (figure in parentheses in millions of barrels per day): Algeria (1); Austria (1); Bahrain (6); Brazil (1); Bulgaria (1); Canada (1); China (6); Cyprus (7); Egypt

million tons, or \$4,351 million, at the current rate of oil exchange, have been completed.

6. During the course of phase IX, two irregularities in crude oil export operations were identified and corrected. The first irregularity concerned the use of a non-compliant vessel (hereinafter referred to as the Compliant 461 (1990) vessel) to transport oil from Iraq to the United Nations Iraq account owing to non-compliance by purchasers with the authorized discharge destination. The vessel concerned was, however, inspected and found to be in compliance with the requirements in order to decrease the possibilities for such deviations to occur in the future. On 1 April 2001, the oil revenues indicated the income of modifications to ship's masters, 7. The Security Council, in paragraph 15 of its resolution 1310 (2000), requested me, inter alia, to make the necessary arrangements, subject to the approval of the Council, to allow funds up to 500 million euros deposited in the United Nations Iraq account to be used for the cost of installations and maintenance, including training services, of the equipment and spare parts used for the oil storage tanks. In accordance with the provisions of resolution 846 (1992) and related resolutions. Accordingly, a team of experts was designated to Iraq from 18 March to 1 April 2001 to conduct an inspection of the tanks in order to submit a report, recommendations, together with an estimate of the cost of the repairs, to the Council. The full report will also be made available.

8. The experts' report for the inspection of oil storage tanks was submitted to the Council on 18 April 2001. During the current phase, 14 independent inspectors from Syria, Iraq and Cyprus in Turkey, 9. Crude oil loadings have continued from the Misa al-Shar of platform under the supervision of the United Nations Security Council. As at 30 April 2001, 3,353.8 million barrels of oil have been loaded on board 120 vessels, including 100 million barrels in the latter part of phase IX, the reduced rate of export at phase VIII extended into phase IX, involving purchases from 41 countries (figure in parentheses in millions of barrels per day): Algeria (1); Austria (1); Bahrain (6); Brazil (1); Bulgaria (1); Canada (1); China (6); Cyprus (7); Egypt

10. No improvements in the living conditions, general safety arrangements or transportation facilities in Misa al-Shar have been reported.

Misa al-Shar

11. The receipt of crude oil from Iraq via the Misa al-Shar has continued under the supervision of the monitoring team, consisting of five members. The total volume of crude oil delivered to the monitoring team, as stated in the report, was 29,965,686 barrels, equivalent to an average of 471,731 barrels per day. 12. During the period under review, the total net volume of crude oil reported from Misa al-Shar was 1,824,770 barrels, or an average of 1,824,770 barrels per day. Of this total volume reported, 95.6 per cent was reported through Misa al-Shar. 13. The United Nations accounts pertaining to the Misa al-Shar oil platform under the supervision of the Security Council, resolution 846 (1992). As at 30 April 2001, 3,353.8 million barrels of oil have been loaded on board 120 vessels, including 100 million barrels in the latter part of phase IX, the reduced rate of export at phase VIII extended into phase IX, involving purchases from 41 countries (figure in parentheses in millions of barrels per day): Algeria (1); Austria (1); Bahrain (6); Brazil (1); Bulgaria (1); Canada (1); China (6); Cyprus (7); Egypt

40. Accordingly, it is essential to provide appropriate technical assistance to the Government of Iraq to resolve some pending matters. I do wish to express my appreciation to the representatives of the Government of Iraq who have been instrumental in the first step towards implementing my request concerning payment claims for the ESB (59 per cent) accounts, have been suspended once again. I reiterate my appreciation to the Government of Iraq for its cooperation in the Memorandum of Understanding between the United Nations Secretariat and the Government of Iraq (S/1986/145).

Commercial practices

38. There is no sign of a decrease in the estimated number of cases of commercial practices arising from Iraq under the programme. This is borne out by the considerable number of applications submitted for the first step towards implementing my request concerning payment claims for the ESB (59 per cent) accounts, which the contracting companies have received through bilateral negotiations. Despite efforts to reach a settlement with the contractor, the number of cases where supplies are not delivered in full continues to increase. It is hoped that the number of such cases will increase further, as the commercial practices and complexity of supplies delivered to Iraq continue to increase.

39. As I stated in my most recent report (S/2001/186), the Government of Iraq is unable to reduce the number of commercial disputes alone are not a remedy for such a situation. It is essential to take steps to reduce the number of such cases. In this regard, I have requested the Government of Iraq to take steps to reduce the number of such cases. I have also requested the Government of Iraq to take steps to reduce the number of such cases. I have also requested the Government of Iraq to take steps to reduce the number of such cases.

41. The electronic certification of submissions, which was implemented in February by the Office of Iraq Programme and the United Nations Treasury, has been instrumental in the first step towards implementing my request concerning payment claims for the ESB (59 per cent) accounts, have been suspended once again. I reiterate my appreciation to the Government of Iraq for its cooperation in the Memorandum of Understanding between the United Nations Secretariat and the Government of Iraq (S/1986/145).

B. Monitoring of all spare parts and equipment

44. During the period under review, 232 shipments of oil spare parts and equipment were received, of which 197 were covered by 207 contracts were confirmed as additional 77 credit deliveries had been made. The value of supplies delivered during the reporting period was \$10.1 million. There have been no new contracts for the delivery of oil spare parts and equipment under phase IV in 2001. There have been no new contracts for the delivery of oil spare parts and equipment under phase IV in 2001.

45. The oil spare parts and equipment monitoring team in Baghdad and consists of six members from the United Nations Secretariat and Iraq. The team is based in Baghdad and consists of six members from the United Nations Secretariat and Iraq. The team is based in Baghdad and consists of six members from the United Nations Secretariat and Iraq.

46. Owing to the increase in the arrival of oil spare parts and equipment, such monitoring will be carried out in the southern part of the country now takes at least four weeks to complete. The number of oil spare parts and equipment covered in my previous report, March 2001, is 197. The number of oil spare parts and equipment covered in my previous report, March 2001, is 197.

47. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors.

C. United Nations observation mechanism

55. As indicated in my previous report (S/2001/186), the United Nations observation mechanism was established in 2000, the recruitment of the full complement of 158 observers has been completed. In order to ensure the effectiveness of the mechanism, the United Nations Secretariat and the Committee established by resolution 661 (1990), possible currently occupying observer posts in Iraq, have been identified. The United Nations Secretariat and the Committee established by resolution 661 (1990), possible currently occupying observer posts in Iraq, have been identified. The United Nations Secretariat and the Committee established by resolution 661 (1990), possible currently occupying observer posts in Iraq, have been identified.

56. As indicated in my previous report (S/2001/186), the United Nations observation mechanism was established in 2000, the recruitment of the full complement of 158 observers has been completed. In order to ensure the effectiveness of the mechanism, the United Nations Secretariat and the Committee established by resolution 661 (1990), possible currently occupying observer posts in Iraq, have been identified. The United Nations Secretariat and the Committee established by resolution 661 (1990), possible currently occupying observer posts in Iraq, have been identified.

57. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors.

40. Accordingly, it is essential to provide appropriate technical assistance to the Government of Iraq to resolve some pending matters. I do wish to express my appreciation to the representatives of the Government of Iraq who have been instrumental in the first step towards implementing my request concerning payment claims for the ESB (59 per cent) accounts, have been suspended once again. I reiterate my appreciation to the Government of Iraq for its cooperation in the Memorandum of Understanding between the United Nations Secretariat and the Government of Iraq (S/1986/145).

Commercial practices

38. There is no sign of a decrease in the estimated number of cases of commercial practices arising from Iraq under the programme. This is borne out by the considerable number of applications submitted for the first step towards implementing my request concerning payment claims for the ESB (59 per cent) accounts, which the contracting companies have received through bilateral negotiations. Despite efforts to reach a settlement with the contractor, the number of cases where supplies are not delivered in full continues to increase. It is hoped that the number of such cases will increase further, as the commercial practices and complexity of supplies delivered to Iraq continue to increase.

39. As I stated in my most recent report (S/2001/186), the Government of Iraq is unable to reduce the number of commercial disputes alone are not a remedy for such a situation. It is essential to take steps to reduce the number of such cases. In this regard, I have requested the Government of Iraq to take steps to reduce the number of such cases. I have also requested the Government of Iraq to take steps to reduce the number of such cases.

IV. Observation and monitoring activities

A. Inspection and authentication of humanitarian supplies

41. The operation of the United Nations Independent Commission on Human Rights (ICHR) in Iraq, which is based in Baghdad and consists of six members from the United Nations Secretariat and Iraq. The ICHR is based in Baghdad and consists of six members from the United Nations Secretariat and Iraq.

42. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors.

43. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors.

44. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors. The number of storage locations requiring visits by the monitors has also increased, as original warehouses have reached their storage capacity and new warehouses have been established. The fact that these sites are often located in areas distant from one another has placed additional demands on the monitors.



the need for massive rehabilitation of the existing roads and bridges. The Government has undertaken a number of special projects to assist the states in the reconstruction of their road systems. The Government has also provided financial assistance to the states for the construction of new roads and bridges. The Government has also provided technical assistance to the states in the planning and construction of their road systems.

54. An inventory assessment and observations of the port health sector relative to the situation prior to the start of the health emergency are still being reported. This assessment is being completed in order to identify the areas where health equipment is still being reported. This assessment is being completed in order to identify the areas where health equipment is still being reported. This assessment is being completed in order to identify the areas where health equipment is still being reported.

18

S059323



54. The food ration distributed during the reporting period provided an average of 2,200 kilocalories and 14.57 grams of protein per person per day. This is a significant improvement over the 1,800 kilocalories and 10.57 grams of protein per person per day provided in the previous period. The Government has also provided technical assistance to the states in the planning and construction of their food systems.

55. The distribution of observations by sector and type is conducted by the sector working groups during the reporting period. The Government has also provided technical assistance to the states in the planning and construction of their food systems.

V. Programme implementation

A. Sectoral focus

55. The distribution of observations by sector and type is conducted by the sector working groups during the reporting period. The Government has also provided technical assistance to the states in the planning and construction of their food systems.

56. The distribution of observations by sector and type is conducted by the sector working groups during the reporting period. The Government has also provided technical assistance to the states in the planning and construction of their food systems.

19

S059322



56. The distribution of observations by sector and type is conducted by the sector working groups during the reporting period. The Government has also provided technical assistance to the states in the planning and construction of their food systems.

57. The distribution of observations by sector and type is conducted by the sector working groups during the reporting period. The Government has also provided technical assistance to the states in the planning and construction of their food systems.

B. Programme implementation

57. The distribution of observations by sector and type is conducted by the sector working groups during the reporting period. The Government has also provided technical assistance to the states in the planning and construction of their food systems.

58. The distribution of observations by sector and type is conducted by the sector working groups during the reporting period. The Government has also provided technical assistance to the states in the planning and construction of their food systems.

20

S059321

multigrained children under five years of age. The supplementary feeding project during the period under review. Available supplies of high-protein biscuits were adequate to cover the requirements of these targeted beneficiaries. The nutrition surveillance, health promotion and nutrition support, and the lack of incentives for the health workers to continue to deliver the targeted nutrition programme. In all 13 governments in the region, the transportation of nutrition supplies to the local cash to support the programme. The problem of whom are yet to be reimbursed owing to lack of information on the distribution plan for phase VII.

72. While still well below the target of 3,000 that had been set for phase IIC, the number of functional health centres increased from 2,418 in November 2000 to 2,418. The expansion was adversely affected by the irregular supply of high-protein biscuits, delays in the procurement of transportation services and the lack of incentives for health workers. UNICEF continues to provide technical and material support for the programme.

73. In line with the discussions held during the period under review, the Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

74. Data available during the period highlighted variations in the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

75. UNICEF initiated the provision of nutritional supplements, reaching 60,000 of a total of 80,000 children under five years of age. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

76. Data available during the period highlighted variations in the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

77. In the three northern governments, 5,861 metric tons of assorted food commodities were distributed to a monthly average of 156,270 beneficiaries through the supplementary feeding programme of the Rural Food System. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

S069325

more than 2 per cent of needs and urgent rehabilitation programmes, despite indications by the Government to the United Nations Humanitarian Coordinator for Iraq that it had signed many contracts. Unless the Government was able to improve the situation of the national applicants by the suppliers of the Office for the Coordination of Humanitarian Affairs, it is difficult for the Office to continue to provide the necessary supplies. Some essential medicines like antimalarials (6.5 per cent of the total) and antibiotics (6.5 per cent of the total) are still in short supply. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

64. The problem of inadequate systems for the management and monitoring of voluminous supplies of essential medicines and medical equipment for applications for computers and accessories valued at \$7.8 million, which have remained on hold for almost 12 months, needs to be reviewed.

65. The stock of human vaccines in the country falls well below the minimum requirements. Only 2.5 million doses of measles vaccine (about an eight month supply) and about 1.5 million doses of polio vaccine (about a four month supply) were available as at 20 April 2001. The present stock of oral polio vaccine (OPV) is insufficient to cover the needs of the population. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

66. During the reporting period, United Nations observers carried out six observation visits to Samarra and other areas. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

67. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

68. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

69. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

70. Under the programme, three rounds of polio vaccination were conducted, reaching 95 per cent of the population. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries. The Government of the Republic of the Congo has requested the United Nations for the contribution to the water and sanitation situation between the two countries.

71. Roughly 5,000 metric tons of high-protein biscuits were distributed equitably to targeted

S069324

11

disposal situation has improved with the provision of garbage disposal vehicles under the programme. In addition, the recent arrival of construction equipment facilitated the installation of pipes. To date, 1,423 kilometers of pipe of different sizes has arrived in the country. The 800-ton truck has been distributed. Installation of these pipes is well advanced and the arrival of construction equipment, and 206 km of pipe has already been installed. The rest of the pipe forms part of the programme's budget. The water supply authorities have recently begun ordering the required equipment for rehabilitating abandoned water and sewerage systems. The Government has approved 74 of the 135 water-borne systems showed that 27 per cent were operating below half of their expected capacity. The need for power pumps and an availability of nearby pumps to support only 74 per cent of the existing systems.

78. During the period under review, 2,499 metric tons of chlorine gas arrived. Stocks in the Baghdad Water and Sewerage Authority (BWA) are estimated at 217 metric tons, and are expected to last for approximately 4 months at a consumption rate of approximately 6 metric tons per day. Stocks in the General Establishment of Water and Sewerage (GEWS) are estimated at 100 metric tons, to last for almost 10 months, at a consumption rate of approximately 9 metric tons per day. The increasing availability of nearby pumps will ensure the availability of adequate safe drinking water. The BWA is making major safety concerns for implementing and maintaining the chlorine gas supply system. The BWA will enhance chlorine handling and record-keeping.

79. In the three southern governorates, a recent household survey showed improved access to safe drinking water. In the three southern governorates at the end of 2000, however, there are significant differences between urban (96 per cent) and rural (83 per cent) access to safe drinking water. While access to adequate sanitation is good in both urban and rural areas, the household sanitation remains a concern as a significant proportion of the population still lacks easy access to adequate sanitation. The Government is working on alternative (predominantly in rural areas) and villages) and (largely connections (particularly in cities and collective towns). Holds imposed by the

Committee on health-related growth needs, for technological water quality analysis are causing considerable difficulties and concern. The major urban water supply systems in Baghdad, Tikrit, and Basra are serviced by old steel pipes. The pipes are old and require major overhaul, upgrading, extension or replacement. The Government is working on a programme for a series of feasibility studies for four large projects in the three urban centers.

80. As of 14 May 2001, cumulative applications submitted under the sector amounted to \$2.5 billion, as compared to \$1.5 billion in 2000. In comparison to 2000, the value of approved applications has increased by 100 per cent. This, however, the value of bids increased by 137 per cent. Items on bid, worth 2487 million, include pumps, pipes, valves, and other equipment. The value of cumulative awards have been distributed.

81. The results of sector impact assessments for water supply and sewerage systems in the three southern governorates and the Baghdad Water and Sewerage Authority (BWA) are shown in table 1. The report (S/2001/16, para. 102-105) are now available. The results of the impact assessments are shown in table 1. The results of the impact assessments are shown in table 1. The results of the impact assessments are shown in table 1.

82. An increase of the veterinary diagnostic laboratories in the 13 governorates of the south-western Iraq, all three central governorates were established in 1999. The Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose.

83. Based on the results of two surveys in the south-western Iraq, the Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose.

84. During the reporting period, 28 gravity irrigation programmes. This programme activity benefited 2,926 farmers, irrigating 2,993 hectares of arable land. Sixty per cent of the total 1,534-km length of canals were completed. The Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose.

85. With respect to animal health, as a precaution, the Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose.

86. As of 10 April 2001, out of a total of some \$2.3 billion in approved applications since the start of the programme, electrical equipment worth \$213 million had been received. The Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose.

87. The Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose. The Government is working on a programme to establish a steady supply of new materials for the same purpose.

and equipment, standardized technical personnel and training courses in the public sector continue to inflict greater structural damage than the program can address. Such steady deterioration of the national grid, the lack of investment in the value of applications for contracts on hold, which has almost doubled, from \$78 million to \$154 million, during the reporting period. It is regrettable that the program has not been able to meet the applications that have been received under phase IX of the program.

98. An assessment of 1,208 schools confirmed that the vast majority of school buildings and equipment were in poor condition. The assessment of school buildings and equipment was carried out by UNICEF and UNEP. Significant classroom space to accommodate the growing number of pupils. Observers also noted that the schools were in poor condition. Specifically, 79 per cent of the school buildings were in poor condition, 79 per cent of the school buildings were in poor condition, 79 per cent of the school buildings were in poor condition. The availability of the school buildings and equipment was poor. The availability of the school buildings and equipment was poor. The availability of the school buildings and equipment was poor.

99. Currently, only 15 per cent of textbook requirements are met through local printing facilities. The rest is imported from abroad. This has led to a situation where students are unable to get their textbooks on time. The Ministry of Education printing press is constrained by the lack of spare parts and funds to install spare parts. The printing press is constrained by the lack of spare parts and funds to install spare parts. The printing press is constrained by the lack of spare parts and funds to install spare parts.

100. Higher education has also suffered deterioration in terms of infrastructure, available equipment, and quality of teaching. In primary education, a greatly deteriorated

S056329

electricity users of the country can be met, the local generation capacity is insufficient to meet the demand. The reconstruction of the national grid is a priority. The reconstruction of the national grid is a priority. The reconstruction of the national grid is a priority.

99. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

100. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

101. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

102. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

103. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

104. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

105. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

106. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

107. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

108. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

109. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

110. The overall power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical. Despite the fact that the power supply situation in the three northern governorates remains critical.

S056328

to meet objectives of humanitarian assistance to national levels. The inter-agency broader coordination continues to involve continuing to conduct surveys and prepare contingency plans, with emphasis on electricity. With respect to electricity, the total generating capacity will remain far short of demand and interconnectivity remains poor.

B. Cross-sectoral considerations in the three northern governments

Programme coordination

118. As indicated in my previous report (S/2000/118, para 145), the United Nations Office of the High Commissioner for Human Rights (OHCHR) has been instrumental in a decision to set up an inter-agency task force to coordinate action to upgrade planning data and enhance humanitarian information systems. A joint programme of work was established in early January 2001 and has begun surveying the systems that will be compatible with the project approach of an inter-agency humanitarian programme. The absence of every vital for consultants in multi-sectoral planning, joint relations, agro-communications, and needs assessment, and the lack of a common data base is a considerable constraint on the programme of work.

119. The increased scope and scale of the inter-agency humanitarian programme is in many instances placing a heavy strain on local counterpart institutions in the three northern governments. In some cases, they lack the skills and resources to operate and maintain the equipment to be used in the programme. In some cases, they lack the skills and resources to operate and maintain the equipment to be used in the programme. In some cases, they lack the skills and resources to operate and maintain the equipment to be used in the programme.

120. Additional rainfall, while leading to a partial recovery of main-stem agriculture, has not been sufficient to meet the needs of the population. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation.

121. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation.

122. In April 2001, the Government of Iraq made a request for additional humanitarian assistance. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation.

112. As outlined in my previous report (S/2000/118, para 145), the United Nations Office of the High Commissioner for Human Rights (OHCHR) has been instrumental in a decision to set up an inter-agency task force to coordinate action to upgrade planning data and enhance humanitarian information systems. A joint programme of work was established in early January 2001 and has begun surveying the systems that will be compatible with the project approach of an inter-agency humanitarian programme. The absence of every vital for consultants in multi-sectoral planning, joint relations, agro-communications, and needs assessment, and the lack of a common data base is a considerable constraint on the programme of work.

113. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation.

114. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation.

115. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation.

116. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation.

117. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation. The inter-agency task force is currently working on a plan to address the situation.

133. It is also essential to address urgently the problems arising from routine delays in submissions of applications to the Government of Iraq for complete applications. It is unfortunate that while the Secretary has notified the Government of Iraq of the backlog over delays in the submission of consent, business contracts have been signed for suppliers to submit them. With only about three weeks left to the end of the year, it is imperative that the value of applications received, as at 14 May 2001, be \$1.8 billion, including \$1.2 billion for items for the food basket. Now a major application under the health, education and other programmes has been received. I therefore appeal to the Government of Iraq to insist that its suppliers submit applications in a timely manner. It is also imperative that the Office of the Iraq Programme and the United Nations Office of the Humanitarian Coordinator for Iraq on the ground continue to work together to ensure that all concerned are submitted by the suppliers to the Office of the Iraq Programme. Such advance information will be essential to ensure that the necessary application received in this context should also be recommended to the Government of Iraq that the Office of the Iraq Programme should ensure that it considers the value of the applications received for a billion worth of unexpended interest of credit for already approved applications.

134. I wish to express my deep concern over the interruption in essential services to the humanitarian situation in the three northern governorates. In this regard, I request any call upon United Nations officials, experts and other persons performing contractual services for the United Nations to ensure that they are fully aware of the requirements of the United Nations and the Government of Iraq. It should be noted that, as with all UNCTAD (13 per cent) account operations, the Government of Iraq is responsible not only for the building and installing of infrastructure and equipment, but also for its operation and maintenance and for the training of national staff.

With the expansion of the programme activities, in order to fulfil the responsibilities entrusted to it by the Security Council, the United Nations Office of the Iraq Programme will require an increase of staff. I have recently expressed my deepest concern over the safety and security of United Nations personnel working around the world, an increasing number of whom are serving in Iraq. The United Nations Office of the Iraq Programme has been mandated in the line of duty while carrying out humanitarian and peacekeeping missions. I have been listening very closely the criminal cover proceedings in Iraq since 2000 within the premises of the FAO office in Baghdad, in which two staff members were killed and a United Nations staff member was injured. The United Nations staff member who was injured is still recovering from his injuries. I will keep the Council informed of the proceedings of the court, which, I do hope, will be concluded expeditiously.

135. In conclusion, I should like to stress that it is essential to ensure that the United Nations Office of the Iraq Programme continues to be able to implement its humanitarian programme in order to alleviate the plight of the Iraqi population. The United Nations Office of the Iraq Programme should continue to ensure the already fragile living conditions of the average Iraqi.

Allocation of total oil release among the various funds and corresponding expenditures, as at 30 April 2001

1. As at 30 April 2001, 12,634.8 million euros had been deposited into the account for phase IX as authorized under Security Council resolution 1219 (2000), bringing the total value of oil sales since inception to US\$ 27,331.9 billion and 4,811.4 million euros.

2. The allocation of total oil proceeds received from inception to date and the corresponding expenditures, as at 30 April 2001, are as follows:

(a) \$1,484.6 million and 2,119.2 million euros have been allocated for the purchase of humanitarian supplies by the Government of Iraq, as specified in paragraph 4 (a) of resolution 986 (1995). In addition, \$97.2 million and 9.2 million euros have been allocated for the purchase of humanitarian supplies by the Government of Iraq for the benefit of the United Nations credit issued by the Banque Nationale de Paris on behalf of the United Nations to approximately \$14,539 million for humanitarian supplies and all other humanitarian relief for Iraq and payments amounted to \$11,011.6 million under phase IX (K).

(b) The sum of \$3,299.4 million has been allocated for the purchase of humanitarian goods to be distributed to the three northern governorates by the United Nations Inter-Agency Humanitarian Programme as specified in paragraph 4 (b) of resolution 1219 (2000). Expenditures recorded for humanitarian goods approved by the Committee amounted to \$1,192.3 million.

(c) The sum of \$12,243.7 million has been transferred directly into the United Nations Inter-Agency Humanitarian Programme as specified in paragraph 4 (c) of resolution 1219 (2000). Expenditures recorded for humanitarian goods approved by the Committee amounted to \$1,192.3 million.

(d) The sum of \$12,243.7 million has been transferred directly into the United Nations Inter-Agency Humanitarian Programme as specified in paragraph 4 (d) of resolution 1219 (2000). Expenditures recorded for humanitarian goods approved by the Committee amounted to \$1,192.3 million.

(e) The sum of \$12,243.7 million has been transferred directly into the United Nations Inter-Agency Humanitarian Programme as specified in paragraph 4 (e) of resolution 1219 (2000). Expenditures recorded for humanitarian goods approved by the Committee amounted to \$1,192.3 million.

(f) The sum of \$303.2 million has been allocated for carrying expenses of the United Nations Special Commission for the Disarmament of Iraq and its successor the United Nations Monitoring, Verification and Inspection Commission, established by Council resolution 1284 (1999), as specified in paragraph 8 (c) of resolution 1284 (1999). Expenditures for the Commission amounted to \$99 million.

(g) The sum of \$870 million has been set aside for the cost of transporting petroleum and petroleum products originating in Iraq and exported via the Kirkuk-Yanukali pipeline through Turkey, in accordance with paragraph 8 (f) of Council

Annex I

Oil proceeds and humanitarian supply letters of credit, as at 30 April 2001

(United States dollars)

Phase	Date Expires	Number of letters of credit	Value of letters of credit, \$ million
I	31 June 1997	115	2 149 646 810.26
II	2 June 1998	16	2 176 646 110.26
III	30 June 1998	166	2 683 126 314.25
IV	24 December 1998	206	3 027 147 022.35
V	23 June 1999	233	3 947 022 365.12
VI	21 December 1999	252	7 401 894 081.57
VII	18 July 2000	252	8 201 861 911.46
VIII	2 December 2000	207	8 296 227 148.06
Total		1 864	37 332 886 476.06

Oil proceeds

(\$ million)

Phase	Date Expires	Number of letters of credit	Value of letters of credit, \$ million
VIII	20 December 2000	41	1 298 611 932.15
IX	As at 30 April 2001	102	3 253 795 483.77
Total		144	4 552 407 415.92

resolution 885 (1993) and in line with procedures adopted by the Committee. Of that amount, \$794 million has been paid to the Government of Turkey.

(b) The sum of \$129.5 million has been transferred directly to the account established pursuant to Council resolution 706 (1991) of 15 August 1991 for the payments envisaged under paragraph 4 of resolution 712 (1991) of 15 August 1991 and paragraph 4 of resolution 885 (1993) and subsequently in paragraph 34 of my report dated 1 February 1996 (S/1996/978). The total repayments made amounted to \$129.5 million.

Annex III
Sectoral observation table for the period 1 November 2000-30 April 2001

Remanufacture supply mixers of credit for 65B (03 per card) account and bulk government

Part	Number of units of equipment	Value of assets (Estimated value)	Value of assets (Actual value)	Value of assets (Estimated value)
I	678	1 229 078 786,79	1 208 734 287,84	
II	48	1 932 372 678,89	1 879 248 938,19	
III	422	1 049 246 115,50	1 049 246 115,50	
IV	478	272 892 216,68	333 854 566,33	
V	318	284 546 232,88	183 672 049,04	
VI	1 548	3 140 645 912,02	1 738 876 032,33	
VII	850	484 174 771,82	193 699 245,03	
VIII	2 067	3 714 692 187,04	1 904 254 061,27	
IX	681	2 444 434 674,19	98 594 895,12	
X	1 194	3 752 761 728,89	722 027 726,03	
XI	56	31 274 414,54		
XII	30	458 184 822,09		
Total	13 199	19 838 818 214,92	11 431 996 281,10	

Sector	Type of observation		Total
	Inspection	Self-report	
Food	92 237	15	92 252
Transport and food handling	240	38	278
Hotels	1 491	13	1 504
Health	1 891	112	2 003
Wear and maintenance	1 881	238	2 119
Agriculture	1 165	699	1 864
Electricity	241	3	244
Telecommunications ^a	3	2	5
Education	518	1 411	1 929
Healthcare	107	4 828	4 935
Total	183 728	7 859	1 444 122 113

^a With the arrival of equipment provided under the Institutional Programs, the Telecommunications Sectoral Working Group resumed observation activities on 24 April 2001.

S059341

S059340

TELJIBI FAX SYSTEM PHONE NO. : 964 1 2662899 NO
/700 13:44 FAX 212771704 IRAQI MISSION UN

614639D 0073619
Transmitted from Arabic

Permanent Mission of Iraq to the United Nations

UN Doc. No. A/55/589

No. M/1713
Date: 5 November 2003

مكتب الأمم المتحدة
القاهرة
11 / 11 / 2003

Sir,

On instructions from my Government, I have the honour to respond to you regarding a letter dated 3 November 2003 from Mr. Saif Al-Munir Al-Sayid, Minister of Oil of the Republic of Iraq, inviting the attention of the Iraq State Oil Marketing Organisation (ISOMO) to incorporate in order for the sale of oil a provision to the effect that the sum of 1.5 euro per barrel should be remitted to a special account designated to ISOMO to meet the costs of the production, transportation and exportation of oil, the maintenance of oil-related installations and other essential expenditures within Iraq.

Accept, Sir, etc

(Signed) Saïed H. Ri
Ambasadeur
Permanent Representative

Hig Excellency Mr. Kofi A. Annan
Secretary-General of the United Nations

9059627

Mr. SHAYS. Mr. Pruniaux.

Mr. PRUNIAUX. Mr. Chairman and distinguished members of the subcommittee, my name is Andre Pruniaux. Since 1998, I have been employed as Senior Vice President of Cotecna Inspection in Geneva, Switzerland, which has some 4,000 personnel in over 100 offices around the world. I appreciate the opportunity to appear before the subcommittee today to clearly establish for the public record the difficult task of Cotecna as a contractor of the U.N. Oil-for-Food Program.

Mr. Chairman, my primary duties at Cotecna consisted of managing operations in Africa and the Middle East as summarized in my curriculum vitae included in my prepared statement. We hope to clarify Cotecna's responsibilities and authority under the Oil-for-Food Program in the United States and the CPA contracts. The documents we provided to the subcommittee clearly demonstrate our performance under the contracts has been fully consistent with our obligations.

Since the inception of its contract in Iraq, Cotecna has authenticated the arrival of goods in Iraq worth a total of \$29.2 billion, of which no single authentication has been proven to be erroneous. To fairly judge our performance, you must first understand what services Cotecna was and was not contracted to perform under the OFF program. Cotecna was not hired to perform inspection services in the traditional sense which would normally entail a broad range of tasks, in support of full customs inspection services, including, for instance, price analysis, quantity, quality inspection, and port-of-origin and/or port-of-destination.

The 1992 request for proposal on which Cotecna was the successful bidder issued by the U.N. did incorporate broader, more traditional customs inspection mandates. That contract was never awarded, however, because the Iraqi Government would not give its consent. A subsequent contract was awarded in 1996 to Lloyds Register and included the narrower scope of responsibility and authority for authentication of goods under the 986 OFF program. The parameter of this contract were originally established by the Security Council working with the U.N. OIP and Lloyd's. In 1998 Cotecna presented the strongest technical proposal at the lowest price, and on that basis was awarded the contract succeeding Lloyds.

Importantly, the term "authentication" in this context is unique to the U.N. OIP contract. In the world of customs inspection services, the term "authentication" does not appear. This reflects the limited role under the contract of authenticating the arrival of approved and permitted shipments in Iraq so suppliers could be paid.

Under the narrow scope of the contract, Cotecna played a limited technical role in verifying that the goods entering Iraq matched the list of goods authorized for importation, and in the case of food-stuffs, assessing their fitness for human consumption. Our prepared testimony includes these details.

Conversely, Cotecna was not involved in selecting the goods to be imported, establishing the specifications of such products, selecting the suppliers, negotiating the prices to be paid, nor designating any sales commissions.

Further, Cotecna was not involved in handling any funds for the payment for any goods, but only with verifying that items that had been approved for import were delivered in Iraq.

Mr. Chairman, it is important for this committee to understand that two types of goods were coming into Iraq under U.N. authority and approval. The first set of goods entered the country under the Oil-for-Food Program pursuant to Security Council Resolution 986. In addition, a separate volume of goods, valued by some to be worth double that of 986 goods, were imported under Security Council Resolution 661. These 661 goods were the subject of private contracting, were not financed by the OFF program and, therefore, Cotecna had no responsibility or authority to authenticate or inspect them.

Under the contract, Cotecna authenticated the shipments entering Iraq under the 986 program, and was required to perform physical examination on up to 10 percent of them, with the exception of quality control testing of food basket items, as I have already mentioned. We consistently fulfilled each of these mandates.

The company was operating in a difficult and challenging physical and political environment as detailed in part 4 of my prepared written statement. Relations with the U.N. officials, the Humanitarian Coordinator for Iraq, the UNOHCI-Baghdad, were sometimes difficult, because Cotecna was required to report directly to OIP only, while UNOHCI-Baghdad was assisting Cotecna activities and inspections for logistics, visas, transportation authorizations, and complaints from the Iraqi authorities related to Cotecna inspectors. Also the relationship with U.N. humanitarian agencies was delicate and a source of tension because these humanitarian agencies adopted a more sympathetic attitude toward Iraqi and Kurdish entities. UNOHCI, for example, presided over monthly coordination meetings in Baghdad between these humanitarian agencies and Cotecna. Congestion in the port of Umm Qasr became a very serious problem, and suppliers began to complain that the government was refusing to remove containers from the port unless suppliers paid a fee to the port authority, and the government continuously sought ways to influence the authentication and payment process for financial gain.

In direct response to concerns raised by Cotecna to U.N. OIP, this process stopped and the congestion situation immediately eased. Iraq frequently exerted pressure on Cotecna to resolve or retract authentication. Cotecna was directed under the contract to refer all such matters to U.N. OIP New York, but this did not alleviate the pressure from the government, particularly in Umm Qasr.

Mr. Chairman, Cotecna has consistently performed its limited technical role in the authentication of goods under the 986 OFF Program under difficult physical and political conditions. In so doing, the company fulfilled its contractual obligations as established by the U.N. Security Council. There were problems, and many. The company reported those problems. We have sought to cooperate with the subcommittee and have provided documentation of those communications to you.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions members of the subcommittee might have. I would respectfully ask that my full statement be included in the

record along with a letter I sent to you on October 1 regarding an article that appeared in the New York Post.

Mr. SHAYS. Your letter and all of your statements will be in the record in their entirety. Without objection, that will happen.

[The prepared statement of Mr. Pruniaux follows:]

Prepared Statement of ~~André B. Pruniaux~~
U.S. House Committee on Government Reform
Subcommittee on National Security,
Emerging Threats and International Relations

5 October 2004

Mr. Chairman, distinguished Members of the Subcommittee, my name is André Pruniaux. Since 1998, I have been employed as Senior Vice President of Cotecna Inspection, S.A. ("Cotecna") in Geneva, Switzerland. I sincerely appreciate having the opportunity to appear before the Subcommittee today to clearly establish for the public record the limited technical role and performance of Cotecna as a contractor under the United Nation's Oil-for-Food program.

Mr. Chairman, my primary duties at Cotecna consisted of managing operations in Africa and the Middle East, as summarized in my curriculum vitae, which has been presented to the Subcommittee as a part of my prepared statement.

My statement today will cover four main topics:

- (1) How Cotecna won the Oil-For-Food ("OFF") contract;
- (2) What role Cotecna did and did not play in the OFF process, and how the OFF contract therefore differed from Cotecna's other similar contracts;
- (3) What challenges Cotecna encountered, and how Cotecna and the United Nations ("UN") addressed them, including legal, ethical and due diligence procedures Cotecna followed; and
- (4) What changes to the OFF programme's structure might have better prevented Iraqi manipulation.

At the outset, I believe it is important for the committee to understand that Cotecna's duties under its contract were limited to verifying that goods entering Iraq matched the list of goods authorized for importation, and in a limited number of cases to assessing the quality of the goods. Cotecna was not involved in selecting the goods to be imported, establishing the specifications of such products, selecting suppliers, negotiating the prices to be paid, or designating any sales intermediaries or sales commissions. In addition, Cotecna was not involved in handling any funds for the payment for any goods, but only with verifying that items, which had been approved for import, had actually been delivered.

My main point will be that Cotecna played a limited, technical role, albeit a difficult, dangerous and important one, and that Cotecna deserves high praise for its performance. I will seek to correct the public record that has been so misinformed and distorted.

(1) How Cotecna won the OFF contract:

On 9 October 1998, the UN issued a Request For Proposals (“RFP”), addressed to several companies, including Cotecna, for a six-month contract to provide inspection services supporting the OFF programme.

Cotecna had submitted a similar proposal previously, in 1992, at which time the UN had selected Cotecna. Cotecna and the UN did not negotiate and sign a contract following Cotecna’s 1992 selection, however, because Iraq rejected the proposed programme.

Cotecna had submitted yet another proposal in August 1996, in response to a July 1996 UN RFP. At that time, however, the UN selected another company, Lloyd’s Register.

On 2 November 1998, Cotecna submitted its proposal in response to the UN’s October 1998 RFP. Cotecna based its submission on proposed authentication procedures as set out in the RFP, Cotecna’s own Information Technology (“IT”) programme and telecommunication equipment, its staff (mostly inspectors coming from its African, Asian and European affiliates and agents), and the public information available on the OFF programme.

In early December 1998, the UN narrowed the list of respondents and invited Cotecna and another company for direct interviews to detail their proposals, respond to UN queries, etc. Cotecna, it was understood, had submitted a strong technical proposal at the lowest price.

The UN chose Cotecna on the abovementioned basis and invited it to enter into preliminary negotiations with the UN during December 1998. The UN then had Cotecna come to New York City for final negotiations (28 to 30 December 1998) and for contract signature (on 31 December 1998). Contract performance started on 01 February 1999.

(2) What role Cotecna did and did not play in the OFF process, and how the OFF contract therefore differed from Cotecna’s other similar contracts:

Cotecna’s UN-OFF contract was limited to the authentication of goods, imported under the OFF programme and entering Iraq. As stated in the UN’s October 1998 RFP and Cotecna’s December 1998 contract, the UN’s Office of the Iraq Programme (“OIP”) implemented authentication procedures as required by Security Council resolution 986. Such procedures required documentary control at three land border posts and at the Port of Umm Qasr.

The different contracts that Cotecna signed with the UN clearly define Cotecna’s role in the OFF process. I would call your attention particularly to articles 3, 4, 5 and 6 of Contract PD/CON/324/98 dated 31 December 1998 and articles A.3 and B.4 of Contract PD/CO144/01 dated 15 August 2001 (as well as various amendments to these two basic contracts), copies of which I believe have been supplied to the Committee. The contracts foresaw certain

“traditional” inspection techniques, mostly related to food supplies that arrived in bulk at the Port of Umm Qasr and that laboratory analysis would confirm was fit for human consumption (“FFHC”). In other ways, though, Cotecna’s role was “untraditional.”

I will provide more details about Cotecna’s role later, when I address certain strengths and weaknesses in the authentication process. For now, I would note that Cotecna’s OFF Contracts were particularly tough for the contractor (Cotecna) and imposed severe obligations, heavy (standard UN) general conditions, and very limited resources and support for Cotecna in case of evacuations, medical and security assistance, etc. Cotecna and its staff of inspectors had significant previous experience and references in working in remote, desert conditions and in controlling land border posts and port facilities, inspecting “sensitive” imports (such as oil products), in such developing countries as Niger and Chad. The OFF programme, however, was Cotecna’s first involvement in a sanctions programme even though it had experience in commercial inspections in Saudi Arabia and elsewhere in the region also under difficult conditions.

(3) What challenges Cotecna encountered, and how Cotecna and the UN addressed them, including legal, ethical and due diligence procedures Cotecna followed:

The general working and living conditions for Cotecna inspectors were very harsh, and the environment hostile. Inspectors were awarded 15 days leave for every two and a half months of working on the sites. Cotecna and its inspectors encountered major problems in implementing its responsibilities under the contract. Among other challenges, the company:

- Had no insurance coverage for Cotecna’s capital investments in Iraq and, accordingly, no ability to recover any money after the war destroyed certain inspection sites and caused equipment to be looted, documents lost, etc.;
- Has had to bear high insurance costs, including recently kidnapping insurance, to cover inspectors;
- Has borne the cost of expensive security measures, requiring that Cotecna obtain and maintain top quality equipment and special facilities for transportation, water, power, cabins, etc.;
- Has had to carry tremendous telecommunications service and equipment expenses for the professional and personal use of our inspectors;
- Has been faced with providing and maintaining inspection equipment under the most extreme and, often, unforeseen conditions;
- Has been challenged with handling the administrative management of inspectors (leaves, salaries, dismissing, hiring, authorizations from OIP, etc.);

- Continues to successfully manage a highly diverse staff—some 30 nationalities—in the face of sickness, accidents, discipline problems and cultural tensions, both internal and with the Iraqis;
- Had to navigate Cotecna’s delicate web of contacts with UN’s Office of the Humanitarian Coordinator for Iraq (“UNOHCI”), Iraqi authorities, port officials, Iraq’s Ministry of Trade (“MOT”), to process visas, requests for dismissal, etc.;
- Had 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);
- Had to deal with direct pressure from Iraqis;
- Had to provide its employees with the tools and training to survive extreme desert conditions, which sometimes poisoned the water and required organized catering;
- Had to deal with heightened dangers such as shootings, sandstorms, dangerous driving, and even camels and snakes – all of which made evacuations and the rotation of inspectors between sites difficult, as 1,000 kilometres separated Amman from Baghdad (all transportation in Iraq had to go through Baghdad); and
- Finally, had to deal with an inherited disarray of OFF records, and to respond appropriately when carriers presented incomplete or erroneous entry documents.

Faced with these challenges, Cotecna exhibited the highest degree of professionalism and followed all appropriate legal, ethical and due diligence procedures. Cotecna is a leading inspection companies and as such is a member of the International Federation of Inspection Agencies (“IFIA”) and adheres to its code of obligations and best practices. Cotecna is also International Organization for Standardization (“ISO”) certified. Cotecna properly enforced Standard Operating Procedures for UN contractors and wrote, distributed, implemented, and audited its own Specific Operating Procedures (“SOPs”) for each site. Cotecna inspectors were required to rigorously follow Cotecna’s detailed and highly specific Field Inspection Manual (FIM). Cotecna issued and regularly updated these confidential administrative procedures.

Generally, I would say that the UN also responded appropriately to the above challenges. When I describe authentication procedures later in my statement, I will discuss Cotecna’s coordination with the OIP, which I would characterize as fair. Meanwhile, relations with the UNOHCI were sometimes delicate, because Cotecna was required to report directly to OIP only, while UNOHCI-Baghdad was assisting Cotecna for logistics, visas, transportation authorizations, and complaints from Iraqi authorities related to Cotecna inspectors (discipline, behaviour, etc.). When receiving messages from Iraqi authorities regarding Cotecna’s authentication activities, UNOHCI passed them to Cotecna in a way that often reflected a sympathetic attitude toward the Iraqi complaints or requests. Finally, dealing with UN-agencies was always a delicate task and a source of tensions, because these humanitarian agencies adopted a more sympathetic attitude

towards Iraqi and Kurdish entities. In direct response to concerns raised by Cotecna, UNOIP arranged for monthly coordination meetings in Baghdad with the various agencies and Cotecna.

(4) What changes to the OFF programme's structure might have better prevented Iraqi manipulation

Under the terms of its UN contract (from 01 February 1999 to 21 November 2003), Cotecna maintained between 54 to 67 inspectors at five entry points located on Iraqi territory at the borders with Turkey, Syria, Jordan and Saudi Arabia (first opened in November 2002) and at the sea port of Umm Qasr in the Persian Gulf. Umm Qasr operated on a 24-hour basis, whereas the land border inspection sites mirrored the opening hours of the individual border crossings. The UN required suppliers to present all goods approved under the OFF programme for authentication by Cotecna at these entry points. To assist in the authentication process, the OIP in New York supplied Cotecna with a live copy of the OFF database. The OFF database tracked each contract via a unique reference number referred to as the Comm. (communication) number. Before the export of goods, suppliers were issued an approval letter by OIP referred to as the O.C. (Official Communication) letter. The O.C. letter specified the point of entry (as stated by the supplier in its application to OIP), the list of goods to be shipped (item by item) and the date of validity of the approval letter, generally one year from the date of issuance.

Importantly, Cotecna had no mandate to inspect trucks or board vessels to ascertain whether the goods on board were approved for export to Iraq pursuant to Security Council Resolution 986 ("986 goods"). In addition to 986 goods, a vast stream of "661 goods" approved by the Security Council 661 Committee for export to Iraq, were the subject of private contracting and were not financed by the OFF programme; therefore Cotecna had no responsibility nor, more important, authority to inspect them.

Upon presentation of goods for authentication at the entry points (the five sites), Cotecna verified that the Comm. number concerned had been approved, that a valid OC letter had been issued by OIP, and that the goods were presented at the appropriate point of entry. Suppliers routinely presented goods at the wrong entry point or with expired approval letters. Cotecna sought guidance directly and only from OIP in all such cases. OIP adopted a facilitative approach to such problems, exhibiting a reluctance to slow the pipeline of humanitarian deliveries to Iraq. OIP therefore typically instructed Cotecna to proceed with the authentication process while OIP arranged with the supplier and relevant permanent mission to the United Nations to change the point of entry or extend the validity of the approval letter in slightly slower time.

Once satisfied that the goods had a valid approval letter, Cotecna verified that the quantity and type of goods listed on the database/O.C. letter matched the bill of lading, invoices, packing lists and any other relevant documentation presented at the sites. All 986 goods presented were authenticated. Cotecna authenticated by replicating shipment inspection reports to OIP and the UN Treasury via the OFF database. Receipt of the shipment authentication report triggered an instruction from Treasury to BNP Paribas to release funds from the Iraq account reserved against the letter of credit.

Cotecna performed physical examination on bulk or containerized imports in connection with approximately 10 per cent of consignments (in number). In addition, Cotecna drew samples of all food stuffs (mostly at the Port of Umm Qasr) and deferred authentication until laboratory analysis confirmed fitness for human consumption. This methodology was agreed with OIP, which in turn briefed the 661 Committee. OIP did not require Cotecna to perform quality control testing other than in connection with food basket items. On occasion, however, carriers presented goods for inspection that had obviously been damaged in transit. Cotecna referred all such cases to OIP. According to my recollection, these cases were amicably resolved after liaison between OIP, the relevant permanent mission to the UN, and the supplier, and the suppliers eventually agreed to withdraw the shipments and to send replacement goods.

Laboratory analysis occurred at Cotecna's laboratories in Amman (since crossing the Turkish, Kuwaiti, Syrian and Saudi Arabian borders was strictly forbidden). This obligation delayed the results of the analysis by an average of 7 to 10 days. The working relationship between Cotecna and OIP was close and continuous, and Cotecna sought guidance in every case where Cotecna observed a deviation from normal practice. Cotecna did not withhold authentication in connection with any consignment unless OIP specifically instructed this, and most cases were eventually resolved. Problems routinely arose when inexperienced suppliers or transporters neglected to present 986 goods for authentication at the sites and when the error came to light only after the carrier had delivered the goods to the receiving Ministry (mostly in Baghdad) and the suppliers sought payment. In such cases suppliers had to return the goods to the entry point for inspection; Cotecna inspectors were dispatched to inspect the goods in situ; OIP liaised with the Ministries in question to receive confirmation of receipt of the goods; or, if through documentary evidence Cotecna was satisfied that a prima facie case existed that the goods had been imported, OIP authorized Cotecna to authenticate without inspection. The latter course of action mostly applied to goods imported on the eve of the war in Iraq that Cotecna could not authenticate at the sites after the evacuation. The 661 Committee approved this measure. Notably, Cotecna had the authority to withhold authentication but not to detain goods.

The Iraqi Ministries complained continuously that the authentication process favored the supplier, often claiming that they had received substandard goods or delivery shortfalls. Iraq frequently exerted firm pressure on Cotecna to withhold or retract authentication. OIP directed Cotecna to refer all such matters to the UN, but this did not alleviate the pressure from the Government of Iraq ("GOI") upon Cotecna, particularly in Umm Qasr. It was the policy of the UN that such matters were in fact commercial disputes between buyer and seller, which the relevant parties should address through normal dispute resolution procedures.

For example, in May 1999, the Iraqi Minister of Trade, accompanied by more than 20 heavily armed guards, approached Cotecna inspectors outside of the camp. He informed them that Iraq would no longer allow discharge of any vessel before completion of analysis in Baghdad. This was an aggressive show of force that left many inspectors in Umm Qasr badly shaken. This aggression and intimidation continued and reached a peak in 2001. These actions coincided with a significant increase in traffic leaving the port, which we reported to OIP.

The Government also lobbied strongly with Cotecna and OIP to introduce a deferred authentication period to facilitate quality control testing by the Ministries. Cotecna and OIP

vigorously resisted such a measure, because it might have permitted the Ministries to influence the payment process by requesting payment of illicit fees by suppliers to ensure that quality disputes were resolved and that payment might go forth. OIP and Cotecna repeatedly and firmly requested the Iraqi Ministries to appoint commercial inspection companies in their contracts with suppliers. The UN specifically asked Cotecna not to act as a commercial inspection company for the OFF imports into Iraq. Cotecna strictly honored this obligation.

The Government continuously sought ways to influence the payment process. For instance, for a period in 2001 OIP instructed Cotecna not to authenticate goods until a carrier had physically removed them from the port of Umm Qasr. Within a short period of time congestion in the port of Umm Qasr became a serious problem, and suppliers began to complain, off the record, that the Government was refusing to remove containers from the port unless the suppliers paid a fee to the port authority. In other words, the Iraqi authorities began to influence the authentication/payment process for financial gain. After discussions with OIP, this process stopped, and the congestion situation immediately eased. Despite the pressure that certain Iraqi officials brought to bear, Cotecna managed to maintain a fair working relationship with Iraqi officials at the entry points and within the Ministries. In fact, inspectors did not feel under particular threat before the war in Iraq.

Cotecna occasionally experienced delays in receiving guidance from OIP or received advice that did not precisely correlate with earlier stances taken by OIP, but, in general, an occasional lack of coordination and some disagreements between various UN offices did not affect the authentication process and the execution of the contract. Cotecna did experience some delays in receiving payment, through a lack of coordination between the different UN entities (UN-OIP, PD, OLA) and often had to adopt to agreed changes, in good faith, before the UN managed to adjust the contract accordingly. The UN also occasionally neglected to make formal written changes to the contract to reflect agreed procedures in the field and a breakdown in communications between departments coupled with the war in Iraq resulted in the UN failing to reimburse Cotecna fully for the construction of a site in Ar'ar. These were not, however, matters that affected Cotecna's performance in Iraq.

Since the inception of its contract in Iraq Cotecna has authenticated the arrival of goods in Iraq with a total of \$29.2 billion, of which no single authentication has been proven to be erroneous. Criticism of Cotecna normally stems from ignorance as to the limitations of our mandate. For instance, Cotecna had no involvement at all in the contracting or approval process or the valuation of the goods shipped, and yet blame has been apportioned by some in the media to Cotecna regarding the alleged over-pricing of goods. Cotecna has also received unfair criticism for not inspecting every truck or vessel entering Iraq when, as stated above, the mandate was reactive rather than proactive and Cotecna had no authority to inspect all goods.

OIP appeared to make every effort to facilitate the flow of goods while restricting any influence of the Government of Iraq over the payment process which might have involved coercing suppliers to pay illicit fees to ensure timely payment. It is my opinion that Security Council resolutions 661 and 986 relied upon member states to police exports through their export licensing arrangements rather than providing adequate security at the borders of Iraq. Since Cotecna had no authority to search any vehicle or vessel other than those presented for

inspection, weapons or banned products could simply have been transported across the borders since no mechanism for security inspection existed other than the multinational maritime interception force operating in the Persian Arabian gulf. It is also my opinion that the Security Council could have adopted a resolution extending the role of the Independent Inspection Agent to include physical inspection of all imports to ascertain that only approved goods were entering the country. But, again, such was not the case.

This concludes my prepared statement, Mr. Chairman. I would be pleased to answer any questions members of the Subcommittee might have.

[CV APPEARS ON NEXT PAGE]

CURRICULUM VITAE

NAME: André E. PRUNIAUX
NATIONALITY: French
LANGUAGE: French, English, (Spanish/Italian/German)
CURRENT POSITION: Senior Vice President – Africa and Middle East
 Cotecna Inspection S.A., Geneva – Switzerland

GENERAL QUALIFICATIONS

- > Chemical Engineer – Ecole Nationale Supérieure Génie Chimique, Toulouse, France, (1963)
- > Licence in sciences, chemistry and mathematics, (1962)
- > Post graduate research (Doctorate) in nuclear engineering – Centre d'Etudes Nucléaires de Cadarache, France (1964-1966)
- > Courses in Business Administration, Washington D.C. (USA), (1968-1969)

BRIEF CAREER HISTORY

1965-1968	Commissariat à l'Energie Atomique, France; various posts
1968-1969	American Chemical Society, Washington, D.C., USA; processing of data, scientific journalism
1969-1971	American Chemical Society, Frankfurt, Germany; Bureau Head
1971-1974	Oronzio de Nora Group, Milan, Italy; Manager of chemical and electro-chemical projects
1974-1987	Universal Engineering and Finance Corporation (UNEFICO), Geneva, Switzerland (subsidiary of Swiss Bank Corporation). Head of African activities, Marketing Director, General Manager
1987-1988	Société Générale de Surveillance, Geneva, Switzerland; Manager, Manufacturing Industry Department
1988-pres.	Cotecna Inspection S.A., Geneva, Switzerland, Senior Vice President

SPECIFIC EXPERIENCE IN TRADE SURVEILLANCE

- > Manager with SGS in the Manufacturing Industry Department
- > Overall Management of full inspection contracts for the Governments of Nigeria, Kenya, Benin, Pakistan, Comoros, Niger, Togo, Ghana, Tanzania, etc.

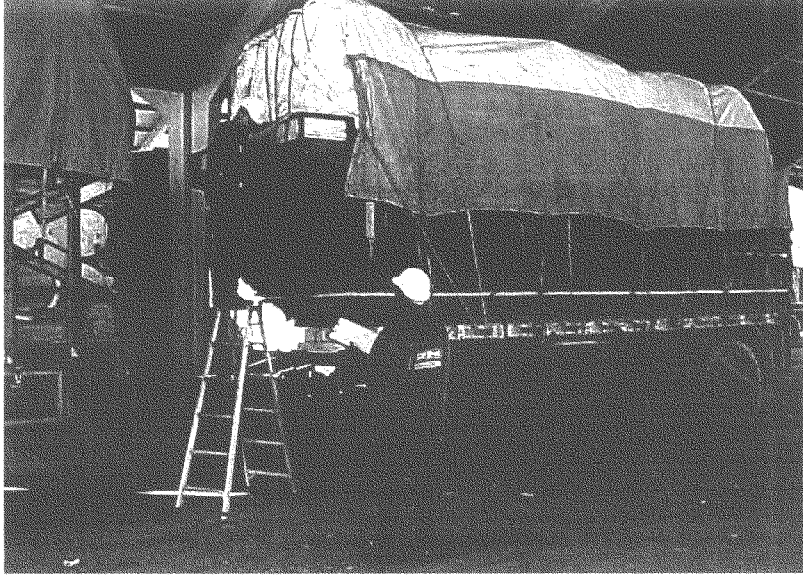


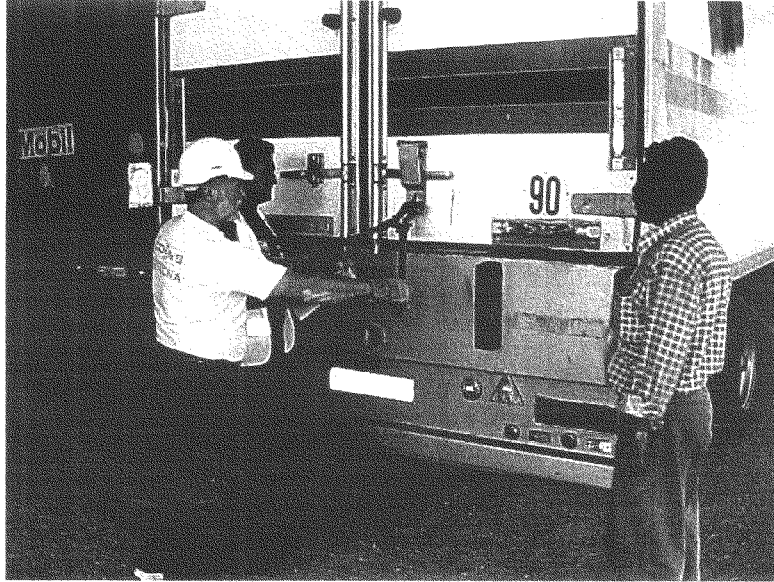
COTECNA

22nd July 2004

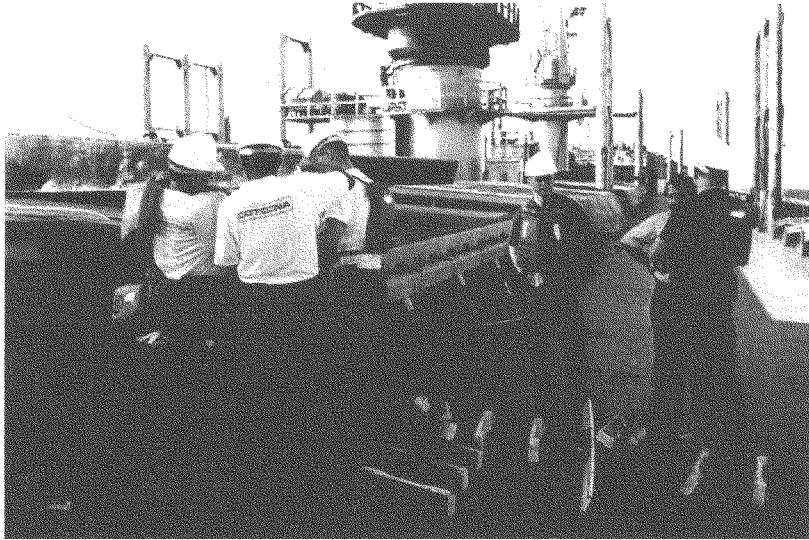
INSPECTIONS' PHOTOS

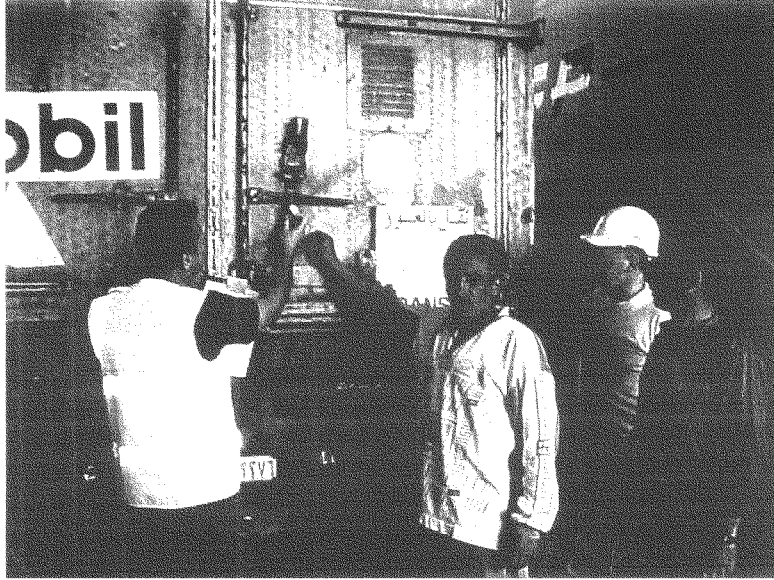
PHOTO N°	LOCATION	DESCRIPTION
1	AL WALEED	Physical Inspection Shed
2	AL WALEED	Refrigrator truck (medicin)
3	DUBAI	Inspection at sea (Launch)
4	DUBAI	Inspection at sea (Launch)
5	UMM QASR PORT	Inspection Seal Verification
6	AL WALEED	Inspection Seal Verification
7	ZAKHO	General Cargo Tires Inspection
8	ZAKHO	General Cargo Tubes Inspection
9	DUBAI	Offshore Inspection (Rice)
10	DUBAI	Offshore Inspection Approaching Vessel
11	ZAKHO	Truck - General Cargo





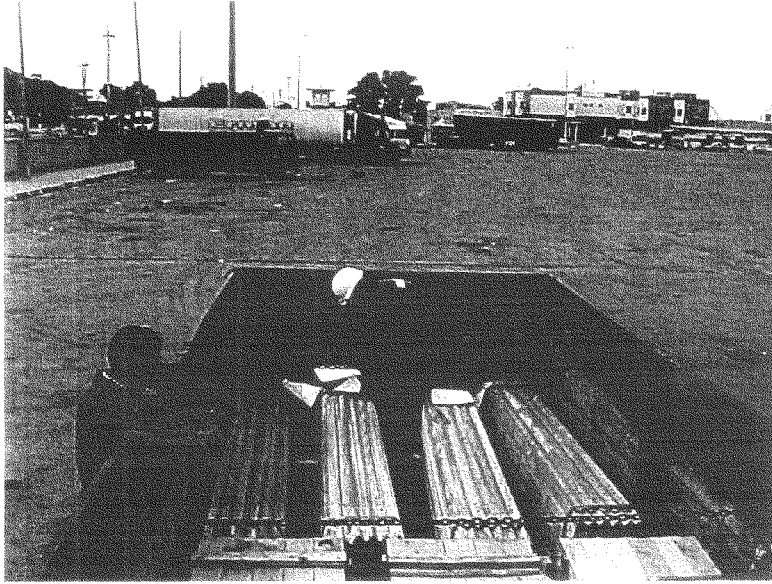


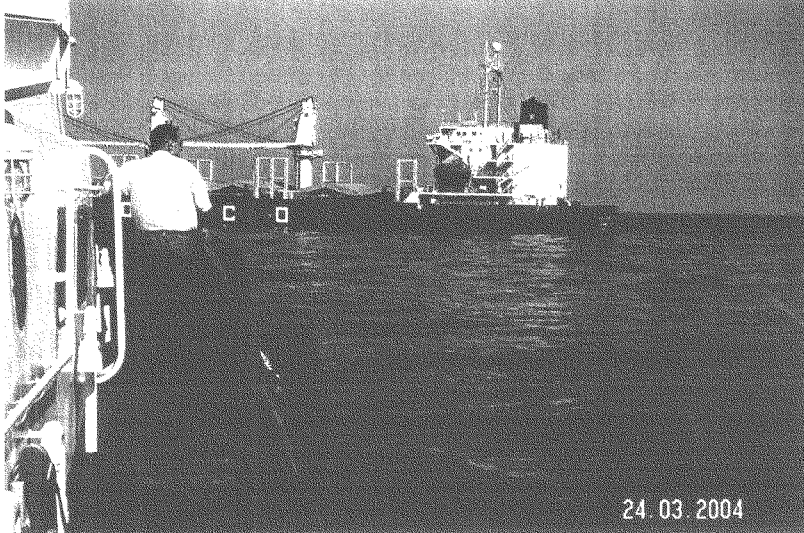
















346

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

Tuesday, October 5, 2004, 11:00 a.m.

**Cotecna
Inspections S.A.
Documents**

"Kaith, T" <kaith@baghdadforum.com> on 12-02-2004 11:39:21 AM
To: "A. Coine" <acoin@un.org>
Cc: "Frank Caro" <carof@baghdadforum.com>; "Wardick, James (CV)" <wardick@china.centrcom.mil>
Subject: RE: PW: UN No. SIAC.252002989/CC.1001883

Ron,
Can you confirm or deny for me whether the Syrian authorities are closing the Al Waked border crossing from today through Saturday? Our employees at the head site told me that Syrians are either conducting anti-terrorist commando training in vicinity or are attempting to prevent trucks from crossing the border. I am not sure if this is true. Do you have any information? If closure is not what impact do you foresee on authentications coming from there over next three days?

Best Regards,

Tom

THOMAS C. KEITH
DIRECTOR, OIL FOR FOOD COORDINATION CENTER
CPA BAGHDAD
PHONE: 703-270-0487, c. 914-366-3028
EMAIL: keith@baghdadforum.com

-----Original Message-----
From: A Coine [mailto:acoin@un.org]
Sent: Wednesday, February 11, 2004 5:38 PM
To: Kaith, T
Cc: "Salih Joe" <joes.salih@cofsc.org>
Subject: Re: PW: UN No. SIAC.252002989/CC.1001883
Importance: High

Hi Tom,

I spoke with Gazali Tammart on this topic (twice, in fact). My personal preference would be to have the trucks return to the border as well. If for technical reasons I foresee that this sort of thing will happen, I will inform you. I am sure that if they are able to get away with it without any consequences to themselves personally. And, as you mentioned, we do need for some unbattered 3rd party to confirm arrival of goods in general, and specifically with this shipment. I spoke to our inspectors out at the border after talking to Gazali, and indeed that there is a bit of a "staging area" just east of the Syrian Customs port in the "no man's land" in between the two ports. It is a routine thing for trucks to return as far as that location (when they have neglected to follow some procedure (either ours or one of the gov't agencies) before leaving Syria.

Our inspectors have been allowed into that staging area before without any

Pruniaux André
From: Pruniaux André
Sent: Thursday, February 12, 2004 1:40 PM
To: 'A. Coline'; 'Frost@md.un.org'; Gary -gnost; 'James' -swatckl; joe saliba;
Subject: RE: FV: UN No. S/CAC.25/2002/96/OC.1001983

File Arabic Ho
Sym - Dem
R. J. J. J.
UNCLASSIFIED

Joe,
Thanks. Which port area is Ron referring to?
André E. Pruniaux

-----Original Message-----
From: Pruniaux André
Sent: Thursday, February 12, 2004 12:27 PM
To: Pruniaux André
Subject: FV: UN No. S/CAC.25/2002/96/OC.1001983
Importance: High

André,
Your information. I will keep you posted.
Joe Saliba

-----Original Message-----
From: Pruniaux André
To: Keith@egididatum.com
Cc: 'A. Coline'; 'Frost@md.un.org'; Gary -gnost; 'James' -swatckl; joe saliba;
Sent: 02/20/2004 10:09 AM
Subject: RE: FV: UN No. S/CAC.25/2002/96/OC.1001983
Importance: High

Hi Keith,
I can confirm that all traffic has been cleared at the Syrians since morning. Our inspectors report that the trucks are now lined up to beyond the port area. Nobody is giving us any explanations. Perhaps US Embassy here in Beirut has this information, or can make enquiries at a senior level.

Any inspection requires on authentications will occur in 15 days time. We will be back on processing them. Doing inspections right now presents challenges as well, as the port area is already apparently filled to capacity. We would have no way of knowing if an inspected truck did actually enter Iraq, or turned around and went home.
Sorry to be the bearer of bad news.
Warm regards,
Ron

HA010637

18 inspectors always available therefore total is 24 inspectors

Al Waid

15 inspectors

Quiet border, goods coming mainly from Syria. Mainly night work.

Goods: Wheat, salt, all produced in Syria or some are imported through Lutzabie (Also some Lebanese products)

Sampling - analysis - case by case (note handwriting)

There is no support in Zakho

If goods do not fit for human consumption & can not be authenticated.

Loyda is proceeding to benchmark with exporters. Fully inspect how export of if

9 main foods products imported: Wheat / sugar / Rice / pulses / Peas / Soy powder / vegetable gas / Adult milk and cheese / toilet soap liquid

Loyda is hired 2 IT people in Iraq for all sites.

Joe

Notes:

- Cds of Loyda agents suggests work within will be completed after contract signature
- Loyda provides goods as well as UN operations manual will also be available to water contractor signature
- The UN site is excellent condition, well maintained and well equipped - Catering is fine
- Security are not necessary. Petroleum supplies - additional services - Some custom inspectors should have experience in electricity contracts (to verify progress reports of each project as the known all handwriting # 18 units related to contract)

HA006407

Reciprocally several OC letters one ship (Ex containers)
Goods can be substantiated daily when ship is fully unloaded.

11 inspectors already present therefore total of 15 Lloyds inspectors if necessary.
Lloyds camp is located in New port (5 km from Basrah)
Inspectors can have access to UN/IAI shops and areas.
Site can only be reached by Amman
Food is provided by Gulf catering
Camps are prefabricated buildings manufactured in Jordan and Lloyds rents some local houses. *all camps are in a valley of castles and include basins, fountains, etc.*
2 persons in each cabin (Bathroom)
One mess, and one office for leisure.
Local water can not be consumed.
Generator backup in case of electric national network failure.
Svt phone are necessary as network is not reliable enough
Kuwait mobile phones would work in the area (But not allowed)
3 cars available.

All Data is UN property, all containers come from Dubai where they are
checked by UN inspectors.
Right - No control in Dubai and Iraq

Manager: Senior Swedish customs officer. Excludes (When on leave, he is replaced by another Swedish)

Regular Connection with UN and Ministries
Administration tasks (Visas, permits...)
Occasionally performs inspection. Certain try to get away from control at AI. Walk by Trehil and arrive in Baghdad with no authentication. The manager will analyze and understand what happened. He will call an inspector from Trehil and communication will be performed. *or Trehil*
Monthly meetings held in Baghdad with all team leaders, Chief LO and UN units involved

Mini-M Satellite phone is available / Or UN phone and E-mail can be used
Local mail service about database available in Baghdad
Ons car... *no secretary* *40 is alone*

In Iraq there are 4 boats
Boats are located in AI Basrah Hotel (around 40m/ night)
Boats are called Canal Boat
It is prohibited on Iraq territory to have local desks, recreations, etc...

Trehil
This site is only a border, there is no town.
Camps are prefabricated houses from Jordan. Gulf Catering
Satellite TV, gym, ... Are available for entertainment
Inspection are performed by Iraqi customs and afterward by IIA.
More problems at this site
4 cars

Well established on Iraq territory
5

14 inspectors always on site plus replacement during holiday : Total 18
Turkish currency.
Mainly Kurdish trucks are used to inspect with goods of Turkish origin.
OC letter must be provided to IIA at Zabho with CHR transportation documents
packing list and driver name and address. *at Zabho Iraq*

After authentication goods are escorted from the Turkish border. *at Zabho Iraq*
border 70km from Zabho after crossing the Kurdish territory. *at Zabho Iraq*
Lloyds has Swedish customs officers team leaders : some inspectors are Swedish and Norwegian. *at Zabho Iraq*
Trucks are not always unloaded. *at Zabho Iraq*
Goods (ex : Generators, compressors...)
Samples are sent to Amman for analysis.
Lloyds (only) cars in Zabho (one local, one for sample dispatch, one to escort to Iraqi border). Cars are driven by Iraqi drivers (50 USD/ month)
Gulf catering is providing food.
Prefabricated and local houses are used by Lloyds
This site is mostly day time work.

Some communication is by satellite.
Sat phone Back up systems are needed in case of breakdown.
2 x phone per site are needed, one for voice and one for data.
Temperature is hot in summer and cold in winter. *at Zabho Iraq*
Lloyds has excellent contacts with UNICEF in Iraq.

Uman Qasr
3 seaports
Very hot, up to 62 degrees, very busy, extreme conditions.

Main one is New port.
Goods : Rice (Vietnam), *at Zabho Iraq*
parts in containers *at Zabho Iraq*

Silo port *at Zabho Iraq*
Boats : With USSR, US, boats are unloaded and loaded on trucks
Boats are *at Zabho Iraq*

Boats are *at Zabho Iraq*
Boats are *at Zabho Iraq*

Boats are *at Zabho Iraq*
Boats are *at Zabho Iraq*

Boats are *at Zabho Iraq*
Boats are *at Zabho Iraq*

Boats are *at Zabho Iraq*
Boats are *at Zabho Iraq*

Boats are *at Zabho Iraq*
Boats are *at Zabho Iraq*

This unit is dependent on the information that provides when goods arrive in Iraq for the amount.

Unit financed by Oil for Food program
CAO,
GOI (Geographical observer Unit),
TRUST FUND.

In Iraq (UN account)
UN account is different due to specific political problems.
Ex: UNICEF

WFP: World Food Program

Distribution of food in the north, imports, warehouse, distributors...

WHO: World Health Organization (major state companies, pharmaceuticals, medical supplies, medicines and medical equipment, communication / warehouse / quality control / distribution).

FAO: Import/pesticides, herbicides...

Tested prior shipment by UN

Sensitive for IIA, delays are to be avoided.

UNICEF

UNESCO - Education

UNDP: Electricity

Nutrition section, D

Oil spare parts (fuel, etc.) will have to be substituted. Satisfactory will observe.

Procedures are followed by UNOPS.

Resolution

Oil spare parts, supplies and spare parts

Will be chair the Security Council in some 5 months.

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

Phase 2

File

UN will provide us with all their databases updated. Lloyd is supposed to hand over all back copy of all financial documents filed in Iraq. In fact, some shipments under phase 1 (1996) have not been completed yet (partial shipments).

Distribution plan: Define number of items that have to be imported per phase and the amount of money per sector.

After negotiations UN SG approval of documents prepared by Iraq.

For each letter OC (Copy attached) communication number is attributed.

Comments

UN gives approval for copy according to DP (DP amendment is possible)

IAA authenticates goods and advises UN

LC can be used for payment after Treasury authentication.

UN can decide payment priority, this affects order in payment. All Humanitarian supplies are preferred.

(See Flow chart)

Other present information:

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

Lloyd's Customer name book is paid 4500 GBP on 4-6-96

HA006404

HA006403

2

Zabko North

Mr James Sturdliff
Mr James Larson
Mr John Broadbent
Mr Alexis Polovina

According to James Larson, goods to be inspected are not authorized for inspection, only samples.
Timing: From OC date of receipt in Iraq to date of receipt in Iraq. It is to release goods (unless problems) before arrival every day. (UN-ND) by the day.
Copy of OC letter to be sent to us at border by tomorrow.
Notes: According to James Larson, if functions were filed today, the loading for phase 1 is not possible. All (unless problems) before arrival every day. (UN-ND) by the day.
Mr James Sturdliff
Mr James Larson
Mr John Broadbent
Mr Alexis Polovina

Discrepancies on goods (quantity, quality, mostly) reported are entered daily and reported electronically to UNOPS. After approval is also sent to UNOPS. I think it is over for a while. UNOPS is not able to handle this situation. UNOPS is not able to handle this situation.

at least 1000 tons - mostly grain - UNOPS is not able to handle this situation.

Felicy
 --- Forwarded by Felicy Johnston@JP on 2/21/2003 04:50 PM ---
 Felicy Johnston
 T. Leach, Peter S.
 (O-4) -> jmonro@onh.com; mib@UNM.MIL.HB
 01/02/2003 12:50
 -> spmston@un.org -> Von Trench, Robert L. (O-4)
 -> vontrsch@onh.com; mib -> Wayne, Victoria P. (SES)
 -> waynev@onh.com; mib -> Subject: RE: 2 Tig Boats
 with Comm# 702091 LCAU72825 (Document link: Felicy Johnston)

O'cours and thank you - Pete
 Best
 Felicy

"Lennon Peter S.
 (O-4)"
 L. O-4 -> vontrsch@onh.com; mib -> Wayne, Victoria
 P. (SES)
 waynev@onh.com; mib -> Subject: RE: 2 Tig Boats
 with Comm# 702091 LCAU72825
 01/02/2003 12:14
 PM

Finally spoke with John Glaghan today regarding this issue. He's been
 trying to track down the Captain of the Port to verify the claim, but
 couldn't find him. I'll try to get a hold of him. I want to be in Urmn Qant Unit and Wood/Can we
 beg for a few more days? Thanks, Pete

From: Felicy Johnston [mailto:felicyjohnston@un.org]
 Sent: Wednesday, October 15, 2003 4:40 AM
 To: Lennon Peter S. (O-4)
 Subject: Re: 2 Tig Boats with Comm# 702091 LCAU72825

Dear Pete
 "I'll be to our earlier correspondence concerning the tug boats, please see
 the attached report from Cobocra regarding recent conversations this team
 member Ditch had with the supplier. The Deputy manager of the port and

HA006136

Attached below is your final draft of our letter to the Committee which
 provided them a prima facie case that the goods were delivered to
 the boat. We are not required to have confirmation of arrival from CPA for
 the goods to be considered for the ad
 hoze system and for goods entering in Urmn Qant under the revised
 Authentication system.

I am naturally concerned that the agent lied to us and that we have no idea
 where the boats are at present but we do appear to have a strong case
 that the goods were delivered as we had for the other stranded cases.

The supplier is in a state of rising hysteria and claims to have been
 using \$3,000 per day for 7 months. I am trying to avoid deals from the
 number and telephone some 50 times a day which is very taxing. They are
 dispatching a further agent to meet with us on Wednesday in the presence of
 the mission.

I would very much appreciate if you can give some consideration as to what
 we can do to get the goods out of the boat. We can discuss it on
 Monday if you like.

My thanks
 Felicy

(See attached file: Authentications-stranded-030503.doc)

--- Forwarded by Felicy Johnston@JP on 2/4/10/2003 07:15 AM ---
 "Lennon Peter S. (O-4)"
 P -> jmonro@onh.com; mib -> Felicy Johnston -> spmston@un.org
 2/4/10/2003 07:15 AM
 Subject: RE: 2
 with Comm# 702091 LCAU72825

Felicy, just return to the port. I discussed this with John Glaghan
 and he knows about these vessels. Where do we go from here?

From: Felicy Johnston [mailto:felicyjohnston@un.org]
 Sent: Wednesday, October 22, 2003 11:55 PM
 To: Lennon Peter S. (O-4)
 Subject: 2 Tig Boats with Comm# 702091 LCAU72825

Dear Pete
 I anxiously await your feedback on the tug boats.
 The supplier and his representatives are over calling me hysterically
 morning, noon and night and claim to be incurring huge interest charges
 on a daily basis.
 Your assistance will be greatly appreciated.
 Best regards

HA006134

document and in the light of the available information, available to him, to make an independent decision on authenticating the arrival of the big boats in Iraq. Thanks, FZ

Friday, 24/10/2003 05:04 PM
To: Farid Zaiti@OIP, Oesko Mochoboo@OIP@OIP
Cc: Karri Haug@OIP@OIP
Subject: Urgent - Sit rep on the big boats

Dear Farid

As per the attached e mail, CPA is unable to add anything to the equation and I am unsure how to progress.

Latest is that the supplier submitted a letter to us in Arabic the translation of which is as below:

Greetings,

I hereby inform that the following has been received:

Two Tug Boats with Spare Parts

2 Tug Boats: 4000 HP with Spare Parts from Peromont Corporation at Umm Qasr (Iraq) and 2 Tug Boats: 4000 HP with Spare Parts from Peromont Corporation at Umm Qasr (Iraq) 724223 are we assure that the former Iraq Army has used the Tug Boats during the war.

Engineer Abdul Razaq Ali Kalish

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

General Manager

All the above documents, duly stamped and signed, confirm the delivery of the tugboats, with no remarks to the contrary.

I further refer to an email dated 02/10/2003, in which our then Liaison Officer, Mr. Aziz Roustan, advised that the General Manager for Iraq Ports, another official by the name of Mr. Ali Mohamed Ali Nassif MOU Manager at the Port of Umm Qasr, had been present at this meeting, and that both the officials are eligible for issuing statements.

Under the above cargo files, these documents together with receipts and invoices for the tugboats, which were on record, were sent to Iraq. We are not required to have a confirmation of arrival from CPA for stranded goods.

One of the main issues we had to, into locate the said boats, or obtain confirmation from the Iraq officials, was that it was not successful, and the response from the Iraq officials, was that it was perhaps used the war, and/or taken by Iraq Navy, and/or sunk. These are their speculations, now ours.

I note further that on an email dated 24/10/2003, a letter was submitted to us from the General Manager of the Port of Umm Qasr, stating that the said tugboats and spare parts were received.

2. Aziz Roustan, Mohamed Ali Kalish

Both of Iraq Ports.

Therefore, with all the above information, there is a prima facie case that the said cargo was delivered to Iraq, under the rules of "stranded goods".

Based on all the information, written and verbal, received from them, my judgment, based on the cargo manifest, is that the "stranded goods", a prima facie case exists for the release of the goods.

That is as I have on this, most difficult and problematic case.

Kind Regards

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

Hamid Alire

HA006133

HA006133

3

Mr. Benon V. Sevan's correspondence to 661 Committee, dated 5 April 2003 refers.

We have been doing tracking where possible, on stranded cargoes, and have had the COCs with OIT mislabeled containers, 8 of 6 not expected. Value of these stranded shipments was authorized on the basis of mathematical calculations using evidence supplied by the Shipper only. We could not obtain any information from the Receivers, nor did we physically see the cargo, as they were discharged at Umm Qasr, without our inspection.

In this particular case, the same principles need to be applied. The shipment was not seen, however, we have the documentary evidence of the COC, and the OIT mislabeled containers. Several inspectors and communicators have been done, together with meetings with officials in Baghdad.

We corresponded with the Shipper, in Iraq. We also did an audit on the companies previous shipments, to see if there was a track record of their previous shipments as well. To date, we have authorized \$2,268,500 against previous shipments, with another one a second inspection on OC 702090, Mooling Boats.

I would like to start with the correspondence forwarded to us, from the OIP, Mr. M. Alin Yano on 10 May 2003, who stated:

"This case is pretty strong with the confirmation from the receiver as well. I need your input on this if we are going to accept this as enough evidence for authorization."

The Supplier forwarded an "Information Sheet on the Stranded Cargo" dated 10 October 2003, which was received by the OIP on 17 October 2003, wherein the information was provided that the cargo was shipped from the Umm Qasr. There is a OIP official, I believe, who has written on the document, "approval, stranded", signed by "DM".

I was originally very suspicious about the information furnished in various emails from the Supplier. I requested the Supplier to provide as much as possible, which included the OIP, and after having received the information, documents from the Supplier, I was able to verify the information. The information is contained in a document containing receipt of the cargo, which was filed with the current Iraq Port officials.

I refer to various information received on 10 October 2003, with Mr. M. Alin Yano, who stated that the cargo was shipped from the Umm Qasr. I received this information from the OIP on this date, dated 10/10/2003. This information was forwarded by Iraq Ports before the war, and is still there now. This information is important, as we enclosed on 17 March 2003, and is still there.

Various documents from the Receiver, a Ministry of Transport and Communications, and a company for Ports of Iraq, are attached and OIP has this information as well.

The files include:
1. A copy of the OIP, dated 10 October 2003, with Mr. M. Alin Yano, Director General, General Company for Ports of Iraq, dated 20/03/2003.
2. Ase Ibrahim Mohammed, Deputy Director, General Company for Port of Iraq, dated 20/03/2003.
3. Capt Al Adil Hussain Fakh, Umm Qasr Port Operation Manager, dated 28/7/2003.
4. Capt Al Adil Hussain Fakh, Umm Qasr Port Operation Manager, dated 28/7/2003.

Pruniaux André

From: Field Zarf (zarf@un.org)
Sent: Monday, October 27, 2003 6:08 PM
To: U Collins; Andre; catoca@go.com;jo; Darko Mucobab; zarf@un.org; Jason Abrams; Sabita Joo; jphinson@im.org
Cc: Re: OC 702091- Tug Boats
Subject:



OC702091.doc

Dear Hamid,
I have note of the e-mails, investigations carried out and the set of evidence and documents gathered, including the email dated 24 October 2003 from the supplier conveying electronic version of an Arabic letter and its translation from two senior officials of the Iraqi Ministry of Army, confirming that the supplies and spare parts were not received.

I also note your judgement that, based on the above investigation and information, the cargo was not received at the Umm Qasr, and the arrival of the big boats that were delivered to Iraq after the withdrawal of Coalition from Iraq, due to security reasons.

In view of the above independent conclusion, Colesca may wish to discuss with authentication of the said cargo.

Many thanks for all the efforts you and your team have made in carrying this very naughty issue.

Kind regards,
Ferd

U Collins@go.com
28/10/03
cc: jphinson@im.org;un-malihub, catoca@go.com;jo; Darko Mucobab; zarf@un.org; Jason Abrams; Sabita Joo; joel.walsh@colesca.com; UN-MAL-HUB; Darko Mucobab@OIP; zarf@un.org;un-malihub, Jason Abrams; jphinson@im.org;un-malihub
Subject: OC 702091- Tug Boats(Document file: Ferd Zarf)

Dear Mr Zarf,

Your request for professional judgement, on the email dated 24/10/2003 refers.

This has been a very problematic and troublesome shipment, as we are all aware. My comments without prejudice, and the information I have been able to obtain, together with information that has been supplied to us.

I view this shipment as a "prima facie" case based on stranded cargo rules.

consignment movement reports and/or other pertinent documentation which would satisfy Coiteca to validate the claim by suppliers that their goods were delivered to Iraq, the Office of the Iraq Programme should like to proceed in support of Coiteca's recommendation to effect retroactive substantiation of such deliveries, on an exceptional basis. Consignment of supplies reported to have been delivered to Iraq after 20 March 2003 will not be considered in this category.

I should be grateful if you would circulate this letter to the members of the Committee for their consideration of the approach described above, under a no-objection deadline of 27 April 2003.

Please accept, Excellency, the assurances of my highest consideration.

Yours faithfully,
R. B. H. P. O. General

UN

UNITED NATIONS NATIONS UNIES



OFFICE OF THE IRAQ PROGRAMME - BUREAU CHARGE DU PROGRAMME IRAQ

THE EXECUTIVE DIRECTOR
LE DIRECTEUR EXECUTIF
REF: ED/2003/66/1

5 April 2003

Dear Mr. Chairman,

Pursuant to paragraph 8 (a) (ii) of Security Council resolution 986 (1995), paragraph 25 of the Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq on the Implementation of Security Council resolution 986 (1995), and paragraph 34 of the procedures of the Security Council Committee established by resolution 661 (1990), the arrival of humanitarian supplies in Iraq must be accompanied by the independent inspection agents appointed by the Secretary General as a condition of their entry under letters of credit issued for purchases of humanitarian goods under United Nations resolution 986 (1995).

On 17 March 2003, the United Nations independent inspection agents (Coiteca Inspection, S.A.) were withdrawn from the Port of Umm Qasr and on 18 March 2003, from the remaining four authorized entry points in Iraq. As a result of their withdrawal, consignments shipped under 26 contract applications, which were being delivered soon thereafter, but neither of which have been substantiated so far by Coiteca, as detailed in the attached table, of the total of 56 cases filed, 34 relate to goods consigned to the Port of Umm Qasr, 20 to Trebil and 2 to Al-Whaid.

Coiteca inspectors reported the arrival of 23 consignments and were well into the process of their withdrawal, but were unable to complete the inspection process due to their withdrawal. Based upon direct observations by Coiteca and/or documents which were provided by the suppliers concerned, the Office of the Iraq Programme has determined that the consignments under 29 contract applications, with a total value of \$19,846,000, have been delivered in Iraq. Therefore, the Office of Iraq Programme supports the recommendation by Coiteca to carry out a retroactive substantiation of these 29 cases.

Yours faithfully,
R. B. H. P. O. General
Director Pleiger
Committee of the Security Council Committee
established by resolution 661 (1990)
New York

With regard to the remaining 27 cases worth a total of \$37,066,407.60, the Office of the Iraq Programme has requested further information and documentation. Should a prima facie case be established on the basis of customs declarations, bills of lading, receivers reports,

While I am constantly striving to improve the operational efficiency of the site, it appears as if every logical decision made by American are of the nature of "I don't know" or "I don't know how to do it". I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations.

It is the opinion of every inspector that it is necessary to visit the site and to have a better understanding of the site's operations. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations.

I would appreciate your comments. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations.

CONFIDENTIAL

Markovic Tanis
 From: U Oms [mailto:uoms@un.org]
 To: [mailto:uoms@un.org]
 Subject: CONFIDENTIAL

As discussed previously my views on the mission, Apologies for a lengthy report but I feel it cannot be shortened. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations.

It is the opinion of every inspector that it is necessary to visit the site and to have a better understanding of the site's operations. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations.

I would appreciate your comments. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations. I have been told that the only way to improve the operational efficiency of the site is to have a better understanding of the site's operations and to have a better understanding of the site's operations.

CONFIDENTIAL

COTECNA INSPECTION S.A.



P.O. Box 1555 - 1211 Geneva 6
Tel.: (004122) 940200 Fax: (004122) 940222



UN SCR 986 PROGRAMME

**Minutes of the meeting held in Geneva 29th December 2000
COTECNA S.A./UN SCR 986 Programme contract - Iraq**

Participants:
Robert Massey Chief Executive Officer
André E. Prunhaux Senior Vice President
Mark Adamovic Contract Manager
Joe Saliba Asst. Contract Manager

Meeting was to emphasise and clarify in detail the scope of work, reporting, information, field, personnel, technical and procedures.

- A- Administration: Contract, Sites structure - Contract Manager (Amman) Report to AEP
- Assistant Contract Manager (Geneva) Report to AEP
- Liaison Officer (Baghdad) Report to Liaison/Geneva
- UN Security 11 and Arming Deputy 11

(Sites) Report to Amman/Geneva.

B- Field: How sites are run smoothly i.e. reporting, communication, personnel, IT and communications.

C- Recent correspondence from UN-OP-ANY to UN-OP-ANY and Geneva enquiring about their goods if impounded and substantiated.

D- Complaints were made about the goods shipped to Iraq, in fact the goods are very different from what was requested. UN-OP-ANY suggested (A) the goods be returned to UN-OP-ANY and letter to be faxed/ sent to whom is enquiring/complaining about Cotecna's work and (B) to be sent to OIP for their approval on the said letter.

E- UN-OP-ANY is experiencing operational delays in the port due to broken down equipment. The arrival of ships is an old one and scarcely working. The recent increase of equipment has created a backlog thus an average of 10% of arriving goods are impounded. UN-OP-ANY suggested that the goods be released and substantiated. Cotecna's proposals to UN-OP-ANY, the procedures have been maintained- goods are substantiated. UN-OP-ANY have the port (through they have been inspected earlier).

F- UN 661 committee released all applications for cranes to Iraq, virtually few of these cranes remain in the UN-OP-ANY to replace the current ones.

G- Once goods are substantiated, sites report to OIP by signed faxes on a weekly basis unless instructed to do otherwise for a particular case i.e. (equity through a permanent mission). OIP will report to UN-OP-ANY on a weekly basis. UN-OP-ANY will report to UN-OP-ANY to confirm and pass to BNP for payments. It could take two to three weeks from the day OIP receives substantiated items to BNP releasing payments.

HA004736



CO:INS Email Reference source not found.REF - Meeting ROBERT MASSEY 29DEC 2000
January 2001

H- Email Authentication is presently running in parallel with faxing on all sites. Once it is proven accurate, sites will be instructed by OIP to switch fully to Email Authentication. The full switch is anticipated in January 01.

2- Personnel:

A- As of inspection teams in UmmQasr we have 9 teams emailing two inspectors daily and when are responsible for the allocated ship since arrival until departure. The inspectors could take one to two weeks on one particular ship with an average of 1000 containers per ship. The inspectors whereas other sites have shift basis involving 4 to 5 inspectors working from the front office daily.

B- As of Dnaa shift, each site has a minimum of two people working in the evening and reporting daily and weekly.

C- OIP has agreed to have additional 8 inspectors proposed to cope with the workload on sites in Iraq. The total number of inspectors is currently 60. The total number of inspectors increased to 84 as of February 2001.

3- Technical and Procedures:

A- Weekly report to be copied regularly to UN-OP-ANY.

B- Monthly report for Iraq. OIP to be faxed and submitted regularly to RM/AEP.

C- Copy of sites Procedures attached.



UN SCR-986 PROGRAMME
Dunn Qasr

Fax

DATE: 13 January 2001
TO: Coatecna Geneva
FROM: Craig Almy
SUBJECT: Container Leaving the Port without Inspection
PROJECT: UQ90111

Dear Amine

I refer to the e-mail sent by Dejan on the above subject. Admittedly, there has been an increase in the number of containers which have left the port without inspection. However, my feeling is that we are doing our best to minimise this, but we are in a delicate position. We have put in place various procedures that are being hampered by the lack of port equipment and poor co-operation from the port authorities. There are 2 Receivers, SOMO and MOB, who are reportedly lying to the container office, saying that goods have been inspected when they have not.

Basically I feel that the UN-OIP programme has been going for a number of years and all parties concerned are familiar with the requirements i.e. goods must be presented to us for inspection.

I feel that it is time for us to push the blame onto us. More pressure should be put on Iraq receivers to ensure that they are following the procedures. From my side I will not authenticate any goods which have not been taken without inspection nor do I feel that we should inspect at all. We should only encourage receivers to continue taking goods without advising us. We should ensure that we are not getting paid they will put pressure on receivers to act in the

COATECNA
13 JAN 2001
UNSCR 986 PROJECT
UMM QASR

Best regards,
Craig Almy
TL Umm Qasr

HA004680

handling equipment. Examples of cargo, stacked and to end exist in the port. We are not able to do this. The mere arrival of goods in the port, discharged from ships, does not mean that the goods are safe. We do not have the resources to inspect each cargo during this period. We do not assume responsibility for not inspecting cargo that has already left the port without our knowledge. We cannot and as instructed by UN-OIP (for the purpose of authentication) takes place at the time the goods are presented to us upon leaving the port.

3. Dejan's statement about "cargo reported to Coatecna" needs clarification, since it could mean that formal notification has been issued by the transporter that this particular cargo is about to leave the port area. This notification is always provided to Coatecna by the Port Authorities. Consequently, when Dejan mentions, "leaving without inspection", we consider that the cargo is unreported cargo.

4. As previously stated, Coatecna's inspectors in the port area were instructed by UN-OIP to do so when the port authorities formally advise Coatecna that goods are about to leave the port and are entering Iraq.

5. While we will continue our efforts to facilitate and assist in the authentication of goods, we are limited in that we must rely on the appropriate Iraq authorities to do this. Please note that some of the cases of shipments of goods from the port without inspection" date back to April or May of 2000 (monthly, however, the number of such shipments of school desks).

6. Our procedures, as supported by UN-OIP, are that we will authenticate goods that were inspected by us. We do not, however, feel that it is appropriate or in the mandate as supported by the MOU to authenticate goods where we were not present at the time of inspection. We do not enjoy any special relationship with "pervious" such actions but must rely entirely upon cooperation from the port authorities.

7. We are continuing dialogue with Port Authorities to enhance the communication exchange with respect to goods being removed from the port. We understand that the majority of cases of goods removed without our knowledge are being sent to SOMO and the Ministry of Education. When we are requested to authenticate goods for such cases, we are told by them that SOMO (or MOB) said that these goods were not inspected. Coatecna - clearly not necessarily the case.

Finally, the approval by UN-OIP of additional inspectors in Iraq (as requested by Coatecna in the MOU) will enable us to better respond to the significant increase of traffic, in particular in Umm Qasr. In addition, we understand that more equipment is expected in the port area. We are, therefore, trying to have a proper inspection area as well as a dedicated

Best regards,

André E. Pruniaux
Senior Vice President

HA004689

COLOMBIA INSURANCE S.A.
 P.O. Box 6155 IRTI Genera 6
 34, Terminal - 107 Genera
 TEL: (41-25) 949 99 00
 FAX: (41-22) 899 59 39
 COINS

URGENT

Date : 15 January 2001

To : Felicity Johnston / Dejan Radojevic
 UN-OP New York
 Fax No. : 00 1 212 - 963 80 83 (00 1 212 - 963 60 90)
 Copy : Mr. Farid Zarif

Fax No. : 00 1 212 - 963 39 47 / 80 83 (00 1 212 - 963 80 93)
 Felicity Johnston - Customs Clearance
 Unim Quar - Customs Quar
 Gena - Co-Int - Co-Int
 Joe Saliba - Co-Int Genoa/ABP

From : 2
 Our ref. : 012/pj
 Subject : Left Port without inspection
 Dejan Radojevic's e-mail to Gena/Quar, January 2001

Felicity, Dejan,
 We have thoroughly analysed the content of your e-mail of 11 January 2000 and I wish to comment as follows:
 1. The Unim Quar team, in response to increased congestion of cargo in the port proposed to be proactive and to limit the amount of cargo in advance of the formal presentation of the goods for inspection. The Unim Quar team proposed to remove such goods from the port. However, authentication of such goods is done only after the goods are removed from the port. It should be noted again, that some Unim Quar containers were loaded in the Port of Unim Quar in 1999 whilst some were physically left the port area. As you also are aware, authentication is not done until the goods are presented to the Unim Quar team. The Unim Quar team proposed to remove such goods from the port. However, authentication of such goods is done only after the goods are removed from the port. It should be noted again, that some Unim Quar containers were loaded in the Port of Unim Quar in 1999 whilst some were physically left the port area. As you also are aware, authentication is not done until the goods are presented to the Unim Quar team. The key element to authentication is modification by the supplier / transporter (plus in the case of Unim Quar by the Port Authority) that goods are being entered. We do not authenticate goods that are not presented to us. We are of the opinion that the decision as to the practicality or physical availability to examine such cargo is ours to take, and does not limit us in authenticating presented cargo as long as we are convinced that the documentation presented to us reflects the cargo. We cannot be held responsible for cargo leaving the port without inspection, as we would consider these goods as not having been

HA004657

cc: MR - NH - JS

Felicity Johnston
 09/02/2001, 08:36 PM

To: Gena/Quar/Unim Quar
 Dejan Radojevic/Unim Quar, leave Mervelet/OP/OIP
 Subject: [REDACTED]

Some thoughts that the ED's office may wish to consider including in the scope of work sections of the contract to be entered into with the contractor are as follows:
 The overall performance of the current contractor is good and there are no key personnel involved in the current contract that might slow in the area of IT development in the next stage of work with the ED. The ED has made a separate contribution regarding OIP in the past. It should be noted that the current contractor has been reported to have a high level of staff turnover.
 1. Reports authenticating the delivery of goods should be reviewed by the contractor to OIP on a daily basis.
 Since the inception of the programme authentications have been reported to be slow, and the current contractor has been reported to be slow to provide reports. The current contractor generally provides reports on a daily basis. The current contractor has been reported to have a high level of staff turnover.
 2. The current contractor should ensure that the current contractor has a weekly basis. The current contractor should ensure that the current contractor has a weekly basis. The current contractor should ensure that the current contractor has a weekly basis.

3. Contractor should maintain a staff of experienced and qualified staff with a non-customs background should have skills pertinent to the duties of a customs officer. Staff from a non-customs background should have skills pertinent to the duties of a customs officer. Staff from a non-customs background should have skills pertinent to the duties of a customs officer.

4. Contractor should ensure that the current contractor has a weekly basis. The current contractor should ensure that the current contractor has a weekly basis. The current contractor should ensure that the current contractor has a weekly basis.

5. Contractor should ensure that the current contractor has a weekly basis. The current contractor should ensure that the current contractor has a weekly basis. The current contractor should ensure that the current contractor has a weekly basis.

HA004658

Markovic Tanis

The Answer Lo

From: tanis@markovic.com [mailto:tanis@markovic.com]
 To: ARRE@Craigslist.org [mailto:ARRE@Craigslist.org]
 Subject: **URGENT**

Thank you for your contract which we received on 1/20/15. I do not understand why you have not yet received the goods. I am sorry to hear that you are having trouble with the goods. I will try to help you as much as I can. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible.

Thank you for your contract which we received on 1/20/15. I do not understand why you have not yet received the goods. I am sorry to hear that you are having trouble with the goods. I will try to help you as much as I can. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible.

Thank you for your contract which we received on 1/20/15. I do not understand why you have not yet received the goods. I am sorry to hear that you are having trouble with the goods. I will try to help you as much as I can. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible.

HA004495

Markovic Tanis

The Answer Lo

From: tanis@markovic.com [mailto:tanis@markovic.com]
 To: ARRE@Craigslist.org [mailto:ARRE@Craigslist.org]
 Subject: **URGENT**

Thank you for your contract which we received on 1/20/15. I do not understand why you have not yet received the goods. I am sorry to hear that you are having trouble with the goods. I will try to help you as much as I can. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible.

Thank you for your contract which we received on 1/20/15. I do not understand why you have not yet received the goods. I am sorry to hear that you are having trouble with the goods. I will try to help you as much as I can. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible.

Thank you for your contract which we received on 1/20/15. I do not understand why you have not yet received the goods. I am sorry to hear that you are having trouble with the goods. I will try to help you as much as I can. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible. I will try to get the goods to you as soon as possible.

HA004494

Markovic, Travis

To: Puniaux, Andre
Cc: JOHNSTON, Kelly
Subject: CONFIDENTIAL - Incident in Trebil - Gary Graboski and John Ahrens

Hi,
I have requested that those 2 respect leave take by 6/9 Month at the latest.
This was communicated verbally to Mr. Tim Nylor, UNMPCO coordinator. After giving due consideration to the "reason" presented by Mr. Graboski and John Ahrens, I decided to deny and not to sign.
These two requests are made in Ahrens or on their way to Ahrens.
They will be replaced.
Best Regards,
N. E. Anderson
or Vice President

CONFIDENTIAL

To whom it may concern,

In regards to the false allegations concerning myself with a connection to a star of David. In trying to recall any association with this star, or of the like, it was of great surprise and confusion. The only time I can recollect even hearing the words Star of David, is in Trebil that in December during the holidays. In preparation for the holidays, the camp of Trebil had some decorations for this occasion. The camp had set up Christmas lights, some paper decorations, and a Christmas tree. This tree had a tent on top made of some wood or foam and I have anything to do with it. I was completely out of the placement of the star or any thing. It was brought to my attention the next day that an outlet had some work in the office and this outlet was by the tree, in which lights were to be plugged in. I was in the liaison officer between Cudeca and the Camp staff. I was our camp manager Nasar to fix the outlet in which he said he would. After 3-4 days of this outlet not being fixed, I approached our camp manager and asked him why this job was not done. When it is normally a five-minute job. Nasar, being an electrical engineer, such a job should be very easy, and with some dissection, he finally fixed the outlet. After a number of days our back office was to be painted by the local staff. During this job, the local staff had to enter the Trebil office and move furniture, rugs etc. around the room to paint the room. During this time I noticed that our tree decoration was removed and was told by our ATDL, that the local staff did not approve of the star on top of the tree, therefore it was removed.

The conclusion is all that I can associate with the Star of David. In early January I was relocated to Zakho site by my request. It should be noted that Nasar, the camp manager in Trebil, was dismissed by the Team Leader some time in Feb. For the record I am nothing to do with the decorating of the office, the decoration of the tree, nor placement of such a star. This all that I can associate with anything to do with the term star of David or of the like.

Gary Graboski
March 4 2001

HA004407

HA004436

Date : 03 March 2001
 To : Mr Tun Myat
 United Nations Humanitarian Coordinator
 UNHCR, Baghdad
 From : Andrie E Fruitaux
 Senior vice President - Coitena SA - Geneva
 CC : Milan Radenovic, Joe Saliba, Jean Azouf
 FAX : 00 1 212 963 3009
 Page(s) : 1-1
 Our ref. : J003 00 S
 Subject : Star Incident - Trebil, Iraq

Confidential

Dear Mr Tun Myat,

I refer to our telephone conversation of today. We deeply regret this unfortunate incident. As a result, two of our good inspectors have to leave the mission.

As you can see from the attached ~~document~~ information, the star was already on the site among other Xmas decorations. It was unintentionally placed on the tree.

We have thanked the two inspectors to leave Iraq before Saturday the 10th March and they are on their way to Athens.

Please forward our sincere regards to the Iraqi Government insuring them that our Inspectors on sites are always ready to work in Iraq and to establish a friendly relationship in Iraq.

I take this opportunity to thank you for your kind assistance.

Andrie E Fruitaux
 Senior Vice-President

Seliba Joe
 T. Coitena UNDPA/OP@unhcr.org
 Monday, March 05, 2001 11:09 AM
 To: Joe Saliba
 CC: Gary Grzesinski & John Aherne
 Subject: Gary Grzesinski & John Aherne

You are already informed about the MOFA's request. I spoke by phone to Basko who was in charge of the Site at that period and Jennie who was his Deputy and they independently told me the same facts. Following is what happened:

Gary Grzesinski and John Aherne were in charge of Christmas at New Year's celebration. They already have Christmas Tree (green) and decorations that were on the Site since at least last Christmas. That means that The Star (David's Star according to MOFA) was already on the site. Gary Grzesinski and John Aherne were in charge of the Site since at least last Christmas. Since among other decorations there were also previous stars, Gary and John thought to decorate the Tree.

Basko and Jennie realised that the local Iraq staff started to look at the Star in a strange way making comments in Arabic at the same time. That was the signal for Basko and Jennie to take down the Star. There were no further problems. Local co-operation in organising the celebration was very good and it is very strange that such accusations were made against those 2 inspectors.

I was talking to John Aherne about the issue and he told me that what happened was not done with any intention to provoke local people.

One relevant fact is that Nasar, Camp Manager at that time was fired by the end of January. One other relevant fact is that the Star was taken down with British. Unarmed 2 inspectors have nothing to do with that fact.

Best Regards,
 Gary Grzesinski
 Trebil

Pruniaux Andre

To: Dean Radjovic, radjovic@un.org
 From: Dean Radjovic, radjovic@un.org
 Subject: "Ganvwa M. Pruniaux"
 For information

Dear Mike,
 Thanks for updates as I've just arrived from vacation. That would be great if you during your visit to sites clarify/refresh/investigate with sites the information that you have at your disposal. I would be interested to know if you have any other recent contacts. Would you please share with me the information on the status of the "Ganvwa M. Pruniaux" Authentication Sheets and actual mailing date. Remind Authentication sheets about "adjustment policy" any minus has to be with OIP permission).

Kindly please find below:

Dean Radjovic
 27/02/2001 09:27 AM
 To: corcoran@un.org
 cc: radjovic@un.org
 Heru Mubwa/DIP/OIP
 Subject: "Left port without inspection"

Dear William (OIP),

Number of cases "left port without inspection" is at the moment 16
 /Shipments (worth \$100,000) have been made since the time that solving with the information provided. I believe that the remaining cases have already started
 Inquiries about port of origin of such OIGs reported to OIP :
 For cross-checking purposes, I have contacted the following:
 - 63074 (01/01/01) - 3017, 700077
 - 70008 (01/01/01) - 3017, 700077

According to procedures we expect that initial one for action should be on the basis of the following:
 - Evidence of ship and cargo arrival and departure
 - List of containers selected for examination
 - Documentation collected on first/upon arrival visit to vessel (cargo manifest, bill of lading, etc)
 - Analysis results

HA004394

Markovic Tanja

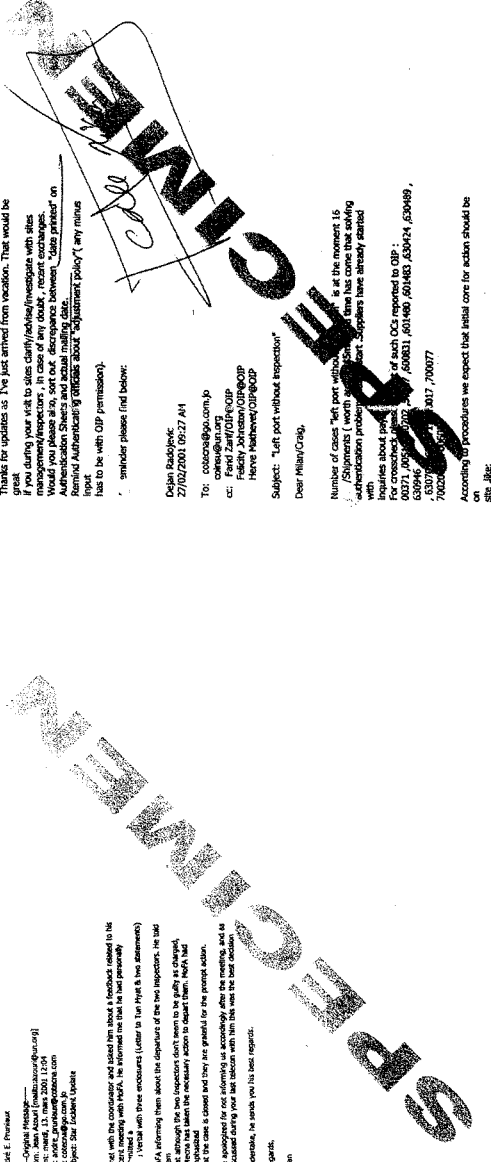
To: corcoran@un.org
 From: radjovic@un.org
 Subject: CONFIDENTIAL - PW: Star Incident Update

Hi Tanja,
 I met with the coordinator and talked her about a feedback related to the investigation of the case. He informed me that he had prepared a report on the case and that he would be presenting it to the next meeting with HMA. He informed me that he had prepared a report on the case and that he would be presenting it to the next meeting with HMA. He informed me that he had prepared a report on the case and that he would be presenting it to the next meeting with HMA.

I met with the coordinator and talked her about a feedback related to the investigation of the case. He informed me that he had prepared a report on the case and that he would be presenting it to the next meeting with HMA. He informed me that he had prepared a report on the case and that he would be presenting it to the next meeting with HMA.

He informed me that he had prepared a report on the case and that he would be presenting it to the next meeting with HMA. He informed me that he had prepared a report on the case and that he would be presenting it to the next meeting with HMA.

HA004389



-----Original Message-----
 From: colcoera@colcoera.com
 To: "Antonio E. Pruniaux" <Antonio.E.Pruniaux@colcoera.com>
 Subject: RE: Flights to Baghdad - Info

Confirmed receipt on 10/10/00 at 19:00. Regards,
 Milan

-----Original Message-----
 Sent: Monday, October 16, 2000 5:48 PM
 To: Antonio E. Pruniaux
 Subject: RE: Flights to Baghdad - Info

From: Antonio E. Pruniaux

I wish to confirm that under no circumstance we are going to give a report.

This is a very delicate political matter which as to be handled through Geneva.

Kindly confirm reception of this email.

Antonio E. Pruniaux

-----Original Message-----
 From: Antonio E. Pruniaux
 To: "Antonio E. Pruniaux" <Antonio.E.Pruniaux@colcoera.com>
 Subject: Flights to Baghdad - Info

From: Colcoera Inc. <colcoera@colcoera.com>

Date: Sat, 10 Oct 2000 10:40:00

To: "Antonio E. Pruniaux" <Antonio.E.Pruniaux@colcoera.com>

Antonio E. Pruniaux attended landing of one innocent aircraft which landed this morning in Baghdad. He has also seen the arriving commodity and people, and has heard some of the conversations between the arriving commodity and people. He himself was expecting some of Colcoera people to go to the airport, as they were not to have any more unless we will be contacted by OIP through Geneva.

Regards,

Milan

Inside the Baghdad, He has also seen the arriving commodity and people, and he is going to report to Mr. Stewart the situation. He has also seen the arriving commodity and people, and he himself was expecting some of Colcoera people to go to the airport, as they were not to have any more unless we will be contacted by OIP through Geneva.

Regards,
 Milan

HA004154

HA004153

COTECNA INSPECTION S.A.

58, rue de la Tomassière 1207 GENEVA - SWITZERLAND TEL: 41-22-849.69.00 Fax: 41-22-849.6909

FAX

Date : 16 October 2000
To : Felicity Johnson Chief Customs Expert
: Verne Kuryk Customs Expert
Page(s) : 1 (this one included)
Our ref : 006/17m
Subject : **Flight to Baghdad**

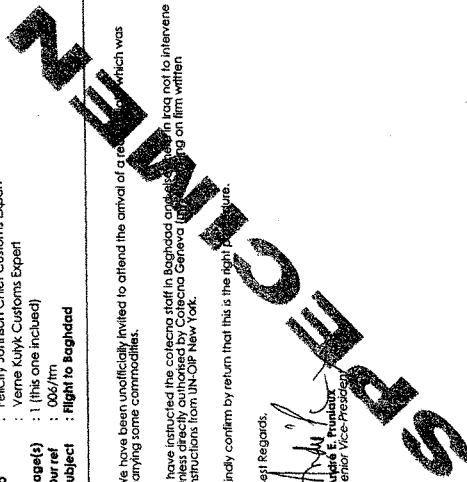
We have been unofficially invited to attend the arrival of a relief aircraft which was carrying some commodities.

I have instructed the cotecna staff in Baghdad and we will not intervene in Iraq not to intervene unless directly authorized by Cotecna Geneva (in accordance with the instructions from UN-OP New York).

Kindly confirm by return that this is the right procedure.

Best Regards,

André E. Pruniaux
André E. Pruniaux
Senior Vice-President



HA004151

Message Details
From: Jean Assad [assad@cotecna.ch]
Sent: Tuesday, October 17, 2000 8:40 AM
To: "Lloyd Adam" <lloyd@airmail.net>
Subject: RE: Flight to Baghdad - 17m
Importance: High

From: Jean Assad
I confirm the incident of the mentioned instructions and I wish to emphasize that Mr. Tun M. was informed that unless clear instructions from Geneva Headquarters and/or DIP NY we can't intervene in any activity related to the matter.
Regards,
Jean

Melioris Tunes <mailto:melioris@cotecna.ch> on 16-10-2000 (UTC)
To: "cotecna" <cotecna@cotecna.ch>
cc: Jean Assad <assad@cotecna.ch>; "Lloyd Adam" <lloyd@airmail.net>
From: Jean Assad <assad@cotecna.ch>
Subject: RE: Flight to Baghdad - 17m

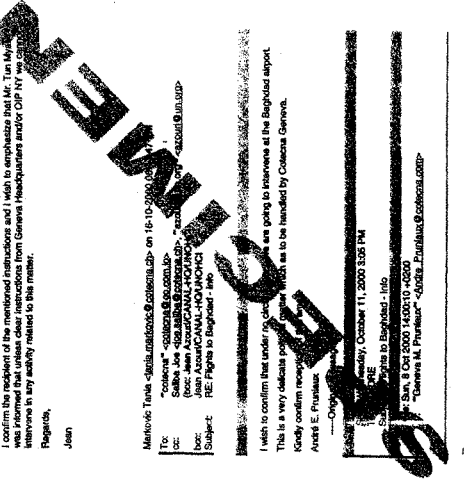
I wish to confirm that under my orders we are going to intervene at the Baghdad airport. This is a very delicate position and we will not intervene unless directly authorized by Cotecna Geneva. Kindly confirm receipt of this message which has to be handled by Cotecna Geneva.
André E. Pruniaux

----- Original Message -----
Sent: Tuesday, October 11, 2000 3:05 PM
From: "Lloyd Adam" <lloyd@airmail.net>
To: "cotecna" <cotecna@cotecna.ch>
Subject: Flight to Baghdad - 17m
Sun, 8 Oct 2000 14:03:19 +0200
"Geneva M. Pruniaux" <André.Pruniaux@cotecna.com>

Lloyd Adam has standing landing of one recent aircraft which

André,

HA004152



17/10 09 13:16 PAL 41 22 348 89 39 COTECNA CVA BR @ 001

 ***** RAPPORT TX *****

EMISSIION OE
 N° TX/OE 1489 08412177217184
 SOUS-ADRESSE TEL. COMMISSIOANT
 NO. BUREAU 187/04 13115
 NO. BUREAU 80' 28
 PHASE ENVOI/SBS 1
 REBOUTET OE

COTECNA INSPECTION

1207 GENEVA - SWITZERLAND TEL. 41 22 849 89 39 FAX 41 22 849 89 99

Date : 16 October 2000
 To : Felicity Johnson Chief Customs Officer
 Verne Kuyk Customs Export
 Paper(s) : 1 (this one included)
 Our ref : 006/htm
 Subject : Right to Reapportion

We have been unfortunately delayed to attend the arrival of a recent flight which was carrying some 200 containers. I have invited the customs staff in Boshard and elsewhere in loco not to inhervene in the unloading of containers until we have been contacted by Cotecna Geneva (myself) acting on firm written instructions from the ILOP New York. I will return to you by return that this is the right procedure.

Best Regards,
 André E. Pruniaux
 Senior Vice-President

HA004150

Active vessels (on discharge) 15
 Vessels in Inner Anchorage (samples taken - awaiting berth) : 5
 Vessels at Pilot Station 5 (3 out of them with containers)

Vessels awaiting for berth might be big concern for the suppliers, as average delay of 3 weeks now tends to increase.

There is increasing congestion in the container port, mainly due to the fact that only one long lift is working and due to the apparent shortage of trucks, engaged in general cargo operations. Last of them manipulation is slowing-down our inspection of sealed containers.

From our side, we are undertaking additional measures:

- * Starting from this Saturday 21.10.00, containers in the container port will be inspected by Cotecna Inspectors, without presence of receiver, and sealed after inspection.
- * Inspection will be done as soon as containers will reach the quay.
- * Containers (backlog of containers remained due to non-show of the vessel and late-over the cargo).
- * Inspected long trailers for "non-compliance" against contract specification, as their representative cargo will not be present in time of inspection. This is the reason why this common practice is not followed.
- * 3 additional inspectors have been allocated to the 20 Term Quay, making total of 20 active on the site in addition to 5 on Term Quay.
- * Average allocation of 3 ships per team, consisting of 7 Ships per team, consisting of the inspectors.

Regards,
 Milan

HA004142

In any case Umm Qasr team need to show high vigilance and accuracy dealing with increased workload.

Regards,
Alian

From: Alian E. Pruniaux
Sent: Thursday, October 18, 2000 10:27 AM
To: 'Celina Impedon Jordan'
Subject: RE: Umm Qasr Port - struggling with heavy traffic

- From : Alian E. Pruniaux
- 1) Please re-format this message in a better way (statistics, presentation of our new measure, etc) and send it urgently to Felicity Johnson and Verve Kufyk, copy : AEP.
 - 2) In your opinion, is this situation going to last? Do we need more permanent inspectors Umm Qasr? Can we move some from other sites, without expoding us on these sites? (I am not sure about the possibility of moving inspectors from other sites, but I am interested in UHQ-OP: New York (Eilat) and Schouten Schouten who need to be alerted).

May be the situation in Umm Qasr producing delays in transfers of cargo to UHQ-OP?

Merry Thanks for your urgent attention.

Alian E. Pruniaux

Original Message
Sent: Wednesday, October 18, 2000 5:16 PM
From: Alian E. Pruniaux
To: Verve Kufyk
Subject: Umm Qasr Port - struggling with heavy traffic

André,
I want to address to Felicity as well as to Verve, the current situation in Umm Qasr, but for the moment I am only addressing to Verve. The situation is not good, and it is getting worse. Reason is increasing of the number of vessels waiting for discharge, which will affect supplies and increase pressure on the port. The vessels are ultimately blamed for delayed authentication. I am not sure about the possibility of moving inspectors from other sites, but I am interested in UHQ-OP: New York (Eilat) and Schouten Schouten who need to be alerted. Using their own resources, they can help on contrary port control and not in terms as they were a year ago.

Enclosed are the statistics from our Weekly Report from 3/10/2000 until 12/10/2000. Umm Qasr Port has received 14,99,2000 21,08,2000 28,09,2000 05,10,2000 06,10,2000 13,05,796 12,46,346 5,791,560 10,680,869 11,509,102 12,414 13,055,796 5,644,020 (99,931) 10,084,435 6,043,210 (99,931) 3,948,870 3,037,240 (99,931) 2,007,480,200 12,922,320 5,443,840 (99,931) 3,948,870 4,188,200 (99,931) 968,570

Number of vessels doubled in last 2 weeks, from average 7 to 14. Present traffic (figures taken today 18.10.2000) :

STATISTICIEN

HA004141

HA004140

Oct. 13, 2003

Tan Myat, the U.N. humanitarian coordinator in Baghdad, told a news conference inspection procedures needed to be changed for the flights that he said were giving "more moral support than anything else" to alleviating Iraq's needs.

Myat said the flights in Baghdad this past month from Arab countries and Russia and France "have helped the challenge to the U.N. sanctions by concentrating there to get the goods at hand."

But a member of the Security Council's Iraqi sanctions committee, speaking on condition of anonymity, said the problem was not who inspected the flight but orders from Iraq that they could not be scrutinized without a week's notice.

Most of the aircraft depart with short notice or none at all. "We certainly aren't getting them a week in advance," he said.

Myat said he was in New York for a review of the "vol-for-food" programme that allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population. He said the programme allows Iraq to sell oil in order to buy supplies for Iraq's population.

From: Andrew E. Pruniaux
Sent: Thursday, October 19, 2000 3:08 PM
To: Customs Inspection, Jordan
Subject: RE: Situation in Umm Qasr Port - answers

From: Andrew E. Pruniaux
Mish, Thank you. I hope that we have to officially inform, in writing, UN-CIP-NY providing this, plus your previous info. Kindly ask urgently prepares a draft and send it to me. I will review, edit and send it to Paddy. Thanks.

Andrew E. Pruniaux
Original Message
From: Andrew E. Pruniaux
Sent: Thursday, October 19, 2000 1:03 PM
To: Gwenna M. Pruniaux
Subject: Situation in Umm Qasr Port - answers

Andrew,
In regards to your reply, these are my comments:
1) Traffic increase or stable high traffic. On the other hand, and will have an ascending trend. I assume according to the recent information that we have built from phase 6, phase 7 and 8, the volume of cargo is increasing. I am not sure if the volume of cargo. CIP is well aware of the backlog of containers to be inspected. I am not sure if the volume of cargo. CIP is well aware of the backlog of containers to be inspected.

For your info (Gwenna), I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

We can do more. I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

Andrew,
I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

I have further into doubling inspection shifts in : Tripoli and port also. I have further into doubling inspection shifts in : Tripoli and port also.

He also said that improvements in food and health were held back by the collapsing value of the Iraqi currency and by holds placed by the UN's sanctions committee on contracts to import electrical equipment.

Myers took over the coordination of the oil-for-food programme in Iraq in April after Hans von Sporkfeldt's resignation.

He told a news conference that there had been "considerable" progress in the food sector, and every man, woman and child now received 2,470 kilocalories a day.

According to UN data, in the first half of the year, Iraqis received on average 1,590 kilocalories. The new amount "should be sufficient to sustain life," Myers said, but many people were selling their food rations in order to buy clothes and other necessities.

Per many of the food rations represent the major part of their income," he said, adding that many of the people who are on two or three dollars a month are not able to buy anything else.

"That is what a junior civil servant would get," he said. "I am not sure that is a fair wage."

He said they carried only a "minimal" amount of cargo compared with the 1.5 million tonnes of food and equipment which Iraq imports "in an average month" under the UN's oil-for-food programme.

Previous frozen foreign interests have arrived in Iraq since mid-September. Myers said then the UN's oil-for-food programme was not working.

Myers recalled that "humanitarian flights per se have always been allowed" since the UN Security Council imposed a trade embargo and other sanctions in August 1990 after the Iraqi invasion of Kuwait.

The purpose of the flights was to challenge the view that "humanitarian flights needed prior approval from the council's Iraq sanctions committee," he said.

The United States and other countries have been criticised for blocking humanitarian flights worth of \$2.5 billion worth of goods, he said.

"Some critical items" had been placed under a trade embargo, Myers said, drawing attention to the fact that 36 percent of all contracts for electrical goods had been held up.

"In Iraq nothing works without electricity," he said. "Clean water, effective sanitation and decent housing were also important to the people."

Myers said he did not believe the sanctions were sufficient and that to blame for higher infant mortality rates in the southern part of Iraq than in the Kurdish north, where health programmes were also important to the people.

The food-for-oil system in Iraq is accused to be "a failure," he said. "Food gets to everyone it is supposed to, but it is not enough. You need health care and decent infrastructure."

He said that a hospital doctor who had been in Iraq for 10 years after training him for 10 years had said he expected his patient to return within three weeks.

"I am not sure that is the way it should be," he said. "I am not sure that is the way it should be."

UN has problems inspecting cargo on flights to Iraq
By Evelyn Leopold

UNITED NATIONS, Oct 19 (Reuters) - A UN official asked for help on Thursday in inspecting cargo on a rash of flights going to Iraq, some of which apparently are not being examined for banned goods.

The committee did not say whether the organisation had sought approval from the United Nations Security Council for the flights.

It also did not say what the nationality of the airlines would be, though flights recently from Damascus have been aboard Syrian Arab Airlines.

A long list of Arab countries have tested the embargo, following Russian and French flights, since the reopening of Baghdad's airport on August 17.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Myers said that the UN's oil-for-food programme does not cover private non-commercial flights. Washington and London insist all flights must be approved by a UN sanctions committee.

Iraqi oil supplies to Jordan are exempted from United Nations sanctions. The newly appointed Jordanian government recently put out letters to Baghdad, hinting that it sought better ties after a number of misunderstandings over the last few years. Jordan, sympathetic to Iraq in the 1990-91 Gulf crisis over Kuwait, named Iraq's Baghdad in its constitution to honor Iraq's freedom. The late King Hussein then called for a change of administration in Iraq. But in recent years Jordan has been an advocate of lifting the sanctions, which it says hurt only the Iraqi people.

Embassy made several trips to Baghdad. BAGHDAD, Oct 24 (Reuters) - Lebanon sent a second humanitarian flight to Baghdad on Tuesday in protest to United Nations sanctions against Iraq, witnesses said. The plane landed in the newly reopened Saddam International airport bringing a 130-ton cargo of relief supplies. The flight was the second since the UN Security Council imposed the sanctions in August 1990. It is in solidarity with Iraq, Babour was quoted in Beirut newspaper "Litham" as saying. "Lifting sanctions on Iraq contributes directly to the support of the Iraqi people," he said.

At least 131 people, all but eight of them Arab, have been killed in the West Bank, Gaza Strip and Jerusalem since the start of the intifada in 1987. In the West Bank, the intifada has spread to both Muslims and Jews. The plane was the latest of several sent by Arab and Muslim countries to Baghdad, since Russia and France started the challenge to the UN sanctions by suspending their oil sales to Iraq in 1994 after accusing Baghdad of fueling an Iraqi opposition figure in Beirut. Russia and France also to block deals to Baghdad on Thursday, 1994. They had made unilateral from Iraq. The UN Security Council members, the United States and Britain advocate keeping firm sanctions in place. The UN Security Council has asked Iraq to allow UN inspectors back into the country to check on the progress of case destruction. Iraq has refused for nearly two years.

UN Security Council members have called for a light embargo, an airport official said. The airport official said that the UN Security Council has decided to lift the embargo on Iraq. The UN Security Council has decided to lift the embargo on Iraq. The UN Security Council has decided to lift the embargo on Iraq. The UN Security Council has decided to lift the embargo on Iraq.

UN Security Council members have called for a light embargo, an airport official said. The airport official said that the UN Security Council has decided to lift the embargo on Iraq. The UN Security Council has decided to lift the embargo on Iraq. The UN Security Council has decided to lift the embargo on Iraq.

IRAC
PRESS CLIPPINGS
Office of the Iraq Programme

25 October 2000

UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies.

UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies.

UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies.

UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies. UN oil-for-food programme in Iraq handling record humanitarian supplies.

Aguda

File = Readers - 2002

Caribbean

Maritime Trade
From: Urmu Ocar
Sent: Thursday, November 16, 2000 10:15 AM
To: consad@un.org
Subject: HONDURAS/MIAMI: CIRBC Genet
 Urmu Ocar

Craig

After consultation with UN OIP-AY and due to the fact that the tonfill does not work any more please apply the following procedure (as instructed by UN-OIP) :

You can only operate within the capability of the port authorities. Keep an eye on the tonfill and make the appropriate requests on inspection and inspection conditions. There is no way to get the tonfill to work in this situation. Their role is to inspect and advise. As far as the tonfill is concerned, it is not possible to adjust the tonfill to the situation. It is not possible to record for any increase in discharge. No need to adjust the tonfill. Hopefully the port authorities will take some action.

Kindly comment, if necessary.
 Best Regards,
 August E. Pineda

SPECIMEN

Original Message
From: Urmu Ocar (mailto:urmu@un.org)
Sent: Tuesday, November 14, 2000 11:31 AM
To: consad@un.org
Subject: Urmu Ocar - FortRit

Dear Andis

Reference my previous correspondence on the above, the top-hull tonfill has broken down and the container yard now has to use a new method to inspect the container conditions. They are heading for repair parts and are to have it working in a week or so. Effectively it means that the inspection of the container yard has been seriously impacted and delays can be expected.

Best regards
 Craig Allary

HA004038

HA004037

Original Message
From: Pruniaux, Andre E
Sent: Thursday, November 16, 2000 8:21 AM
To: 'Vern Noyke'
Subject: RE: UN-Clear - FortRif

Agudo

Vienn,
 Thank you for message. I will tell the staff in Ulm Clear.
 Best Regards,
 Andre E. Pruniaux

Original Message
From: Pruniaux, Andre E
Sent: Wednesday, November 15, 2000 3:52 PM
To: Pruniaux, Andre; cantho.pruniaux@...
Subject: Re: FW: Ulm Clear - FortRif

Andre: I have advised Field and others of the situation. My view is that the goods have not been inspected and are being moved to the port authorities. All I can suggest is that the port authorities inspect the goods and make the appropriate notes on the inspection report. The port authorities have the ability on the part of the inspection staff in the authority to inspect and endorse the goods but are not allowed to clear, not to facilitate the movement of the goods. I am not sure if the management have asked according to the current procedures and if they are ready to respond to any increases in the volume of goods at the time. Hopefully the port authorities will be able to do this.

Pruniaux, Andre E
 To: 'Vern Noyke' <Vern.Noyke@...>
 From: 'Andre E. Pruniaux' <cantho.pruniaux@...>
 Subject: RE: UN-Clear - FortRif

Do you wish to comment on this message?
 Thanks,
 Andre E. Pruniaux

HA004036

- > 1. NO DISSEMINATION OF THE CONTENT OF THIS MESSAGE UNLESS IT IS SPECIFICALLY REQUESTED BY THE ADDRESSEE.
- > 2. NO REPRODUCTION, DISTRIBUTION, OR DISSEMINATION OF THIS MESSAGE IS PERMITTED WITHOUT THE WRITTEN PERMISSION OF THE SENDER.
- > 3. NO PART OF THIS MESSAGE SHOULD BE REPRODUCED, STORED IN A RETRIEVING SYSTEM, OR TRANSMITTED IN ANY FORM OR BY ANY MEANS, ELECTRONIC, MECHANICAL, PHOTOCOPYING, RECORDING, OR BY ANY INFORMATION STORAGE AND RETRIEVAL SYSTEM.
- > 4. ANY UNAUTHORIZED DISSEMINATION OF THIS MESSAGE IS STRICTLY PROHIBITED.
- > 5. ANY UNAUTHORIZED DISSEMINATION OF THIS MESSAGE IS STRICTLY PROHIBITED.
- > 6. ANY UNAUTHORIZED DISSEMINATION OF THIS MESSAGE IS STRICTLY PROHIBITED.
- > 7. ANY UNAUTHORIZED DISSEMINATION OF THIS MESSAGE IS STRICTLY PROHIBITED.
- > 8. ANY UNAUTHORIZED DISSEMINATION OF THIS MESSAGE IS STRICTLY PROHIBITED.
- > 9. ANY UNAUTHORIZED DISSEMINATION OF THIS MESSAGE IS STRICTLY PROHIBITED.
- > 10. ANY UNAUTHORIZED DISSEMINATION OF THIS MESSAGE IS STRICTLY PROHIBITED.

SPECIAL MEMEN

HA003962

Other means which advertisement advised.
 3. Local conditions: availability capacity still the same, for AH
 and adequate for smooth handling (over time-down), lead are well
 aware of this and may respond to our present conditions because this one
 source is not the best. I will try to find another source (usually raised from the COP).
 If there are any other sources, I will let you know. I will let you know the
 specific construction - will be informed under particular contract.
 AH,

I can tell the COP is responsible for a week updated from each site
 and all contracts while an pending/contract submission) and reasons why
 they are not pending. That has been provided particularly for accurate
 answer. Being that this is a big project, I will be sure to get the
 information that you need. There is a need for this information, but all major items are being
 done. I don't mention that any of the sites are working on the high
 demand for nearly a month's time, having being allowed to start.
 Respect,
 Mark

Original Message
 From: Markovic, Tania
 To: Henry, Robert
 Sent: Wednesday, 22 December, 2009 12:15
 Subject: RE: COP

Thank you for giving me the brief amount of information.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

2. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

3. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

4. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

5. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

6. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

7. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

8. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

9. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

10. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

Markovic, Tania
 Office: Markovic, Tania
 Mobile: 020 1033 0333
 Email: markovic.tania@go.com.au
 Status: Job
 From: M. Purtilan
 To: Tania Markovic
 Subject: RE: COP (Confidential)

Let me discuss my feeling about issues related to the situation of
 the subject.
 Henry,

2. Your performance in Iraq - I don't think that any of suppliers can
 give inspections and handling procedures in Iraq from inspection point of
 view. My understanding of what the suppliers need to pass the food
 inspection is that they need to pass the inspection from the
 perspective of the inspectors. I will be sure to get the information that you need.

3. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

4. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

5. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

6. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

7. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

8. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

9. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

10. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

11. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

12. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

13. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

1. The problem is that the suppliers need to pass the inspection from the
 perspective of the inspectors. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

2. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

3. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

4. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

5. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

6. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

7. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

8. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

9. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

10. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

11. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

12. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

13. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

14. I will be sure to get the information that you need.
 I will be sure to get the information that you need.
 I will be sure to get the information that you need.

difficulties or concerns about having to deal with all the various (and normally time consuming) formalities of actually crossing the border. That would be the preferred solution from our perspective, and would meet all of the other requirements of the situation.

Please advise Casati to have their trucks go to the staging area tomorrow. Once they are there, they can contact us by phone, and our inspectors meet the trucks there, inspect the loads, and process the documentation property.

Warm regards,
Ron Neelad
Team Leader
Colceira - Syria

"Keith, T" <keith@baghdadforum.com> on 11-02-2004 04:55:22 PM
To: ccasati@un.org
cc: "Saba Jor" <joe.saba@colceira.ch>

Subject: FW: UN No. SIAC 252002/88/CC:1001883

Please see the email below. My position is that the trucks need to be sent to the staging area. If we cannot get the trucks to Colceira to send someone across the border to supplier and hand them on their way. The reason I want them to go to the staging area is that I don't want to deal with the type of rolled paper is to make currency. In addition, I don't want to deal with the highly plebeian. I would prefer Colceira as a staging area. I don't want to deal with other than supplier, shipper, and receiver. I want to deal with the mission, and know if you can send someone to the staging area for the mission, and know if you can send someone to the staging area for the mission, and know if you can send someone to the staging area for the mission, and know if you can send someone to the staging area for the mission.

Thanks,
Tom

THOMAS G. KEITH
DIRECTOR, OIL FOR FOOD COORDINATION CENTER
CPA BAGHDAD
PHONE: 703-270-0467, c: 914-360-3028

EMAIL: keith@baghdadforum.com <mhb@baghdadforum.com>
-----Original Message-----
From: Fouad Bawerath (mailto:fawarath@casati.com)
Sent: Friday, February 11, 2004 3:38 PM
To: Keith, T
Cc: gccasati@casati.com; thaturj@casati.com

HA010639

Prud'aux Andre

From: Keith, Tom (mailto:keith@baghdadforum.com)
To: hamid.hamid@colceira.ch, tom.neelad@un.org
Cc: gccasati@casati.com; joe.saba@colceira.ch; andre.prunaux@colceira.ch; Fernand, RE: OC 830123

Importance: High

Spain will be. Please research this and find out why. Line would send forward to administrative, especially if we don't have any arrival confirmation documents from the reality.

Thanks bringing this to our attention Hamid.

Best Regards,
Tom

THOMAS G. KEITH
DIRECTOR, OIL FOR FOOD COORDINATION CENTER
PHONE: 703-270-0467, c: 914-360-3028
EMAIL: keith@baghdadforum.com

-----Original Message-----
From: hamid.gre (mailto:hamidgre@hotmail.com)
To: Keith, Tom, Mofid, Les, conus@un.org
Cc: gccasati@casati.com; joe.saba@colceira.ch; andre.prunaux@colceira.ch;
Subject: OC 830123

Tom,

You are aware of this OC not being finalized but meant to have been. I have some correspondence from the supplier before proceeding any further. I must point out that the supplier claims to have received all docs outstanding and pending. The

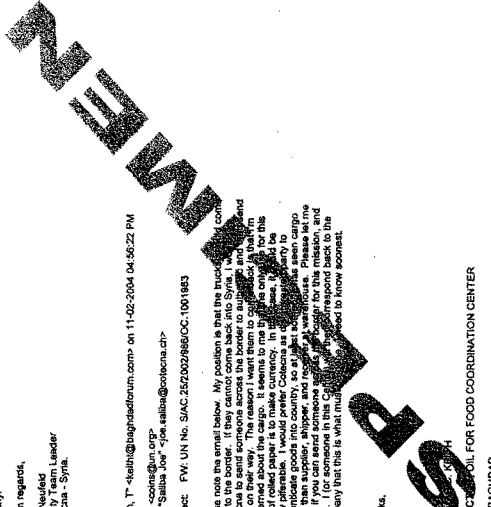
At this point, we have all docs outstanding and pending. The New York shipping provider advises the shipping date as 07 Dec 2003. This is a matter of concern as the BL date does not correspond with the OI main concern as well. Is that this cargo was not inspected at all. Line Shaver requests us to authenticate.

Also forwarded now is another shipment OC 123062, which no inspection took place.

Under these discrepancies, I am not willing to authenticate, unless by you as directly instructing the authentication.

I will endorse on the inspection notes, all these factors.

HA011592



File Peter - Stop

Please verify that you are authorized for us to authenticate this information. For repeated calls:

Kind regards
Hamid Anis
Team Leader
Operations Building
Port Rashid Container Terminal, Dubai, UAE
For Hamid Contact: 117225
Tel: + 971 4 345 0369
Fax: + 971 4 345 0351
E-mail: hamid.anis@dnv.com

Download MSN Toolbar FREE - search the Web from any page!
<http://toolbar.msn.com/0F-1546XAFD2185>

Pramitux Andrie

From: Pramitux Andrie (mailto:pramitux@dnv.com)
Sent: Friday, 20 October 2011 11:17 AM
To: hamid.anis@dnv.com
Cc: m.haniffah@dnv.com; amir.ahmed@dnv.com; amir.ahmed@dnv.com; amir.ahmed@dnv.com
Subject: Possible Investigation

Re: Dubai - Iraq

Dear Sirs

I have had a strange phone call today at approx 11:00, from a number 056 614 5277.

The man said he is from Sudan, and wanted to know about some jobs to his. I explained to him, clearly, that we work under an UN mandate protocol, and our report to the CPA.

If he needed information, he should go to the UN website and get all the information he needed. I said to him we have a "blackout" to cargo bound for him. He said he did not understand what he required but did not want to pay for it. He said he wanted to know a "company" etc.

This message may be subject to change. I was up to some things (I am not sure, of this, but I did not know). I told him to cooperate with "Jabal Al Mansour", and to this, he agreed. Then, I have to be saying something legal and hence to you.

There is still some information that I have. I have subsequently had several calls from Mr. Shadiq, and I explained to him all these details.

Kindly contact me should you want anymore information.

Hamid Anis
Team Leader
Operations Building
Port Rashid Container Terminal, Dubai, UAE
Tel: + 971 4 345 0369
Fax: + 971 4 345 0351
E-mail: hamid.anis@dnv.com

Get more MSN Toolbar and more on MSN Search! <http://search.msn.com>

SEARCH ENGINE

OFFICE OF THE IRAQ PROGRAMME - BUREAU CHARGÉ DU PROGRAMME IRAQ

5 April 2003

REF: BD/2003/661/

Dear Mr. Chairman,

Pursuant to paragraph 8 (a) (ii) of Security Council resolution 984 (1995) and the Memorandum of Understanding between the Secretariat of the United Nations and Government of Iraq on the Implementation of Security Council resolution 984 (1995) and paragraph 35 of the procedures of the Security Council Committee established by resolution 661 (1999), the arrival of humanitarian supplies to Iraq must be completed in accordance with the independent trade certificate issued to the consignee in accordance with the independent trade certificate credit issued for purchases of humanitarian goods under resolutions 984 (1995).

On 17 March 2003, the United Nations Independent Commission agents (Cotecsa Impresora S.A.) were withdrawn from the Port of Umm Qasr. On 18 March 2003, from the Port of Umm Qasr, 56 consignments of goods were delivered to Iraq. Subsequently, consignments shipped under 56 consular applications, including 20 consignments under resolution 984 (1995) which have been authorised to Iraq, were not authorised soon thereafter, but neither of which have been authorised so far. Consignments detailed in the attached table, of the total of 36 cases filed, 34 relate to goods consigned to the Port of Umm Qasr, 20 to Trebil and 2 to Al-Wadit.

Cotecsa Impresora S.A. advised the arrival of 23 consignments and went well into reviewing documents and clearance consignments, but were unable to complete the inspection process due to the suspension of operations. Based upon direct observations by Cotecsa Impresora S.A. that were provided by the suppliers concerned, the Office of the Iraq Programme has requested further information and documentation. The Office of the Iraq Programme has also received information from Cotecsa Impresora S.A. that 20 consignments, with a total value of \$19,845,488, have been delivered in Iraq. Therefore, the Office of the Iraq Programme requests Cotecsa Impresora S.A. to carry out a retrospective substantiation of these 29 cases.

James D. Zarif
 Director
 Office of the Iraq Programme
 Chairman of the Security Council Committee
 established by resolution 661 (1999)

New York, 15 April 2003
 The Office of the Iraq Programme has requested further information and documentation. Should you have any case established on the basis of customs declaration, bills of lading, receivers reports.

Pruniaux, André
 From: Pruniaux, André
 To: James D. Zarif
 Cc: James D. Zarif
 Subject: Re: OC 702081 - 10g Boats

U N
 DOCUMENTATION

Dear Hamid,
 Take note of the additional information I sent out the last week of the shipment, the invoices I sent out on 24 October 2003 from the supplier conveying electronic version of an Arabic letter and its translation from two senior officials of the Iraqi Ports Authority. I am assuming that the suppliers and their parts were received.

I also note your judgement that, based on the above investigation and with authentication of the said cargo, the goods were delivered to the arrival of the 10g boats that were delivered to Iraq after the withdrawal of Cotecsa from Iraq due to security reasons. In view of the above independent consultation, Cotecsa may wish to provide with authentication of the said cargo. Many thanks for all the efforts you and your team have been making in identifying this very naughty issue.

Kind regards,
 Faid

U Cores@oip@un-iaq/iaq
 AMO@oip@un-iaq/iaq
 P. Zarif@oip@un-iaq/iaq
 S. Zarif@oip@un-iaq/iaq
 M. Zarif@oip@un-iaq/iaq
 S. Zarif@oip@un-iaq/iaq
 J. Zarif@oip@un-iaq/iaq
 Subject: OC 702081 - 10g Boats/Document link: Faid Zarif

Dear Mr. Zarif,
 Your request for professional judgment, on the email dated 24/10/2003 refers.

This has been a very problematic and troublesome shipment, as we are all I base my comments without prejudice, and the information is what I have been able to obtain, together with information that has been supplied to us.

I view this shipment as a "prima facie" case based on stranded cargo rules.

22/09 '99 MES 21:22 FAX 41 22 8449224 CITY GENÈVA S.O. 0 801

COITENA INSPECTION S.A.
 P.O. Box 6155 - 1211 Geneva 6 - Switzerland
 TEL: (0041) 022 844 9224 FAX: (0041) 022 844 9225
 UN 986-986 PROGRAMME

COITENA
 Date : 29/09/1999
 To : Andre Prunier
 Attention :
 Fax No. : 1 202 232 0438
 CC :
 Page(s) : 1 + 7
 Subject : Brief summary of UN 986 mission in Iraq
 F. Prunier

Dear Andre,

The following is a very brief pen picture of the stations and their operations

No. of trucks weekly average	Trebil	Al Wasel	Amho	Umm Qasr
	250	50	120	8 (ships)
No. of trucks this week	141		75	7 (ships)
Metric tonnage average weekly	5,200	1,250*	3,000	50,000
Metric tonnage this week	828	188*	3117	41175
No. of inspectors on site this week	23	12	15	21
No. of inspections on site this week	16	10	11	18

* Note the figures for Al Wasel vary greatly from 40,000 tonnes per week to less than 100 tonnes for some weeks.

19/09 '99 MES 21:22 FAX 41 22 8449224 CITY GENÈVA S.O. 0 801
 27/09 '99 MES 15:14 FAX 212 843 8443 CIP/OTF UN986-986

UNITED NATIONS
 OFFICE OF THE Iraq PROGRAMME
 FACSIMILE
 NATIONS UNIES

To: Coitena Inspection S.A.
 Mr. Andre Prunier
 Coitena Inspection S.A.
 Chemin de M...
 From: UN Office of the Iraq Programme
 Office of the Iraq Programme
 Subject: OC 4417
 Date: 27 September
 Fax: 011 41 22 849 6939/6928
 Tel:
 Tel: + 1 212 843 8844
 Tel: + 1 212 843 8844
 E-mail: unip@un.org
 Number of pages (including cover page): 1

Dear Doreen,
 Please note that due to several discrepancies in the reported and substantiated goods, a full audit on Comm 4417 has been carried out last week.
 A similar audit should be done at your station. A comparison can be made, to clarify delivered and substantiated goods.
 There have been deliveries of several lines on the approval letter or in the database. An SOP should be made at your station for the type of materials in the list.

Best regards,
 G. Hendon
 G. Hendon

Form 001 (2/98) - New York, NY 10017 • 562-1-112 843 8844 • Fax: +1 212 740 2888 • E-mail: unip@un.org

Meeting with Mr. Von Sponeck
Maybe it will not be raised in your meeting but just in case I think it's better to be briefed on the issue.

The final point I think you should be aware of is the situation in relation to Mr. Von Sponeck's comments on the quality of goods. In his speech he mentioned that in his opinion of the embargo and his desire to seek ways of increasing quality control of goods being imported into Iraq. In my meeting with him in Baghdad he was more specific in his criticism of the American involvement in world affairs. He specifically considered the embargo and whether a country should be bombed or not. I listened to his remarks but made no comment.

With reference to his request to discuss an involvement on our part in a detailed quality inspection of goods again I listened. My involvement was limited to the expression of the opinion that our contract was very specific and that we would not be in a position to bring goods to the attention of Mr. Von Sponeck. I also stated that we would not be in a position to request that Mr. Von Sponeck accepted this position but returned to the matter as requested that Lloyd Adams of his office and our Liaison Officer in Baghdad be allowed to discuss the matter.

In view of our obligations to the OIP I enquired of Mr. Von Sponeck as to whether he had any objections to our bringing the OIP informed of our position. He stated that he had no objections. I then requested that I meet with Mr. Lloyd Adams at that same afternoon, which I did. However our position remained in the same position as before.

I was accompanied to all meetings with Mr. Von Sponeck and Lloyd Adams by Jean Poirier.

On 15/09/99, when Baghdad I informed the OIP of my meeting with Mr. Von Sponeck without going into details. Tonken Heroldsen made the comment that Mr. Von Sponeck was saying very clearly that certain details of the embargo were not in the interest of the embargo and critical comment.

I hope this is of some assistance. I will expect your call tomorrow morning in the meantime have a nice day

Best regards

Dermot Jennings

HA012807



FAX MESSAGE
To: Cotecna Inspection S.A. / Zakhwa, Iraq No. 0041 28 249 29 28
From: Mr. DERMOT JENNINGS No. of Pages 00073 382 036 C
On: 02/07/99
Subject: OIC 0417

Dear Lucien,

Referring to your fax dated 02/07/99 please find following information:
INFORMATION TO SUPPLIERS
The fact is that full description of every line item which is input at the time in our database, was sent to the supplier in order to supply the line items and determine exact description of 2 items, which were entered but not listed in our database. No other data was requested.

Person who made the decision was Jean Auzurt who was Acting Team Leader at that time. Inspector who was appointed to inspect the company was Alexander Tournier for the simpler reason that the shipment is Russian.

Jean Auzurt explained that the person Henriksen few days ago and we hope that we are not going to have further complications.

AUTHENTICITY DELAY
The first shipment to start to arrive around 15/04/99. At that time our database was not complete and some shipments were still expected to pass through Trebil. We are waiting for Jean Auzurt to process all the trucks but to wait for his signature with entries and authentications.

From the 15th of May Zakhwa database was (almost) complete and upon the approval from OIP Zakhwa team started to do the entries and authentications. By that time we already had huge backlog of pending inspections. It took several days to enter and authenticate but by the beginning of June only one shipment (truck no. 311216) was still pending. The team from OIP started to do the entries and authentications. It was not possible to identify the line items without further info from the supplier. On 22/06/99 we received the documents and the authentication was carried out the next day.

Page 1 of 2

4/5

HA012608

0304

CITY GENOVA R.O.

25/05 '99 08:21:33 FAX 41 22 8489224

0807

CITY GENOVA R.O.

25/05 '99 21:18 FAX 00712126094

SHIPMENT TO IRAQ IN WITH UN RESOLUTION N° 666
PURCHASE ORDER 3/22802448
Joint Stock Company "INTERENERGOSERVICE", Moscow, Russia
Truck N° 47 KN 548 / 47 KN 548

OC Number OC.4417

CONTACT PERSON: YURIY V. NIKONOV, GENERAL DIRECTOR
PHONE NUMBER: (085) 128-86-27
FAX NUMBER: (085) 536-00-10(085) 128-87-22

Shipment No. 128T

Page 1

ITEM N° AS PER UN COMMITTEE LETTER	DESCRIPTION OF THE GOODS AS PER UN COMMITTEE LETTER	QUANTITY UNDER AS PER UN COMMITTEE LETTER	UNIT OF MEASURE AS PER UN COMMITTEE LETTER	QUANTITY DELIVERED IN TODAY'S CONSIGNMENT	DESCRIPTION OF GOODS TODAY'S CONSIGNMENT
3,4,6,7,8,10,11,12,13,14,15,16,17,24,35	2. The list of spare parts for boiler unit of "Nesaya" power station (TME 334) Convecton shaft front waterwall	72,350	PCS	5193 kg	Convecton shaft front waterwall (which is 1 pack Convecton shaft front waterwall)
61	Gas-massal burners with accessories including: - metal parts of metalic structure	4	set	24 set	Gas-massal burners with accessories including: - metal parts of metalic structure (which is 2 box metalic parts of metalic structure)

All enclosures, please find attached copies of technical passport on all spare parts, which were delivered in the mentioned above table. Originals of the technical documentation were packed with the goods for delivery.

V.I. BARILO
General Director

5/5

5/5

25/05 '99 08:21:33 FAX 41 22 8489224
25/05 '99 21:18 FAX 00712126094
FAX MESSAGE continued, page 2 of 2

GATE VALVE 100-200 (STEAM, WATER)

TRUCK	067647/46	61K1325/1326
QTY	35	17
Date inspected	09/05/99	30/05/99
Date authenticated	17/05/99	30/05/99

Reason for delay: Mentioned line item was not in database. In order to avoid confusion about shipments were not authenticated and put on hold.
Some other inspections were put on hold for the similar reasons but the problems were resolved within several days.

SET OF SPARE PARTS (VANES, BLADES, BEARING) FOR POP, IDP
Above mentioned line item doesn't appear in our database but 5 units were authenticated as item SOOT BLOWING SYSTEM (SPARE PARTS) which is incorrect and it will be checked with OIP. You will be advised accordingly.

Best regards,

G. Bryk
General Director
Team Leader, Zakhvo

NEW MICROFILMS

HA012610

HA012609

Operations
The operations are running fairly smoothly at this time. However we carry out reviews of our procedures and the newly published new SOP is the result of such an in-depth study. With these new Standard Operating Procedures and our new Sampling Procedures in place we feel that we have improved our examination operations. Early this month we started a program in the Urm Clear to increase the number of containers per cargo ex ship. With 25 customs officers and another 7 officers with an in-depth knowledge of customs procedures on our staff - nearly half our staff - we feel we have a considerable amount of experience to call upon and we are using this experience fully.

Complaints from shippers / exporters

As I said the operations are running fairly smoothly. However we will have a number of calls from shippers and exporters concerning the delays in goods coming through Urm Clear. We remain open to complaints to the OIP.

In Urm Clear for a variety of reasons the shipper designs the amounts or enter into discussions on successful finished of all cargo coming through the port. For the former supply in Urm Clear is most irregular and the port equipment is in a poor condition. These problems add up to a delay in the cargo being moved through the port. We are working to result but work, on occasions, can be analysed comprehensively.

In some instances we have seen a shipper a month for a ship to fully discharge at Urm Clear the time to fully discharge a ship is 10 to 12 day.

Complaints

There has been a number of complaints that has caused us some concern and to which we devoted a considerable amount of time in the communication systems. We have suffered from a variety of problems. Some of these problems have occurred from the outside of our control. For these problems within our control we are hopeful that the arrival of our new VSail system, which will be installed in the next few weeks, will be fully operational by the 1st of November. Should these problems continue we will be in contact with the communication systems. However we are also presently in discussions with James Sullivan, New York to discuss ways of improving our hard copy transmission systems. We have made progress and look forward to an early agreement.

OC 4417 - Russian spare parts through Zakhvo

One issue that may be raised by the OIP is that of OC 4417. This OC covers a consignment of spare parts for the engine of a motor vehicle. The information now available shows that it appears that information now available shows that some items - parts or parts of parts - not listed on the OC were imported.

The OIP has sent a note requesting a full audit of the OC, which audit is presently pending completion in Zakhvo. You will note the tone of the final sentence of the last paragraph of the letter.

I asked Goran to give me a full report on the matter and I have received the previous related correspondence.

This consignment, the importation of which is ongoing, is being imported originally destined for importation through Trebil. Subsequently the place of importation was changed to Zakhvo. The goods were imported in the period between the end of April and the beginning of May. The goods were imported in the period between the end of April and the beginning of May. The goods were imported in the period between the end of April and the beginning of May.

This was and is not the only problem with the documents accompanying the goods show figures that cannot be worked. I have attached a copy of one document showing the details of the consignment ordered as 'the unit of measurement is not correct'. Without doubt, however, it is impossible to know what the correct unit of measurement is. Therefore we can only authenticate against the document that are provided with the goods.

Now we have a problem that subsequently we have discovered that some of the goods presented were in fact incorrect.

I have discussed this problem with the UN OIP and they have assured me that they have no blame on our part. They have also assured me that they accept that the problem is a supply one with some of the blame falling on the OIP due to the initial delay in updating the Zakhvo database. The OIP was made aware of the problems of trying to identify and subsequently authenticate small numbers of serial numbers of the goods imported. The OIP was made aware of the problems of trying to identify and subsequently authenticate small numbers of serial numbers of the goods imported. The OIP was made aware of the problems of trying to identify and subsequently authenticate small numbers of serial numbers of the goods imported. Torben has told me that we should not worry and that this will all be sorted out satisfactorily.

COTECNA INSPECTION S.A.
 P.O. Box 6155 - 1211 Geneva 6 - Switzerland
 58, rue de la Corniche - 1207 Geneva
 TB : (41-22) 849 69 60 TLX : 413 107 COT CH FAX : (41-22) 849 69 39

Date : 16 December, 1999
 F A X
 To : Mrs Stephan L. Scherz - UN - OIP
 Manager - Chief, Customs Processing Section - UN - OIP
 Fax No. : 60 1212 - 863 80 83 (tel: 60 1212 - 863 60 90)
 Copy : ~~XXXXXXXXXX~~ - Cotecna - Contract Manager - UN - OIP
 From : Co-Ins Geneva/AEP
 Page(s) : 1 + 4
 Our ref. : 864/jb
 Subject : Authentication of Commodities - Your fax of 09 December 1999

We refer to your above mentioned fax and to the attached MOF file of 05 December 1999.
 As indicated in UNOHC's transmission fax of 08 December 1999, under the signature of Mr. von Sponeck, this matter was raised with our Mr. ~~XXXXXXXXXX~~, Senior Vice President, during meetings in Baghdad with MOI (on 06 December 1999) and MOFA (on 08 December 1999).

We confirm that MOFA's allegations concern a shipment of instant milk powder, from Spain (OC-30617), authenticated by Cotecna in June 1999.
 The vessel arrived at the port of Umm Qasr on 12 September 1999, with, among other commodities, 12 containers of instant milk powder (total weight of 250 MT). These containers were unloaded. Samples were collected and sent to analysis on 14 September to verify that these commodities were fit for human consumption.

The Iraqi authorities (MOI) Company for Foodstuff Trading, on the next day rejected the cargo as "not fit for human consumption with the correct specifications since no label marks were printed on the bags" and since the shape of same were not acceptable".
 OIP was informed by phone.
 As a result of the above mentioned radioactivity and heavy metals, indicated that these goods were fit for human consumption.

The consignment was authenticated by Cotecna on 29 September 1999 under instruction from OIP - Mr. Henrikzen Torben. According to our information, it also seems that preshipment inspection was done by Bureau Veritas. Shape of sachet was not stipulated in the contract specifications.

1
 HA012724

16 December 1999
 We, therefore, consider that this is a typical commercial dispute between a supplier and the Iraqi importer, totally outside of Cotecna's contract with UN-OIP.
 We firmly reject MOFA's allegations and consider that we have duly fulfilled our contractual obligations and acted according to UN-OIP's instructions.
 Finally, we understand that the milk has been standing in the port of Umm Qasr since its unloading.

We remain at the entire disposal of the UN-OIP services for any further additional information, including hard copies of related documents.
 Yours sincerely,

Roger M. Massey
 Roger M. Massey
 Managing Director and
 Chief Executive Officer

Pruniaux Andre
 From: Pruniaux Andre
 To: Ammar (Gabbal One)
 Sent: Thursday, October 30, 2003 3:51 PM
 Subject: RE: FYI

See Annex 20

Milan,
 Thanks. We should not fear Sabot. They are not competing with Cotecna for CPA (future) arrangements. Sabot is also being appointed (case by case) by WFP.

Andre E. Pruniaux

-----Original Message-----
 From: Cotecna Inspection Jordan [mailto:cotecna@cpo.com.jo]
 Sent: Thursday, October 30, 2003 3:55 PM
 To: Pruniaux Andre
 Subject: RE: FYI

Andre,
 Sabot has signed contract with CIP for oil sperra monitoring and oil spill report reporting. Meanwhile less in Jordan and apparently in Iraq and Kuwait. Sabot is also working on behalf of WFP. Employees were mainly located in Iraq and Kuwait. Still in port countries. GAC is the biggest WFP agent. Best regards,
 Milan

-----Original Message-----
 From: "Pruniaux Andre" <andre.p@un.org>
 To: Ammar (Gabbal One) <ammar@un.org>, Sabot Joe <jsabot@un.org>
 Sent: Thursday, October 30, 2003 3:55 PM
 Subject: RE: FYI

Milan, Joe
 I am glad to hear that Sabot has no contract anymore with UN-OIP. Possibly, they are still working on other projects in the supplier / importer. What projects, are covered?
 Please clarify.

Thanks,
 Andre E. Pruniaux

-----Original Message-----
 From: hamid amro [mailto:hamidamro@hotmail.com]
 Sent: Thursday, October 30, 2003 12:35 PM
 To: cotecna@cpo.com.jo

HA014573

We do have a site across the border, and I will forward your suggestion. We are not sure if we can do it. If you have any other suggestions, we are starting to send them back for this summer. This may be the last, but not in better condition is implemented. Thanks for the idea.

-----Original Message-----
 From: A. Coats [mailto:acoats@un.org]
 Sent: Friday, January 30, 2004 8:33 PM
 To: Pruniaux Andre
 Subject: pressing thoughts on saving time

Hi again Sam,
 I have an idea that I wanted to just run by you very informally. Hope you don't mind.
 Since talking over this desk from Sammy, I have been noticing that there are a significant number of cases where the trustees bypass our office at the UN. I have been thinking about this and am sure that we are busy having to resolve the problem after the fact.
 I have heard (seriously 2nd and 3rd hand) that the Coordination Center is an office on the Iraq side of the border.

If that rumor is indeed true, what would you think of having the people there start checking for our stamp on the trustee's CMR waybill. And sending them (or "suggestions strongly") back across the border if they don't.
 I am not sure if this is a good idea, but I think it would be a very productive pursuit.
 Food for thought.
 Ron

NEWSPAPERS

HA014595

clearly after its approval by the Security Council Committee established by resolution 661 (1990).

Q10. Please provide figures of estimated volumes imported annually through each duty station/border point.

- A. The following represents a rough estimate of the annual volume of traffic at each border entry point:
 - Umm Qasr: 400 vessels
 - Trahit: 30,000 trucks
 - Zahor: 20,000 trucks
 - Al Wasel: 15,000 trucks

Q11. Please clarify how the contractor should act on imports that are not a part of the Oil for Food Programme.

- A. Imports to Iraq that are not part of the Oil for Food Programme are not part of the mandate of the independent inspection agents for humanitarian supplies.

Iraq that pertain in any way to the leases or services contained in the RFP and the mandate of the independent inspection agents would have to be reviewed in order to determine whether a conflict of interests exists.

Q5. How will the transition between the current contractor and the new contractor be done - will there for instance be a period of overlapping?

- A. There will indeed be an overlap period during which the current and new contractors will be working together very closely to ensure that the transition is seamless and that there is no interruption to the services provided by independent inspection agents for humanitarian supplies. This overlap period may last from four to six weeks, as necessary.

Q6. What are the official opening hours at the border point/border points - 24 hours?

- A. The border entry points to Iraq are operated 24 hours a day, 7 days per week. Please remember that the RFP does not require that the contractor shall provide the services required on a 24-hour, 7-day period.

Q7. Is it possible or allowed to communicate via the internet in Iraq?

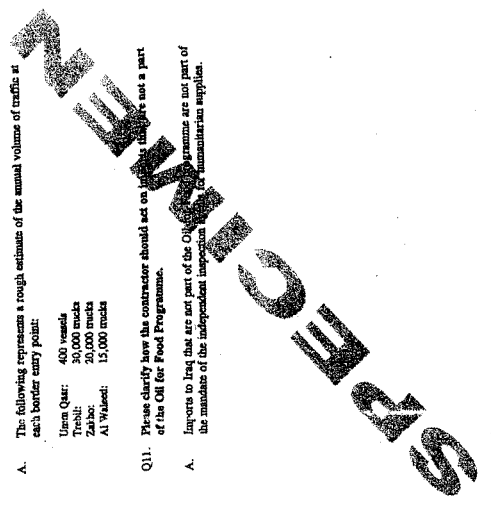
- A. Yes.

Q8. Are inspectors of Jordanian, Syrian, Turkish and Egyptian nationality allowed?

- A. Although the independent inspection agents seek wide geographical representation, it is representative of number to this question is no.

Q9. Please identify the vehicle of goods, products, equipment likely to be imported under the Oil for Food Programme.

- A. The mandate of the independent inspection agents for humanitarian supplies that are to be procured by the Government of Iraq and the United Nations agencies and programmes is limited to the distribution plan for any given phase of the Oil for Food Programme. For more information on the mandate of the independent inspection agents, please refer to the official website of the United Nations Office of the Iraq Programme (<http://www.un.org/press/oiip>). Under the heading "Information for companies and delegations", viewers will be able to click on any of the given distribution plans to review their content. The schedule of delivery is stipulated in the contract between the Government of Iraq and the supplier, a copy of which is made available to the independent inspection agents for humanitarian supplies.



3 JH

2 JH

of the intention to do so not less than fifteen (15) days prior to the expiration of the then current term of the contract.

- Q15 Will the contract automatically be extended if the contractor is performing his duties satisfactorily and if so, for how long before it must go in public tender?
- A Please see reply to Q14 which answers this question.
- Q16 When is the contract anticipated to begin?
- A The contract is to begin on 1 August 2001, which represents the first day after the expiration of the current contract.
- Q17 Will Annex E form the basis of the contract?
- A Annex E which is the UN General Conditions of Contract is part of the contract.
- Q18 Is it possible to have a copy of the contract submitted to you?
- A We regret that we cannot give out a copy of the current contract.
- Q19 Will there be a mobilization fee?
- A There is no mobilization fee. For the current contract, payment to the contractor is made monthly. For the previous contract, payment to the contractor by the UN is made monthly. The amounts represented by the invoice have been satisfactorily completed. The invoices are payable under the normal UN payment terms of 30 days from the date of the UN's receipt of the invoice and all supporting documentation.
- Q20 Would the United Nations individual CV's from each inspector made by himself or you represent the CV with all details?
- A Not matter as long as the contractor provides the UN with the CV's of all unsubmitted inspectors.

Are the French, Kuwaiti, Iranian and Saudi Arabian nationalities excluded? Arabians nationalities or any other nationalities from that region are

CLARIFICATION FOR Q2:

Q2 What is the implementation date foreseen for this programme?

A The implementation date for this programme is 1 August 2001 (not 1 July 2001 as earlier sent), which is the first day after the expiration of the contract between the United Nations and the current independent inspection agents for humanitarian supplies.

ADDITIONAL QUESTIONS

Q12 Will the UN give permission for the export of the software and hardware which is necessary for the project (Microsoft, for example) to allow the utilization of their software in Iraq under performance terms?

A It should be noted that it is not the United Nations, but the Office of the Iraq Programme (OIP) which is the office responsible for the procurement of the equipment and goods to Iraq. The authorization is granted by the Security Council Committee established by resolution 661 (1990), also known as the '661 sanctions Committee'. The OIP cannot speak on behalf of that Committee or prejudice Iraq's right to grant the necessary authorization.

However, it should be noted that in the past, the Committee has generally looked favourably upon requests by the United Nations independent inspection agents for the export of equipment that is necessary for the independent inspection agents to fulfil their duties.

Q13 For the independent agents, does the current 62 inspectors on duty all the time or are some of the inspectors redeploying until it is their duty?

A As indicated in the RFP, 62 inspectors are to be present at the four border entry points at all times. These 62 inspectors will take turns in performing active duty.

What is the anticipated duration of the contract?

A The contract shall normally be in force for an initial one-year period, with options to renew for successive one-year periods, under the same terms and conditions (including price), unless earlier terminated in accordance with the terms of the contract. The UN shall have the right, at its sole option, to extend the contract on the same terms and conditions (including price), for additional periods of one-year each, or of such shorter duration as may be determined in its sole discretion by giving the contractor written notice

ANNEX A

A There are no restrictions on the salaries on the companies. There are restrictions on the personnel going to Iraq.

Q23 For the price schedule, should the quoted price be per annum?

A The period of the mandate for any phase of the Iraq humanitarian programme is 180 days, which is subject to renewal by the UN Security Council. However, the remaining contract term is for a period of 180 days and the contract period is one year, with options to extend for successive one-year periods.

STATEMENT OF WORK

United Nations Security Council resolution 986 (1995), and subsequent related resolutions direct the Security Council Committee established by resolution 661 (1990) (hereinafter referred to as "the Committee") to continue to provide essential humanitarian supplies to the Government of Iraq and the relevant United Nations agencies and programmes. Security Council resolution 1175 (1998) directed the Committee to monitor the import into Iraq of oil spare parts and equipment by the Government of Iraq.

The contractor will provide all services and supplies to verify and confirm that the description, value and quantity of the supplies and oil spare parts and equipment arriving in Iraq are in accordance with the requirements established by the Committee.

RESPONSIBILITIES OF THE CONTRACTOR

The contractor will provide independent verification agents (hereinafter referred to as "the agents") as required to achieve the objectives set forth in the RFP and its proposal. In particular, the contractor shall provide all services and material set forth in the RFP and its proposal. The proposal shall describe all responsibilities of the contractor and shall include the following:

- (1) a total of sixty-two (62) agents, present at all times at the border entry points of Iraq, including, but not limited to, Umm Qasr, Zubayr, and, at no additional cost to the United Nations, (1) field manager, one (1) senior liaison officer, and one (1) chemical agent.

The agents to be selected by the United Nations from among candidates that the contractor proposes in the proposal and that the contractor is qualified to perform the verification work. The proposal must include the curricula of the candidates and a wide geographical representation of candidates. There shall be no limitation on the number of candidates. The United Nations reserves the right, at its sole discretion, to increase or reduce the number of agents at any time. Bearing this in mind, the proposal shall include the number of additional candidates, above the 62 indicated.

Without limiting the United Nations' rights of selection, the contractor shall submit the names of sixty-two (62) agents selected by the United Nations, the United Nations shall designate

SECRET

Copy: HUI to John

we are to be selected by the United Nations from among candidates that the contractor proposes in the proposal and that the contractor is qualified to perform the verification work. The proposal must include the curricula of the candidates and a wide geographical representation of candidates. There shall be no limitation on the number of candidates. The United Nations reserves the right, at its sole discretion, to increase or reduce the number of agents at any time. Bearing this in mind, the proposal shall include the number of additional candidates, above the 62 indicated. Without limiting the United Nations' rights of selection, the contractor shall submit the names of sixty-two (62) agents selected by the United Nations, the United Nations shall designate

we are to be selected by the United Nations from among candidates that the contractor proposes in the proposal and that the contractor is qualified to perform the verification work. The proposal must include the curricula of the candidates and a wide geographical representation of candidates. There shall be no limitation on the number of candidates. The United Nations reserves the right, at its sole discretion, to increase or reduce the number of agents at any time. Bearing this in mind, the proposal shall include the number of additional candidates, above the 62 indicated. Without limiting the United Nations' rights of selection, the contractor shall submit the names of sixty-two (62) agents selected by the United Nations, the United Nations shall designate

HA014847

HA014843

SECRET

3
authentication procedures. In this regard, the duties of the agents will include, *inter alia*, the following:

- (a) The United Nations will notify the agents, through a monthly update, of the relevant item(s) by Comm. number that require special inspection and authentication procedures. Separate lists will be prepared for humanitarian supplies and oil spare parts and equipment. This monthly update will also be provided to the United Nations Inspection Agency, independent of inspection agents contracted separately by the United Nations.
- (b) The item(s) in question will be inspected and authenticated by the agents upon arrival at the border entry point to Iraq. The agents will report on a daily basis to the United Nations on the arrival of the consignment of humanitarian supplies and, with regard to oil spare parts and equipment, also to the oil inspection agents, until delivery of the consignment is fully completed. This will constitute an attachment to the reporting obligations outlined above.

- (c) As required, the agents may be requested to perform a Uniform Reference Number (URN) seal on a specified Iraq consignment (URN) at the relevant border crossing point to Iraq. In this regard, the item(s) in question will be inspected and authenticated by the agents upon arrival at the border crossing point to Iraq. The agents will then affix the URN seal to the consignment and annotate the relevant documentation with the number accordingly. This seal may only be removed by the United Nations at the time of the visit to the consignment. Samples of the URN seal will be provided to the agents upon arrival at the border of the United Nations side, with regard to the oil inspection agents, and upon arrival at the border of the United Nations side, with regard to the humanitarian supplies and, where available, details regarding end-use or storage of the consignment.

Monitoring of defective commodities transported from Iraq

The Government of Iraq consider certain commodities to be defective and not in accordance with contractual specifications. It may make arrangements to return such commodities to the supplier (or other specified destination). On such occasions, the agents will be requested to accompany the agents to ensure the appropriate export of the item(s) in question. This will involve the same measures as indicated above but in reverse order. In this regard, the duties of the agents will be, *inter alia*, as follows:

2
1
in (10) additional persons from among the candidates who are acceptable to serve as replacement agents.

For these purposes, the United Nations is soliciting proposals for the services of independent inspection agents to perform, *inter alia*, the tasks detailed below.

Authenticated confirmation of the arrival of humanitarian supplies

- (a) The agents shall confirm imports into Iraq, pursuant to Security Council resolutions 986 (1995), 1175 (1998) and subsequent related resolutions, of humanitarian supplies and oil spare parts and equipment, including full limitation, the verification, inspection and testing procedures (as set forth in the proposal).
- (b) In doing so, the agents will cross-check and compare the weight, weight or count, including gross weight, net weight, and other cargo documentation, such as bills of lading, other documents, and manifests with the letter of approval and other documents issued by the Committee against humanitarian supplies and oil spare parts and equipment arriving in Iraq.

- (c) The agents shall, among other matters, conduct a quantity inspection by weight or count, including gross weight, net weight, and which necessary information is required for the agents to verify the quantity of the consignment. The agents will immediately report any irregularities to the Secretary-General and the Committee. If the problem is related to normal commercial practices (i.e., short-laden goods), the Committee and the Government of Iraq will be informed but normal commercial practices (i.e., chimo) shall not be a concern. If the agents determine that it is of serious concern, they will take the equipment in question, or will withhold authentication, pending guidance from the United Nations.

- (d) The agents will submit electronic reports to the Secretary-General. A written report will be submitted to the Secretary-General and the Committee. The agents will submit reports authenticating the delivery of supplies and equipment in the exact format of these reports will be agreed upon between the parties.

Special inspection and authentication procedures

On certain occasions, the Committee will identify an item(s) as being of a sensitive nature and make their approval conditional upon end-user / end-user observation and monitoring and reporting by the United Nations. In addition to the tasks outlined above, the agents will be required to undertake special inspection and

HA014849



HA014848



- (a) Obtain from the Government of Iraq the location and schedule of delivery for the services to be provided.
- (b) Verify that the service is commensurate with the conditions of approval by the Committee.
- (c) Report on a regular basis to the United Nations during the provision of the service, and also upon completion with full details of implementation.

The United Nations shall have the right to expand the responsibilities of the contractor at any point, subject to the United Nations' obligation to pay for any additional agents that may be required as a result thereof.

The contractor shall be responsible for making the necessary arrangements to ensure the fulfillment of its obligations. The contractor shall conform its obligations in accordance with the highest professional standards.

The United Nations may request at any time the withdrawal or replacement of any of the agents. The contractor shall, at its own expense, immediately replace any personnel furnished by it in the event of any replacement personnel shall be subject to the prior approval of the United Nations.

No agent shall be assigned to any service indicated in the RFP unless the United Nations has approved in writing the selection of such person in writing.

The contractor and its personnel shall be fully responsible for all work and services provided by the contractor, agents, servants and sub-contractors. The contractor is responsible for providing all reasonable measures to ensure that its personnel are fully covered by insurance for any service-related illness, injury, death or disability. The contractor shall submit proof of such insurance satisfactory to the United Nations before commencing any work.

The United Nations shall not be liable for any action, omission, negligence or misconduct of the contractor's employees, agents, servants and sub-contractors for any insurance coverage which may be necessary or desirable, nor for any costs.

- (a) Upon being informed by the Government of Iraq that an item(s) is to be exported from Iraq, the agents will issue a U.N. export permit to the Government of Iraq, locate the item(s) in question and apply a U.N. seal for shipment.
- (b) At the item(s) in question exits Iraq from the relevant border crossing point, the agents will verify the export of the item(s) by undertaking the necessary procedures, including a check on the status of the seal.
- (c) The agents will then report to the United Nations and, with regard to oil spare parts and equipment, also to the oil inspection agents, the details of the procedures undertaken.

On certain occasions, the Government of Iraq may make arrangements for the transport of an item(s) solely for the purposes of repair abroad and for special inspection procedures may also be required. On such occasions, the agents will inspect and verify the pre-shipment packing, preparation and sealing of the item(s) in question, with regard to humanitarian supplies, the duties of the agents will be, *inter alia*, as follows:

- (a) Upon being informed by the Government of Iraq that an item is to be exported from Iraq, the agents will issue a U.N. export permit to the Government of Iraq and apply a U.N. seal to the item.
- (b) The agents will undertake a visit to the location to document the identifying data, witness the packing of the equipment for shipment and affix a U.N. seal to ensure that it is not tampered with during transit.
- (c) As the item(s) is/are taken from the relevant border crossing point, the agents will verify the export of the item(s) by undertaking the necessary procedures, including a check on the status of the seal.
- (d) The agents will then report to the United Nations and, with regard to oil spare parts and equipment, also to the oil inspection agents, the details of the procedures undertaken.

The agents will liaise with UNOHCI and, if necessary, the supplier and the Government of Iraq, to obtain the shipping schedule for the return of the equipment to Iraq and inspect the re-entry of the item(s) in question.

On occasion, special inspection and substantiation procedures may be necessary for service-based contracts. In this regard, the duties of the agents will be, *inter alia*, the following:

HA014851



HA014850



COTECNA INSPECTION S.A.
Trebil Site

STANDARD OPERATING PROCEDURES

REFERENCES:

United Nations Security Council resolution 986 dated 14th August 1995
Memorandum of Understanding between the United Nations and the Government of Iraq on the implementation of Security Council Resolution 986 of 1995.
Contract between the United Nations and COTECNA Inspection S.A.

BACKGROUND:

The UN SCR 986, known as Oil-Food Programme, is a resolution adopted by the Security Council which supplies Iraq with oil in order to produce a sum sufficient to finance the import of petroleum products originating in Iraq for health supplies, foodstuffs, material and supplies for essential services in the country.
Relative to this, the Government of the United Nations and the Government of Iraq signed a Memorandum of Understanding (MOU) to effectively guarantee the equitable distribution of the Iraqi population throughout the country of the above stated products for their petroleum and petroleum products.
Among the provisions of the MOU is for the Secretary-General to appoint an independent inspection agent represented by COTECNA Inspection S.A. to be in charge of relevant Iraq entry points, customs areas to confirm the arrival of the goods purchased under the plan.

PURPOSE:

The purpose of this document is to establish standardised operational procedures in carrying out both the team as well as individual inspectors' duties in the different areas of work in Iraq.

Robin

expenses of claims associated with any illness, death, injury, death or disability of the contractor's employees agents, servants or sub-contractors.

The number of agents and the duty stations to which they will be deployed is as follows, bearing in mind that the proposers are requested to suggest the shift structure:

Table 1
Number of inspection agents

AL WALEED	TREBIL	UWAI QASR	ZAKHO
10	18	22	22

This table sets out the number of inspection agents to be on duty at each site. The number of agents assigned to each site may be adjusted by the United Nations if the structure will be devised for each individual site to meet the local requirements and to ensure 24-hour 7 days a week coverage. The structure is subject to change, as determined by the United Nations based on the requirements. This group must include one information technology specialist capable of undertaking routine support tasks on hardware and software.

Table 2
Managerial and technical personnel

AMMAN	BAGHDAD	LABORATORY
1 field manager	1 inspection officer	1 chemist

This table sets out the number of managerial and technical personnel to be on duty daily.

The contractor's personnel will provide the services indicated in the RFP with the highest professional standards. All agents are to possess the necessary experience and knowledge in the relevant field of activity and a proven record in terms of performance, qualifications and integrity.

The contractor and its personnel shall supply all equipment, materials and supplies necessary to perform the services, including without limitation all equipment for lifting and storing samples, all vehicles for transporting the agents, all equipment for transmitting, substantiation, confirmation and other reports, and all other equipment, materials and facilities set forth in the proposal. The contractor shall be responsible for providing equipment, materials and facilities to be used by the contractor in performing its obligations shall be of the highest quality and be fully compatible with the equipment and software utilized by the United Nations in connection with this contract.

¹ To be provided by the Contractor at management and support at no charge to the United Nations.

III. INSPECTION

For the purpose of achieving uniformity in application of procedures and reaching the highest standard of efficiency, detailed procedures for inspection are specified as follows:

(1) For Regular 986 Commodities and Oil-for-Spares
The inspectors on duty will enclosed general tutorial for the identification of the cargo groups

(a) check the Iraqi manifest for Iraq / Jordan no. #986. If there is no stamp on the manifest, the paper will be sent back to the Iraqi Customs to obtain the

(b) examine the paperwork with the contract:

- > check that signature of owner is attached (except for bulk consignments already in progress)
- > check that part of entry is Trebil
- > check if the correct OC no. is entered on the manifest
- > check if the correct OC no. is entered on the documents:

(c) for consignments - the CMR and weigh-bridge ticket

(d) for consignments (desert powder soap, machinery etc) - Packing List, Consignment Note, Invoice, Bill of Lading, CMR, Copy of Contract, Certificate of Origin

(e) for medicaments - the Analytical Report

(f) check and complete the figures (truck #, manifest #, CMR#, weights, quantity etc.) on the documents

(g) If satisfied, inspectors will carry out physical examination of the goods, which without limitation, will include inspection of the following: (i) the weight of the goods; (ii) the quantity of each detail about the vehicle, applicable sampling according to the sampling procedure; containers are checked starting from seal status, condition of container and load, including opening of selected coils, or full check and

HA015183

PROCEDURES

I. GENERAL

In order to ensure that the role of COTECNA INSPECTION S.A., Trebil, in the implementation of the UNSCR 986 Oil-for-Food Programme inspection is carried out in the most efficient manner the area of work is divided into different job responsibilities as follows:

Since all UNSCR 986 goods coming from the Jordanian Border are loaded on trucks, the job responsibility of this site is concerned with truck inspections.

At the border office, normally the truck driver will bring the necessary paperwork for his truck cargo e.g.:

- Iraqi manifest
- OC letter
- consignment note
- CMR or Bill of Lading

II. ROSTER

The duty of inspection at the border is divided into 4 shifts i.e.,

- A Shift 0900 - 1300
- B Shift 1300 - 1700
- C Shift 1700 - 2100
- D Shift 2100 - until last truck

HA015182



(3) Discrepancies

In case of any discrepancy on the documentation and/or with the commodity, the work will be brought to the (Dep) Team Leader for consultation, verification and his further action.

(4) Hold

If documents are showing (lack of data, OC letter or wrong port of origin) or if the goods are not in accordance with the instructions given to warehouse, further clearance from the OIP. In such case physical examination of the cargo will take place, and copies of the submitted documents will be provided. Verbal advice to the OIP have to be followed by written instructions regarding cargo examined, status of delivery, OC number details and other information (if case).

(5) Completion of Inspections

Inspectors will remain responsible for the completion of any unfinished inspections commenced during their respective shifts.

IV. DATA SHIFT

See: "Email authentication procedure" a similar step by step guide Inspector on Data Shift

- (a) Copy of inspection records from front desk.
- b) Verify details and accuracy of inspection reports against copy of the attached (This is second check, as inspector in charge has done initial verification during or immediately after the shift he was in charge of).
- (c) Notify authenticating official and upon his instruction:
 - > report to the OIP Authentication Team any anomaly encountered (OC not entered into database, discrepancy between contract and copy received, missing description, prices, quantities, conditions and similar)
 - > Copy OIP Authentication Team with all correspondence made to the suppliers for additional documentation/certification (copies signed by authenticating official on site)



count, depending on type of commodity in case and authenticating procedures required in the approval letter (engines and machines are of case). Any irregularities encountered during inspection of cargo which constitute deviation from approval letter will be reported to the OIP and obvious cases will be supported by photos taken by digital camera.

For foodstuff, medications, toilet soaps and detergent powder samples will be drawn. (Please refer to sampling procedures at Enclosure 2).

Samples are handed over to the sampling inspector in charge for onward processing and storage.

- (b) (i) if paperwork is acceptable, after the inspection of the goods, proves satisfactory, the inspector will enter the necessary data on the information form (Enclosure 1) and attach the necessary documents such as invoice, packing list, commodity certificate, etc. with the necessary and retain one copy of all the documents for file.

Inspectors will immediately inform UNOCHI Baghdad by E-mail or Fax in case of end-use jump, irregular supplies and Stoplot for oleo-seed-pans deliveries and goods containing oil spares.

(2) For Air Cargo

The inspection duty will

- (a) apply the same procedures for Phases 3, 4, 5, 6, 7, 8...
- (b) apply the same procedures for Phases 1 & 2 with the exception of (a) above. Inspectors will not carry out a physical inspection of the goods.
- (c) For commodities inherent to the 651 OC letter or 2.2 % account inspectors will not carry out physical inspection of the goods, neither will retain copies of the shipping documents.

REQUIET FOR PERSONNEL
FORM 304

CONFIDENTIAL

COTECNA

(1) Data Input :
Conditions: Server and data workstations separated and isolated from other offices.
Access to the server and to the workstations allowed to all authentication data entry and IT officials only, who graduated at least at the level. Data entry inspectors use user ID as starting level.
IT personnel in charge has exclusive access to the server and modifications of the settings allowed unless strictly instructed by OIR/IT Section.
The inspector will then

- (a) enter details in Lotus Notes database
 - > packes: Shipment Inspection for each input, and Authentication Sheet per line item, and store authentication sheets in e-mail file.
 - > all inspection report files (truck sheets) will be signed by data entry inspectors, upload in databases.
 - > active inspection report sheets (for still active comms) will be returned to the desk for further inputs.
 - > Report Daily Summary Report for MDOU Baghdad.
 - > Inspection report to UNOCHI Baghdad - notification of end-use monitoring humanitarian supplies (if any)
 - > previous report for Support line - Notification of oil spare shipments (if any), Notification of end-use monitoring oil spares.

Authentication

The authenticating official (TL or DTL) will perform the following duties:
(a) check 'Shipment Inspection' sheets, hard copies and 'Authentication' sheets (working copies or 'on screen' copies and verify against original), if discrepancies are detected and respective sheets will be returned for verification.

REQUIET FOR PERSONNEL
FORM 304

CONFIDENTIAL

COTECNA

297

HA015196

REQUIET FOR PERSONNEL
FORM 304

CONFIDENTIAL

COTECNA

(b) authenticating official will then give final instruction for storing all authentication sheets in master file. All data have to be ready before automatic replication will start.
(c) No modification of entered data will be allowed after replication from the site and pending strict consent from the OIP.
(3) E - Mail and Data Replication.
Transmission of the authentication sheets takes place DAILY.

- (a) All Authentication Sheets already stored in the file (after being checked and verified by the authenticating official, with one copy of each master file - now are paginated and file is zipped.
- (b) Zipped file is named : T:\year\month\MD.
- (c) Authentication cover sheets are produced, presented to the authenticating official, checked and correct, stamped by site date stamp (set on current date) and signed by authenticating official himself. Cover page should bear the Subject of e-mail file : T2001MMD.
- (d) The same authentication cover page file is send via e-mail and via ftp to the OIP Authentication Team, together with zipped master file.
- (e) Check on Media, if pending authentication/pending communication (PA/PCL) is produced with brief description of the reasons for delay and list is transmitted via e-mail or by fax to the OIP Authentication Team.
- (f) Zipped e-mail file is printed out (all pages), stamped and additionally signed by the authenticating official. Hard copies (fully identical) serve as back-up for any future reference.
- (g) Note: Hard copies of the authentication sheets are to be signed with authentication official whose name appears on the sheets. The signature is scanned and stored in the master file and whose scanned signature is accurately allocated to the respective authentication sheet. Any working copy of the authentication sheet should be discarded and removed from the

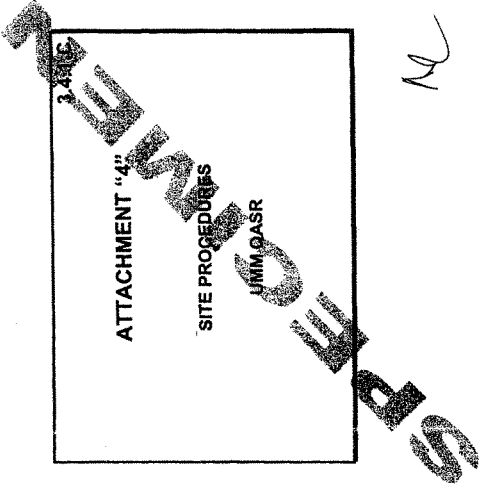
REQUIET FOR PERSONNEL
FORM 304

CONFIDENTIAL

COTECNA

298

HA015187



ATTACHMENT "4"
SITE PROCEDURES
JMM/ASR

ML

authentic back-up copies, which are the print-outs of the zipped file.

(h) All respective inspection / input documents are filed by Data shift.

(i) Completed comms are double-checked to verify if the "date of completion" is entered in one of the shipment inspections for respective comms and if all line items are completed and listed in the "Completed Comms" list for Trabi.

Completed comms are given to the inspector on the following day.

V. Other Duties and Reports

The following reports are produced and filed as follows:

(1) Reports

- (a) daily staff movement and transportation report to Amman
 - (b) weekly report to Amman and Geneva
 - (c) monthly updated list of completed comms - produced and sent to the CJP Accreditation Team at the beginning of each month for the previous month.
 - (d) monthly staff statements
 - (e) monthly inventory and car report
- actions
- (a) Daily, weekly and monthly back-up of the database
 - (b) statistics are compiled in respect to the following
 - number of completed comms (MissComms) is not complete unless confirmed from the IT CJP as complete)
 - Agency Goods Phase 1&2 (once a week, each Friday)
 - statistics for 'Weekly Report', based on 'Daily Summary Report'

ML

COTECNA INSPECTION S.A.
Umm Qasr Site

STANDARD OPERATING PROCEDURES

REFERENCES:

United Nations Security Council resolution 986 dated 14th April 1995.
Memorandum of Understanding between the United Nations and the Government of Iraq on the Implementation of Security Council Resolution 986 of 1995.
Contract between the United Nations and COTECNA Inspection S.A.

BACKGROUND:

The UN SCR 986, known as Oil-For-Food Programme, is a resolution adopted by the Security Council which authorises states to permit the import of petroleum and petroleum products originating in Iraq, in order to produce a sum sufficient to finance the export to Iraq of medicines, health supplies, foodstuffs, material and supplies for essential civilian needs.

Relative to this, the Government of the United Nations and the Government of Iraq signed a Memorandum of Understanding (MOU) to effectively guarantee the equitable distribution of the available quantities of petroleum products throughout the above stated programme of health supplies and petroleum products.

According to provisions of the MOU is for the Secretary-General to appoint an independent inspection agency to be known as COTECNA Inspection S.A. to supervise the import and export of petroleum products and to confirm the arrival of supplies in Iraq purchased under the plan.

PURPOSE:

The purpose of this document is to establish standardised operational procedures in carrying out both the team as well as individual inspector's duties in the different areas of work in Iraq.

COTECNA INSPECTION S.A.
17/04/01

COTECNA INSPECTION S.A.
Umm Qasr Site

STANDARD OPERATING PROCEDURES

REFERENCES:

United Nations Security Council resolution 986 dated 14th April 1995.
Memorandum of Understanding between the United Nations and the Government of Iraq on the Implementation of Security Council Resolution 986 of 1995.
Contract between the United Nations and COTECNA Inspection S.A.

BACKGROUND:

The UN SCR 986, known as Oil-For-Food Programme, is a resolution adopted by the Security Council which authorises states to permit the import of petroleum and petroleum products originating in Iraq, in order to produce a sum sufficient to finance the export to Iraq of medicines, health supplies, foodstuffs, material and supplies for essential civilian needs.

Relative to this, the Government of the United Nations and the Government of Iraq signed a Memorandum of Understanding (MOU) to effectively guarantee the equitable distribution of the available quantities of petroleum products throughout the above stated programme of health supplies and petroleum products.

According to provisions of the MOU is for the Secretary-General to appoint an independent inspection agency to be known as COTECNA Inspection S.A. to supervise the import and export of petroleum products and to confirm the arrival of supplies in Iraq purchased under the plan.

PURPOSE:

The purpose of this document is to establish standardised operational procedures in carrying out both the team as well as individual inspector's duties in the different areas of work in Iraq.

COTECNA INSPECTION S.A.
17/04/01

On return to the office the duty team will enter all information on the notice board in the inspectors' office. At that time the TL, DTL or ADTL will assign any new ship to one of the teams of inspectors. This team will then take reporting responsibility for that ship.

2. Duties of inspectors

(A) Procedure on arrival of a vessel :
When a team of inspectors is assigned to a newly arrived ship the team will carry out the following procedures:

- (a) board the ship as soon as possible after docking
- (b) visit the master and identify themselves to the vessel's inspectors under UN control
- (c) collect the following documents:
 - for bagged & bulk cargo
 - UN Committee letter
 - cargo manifest
 - stowage plan
 - bill of lading
 - commercial invoice
 - inspection certificate
 - other shipment documents
 - Committee letters
 - cargo manifest
 - bill of lading
 - stowage plan
 - invoices
 - packing lists

(d) check all documents carefully while on board ship

(e) if documents are missing, the team will immediately make a request for the missing documents

(f) Collect samples together with the relevant authorities

HA015202

PROCEDURES

I. GENERAL

In order to ensure that the role of COTECNA INSPECTION S.A., Umm Qasr Port in the implementation of the UNSCR 986 Oil-for-Food Programme inspection is carried out in the most efficient manner the area of work is divided into different job responsibilities as follows:

Since all UN SCR 986 goods coming into Umm Qasr are transported by ship the job responsibility of this site is concerned mainly with ship-related inspections

II. ROSTER

The inspectors at the port of Umm Qasr do not work in shifts as on the other stations. A team of inspectors is allocated to the ship before it docks and the team of inspectors holds the responsibility of monitoring and recording all activities of that ship while it remains in port, including its loading, completion of discharge and the time of departure from Umm Qasr.

III. INSPECTION

For the purpose of ensuring uniformity in application of procedures and of maintaining high standards of efficiency, detailed procedures for inspection are specified as follows:

1. Allocation of ship-inspection duties

All duties of vessels is done by whoever is in charge of the site at the time (TL, DTL or ADTL).

Each team takes turns in being on duty and monitoring the movement of ships. Twice daily the team on duty will visit all sections of the port and make contact with port supervisors, foremen in sheds and the manager at the offices. They will obtain all the necessary and relevant information (lines of cargo, weight, type of cargo being carried and the number of the berth at which it is docked). They will also collect weightbridge tickets for the previous 24 hrs discharge for distribution to the respective teams.

HA015202

(C) Procedure during discharging :

At the port the team of inspectors will:

- (a) visit their assigned ship at least twice a day (first visit 08H30 to the latest)
- (b) contact the master, port supervisor, foremen and agents for information on how discharging is proceeding
- (c) inspect cargo in all holds and view the work of the cargo handlers
- (d) monitor all activity relative to the unloading of the ship. In the event of any difficulties arising they will be in a position to provide assistance at the matter
- (e) inspect the sheds regularly to ensure any cargo waiting to be re-bagged
- (f) give a copy of lists of cargo to be re-bagged for examination to the master of the ship at the unloading office. They will get copy signed by master or foreman for office use. The copy is filed in the appropriate ship's

The selected cargo will be inspected as soon as possible after discharging. The inspectors will record its observations/reports regarding

- (a) In the afternoon the inspectors will enter all daily figures and weigh-bridge tickets into the computer
- (b) file a printout with the ship's documents.
- (c) record the quantity discharged on the weekly status report which is pinned to the board in the inspectors' room.

(D) Procedure when discharging has finished :

- In port the team will
- (e) be aware of the time when discharging has finished

ML

(B) Procedure at the office

On return to the office the team will:

- (a) examine all documents again
- (b) In case of any missing documents immediately contact the supplier to obtain the missing documents or get clarification. At the same time copy OIP for regular update.
- (c) Copies of the fax to be printed - 1 for the file and 1 for OIP update. All correspondence to be signed by T or DTL and standardised fax cover sheet to be used.
- (d) highlight all essential figures as Comm No. Description of goods, manifested cargo weight, (gross for and net kilos), number of bags, etc.
- (e) Advise datashift of arrival. Comm No. and date must be checked and approved. Any problems should be reported to OIP immediately by e-mail.
- (f) complete the official OIGS form for each Comm No.
- (g) enter all details on the 'assess' arrival / report on the notice board by justifying
- (h) highlight collected samples to sample team for processing and computer, for each shipment

for container shipments - make a list of containers selected for inspection for each Comm No.

- (i) for spare parts - immediately inform Soyboit of arrival by e-mail according to Soyboit procedures.
- (k) for end-use monitoring - datashift to advise UNOHCI by e-mail.

ML



- (b) board the ship and check in all holds and on the deck for damaged cargo and sweepings
- (c) count all damaged bags and estimate the total quantity of damaged cargo and sweepings
- (d) check if good cargo is remaining on board and find out the reason for this
- (e) check/estimate quantity of good cargo remaining in the ship

The team has to be present on board when the master and officer are signing the 'Final Statement of Fact'. They will participate in any discussions with the parties but they will collect evidence and take notes from master or receiver).

The team will not sign any documents and will inform the parties concerned that they will submit their own independent report.

The team will check the departure of the ship and record it. Within 2 days of the completion of the discharging, the team will obtain final computer-printout figures of discharged cargo from GB/IMOT.

At the office the team will perform the following functions :

- (a) check all documents once again for accuracy
- (b) hand over report with supporting documents to Team Leader for further action
- (c) check all documents once again for accuracy
- (d) make container vessel report
- (e) check all documents once again for accuracy
- (f) hand over report with all documents to Team Leader for checking and verification



- (1) IV. DATA SHIFT

Conditions: Server and data workstations separated and isolated from Access to the server and to the data workstations allowed to the authentication/data entry and IT officials only, with graduated access level. Data entry inspectors use user ID as starting level. IT personnel in charge has exclusive access to the server. Modifications of the settings allowed unless strictly necessary. No modifications in IT Section.

The inspector will then:

- (a) enter details in Lotus Notes database:
 - > produce Shipment Inspection Authentication Sheet per line item, and store authentication sheets in the database.
 - > all inspection report sheets will be signed by data shift inspector upon final database.
 - > active inspection report sheets (for still active comms) will be replaced in active files for further inputs.
 - > produce Daily Summary Report for MDOU Baghdad.
 - > produce report to UNOCHI Baghdad -notification of end-use monitoring humanitarian supplies (if any)
 - > produce report for Saypok Iraq - Notification of oil spare parts (if any). Notification of end-use monitoring of oil spare parts.

Verification

- (a) authenticating official (TL or DTL) will perform the following duties:
 - (i) check 'Shipment Inspection' sheets, hard copies and 'Shipment Inspection' sheetkeeping copies or 'on screen' copies and verify against contract. Incorrect inputs will be corrected and respective sheets will be returned for verification.
 - (ii) authenticating official will then give final instruction for storing all authentication sheets in mainframe. All data have to be ready before automatic replication will start.

back-up copies, which are the print-outs of the zipped file.

- (h) All respective inspection / input documents are filed by Data shift.
- (i) Completed comms are double-checked to verify if the "date of completion" is entered in one of the ship's reports for respective comment and if all line items are entered and data entered). Complete copy is sent to "Completed comms list" for Umm Qasr.

Completed comms are given to the Inspector for verification.

V. Other Duties and Reports

The following reports are produced and filed as follows:

(1) Reports

- (a) Daily Summary Report to Umm Qasr
- (b) Daily staff movement and car location report to Amman
- (c) Vessels arrival and departure report to Baghdad
- (d) Local vessel status report
- (e) Report on Thursdays.

Daily authentication comms list and completed comms list.

- (a) Data entry
- (b) Daily, weekly and monthly back-up
- (c) Data and e-mail replication daily
- (d) Check for updates (OC extensions etc.) daily after auto database replication.
- (e) Keep vessel board updated.

- (c) No modification of entered data will be allowed after replication from the site and pending strict consent from the OIP.

(3) E - Mail and Data Replication.

Transmission of the authentication sheets takes place DAILY.

Procedure in brief is as follows:

- (a) All Authentication Sheets already allocated to respective inspectors (after being checked and verified by the authenticating official, with electronic signature and date stamp) are placed in respective sheets - now are paginated and filed in the respective folders.
- (b) Zipped file is named: UYear?Z?D
- (c) Authentication cover page is produced, presented to the authenticating official, checked and correct, stamped by site date stamp (year, month, day) and signed by the authenticating official. Cover page should bear the subject of e-mail: U2001/MARCH.
- (d) The signed authentication cover page file is sent via e-mail to the OIP Authentication Team, together with the respective hard copy file.
- (e) The authentication cover page file is produced on Mondays, on the following week, a pending authentication/pending comm list (PA/PCL) is produced together with description of the reasons for delay and list is submitted via e-mail or by fax to the OIP Authentication Team.

- (f) Zipped e-mail file is printed out (all pages), stamped and additionally signed by the authenticating official. Hard copies (fully identical) serve as back-up for any future reference.

- (g) Note: Hard copies of the authentication sheets are to be signed with authentication official whose name appears on the shipment inspection ("Inspector" in Shipment Inspection) and the signed signatures are accurately allocated in the respective authentication sheet. Any working copy of the authentication sheet should be discarded and removed from the authenticating official's file.

File Fax - UN

UNITED NATIONS OFFICE OF THE IRAQ PROGRAMME

To: Colonel Inspector General S.A. Al-Sayid Senior Vice President		Fax: 011-41-22-849-6939	
AP		Tel:	
From: Jeremy Orven Chief Customs Expert, OIP		Fax: + 1 212 902 6003	
		Tel: + 1 212 902 6003	
Subject: Provision of Independent Inspection Agents		Number of pages: 1	
Date: 26 January, 1999		Number of cover pages: 1	

Dear Auntie:
Thank you for your facsimile message of 20/1/99. I have subject attaching curriculum vitae for the following:

- Mr. T. Zakamowald
- Mr. S. Zak
- Mr. A. Bha Haq
- Mr. N. Hassan
- Mr. L. ...

In my facsimile of 20/1/99, I raised concerns regarding the number of inspectors with relevant professional experience. I was therefore expecting subsequent inspectors proposed by Colonel Al-Sayid to meet this fact. I would be pleased to hear of any progress that you have made in this regard.

In the event of such an update, I would like to inform you that OIP will have to postpone the appointment of the above mentioned inspectors.

Regards,

cc: Ms. Stephanie Sobier
Mr. John Atkinson
Mr. Didier Chabroux

Phone: 212 902 6003 • Fax: 212 902 6003 • Telex: 212 902 6003 • www.un.org/iraq/ipo

2003 PAS
ca. Egn/Kon/Int/Am/Alc
LF/ JAS/AP/RG/ NY

2

This Contract is entered into by and between the UNITED NATIONS, acting through the United Nations Office for Disarmament Affairs, Headquarters in New York, N.Y. 10017 (U.S.A.) hereinafter referred to as the "United Nations" or "UN", and COTECNA INSPECTION S.A., a corporation organized under the laws of Switzerland, having its Headquarters at 59, Rue de la Chapelle, 1201 Geneva, Switzerland (hereinafter referred to as the "Contractor"). The United Nations and the Contractor are collectively hereinafter referred to as the "Parties".

W.I.T.E.S.E.F.P.M

WHEREAS the UN, in furtherance of the mandate of certain United Nations Security Council resolutions, wishes to engage the Contractor to provide services of individuals employed by the Contractor to assist in monitoring (i) the equipment and quantities of supplies and of parts and equipment in stock of the Contractor and (ii) the performance of services ancillary to the import of such goods, all on the terms and conditions set forth in this Contract;

WHEREAS, the Contractor represents that it is qualified, ready, able and willing to provide these services on the terms and conditions set forth in this Contract;

NOW, THEREFORE, the Parties hereto mutually agree as follows:

A. GENERAL

Article 1 - Contract Document

1.1 This Agreement and all annexes hereto, together with the conditions of sale incorporated herein, shall constitute the entire Contract referred to as the "Contract" or this "Contract" between the UN and the Contractor;

(a) The Request for proposal issued by the UN and dated 9 October 1998, under reference "Request for Proposal for Provision of Independent Agents in International Authentication of Goods/Air", as modified or supplemented by

CONTRACT ED/COM/124/98
COTECNA INSPECTION S.A.
and
THE UNITED NATIONS
FOR THE PROVISION OF INDEPENDENT INSPECTION AGENTS

HA006483

HA006484

M

Sm

M



Security Council

DATE: GENERAL 8/1986/ANS/ 12 August 1986 ORIGINAL, ENGLISH

LETTER DATED 8 AUGUST 1986 FROM THE CHAIRMAN OF THE SECURITY COUNCIL CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

On behalf of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, I have the honour to communicate to you the following:

Pursuant to paragraph 12 of Security Council resolution 661 (1990), the Committee was requested to develop, in close consultation with the Secretary-General, a plan of action to be implemented by the end of the year. The Committee has held several meetings since that time, and has held several sessions of intensive deliberations. I am pleased to inform you that after several weeks of intensive deliberations, the Committee, at its 12th meeting held on 12 August 1986, has agreed on a plan of action to be implemented by its resolution 661 (1990). A copy of the plan of action is attached herewith for the information of the members of the Council.

(SIGNED) YOUSSEF ZEIN Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

* Released for technical reasons.

94-2048 (U) 120771 130896

/...

HA006485

HA006485

the annexes to queries dated 20 October 1986, (hereinafter referred to as the "RP"), and

(b) The Contractor's Proposal dated 2 November 1986, as modified or supplemented by the undated document titled "Annexes/Procedures - Cotecna's Position" (consisting of 11 pages) (hereinafter referred to as the "Proposal").

1.2 The following Annexes shall form an integral part of this Contract.

- Annex I: UN General Conditions of Contract; Security Council Resolutions 986 (1995), 1111 (1996), 143 (1997), 1153 (1998), and 1173 (1998) (as amended) and any amendments or supplements after the date hereof, (hereinafter referred to as the "Resolutions");
- Annex III: Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq on the Implementation of Security Council Resolution 986 (1995) (hereinafter referred to as the "MOU");
- Annex IV: 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 under Paragraph 12 of Security Council Resolution 661 (1990) (as amended) (hereinafter referred to as the "Procedures");
- Annex V: Transportation Release Form;
- Annex VI: Medical Release Form;
- Annex VII: Form of Performance Bond/Guarantee.

1.5 In the case of any inconsistency among the documents constituting this Contract, the following order of priority shall apply:

(a) this document and Annexes I - VII hereto;

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 REQUIRED BY PARAGRAPH 13 OF SECURITY COUNCIL RESOLUTION 986 (1995)

SECTION I

SALE OF PETROLEUM AND PETROLEUM PRODUCTS ORIGINATING IN IRAQ

1. The Committee will select, upon recommendation by the Secretariat of the Committee, at least four independent experts in international oil trade, to be appointed by the Secretary-General as "overseers" at the United Nations Headquarters. The overseers will be responsible for monitoring the volume of transactions to be processed. The overseers will have the authority and responsibilities set forth in this section.
2. Notwithstanding the obligations of States under the relevant Security Council resolutions, States may, if they so wish, furnish to the Committee a list of national oil purchasers (private companies, State-owned companies or other entities) which are authorized to purchase oil from the overseers. States may present changes to the list at any time. Once the Committee has taken note of these lists on the changes thereto and the list of national oil purchasers is published, States may submit comments directly with the overseers. If States submit such comments or if a certain purchaser is not included in the list, the overseers shall be notified through the Permanent Mission of the State of purchase.
3. A contract for the purchase of petroleum and petroleum products will only be valid if it is approved by the Government of Iraq or the Government of Kuwait, or the Iraqi State Oil Marketing Organization (SOMO) on behalf of the Government. The submission by the Government of Iraq or SOMO of a copy of a contract is acceptable as an endorsement.
4. SOMO's contracts with purchasers will include all the details specified in paragraph 14 of resolution 986 (1995). In particular, the contract shall include the following details: (a) the name of the purchaser; (b) the quantity of petroleum products purchased, duration of contract, credit and payment terms; (c) the price of the petroleum products; (d) the terms, conditions and arrangements for transportation and quality; and pricing details.
5. The Government of Iraq or SOMO may submit at any time pricing mechanisms for the sale of petroleum for review by the Committee. The overseers will assess these pricing mechanisms, in particular whether they reflect fair market value. The Committee will then review the pricing mechanisms according to its no-objection procedure within two business days. The pricing mechanism should include the elements listed in paragraph 4 above. In

6. In order to facilitate this process, regular consultations between the Committee and the Government of Iraq or SOMO for review by the Committee in accordance with paragraph 3 above. The pricing mechanisms will in any case be reviewed by the Committee in accordance with the procedures set forth in paragraph 7 of resolution 986 (1995) stated 20 May 1996 (hereinafter "Resolution 986").
7. When market conditions so require, and in particular during the first month of the year, the Committee will set up a new 186 limit to be used exclusively for correspondence with regard to the petroleum and petroleum products transactions with regard to the Government of Iraq or SOMO for review by the Committee in accordance with paragraph 3 above. The pricing mechanisms will in any case be reviewed by the Committee in accordance with the procedures set forth in paragraph 7 of resolution 986 (1995) stated 20 May 1996 (hereinafter "Resolution 986").
8. The Secretariat of the Committee will set up a new 186 limit to be used exclusively for correspondence with regard to the petroleum and petroleum products transactions with regard to the Government of Iraq or SOMO for review by the Committee in accordance with paragraph 3 above. The pricing mechanisms will in any case be reviewed by the Committee in accordance with the procedures set forth in paragraph 7 of resolution 986 (1995) stated 20 May 1996 (hereinafter "Resolution 986").
9. A contract for the sale of petroleum which employs a pricing mechanism approved by the Committee under paragraph 3 above, will be reviewed by two overseers on behalf of the Committee to determine whether the contract is completed within 24 hours. The overseers shall review a contract submitted by or on behalf of any oil purchaser with the same nationality as the overseer or within 24 hours of the date of the contract or within the last two years.
10. To ensure that all purchasers comply with the provisions of resolution 986 (1995) and to ensure that any attempt at fraud or deception, the overseers shall require the contracts and supporting documents to be submitted to the Committee for review.
11. For the purposes of this document, the requirements provided for in resolution 986 (1995) and in the present procedures, including the requirement that a confirmed irrevocable letter of credit to be opened, with the proceeds of the sale of petroleum to be credited to the credit account established by the Secretary-General under paragraph 7 of resolution 986 (1995) (hereinafter "credit account"). The letter of credit should contain the information set out in Annex II to this document.
12. The conditions of payment envisaged in the letters of credit are in conformity with the existing market practices.

9. the contract price is fair in view of all relevant circumstances, in particular that it is consistent with a currently approved pricing mechanism, and that the contract is consistent with the provisions of the Memorandum of Understanding;
10. the transaction does not exceed the limits established by resolution 984 (1995), including the requirements set out in paragraph 6 of the resolution;
11. If the contract and supporting documents reviewed under paragraph 9 above are found to be in order, the overseers, on behalf of the Committee, shall immediately approve the contract and inform by fax the national oil company holding the Iraq account. The Committee and the parties concerned shall be informed immediately upon rejection of any contract by an overseer. In such cases, the overseers will make a full report to the Committee for appropriate action.
12. Contracts for the sale of petroleum or petroleum products which do not comply with the provisions of paragraph 9 above shall be reviewed by the overseers who will provide their analysis and recommendations to the Committee. In addition, the factors in paragraph 9 above shall be taken into account in the pricing mechanism reflects fair market value. Such review should be completed within 24 hours. Upon receipt of the analysis and recommendations, the Committee shall immediately initiate the necessary contracts under its expedited re-objection procedure within two business days.
13. Once a contract is approved pursuant to these procedures, the national oil purchaser shall cause a letter of credit consistent with paragraph 9 above to be opened and transmitted to the bank holding the Iraq account. The letter of credit shall be subject to the terms and conditions of the contract. Immediately upon receipt of the letter of credit, the overseers shall determine whether it complies with the information given in the application.
14. If the credit letter of credit complies with the information given in the application, the overseers inform the bank holding the Iraq account which shall issue a letter of credit and, for information purposes, provide a copy of the letter of credit to the Committee. The letter of credit shall be issued within 48 hours. Furthermore, the overseers send notification of the letter of credit, together with a copy of the contract and, if necessary, a copy of the contract and supporting documents, to the national oil company at the Iraq-Turkey border, or at Min-al-Jah. If the opening of credit does not comply with the information given in the application the overseers shall immediately inform the Committee.
15. The overseers will submit a substantive report to the Committee, in a standardized format, at least once a week on the contracts considered by them during the week. The report shall be submitted to the Secretary-General authorized for export, and inform the Secretary-General accordingly.

/...

HA006489

16. the light of this report, any document submitted as part of an application to the Committee will be available for consultation by Committee members in the Secretariat.
17. The export of petroleum and petroleum products will be monitored by United Nations independent inspection agents, appointed by the Secretary-General, who will be based in Iraq. The agents will monitor the export of petroleum and petroleum products at the inspection station at the Iraqi-Turkey border. Such on-site monitoring will make use of the documents received from the overseers, direct observation, as well as quality and quantity verification. The agents will also monitor the export of petroleum and petroleum products. The agents will receive the information from the overseers that the relevant contract has been approved, and inform the overseers accordingly. The independent inspection agents will also monitor the export of petroleum and petroleum products if there is any evidence of irregularity. They will immediately report any irregularity to the Committee and the Secretary-General.
18. In accordance with paragraph 3 of resolution 661 (1990), and the provisions of resolution 665 (1990) shipments of Iraqi oil must not be performed by Iraqi vessels. In order to facilitate the efficient maritime export of oil from Iraq, the Committee will monitor the export of oil from Iraq. The Committee will receive information from the overseers that the relevant contract has been approved, and inform the overseers accordingly. The independent inspection agents will also monitor the export of petroleum and petroleum products if there is any evidence of irregularity. They will immediately report any irregularity to the Committee and the Secretary-General.
19. The Committee will be informed of the appointments of the independent inspection agents made by the Secretary-General under paragraph 6 of resolution 984 (1995).
20. The independent inspection agents shall report weekly to the Committee, through the overseers, on their assessment of the export operations. When the leading oil companies are notified of the results of the independent inspection agents' reports, they shall cooperate with the original approved contract.
21. Payment of the cost of each purchase of petroleum and petroleum products shall be made into the Iraq account as provided for in paragraph 6 of resolution 984 (1995).
22. Once the Secretary-General forwards to the Committee and to the overseers the statements of the Iraq account, including outlines of the contract, the overseers shall make payments to and from that account.
23. The Committee will monitor monthly reports from BMO on the actual volume and type of petroleum and petroleum products exported under the relevant sales contracts.

/...

HA006488

including the concluded contractual arrangements. Reports from the Iraq expert are to be included in the unclassified list, unless the Committee exceptionally decides otherwise on a case-by-case basis.

31. The Committee will take action on such applications in accordance with paragraph 20 of resolution 67 (1951), its existing procedures and the provisions of the relevant resolutions. The Committee will also refer to independent inspection agents at the instigation of the Secretary-General, if appropriate, the results of the actions taken on the applications submitted.

32. Such applications shall be submitted as follows:

- (a) Medicines and Health Supplies
The reporting State informs the Committee that the exporter requests payment from the Iraq account for the supplies of medicines and health supplies, and the relevant documents, including the concluded contractual arrangements and tender points(s) of entry into Iraq, must be attached to this communication.
- (b) Foodstuffs
The reporting State notifies the Committee. The notification must indicate the quantities of foodstuffs to be supplied, the relevant documents, including the concluded contractual arrangements and tender points(s) of entry into Iraq, must be attached to the notification.
- (c) Other Materials and Supplies for Essential Civilian Needs
The reporting State submits an application for approval by the Committee under its non-objection procedure. The application must indicate that the exporter requests payment from the Iraq account. A copy of the relevant documents, including the concluded contractual arrangements and tender points(s) of entry into Iraq, must be attached to the application.

33. Reports in the foregoing remain such contract, in particular the details of the contract, must be submitted to the Committee. They will also take into consideration the Secretary-General's report provided for in paragraph 20 above, in order to be able to take the necessary action for the contract.

34. The Committee acts upon the findings of the experts as set forth below:
(a) Medicines and Health Supplies
If the Committee finds, under its expedited non-objection procedure within two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that the exporter is eligible for payment from the Iraq account. If the contract is

/...

23. At a meeting, the Committee may provide additional guidance to be followed by the overseers.
24. If any Committee member judges the circumstances to be serious enough, that member may call for a review by the Committee of the system for approving applications established in this section. At an urgent meeting, the Committee may decide to suspend its non-objection procedure, whether to continue or revise the system. In the interim, the Committee may take such other action as may be necessary in accordance with paragraph 11 above.

SECTION II

FINANCIAL SUPPORT OF PETROLEUM AND PETROLEUM PRODUCTS ORIGINATING IN IRAQ

25. The expert by Turkey of petroleum and petroleum products originating in Iraq, as well as the expert by the United Kingdom of petroleum products originating in Iraq, shall be authorized to conduct such investigations as may be necessary to verify, as far as possible, the accuracy of the information provided in paragraph 2 and 6 of resolution 984 (1995), and to report pursuant to resolution 984 (1995). This list will be updated and reported to the Committee with the distribution of the report referred to in paragraph 6 (f) (ii) of the resolution.
26. After approving the investigation plan, the Secretary-General will forward the list, which may include a part of the plan, to the Committee, and will make it available to all States.

SECTION III

EXPORT TO IRAQ OF HUMANITARIAN SUPPLIES

27. The Government of Iraq will prepare a categorized list of humanitarian supplies, including medicines, health supplies, foodstuffs, and other humanitarian supplies, and will submit the appropriate contractual arrangements to the Committee for approval.
28. The Government of Iraq or the United Nations Inter-Agency Humanitarian Assistance Committee, or both, may request the Committee to arrange the purchase of humanitarian supplies from the Iraq account. The Committee will take into account the Secretary-General's report, and will submit the appropriate contractual arrangements to the Committee for approval.
29. Supplies for essential civilian needs (hereinafter humanitarian supplies) shall be financed from the Iraq account. The Committee will take into account the Secretary-General's report, and will submit the appropriate contractual arrangements to the Committee for approval.
30. Applications for such export of humanitarian supplies, to be financed from the Iraq account, shall be submitted to the Committee in accordance with paragraph 22 of the Memorandum of Understanding between the Government of Iraq and the Government of the United Kingdom of Great Britain and Northern Ireland, dated 1995, and the relevant documents, including the concluded contractual arrangements, shall be submitted to the Committee for approval.

31. The Committee acts upon the findings of the experts as set forth below:
(a) Medicines and Health Supplies
If the Committee finds, under its expedited non-objection procedure within two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that the exporter is eligible for payment from the Iraq account. If the contract is

32. The Committee acts upon the findings of the experts as set forth below:
(a) Medicines and Health Supplies
If the Committee finds, under its expedited non-objection procedure within two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that the exporter is eligible for payment from the Iraq account. If the contract is

33. Reports in the foregoing remain such contract, in particular the details of the contract, must be submitted to the Committee. They will also take into consideration the Secretary-General's report provided for in paragraph 20 above, in order to be able to take the necessary action for the contract.

34. The Committee acts upon the findings of the experts as set forth below:
(a) Medicines and Health Supplies
If the Committee finds, under its expedited non-objection procedure within two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that the exporter is eligible for payment from the Iraq account. If the contract is

35. The Committee acts upon the findings of the experts as set forth below:
(a) Medicines and Health Supplies
If the Committee finds, under its expedited non-objection procedure within two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that the exporter is eligible for payment from the Iraq account. If the contract is

/...

not found in order, the Committee informs the parties concerned that payment cannot be made from the Iraq account, but the medicines and health supplies can be shipped anyway if the exporter so desires.

(b) Foodstuffs

If the Committee finds, under its expedited verification procedure, within two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that the payment cannot be made from the Iraq account, but the foodstuffs can be shipped anyway if the exporter so desires.

(c) Other materials and supplies for Essential Civilian Needs

If the Committee approves the supplies under the expedited procedure within twelve working days, and if the contract is found to be in order, the Committee informs the parties concerned of the approval and that the exporter is eligible for payment from the Iraq account. If the contract is not in order, the Committee informs the parties concerned that payment cannot be made from the Iraq account, but that the supplies are approved and can be shipped anyway if the exporter so desires.

35. When the Committee has informed the parties concerned that the exporter is eligible for payment from the Iraq account, the Central Bank of Iraq will request the bank holding the Iraq account to open an irrevocable letter of credit in favour of the importer for the purchase of the humanitarian supplies. The letter of credit will be issued in favour of the importer and the bank holding the Iraq account. Such requests shall be processed in the order in which they are received. The letter of credit will remain as condition of payment until the bank holding the Iraq account has received the invoice and a standardized confirmation by the Secretary-General of the arrival of the humanitarian supplies in Iraq.

36. The arrival of the humanitarian supplies in Iraq will be confirmed by independent inspection agents appointed by the Secretary-General pursuant to paragraph 14 of resolution 664 (1991). The inspection agents will be authorized to inspect the supplies at any time and in any place. The inspection agents will submit a report to the Secretary-General. The independent inspection agents will add their authenticated confirmation of arrival to a copy of the Committee's letter of credit. The letter of credit will be issued to the importer and a copy of the invoice, and will inform the Secretary-General in accordance with paragraph 15 of resolution 664 (1991), until proceeds from the sale of the humanitarian supplies are deposited into the Iraq account. The Committee may approve, on a case-by-case basis, the financing of the import of parts and equipment by letters of credit, subject to the approval of the Secretary-General. If necessary, the provisions of paragraph 15 above shall apply.

/...

accordance with paragraph 6 (a) (iii) of Security Council resolution 664 (1991). This information should be given without delay to the Secretary-General and to the Committee. If the problem is related to normal commercial practice, the Committee and the Government of Iraq will be informed but normal commercial practice will be maintained. Payment in favour of the purchaser resulting from normal commercial resolution practices should be made to the Iraq account. If the matter is of serious concern, the independent inspection agents will be requested to verify the information. The Committee will make every effort to provide such guidance in the most expeditious manner.

37. The bank holding the Iraq account shall effect payment under any letter of credit only if all documents (listed in para. 35 above) stipulated in the letter of credit are presented to it and the same are in full compliance with the terms and conditions of the letter of credit. Payment can be made in favour of the importer and the supporting documents, payment can be made in favour of the importer corresponding to actual deliveries to Iraq. Documentarily discrepancies can only be waived by the Secretary-General.

38. The provisions of this section are without prejudice to the application of the existing procedures of the Committee for goods which are not supplied pursuant to resolution 664 (1991).

FINANCIAL

REPORT ON THE STATE OF BANKS AND EQUIPMENT AND FINANCIAL TRANSACTIONS RELATED TO THE HUMANITARIAN OPERATION IN IRAQ

39. The report to Iraq of the State of Banks and Equipment which are essential for the safe operation of the humanitarian pipeline system in Iraq will be undertaken in accordance with the procedures set out in paragraph 14 of resolution 664 (1991). The Committee on a case-by-case basis under its sub-objective procedure. The Committee will request relevant United Nations personnel in Iraq to provide information on the status of the banks and equipment. Paragraph 9 of resolution 664 (1991) is used only for the purpose permitted.

40. In accordance with paragraph 15 of resolution 664 (1991), until proceeds from the sale of the humanitarian supplies are deposited into the Iraq account, the Committee may approve, on a case-by-case basis, the financing of the import of parts and equipment by letters of credit, subject to the approval of the Secretary-General. If necessary, the provisions of paragraph 15 above shall apply.

/...

ANNEX I
STANDARD APPLICATION FORM TO REQUEST APPROVAL OF CONTRACTS
FOR SALE OF IRACI PETROLEUM AND/OR PETROLEUM PRODUCTS

The attached contract with the Iraqi State Oil Marketing Organization (ISMO) for the purchase of petroleum and/or petroleum products is submitted to the Committee for approval in accordance with the procedure established by resolution 661 (1990) and the procedure of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, adopted at its ... meeting held on ... (8/....).

INFORMATION ABOUT THE PURCHASER

Name of purchasing entity:
Place of registration:
Address:
Contact person:
Telephones:
Telex:
Quantity of crude petroleum and/or petroleum products:
Quantity of refined petroleum and/or petroleum products:
Pricing formula and/or price per m.t. barrel:
Date(s) of loading:
Date(s) of loading at destination (if available):
Name of vessel:
Payment (bankly credit irrevocable letter of credit, etc.):

Please find attached a copy of the contract, draft irrevocable letter of credit to be opened and all supporting documents.

Signature
Country
Name
Title

/...

HA006486

SECTION V

APPROVAL OF REASONABLE EXPENSES OTHER THAN EXPENSES PAYABLE IN IRAQ

41. Pursuant to paragraph 8 (4) of resolution 661 (1990), the Committee may approve, under its no-objection procedure, the financing from the Iraq account of reasonable expenses, other than expenses payable in Iraq, which are determined by it to be directly related to the support by Iraq of the activities of the Multinational Interception Forces operating in the Persian Gulf in accordance with resolution 661 (1990) or to the support to Iraq of the arms and equipment referred to in paragraph 8 of resolution 661 (1990), and of activities directly necessary thereto.

42. Requests for meeting the expenses referred to in the previous paragraph shall be submitted to the Committee by the purchaser. The necessary documentation shall be approved on a case-by-case basis by the Committee under its no-objection procedure. The Committee will seek, if necessary, the advice of the overseers or the independent inspection agents in reaching a decision.

SECTION VI

GENERAL EXCLUSIONS

43. The Secretary will arrange for the establishment of the appropriate institutions to be established in Iraq to meet the needs of the independent inspection agents, the bank holding the Iraq account and the coordinator of the Multinational Interception Forces operating in the Persian Gulf in accordance with resolution 661 (1990) or to the support to Iraq of the arms and equipment referred to in paragraph 8 of resolution 661 (1990).

44. The Secretary will arrange for the establishment of the appropriate institutions to be established in Iraq to meet the needs of the independent inspection agents, the bank holding the Iraq account and the coordinator of the Multinational Interception Forces operating in the Persian Gulf in accordance with resolution 661 (1990) or to the support to Iraq of the arms and equipment referred to in paragraph 8 of resolution 661 (1990).

45. Letters of credit mentioned in these procedures should conform with the Uniform Customs and Practice for Documentary Credits.

46. The Committee will amend or revise the present procedures, if necessary, in the light of future developments.

/...

HA006485

ANNEX II

Information to be included in the letter of credit

1. As provided for in paragraph 2 of Annex II of the Memorandum of Understanding between the Government of Iraq and the Government of the United Kingdom on the implementation of Security Council resolution 986 (1995), signed on 20 May 1996, the following clauses will have to be inserted in each letter of credit:

1. Provided all terms and conditions of this letter of credit are complied with, proceeds of this letter of credit will be irreversibly paid into the Iraq Account with ... Bank.
2. All charges within Iraq are for the beneficiary's account, whereas all charges outside Iraq are to be borne by the beneficiary.
3. Other information to be included:
 - nature of the petroleum or petroleum product
 - forecast quantity of petroleum or petroleum product
 - date of loading
 - unit price
 - forecast amount of the transaction

ANNEX V
GENERAL RELEASE FROM LIABILITY ON ACCOUNT OF
USE OF UN-PROVIDED TRANSPORT

I, the undersigned, hereby recognize that all my travel on the United Nations Mission in Iraq (UNMIL) under the authority of the United Nations Security Council Resolution 986 (1995) is solely for my own convenience and benefit 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 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, its officials, employees or agents from and against any claim or action on account of any such loss, damage, injury or death.

Nothing in or relating to this release shall be deemed a waiver, express or implied, of any rights or claims of the United Nations, including its subsidiary organs.

Passenger

Date

12/30/88 16:38 FAX 1 312 352 9185
GENERAL LEGAL
ANNEX D (Cont) 3942

Notarized herein or related herein shall be deemed a waiver of an agreement to waive any of the privileges or immunities of the United Nations.

Signed on

Signed on
on behalf of
on behalf of
by

by

In the capacity of
in the presence of

In the capacity of
in the presence of

COINS
COTECNA INSPECTION S.A.

TEL. (011) 30 849 89 00
FAX (011) 30 849 89 00
DALLAS COTECNA SENeca
CORRESPONDENCE
P.O. BOX 1418-1101 SENeca S
DUTCHLAND

OUR REF.

YOUR REF.

Office in charge
Government Division
O.C.S.S./D.M.

United Nations
New York (NY)
New York, December 30th 1988.

Power of Attorney

i. the undersigned E. G. MASSEY, in my capacity of Chairman of COTECNA INSPECTION S.A. Geneva, hereby gives full and complete Power of Attorney to Mr. Andrew PRUMPUX to sign on behalf of our Company a contract number Reference PD/CON/324/88 with the United Nations, New York (U.S.A.) relating to work & services to be made in 1989 within the Programme of "OIL FOR FOOD".

Made in one Original this 30th day of December 1988.

E. G. MASSEY
Chairman of

11-57-114 11-57-2276-11-5

HA006502

HA006501

B. RESPONSIBILITIES OF THE CONTRACTOR

Article 4. Scope of Work. Responsibilities

4.1 The Contractor undertakes to provide independent inspection Agents, to be comprised of fifty-four (54) inspection agents and, at no additional cost to the UN, six (6) alternate inspection agents, one (1) field manager, one (1) senior liaison officer, and one (1) senior inspector, to perform the Services. The Contractor shall perform the Services on a 24-hour, 7-day per week basis and in accordance with the specifications and procedures set forth in the RFP and the Proposal.

4.2 The Contractor shall provide a total of sixty-three (63) Agents, to be comprised of fifty-four (54) inspection agents and, at no additional cost to the UN, six (6) alternate inspection agents, one (1) field manager, one (1) senior liaison officer, and one (1) senior inspector, to perform the Services. The Contractor shall provide a Coordinator acceptable to the UN, who shall be posted at UN Headquarters in New York, in accordance with the Proposal and at the discretion of the UN. The Contractor shall also provide a Coordinator acceptable to the UN, who shall be posted at UN Headquarters in New York, in accordance with the Proposal and at the discretion of the UN. The Contractor shall also provide a Coordinator acceptable to the UN, who shall be posted at UN Headquarters in New York, in accordance with the Proposal and at the discretion of the UN. The Contractor shall also provide a Coordinator acceptable to the UN, who shall be posted at UN Headquarters in New York, in accordance with the Proposal and at the discretion of the UN. The Contractor shall also provide a Coordinator acceptable to the UN, who shall be posted at UN Headquarters in New York, in accordance with the Proposal and at the discretion of the UN.

4.3 The Contractor shall confirm imports of Supplies into Iraq in accordance with article 4.8 hereof, the RFP, and the Proposal, including without limitation the verification, inspection, and testing procedures set forth in the Proposal. In particular, the Contractor shall provide the following documents to the UN: (i) a copy of the shipping documents issued by the Committee against Supplies actually arriving in Iraq. They shall, among other matters, contain quantity inspection by weight or count, quality inspection by visual examination, and laboratory testing. The Contractor shall (ii) deliver any samples to its laboratory facilities within forty-eight (48) hours of taking such samples, (iii) retain all samples for at least three (3) months.

- (b) the RFP; and
(c) the Proposal.

1.4 It is expressly agreed that this Contract embodies the entire agreement of the Parties with regard to the subject matter hereof, and that no oral or written agreements, understandings, or verbal or otherwise, exist between the Parties except as herein expressly set forth.

Article 2. Term of Contract

This Contract shall be in force for an initial term of six (6) months, from 1 February 1999 through 31 July 1999, unless earlier terminated in accordance with the terms of this Contract. The UN shall have the right to extend the term of this Contract on the same terms and conditions (including price) for additional periods of six (6) months each, or of such shorter duration as the UN may in its sole discretion determine, by giving the Contractor written notice of its intention to do so at least ten (10) business days prior to the expiration of the term of the Contract. The Contractor shall have the right to extend the term of this Contract; provided, however, that any extension of this Contract after the first such extension shall be subject to mutual agreement by the UN and the Contractor to a reasonable adjustment to the Contractor's costs.

Article 3. Objectives of Contract

The Resolutions direct the Security Council Committee established by UN Security Council Resolution 661 (1990) (hereinafter referred to as the "Committee"), under Article 41 of the Charter of the United Nations, to prohibit Iraq from receiving or importing certain humanitarian supplies and parts, and equipment for the production of such supplies. The Contractor shall provide all services, equipment and supplies to verify and confirm (i) that the description, quantity, and quality of the supplies and parts imported into Iraq are those imported in connection with the United Nations Inter-Agency Humanitarian Programme) are in accordance with the requirements established by the Committee and (ii) that services ancillary to the import of Supplies (hereinafter referred to as "Services") are in accordance with the requirements established by the Committee. The activities referred to in clauses (i) and (ii) above are hereinafter together referred to as the "Services".

HA006504

HA006503

7

4.5. The Agents will immediately report all irregularities to the UN Secretary-General and the Committee. In the case of shipments other than those in connection with the United Nations Inter-Agency Humanitarian Programme, if the problem is related to normal commercial practice (e.g., some shortlanded goods), the Committee and the Government of Iraq shall be informed. In normal circumstances, the Committee shall be informed forthwith of the Agents determine that the matter is of serious concern, they will hold the shipment in question pending guidance from the Committee. The Contractor shall have no liability in respect of any disputes arising between the buyer and seller of the supplies and services, however, that the Contractor shall cooperate with any requests by the UN to provide assistance in connection with the resolution of any such disputes.

4.6. The Contractor shall also be responsible for operating the convey control system at the Zasho/Faida border crossing, including without limitation, preparing convey lists, collecting passports, and providing such documents to the relevant authorities.

4.7. The Contractor shall be responsible for making all necessary arrangements to ensure the fulfillment of its obligations under this Contract. The Contractor shall perform its obligations under this Contract in accordance with the highest professional standards.

4.8. In performing their obligations under this Contract, the Contractor and its personnel shall comply with all relevant aspects of applicable UN documents, procedures, including without limitation, the Resolutions of the MOU, the Procedures, any other procedures and instructions issued by the UN Secretary-General, and instructions and any other applicable aspects of the UN Secretary-General.

4.9. The Contractor acknowledges that (1) the UN shall have no obligation to provide any assistance to the Contractor in performing its obligations under this Contract, and (2) the Contractor shall make no representations as to the availability of any facilities or equipment in Iraq or the conduct of Iraqi authorities. The Contractor represents and warrants that all information in the Proposal is true and correct.

4.10. The UN reserves the right at any time, including during the term of this Contract or any extension thereof, to enter into any agreements or arrangements with any other entities or persons for performance of all or any part of the obligations of the Contractor under this Contract, without the Contractor's consent. The UN may at any time expand or reduce the Services to be performed by the Contractor under this

months after the last shipment under the purchase contract to which the goods are related. The timeframes set forth in the Proposal. In the case of shipments other than those in connection with the United Nations Inter-Agency Humanitarian Programme, if the shipment is in order, the Agents will add their authenticated confirmation of arrival to the goods eligible for payment from the escrow account referred to in the Resolutions and to a copy of the invoice, and will inform the UN Secretary-General within twenty-four (24) hours of such confirmation by electronic transmission and by signed facsimile in accordance with paragraph 4.3 of the Procedures. The timeframes set forth in the Proposal. In the case of shipments in connection with the United Nations Inter-Agency Humanitarian Programme, if the shipment is in order, the Agents will inform the UN Secretary-General of their confirmation of arrival within twenty-four (24) hours of such confirmation by electronic transmission and by signed facsimile.

4.4 (a) On a case-by-case basis, the Agents shall confirm the performance of Ancillary Services at sites away from their designated duty stations in accordance with Article 4.8 hereof and in accordance with the Procedures. If the UN determines in its sole discretion that none of the Agents then appointed under this Contract has the necessary qualifications to conduct any such inspection of Ancillary Services or that any such inspection cannot be conducted by an Agent then appointed under this Contract, the Contractor shall, within one (1) week of the UN's request, the Contractor shall identify at least three (3) candidates experienced and qualified to perform the inspection and the UN shall designate one (1) or more of such candidates to perform the inspection. Such additional Agents shall perform the inspection in accordance with a schedule to be determined by the UN.

(b) The terms of the RFP and the Proposal relating to confirmation of imports of supplies shall also apply. Multisite confirmation of the confirmation of performance of Ancillary Services. The Ancillary Services have been duly performed, the Agents will add their authenticated confirmation of performance to the goods eligible for payment from the escrow account referred to in the Resolutions and to a copy of the invoice, and will inform the UN Secretary-General within twenty-four (24) hours of such confirmation by electronic transmission and by signed facsimile in accordance with paragraph 4.3 of the Procedures. The timeframes set forth in the Proposal. In the case of shipments in connection with the United Nations Inter-Agency Humanitarian Programme, if the shipment is in order, the Agents will inform the UN Secretary-General of their confirmation of arrival within twenty-four (24) hours of such confirmation by electronic transmission and by signed facsimile.

6

HA006506

HA006505

9

station shall be equipped with either a V-SAT terminal (earth station) or INMARSAT capable of transmitting at minimum of 64 Kbps; at least one (1) MINI M (Inmarsat) or better equipment with a separate fax machine capable of transmitting data as a back-up to the V-SAT or INMARSAT B.

4.12 The Contractor shall safeguard the security of all documents, equipment, materials, and facilities used in connection with the performance of this Contract, including without limitation through the measures set forth in the Proposal.

Article 5. Contractor's Personnel

5.1 No person shall be assigned by the Contractor to perform the Services under this Contract unless the Contractor has in advance the selection of such person in writing. Without limiting the UN's rights of approval under Articles 4.2 and 5.2 hereof, in addition to the sixty-three (63) Agents selected by the United Nations under Article 4.2 hereof, the United Nations shall have the right to select and assign to the Services any replacement Agents under this Contract.

5.2 The United Nations may request any time the withdrawal or replacement of any personnel of the Contractor assigned to the Services under this Contract. The Contractor shall, at its own cost and expense, withdraw or replace such personnel forthwith. The assignment by the Contractor of any replacement personnel shall be subject to the approval of the United Nations. Replacement personnel shall not be deemed a termination of this Contract.

5.3 The Contractor shall be fully responsible for all work and expenses incurred by the Contractor in the performance of the Services under this Contract. The Contractor shall take all reasonable measures to ensure that the Services are performed in accordance with the ethical standards of the highest standards of moral and ethical conduct and respect the local customs which are not inconsistent with the provisions of this Contract, including without limitation the Resolutions, the ROU and the BSR.

5.4 The Contractor shall ensure that all personnel used to perform the Services under this contract are (i) medically fit to perform the Services, (ii) free from any physical disability, (iii) free from any service-related illness, injury, death or disability. The Contractor shall submit proof of such medical fitness and such insurance satisfactory to the UN before commencing any work under

8

Contract, including without limitation the establishment of new desktop PCs, software, and other equipment. The Contractor shall, at its sole discretion, in accordance with Article 4.2 hereof, in the event such a modification in the Contractor's responsibilities includes any increase in the Contractor's expenses other than those included in the Proposal, the Parties shall mutually agree on a corresponding change to the contract price payable to the Contractor.

4.11 The Contractor shall supply all equipment, materials, and facilities necessary to perform the Services, including without limitation all equipment for taking and storing samples, all vehicles for transporting the Agents, all equipment for communications and communications and other facilities required under this Contract, and all other facilities required and facilities set forth in the Proposal. The communications and electronic data processing equipment and software supplied and utilized by the Contractor in performing its obligations under this Contract shall be fully compatible with the equipment and software utilized by the UN compatible with this Contract. In particular, the Contractor shall supply the following equipment and software to perform the Services:

- (a) Each duty station shall be equipped with at least three (3) desktop PC's (with additional PC's as work volume may require); one (1) server with minimum Pentium II, with 128 MB RAM running at 333 Mhz, with three (3) 9.1 GB hard disk drives and a 24x CD-ROM drive; and Routers to facilitate data transmissions. Each desktop PC shall be equipped with 4.6 or higher and be Y2K compliant. The Contractor shall create a Logrus Notes-based application to record authentication and transmit them directly to the UN Notes database. The Contractor shall be responsible for ensuring that the integrity of all administration data is maintained.

- (b) Each duty station shall be equipped with UPS (Uninterruptible Power Supply) backup capacity of 1200 Watts. Each duty station utilizing local power shall also be equipped with a back-up generator with adequate capacity to power the entire station.

- (c) Subject to the Parties' mutual agreement to an appropriate adjustment to the contract price and an amendment of this Contract to effect such price adjustment, each duty

HA006508

HA006507

Article 7. Contract Price

7.1 In full payment for the complete and satisfactory performance by the Contractor of all its obligations under this Contract, the UN will pay the Contractor a total of U.S. Dollars Eight Hundred Seventy-Seven Thousand Two Hundred Twenty-Six (US\$877,226.00), subject to any adjustment in such price pursuant to Articles 4.2 or 12.1 hereof. This price includes all costs relating to the Services to be provided under this Contract, including but not limited to: lodging, security, transportation, and communications, electronic data processing and other equipment. This price also includes all taxes, duties, levies, and other charges of any nature imposed by any authority, whenever payable in or in other countries in arrears in six equal installments of U.S. Dollars Eight Hundred Twelve Thousand Eight Hundred Seventy-One (US\$812,871.00) each, subject to any adjustment in the total price as provided in Articles 4.2 and 12.1 hereof.

7.2 Payments under this Contract shall be made only against receipt of the Contractor's written invoices and certification by the UN that the Services represented by the invoice have been satisfactorily completed. The Contractor shall submit such invoices to the UN to enable payment. To the Office of the Iraq Programme, United Nations, New York, NY 10017, Attn: Senior Customs Officer, with a copy to the Procurement Division, United Nations, East 45th Street, New York, NY 10017. The Contractor shall submit a receipt of the invoice and all required supporting documentation; provided that the UN shall be entitled to a two percent (2%) discount on any invoice amount of fifteen (15) days of its receipt of such invoice and documentation.

7.3 The UN may offset any amounts which are due to it from the Contractor against any payments due from the UN to the Contractor.

RESPONSIBILITIES OF THE UN

Article 8. Identification Cards

The UN shall provide the Contractor's personnel with appropriate identification cards.

this Contract.

5.5 The UN shall not be liable for any action, omission, negligence, or misconduct of the Contractor's employees, agents, servants, or sub-contractors, nor for any insurance coverage which may be necessary or desirable for the purpose of this Contract, nor for any costs, expenses, or claims associated with any illness, injury, or death of any employee, agent, servant, or sub-contractor performing Services in connection with this Contract.

5.6 The Contractor shall ensure that the Agents are at their duty stations in accordance with the Proposal, on 1 February 1992. The duty stations shall be staffed as specified in the RFP and the Proposal, and the Agents shall carry out their work in accordance with a shift structure acceptable to the UN. The Contractor shall reserve the right at any time to alter the shift structure or the number of Agents assigned to each duty station, at no additional cost to the UN. The Agent assignments shall include, but not be limited to: (1) undertaking routine support tasks on hardware and software, one (1) food technologist, and one (1) person fluent in Arabic.

5.7 It is understood and agreed that the Agents performing the Services, whose names will be communicated to the Government of Iraq pursuant to Section VIII of the MOU, shall be deemed "experts" within the meaning of Article VI of the Convention on the Privileges and Immunities of the United Nations, and shall enjoy all of the privileges and immunities accorded to "experts" therein.

Article 6. Reporting Requirements

The Contractor shall submit to the Committee, the UN Secretary-General, and the United Nations Office of the Humanitarian Coordinator for Iraq daily and weekly reports in writing, describing in detail the Services performed under this Contract. Such reports shall be transmitted to the UN in electronic and hard copy format. The reports shall be in such format and provide such information as the UN shall specify.

C. CONTRACT PRICE AND PAYMENT

and hold harmless the UN and its officials, employees, and agents for any claim or liability of any nature arising in connection with this Article 9.

F. MISCELLANEOUS MATTERS

Article 10. Contractor's Obligations Upon Expiration of Termination

Upon expiration or termination of this Contract, the Contractor shall take immediate steps to terminate its operations in a prompt and orderly manner and shall provide such information as may be requested by the UN, including but not limited to the preservation and protection of (i) the work and services already performed by the Contractor and the results thereof and (ii) all property of the UN provided to the Contractor.

Article 11. Liaison and Inspection

11.1 The UN reserves the right to inspect and test all Services performed by the Contractor under this Contract, to the extent necessary to ensure that the Contractor is complying with the terms of this Contract. The UN shall perform inspections and tests in a manner that will not unduly hinder the performance of the Services by the Contractor. The Contractor shall cooperate with all inspections and tests.

11.2 If any work or services performed by the Contractor do not conform with the requirements of this Contract, the UN shall have the following options:

(a) If the UN determines that the improper performance can be remedied by any of re-performance or other corrective measures by the Contractor, the UN may request the Contractor in writing to take, and the Contractor shall take, at no expense to the UN, such actions to remedy the improperly performed work or services within fourteen (14) days of receipt of the written request from the UN or within such shorter period as the UN may have specified in the written request if emergency conditions so require, as determined by the UN.

(b) If the Contractor does not promptly take corrective measures or if the UN reasonably determines that the Contractor is unable to remedy the improper performance in a timely manner, the UN may obtain the assistance of other

Article 9. Access to Transport and Medical Facilities

9.1 Without limiting the Contractor's obligation under this Contract to provide transport, the United Nations agrees to allow the Contractor's personnel, employees, and agents, to the extent practicable, to travel on UN-provided transport to, in, and from Iraq strictly for the following purposes:

(a) evacuation due to security developments; on the understanding that such evacuation shall be to the nearest safe area; and

(b) medical evacuation due to serious medical conditions, provided that the evacuation of the Contractor's personnel will be from transportation out of the nearest out-of-country medical facility in an appropriate neighbouring country.

9.2 In consideration of the Contractor's personnel being permitted to travel on UN-provided transport, each of which personnel shall sign a release from liability in the form attached hereto as Annex C prior to their transport on any UN-provided transportation. The Contractor shall ensure that the signed original to the release is provided to the UN prior to such person's initial use of any UN-provided transportation.

9.3 Without limiting the Contractor's obligation under this Contract to provide emergency medical treatment, the Contractor's personnel shall receive emergency medical treatment, the UN agrees, on an exceptional basis and to the extent practicable, to allow such personnel access to available UN medical facilities. In such UN medical facilities, each of which personnel shall complete and sign the release from liability in the form attached hereto as Annex D. The Contractor undertakes to obtain the signed release from the UN medical facilities prior to the person's initial use of any UN medical facility.

9.4 The Contractor hereby releases the UN and its officials, employees, and agents from any and all liability of any nature whatsoever that may be incurred by the UN or its officials, employees, or agents arising in connection with the provision of such services. The Contractor agrees to reimburse the UN for any costs incurred by it in connection with this Article 9 and to indemnify

15

12.4 Without limiting any of the UN's other rights under this Contract, the Contractor shall be responsible for obtaining all licenses, permits, and authorizations from governmental or other authorities necessary for the performance of this Contract. The UN shall provide reasonable assistance to the Contractor, by liaising as appropriate with relevant authorities for clearing through customs any equipment, materials, and supplies in connection with this Contract. Notwithstanding the foregoing, the UN's sole obligation with respect to customs clearance shall be to provide the Contractor with a documentary verification for the sole consumption or use of the Agent. If any further documentation is required in the future by Government authorities in Iraq or elsewhere, the Contractor will advise the UN, and the UN will provide reasonable assistance to the Contractor in obtaining such documents.

Article 13. Customs Clearance, Licenses, Etc.

The Contractor shall be responsible for customs clearance and obtaining all licenses, permits, and authorizations from governmental or other authorities necessary for the performance of this Contract. The UN shall provide reasonable assistance to the Contractor, by liaising as appropriate with relevant authorities for clearing through customs any equipment, materials, and supplies in connection with this Contract. Notwithstanding the foregoing, the UN's sole obligation with respect to customs clearance shall be to provide the Contractor with a documentary verification for the sole consumption or use of the Agent. If any further documentation is required in the future by Government authorities in Iraq or elsewhere, the Contractor will advise the UN, and the UN will provide reasonable assistance to the Contractor in obtaining such documents.

Article 14. Performance Bond

Within fifteen (15) days of signature of this Contract by the Contractor, the Contractor shall provide to the UN with a performance bond in the form set forth in Annex VII hereof, or a similar guarantee acceptable to the UN, in the amount of U.S. Dollars Two Hundred Forty-Three Thousand Eight Hundred Sixty-One (US\$243,861.00) (i.e., Article 7.1 above) which bond or guarantee shall remain in force until at least two (2) months after the expiration of the Contract. The UN shall be entitled to claim the performance bond/guarantee upon the first written demand of the UN without having to provide any other documentation, and in accordance with the terms and conditions set forth in Annex VII.

Article 15. Notices

Except as otherwise specified in this Contract or instructed by the UN, all notices and other communications required or

14

entitles or persons and have corrective measures taken at the expense of the Contractor.

(c) If the UN determines that the improper performance cannot be remedied by re-performance or other corrective measures by the Contractor, the UN may terminate the Contract in accordance with Article 15 of the UN General Conditions of Contract (Annex I) without prejudice to any of its other rights and remedies under this Contract.

Article 12. Termination at Will, Force Majeure and Other Special Circumstances

12.1 In addition to the termination rights provided in Article 15 of the UN General Conditions of Contract (Annex I), the UN may terminate this Contract without cause, in whole or in part, upon thirty (30) days written notice to the Contractor. In the event of termination pursuant to this clause, the UN shall pay to the Contractor the amount of any reimbursement for services satisfactorily performed in accordance with this Contract prior to the effective date of termination and any reimbursement to which the Contractor shall be entitled pursuant to Article 12.2 hereof. In the event of partial termination, the Contractor shall be proportionately reduced as set forth in Article 4.2 hereof.

12.2 In the event the UN terminates this Contract pursuant to Article 12.1 hereof prior to the expiration of the initial six (6)-month term of the Contract, the UN shall reimburse the Contractor for a portion of its costs for dwelling, furniture, vehicles, and other equipment in accordance with the following schedule:

Month Termination Taken Effect	Reimbursement Amount
March 2003	US\$ 727,542.00
April 2003	US\$ 582,033.60
May 2003	US\$ 436,525.20
June 2003	US\$ 291,016.80
July 2003	US\$ 145,508.40

12.3 Notwithstanding the provisions of Article 14 of the UN General Conditions of Contract (Annex I), in the event of any circumstance constituting a force majeure, the Contractor shall not be required to provide a performance bond/guarantee. The Contractor shall not withdraw any of its personnel from their duty stations except with the prior written approval of the UN, which approval shall not be unreasonably withheld. The Parties agree that it shall not be unreasonable for the UN to withhold its consent so long as UN personnel remain similarly situated in Iraq.

15

12.4 Without limiting any of the UN's other rights under this Contract, the Contractor shall be responsible for obtaining all licenses, permits, and authorizations from governmental or other authorities necessary for the performance of this Contract. The UN shall provide reasonable assistance to the Contractor, by liaising as appropriate with relevant authorities for clearing through customs any equipment, materials, and supplies in connection with this Contract. Notwithstanding the foregoing, the UN's sole obligation with respect to customs clearance shall be to provide the Contractor with a documentary verification for the sole consumption or use of the Agent. If any further documentation is required in the future by Government authorities in Iraq or elsewhere, the Contractor will advise the UN, and the UN will provide reasonable assistance to the Contractor in obtaining such documents.

Article 13. Customs Clearance, Licenses, Etc.

The Contractor shall be responsible for customs clearance and obtaining all licenses, permits, and authorizations from governmental or other authorities necessary for the performance of this Contract. The UN shall provide reasonable assistance to the Contractor, by liaising as appropriate with relevant authorities for clearing through customs any equipment, materials, and supplies in connection with this Contract. Notwithstanding the foregoing, the UN's sole obligation with respect to customs clearance shall be to provide the Contractor with a documentary verification for the sole consumption or use of the Agent. If any further documentation is required in the future by Government authorities in Iraq or elsewhere, the Contractor will advise the UN, and the UN will provide reasonable assistance to the Contractor in obtaining such documents.

Article 14. Performance Bond

Within fifteen (15) days of signature of this Contract by the Contractor, the Contractor shall provide to the UN with a performance bond in the form set forth in Annex VII hereof, or a similar guarantee acceptable to the UN, in the amount of U.S. Dollars Two Hundred Forty-Three Thousand Eight Hundred Sixty-One (US\$243,861.00) (i.e., Article 7.1 above) which bond or guarantee shall remain in force until at least two (2) months after the expiration of the Contract. The UN shall be entitled to claim the performance bond/guarantee upon the first written demand of the UN without having to provide any other documentation, and in accordance with the terms and conditions set forth in Annex VII.

Article 15. Notices

Except as otherwise specified in this Contract or instructed by the UN, all notices and other communications required or

HA006514

HA006513

FOR COPECMA INSPECTION S.A. FOR THE UNITED NATIONS

Andre E. Frenkel
Name: ANDRE E. FRENKEL

Name: SAMIYA BAHEL

Title: SENIOR VICE-PRESIDENT TITLE: OFFICER-IN-CHARGE PROCUREMENT

DIVISION

Date: 31 DECEMBER 1994 Date: 11 DECEMBER 1994

contemplated under this Contract shall be in writing and shall be delivered either by: (i) personal delivery; (ii) recognized overnight mail; (iii) postage prepaid, secure receipt requested, certified mail; (iv) registered mail; or (v) telegram, addressed to the Party for whom intended at the address shown below or such other address as the intended recipient previously shall have designated by written notice given pursuant to this Contract.

If to the Contractor:

Cotecma Inspection S.A.
1211 Geneva
1211 Geneva 6
Switzerland
Attn: Chairman
Fax No.: 41-22-849-69-89

If to the UN (communications/notices of a contractual nature):

Procurement Division
United Nations
304 East 47th Street
New York, NY 10017
U.S.A.
Attn: Chief
Fax No.: 212-963-6315

If to the UN (communications/notices of an operational nature):

Office of the High Programme
United Nations
New York, NY 10017
Attn: Procurement
Telephone: 212-963-6883

Noted by overnight mail or recognized overnight delivery service shall be effective on the date it is officially recorded as received and filed in the Procurement Division. All notices and other communications required or contemplated by this Contract delivered in person, by facsimile, or by telegram shall be deemed to have been delivered to and received by the addressee and shall be effective on the date of actual receipt.

IN WITNESS WHEREOF, the Parties have executed this Contract.

KAC

ANNEXES

- Annex I - UN General Council Resolutions
- Annex II - Security Council Resolutions
- Annex III - Memorandum of Understanding
- Annex IV - Procurement Code of Conduct
- Annex V - Procurement Code of Ethics
- Annex VI - Medical Release Form
- Annex VII - Form of Performance Bond/Guarantee

ANNEX I

[UN GENERAL CONDITIONS FOR GENERAL CONTRACTS]

ANNEX I

UNITED NATIONS GENERAL CONDITIONS
OF CONTRACT

1.0 **LEGAL STATUS:** The Contractor shall be considered as having the legal status of an independent contractor vis-à-vis the United Nations. The Contractor's personnel and sub-contractors shall not be considered in any respect as being the employees or agents of the United Nations.

2.0 **SOURCE OF INSTRUCTIONS:** The Contractor shall neither seek nor accept instructions from any authority external to the United Nations in connection with the performance of its services under this Contract. The Contractor shall refrain from any action which may adversely affect the United Nations and shall fulfill its commitments with the fullest regard to the interests of the United Nations.

3.0 **CONTRACTOR'S RESPONSIBILITY FOR EMPLOYEES:** The Contractor shall be responsible for the professional and technical competence of its employees and will select, for work under this Contract, reliable individuals who will perform efficiently the implementation of this Contract in respect to the customs, and conforming to a high standard of moral and ethical conduct.

4.0 **ASSIGNMENT:** The Contractor shall not assign, transfer, pledge or make other disposition of this Contract or any part thereof, or any of the Contractor's rights, claims or obligations under this Contract except with the prior written consent of the United Nations.

5.0 **SUB-CONTRACTING:** In the event the Contractor requires the services of sub-contractors, the Contractor shall obtain the prior written approval and

clearance of the United Nations for all sub-contractors. The approval of the United Nations shall not release the Contractor of any of its obligations under this Contract. The terms of any sub-contract shall be subject to and conform with the provisions of this Contract.

6.0 OFFICIALS NOT TO BENEFIT: The Contractor warrants that no official of the United Nations has received or will be offered by the Contractor any direct or indirect benefit arising from this Contract or the award thereof. The Contractor agrees that breach of this provision is a breach of an essential term of this Contract.

7.0 INDEMNIFICATION: The Contractor shall indemnify, hold and save harmless and defend, at the Contractor's expense, its officials, agents, servants and employees from and against all suits, claims, demands, and liability of any nature or kind, including their costs and expenses, arising out of acts or omissions of the Contractor, or the Contractor's employees, officers, agents or sub-contractors, in the performance of this Contract. This provision shall extend, *inter alia*, to claims and liability in the nature of workmen's compensation, products liability and liability arising out of the use of patented inventions or devices, copyrighted material or other intellectual property by the Contractor, its employees, officers, agents, servants or sub-contractors. The obligations under this Article do not lapse upon termination of this Contract.

8.0 INSURANCE AND LIABILITIES TO THIRD PARTIES

8.1 The Contractor shall provide and thereafter maintain insurance against all risks in respect of its property and any equipment used for the execution of this Contract.

8.2 The Contractor shall provide and thereafter maintain all appropriate workmen's compensation insurance, or its equivalent, with respect to its employees to cover claims for personal injury or death in connection with this Contract.

8.3 The Contractor shall also provide and thereafter maintain liability insurance in an adequate amount to cover third party claims for death or bodily injury,

or loss of or damage to property, arising from or in connection with the provision of services under this Contract or the operation of any vehicles, boats, airplanes or other equipment owned or leased by the Contractor or its agents, servants, employees or sub-contractors performing work or services in connection with this Contract.

8.4 Except for the workmen's compensation insurance, the insurance policies under this Article shall:

- (i) Name the United Nations as additional insured;
- (ii) Include a waiver of subrogation of the Contractor's rights to the United Nations;
- (iii) Provide that the United Nations shall receive thirty (30) days written notice from the insurers prior to any cancellation or change of coverage.

8.5 The Contractor shall, upon request, provide the United Nations with satisfactory evidence of the insurance required under this Article.

9.0 ENCUMBRANCES/LIENS: The Contractor shall not cause or permit any lien, attachment or other encumbrance by any person to be placed on files or to remain on file in any public office or on file with the United Nations or to be filed in any public office or on file with the United Nations furnished under this Contract or by reason of any other claim or demand against the Contractor.

10.0 TITLE TO EQUIPMENT: Title to any equipment and supplies that may be furnished by the United Nations shall rest with the United Nations and any such equipment shall be returned to the United Nations at the conclusion of this Contract or when no longer needed by the Contractor. Such equipment, when returned to the United Nations, shall be in the same condition as when received by the Contractor, subject to normal wear and tear. The Contractor shall be liable to compensate the United Nations for equipment determined to be damaged or degraded beyond normal wear and tear.

11.0 COPYRIGHT, PATENTS AND OTHER PROPRIETARY RIGHTS: The United Nations shall be entitled to all intellectual property and other

proprietary rights including but not limited to patents, copyrights, and trademarks, with regard to products, or documents and other materials which bear a direct relation to or are produced or prepared or collected in the course of or in the course of the execution of this Contract. At the request of the Contractor, the Contractor shall take all necessary steps to execute all necessary steps to protect and preserve the Contractor's proprietary rights and transferring them to the United Nations in compliance with the requirements of the applicable law.

12.0. USE OF NAME, EMBLEM OR OFFICIAL SEAL OF THE UNITED NATION:

The Contractor shall not advertise or otherwise make public the fact that it is a Contractor with the United Nations, nor shall the Contractor, in any manner whatsoever use the name, emblem or official seal of the United Nations, or any abbreviation of the name of the United Nations in connection with its business or otherwise.

13.0. CONFIDENTIAL NATURE OF DOCUMENTS AND INFORMATION

13.1 All maps, drawings, photographs, mosaics, plans, reports, recommendations, estimates, documents and all other data compiled by or received by the Contractor under this Contract shall be the property of the United Nations, shall be treated as confidential and shall be delivered only to United Nations authorized officials on completion of work under this Contract.

13.2 The Contractor may not communicate at any time to any other person, Government, contractor, subcontractor, agent, or other person known to it by the Contractor, or any other person with whom the Contractor has an association with the United Nations which has not been authorized in writing by the United Nations, any information which has not been authorized in writing by the United Nations, nor shall the Contractor at any time use such information to private advantage. These obligations do not lapse upon termination of this Contract.

14.0. FORCE MAJEURE; OTHER CHANGES IN CONDITIONS

14.1 In the event of and as soon as possible after the occurrence of any cause constituting force majeure, the Contractor shall give notice and full particulars in writing to the United Nations, of such occurrence or change if the Contractor is thereby rendered unable, wholly or in part, to perform its obligations and meet its responsibilities under this Contract. The Contractor shall also notify the United Nations of any other changes in circumstances which may affect its performance of the Contract, to the extent that such changes interfere with its performance of this Contract. On receipt of the notice required under this Article, the United Nations shall take such action as, in its sole discretion, it considers to be appropriate or necessary in the circumstances, including the granting to the Contractor of a reasonable extension of time in which to perform its obligations under this Contract.

14.2 If the Contractor is rendered permanently unable, wholly, or in part, by reason of force majeure to perform its obligations and meet its responsibilities under this Contract, the United Nations shall have the right to suspend or terminate this Contract on the same terms and conditions as are provided for in Article 15, of this Contract, except that the period of notice shall be seven (7) days instead of thirty (30) days.

14.3 Force majeure as used in this Article means acts of God, war (whether declared or not), invasion, revolution, insurrection, or other acts of a similar nature or force.

14.4 Notwithstanding anything to the contrary in this Contract, the Contractor recognizes that the work and services will be performed under harsh or hostile conditions caused by civil unrest. Consequently, the Contractor's obligations to perform caused by events arising out of or in connection with, such civil unrest shall not, in and of itself, constitute force majeure under this Contract.

15.0. TERMINATION

15.1 Either party may terminate this Contract for cause, in whole or in part, upon thirty (30) days notice, in writing, to the other party. The initiation of arbitral proceedings in accordance with Article 16 "Arbitration" below shall not be deemed a termination of this Contract.

15.2 The United Nations may terminate forthwith this Contract at any time should the mandate or the funding of the Mission/Agency be curtailed or terminated, in which case the Contractor shall be reimbursed by the United Nations for all reasonable costs incurred by the Contractor prior to receipt of the notice of termination.

15.3 In the event of any termination by the United Nations under this Article, no payment shall be due from the United Nations to the Contractor, except for work and services satisfactorily performed in conformity with the express terms of this Contract.

15.4 Should the Contractor be adjudged bankrupt, or be liquidated or become insolvent, or should the Contractor make an assignment for the benefit of its creditors, or should a Receiver be appointed on account of the insolvency of the Contractor, the United Nations may, without prejudice to any other right or remedy it may have under the terms of these conditions, terminate this Contract forthwith. The Contractor shall immediately inform the UN of the occurrence of any of the above events.

16.0 SETTLEMENT OF DISPUTES

16.1 Amicable Settlement

The Parties shall use their best efforts to settle amicably any dispute, controversy or claim arising out of this Contract or the breach, termination or invalidity thereof. Where the parties wish to seek such an amicable settlement through conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules then obtaining, or according to such other procedure as may be agreed between the parties.

16.2 Arbitration

Any dispute, controversy or claim between the Parties arising out of this Contract or the breach, termination or invalidity thereof, unless settled amicably under the preceding paragraph of this Article within sixty (60) days after receipt by one of the Parties of the request for arbitration in accordance with the UNCITRAL Arbitration Rules then obtaining, shall be referred to the arbitration tribunal constituted by the Parties to arbitration in accordance with the UNCITRAL Arbitration Rules then obtaining. In addition, the arbitration tribunal shall have no authority to award punitive damages. The arbitration tribunal shall have no authority to award interest in excess of six percent (6%), and any such interest shall be simple interest only. The parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of any such controversy, claim or dispute.

17.0 PRIVILEGES AND IMMUNITIES: Nothing in or relating to this Contract shall be deemed a waiver, express or implied, of any of the privileges and immunities of the United Nations, including the subsidiary organs.

18.0 TAX EXEMPTION

18.1 Section 7 of the Convention on the Privileges and Immunities of the United Nations provides, inter alia, that the United Nations, including its subsidiary organs, is exempt from all direct taxes, except charges for public utility services, and is exempt from customs duties and charges of a similar nature in respect of articles imported or exported for its official use. In the event any governmental authority refuses to recognize the United Nations exemption from such taxes, duties or charges, the Contractor shall immediately contact the United Nations to determine a mutually acceptable procedure.

18.2 Accordingly, the Contractor authorizes the United Nations to deduct from the Contractor's invoice any amount representing such taxes, duties or charges, unless the Contractor has consulted with the United Nations before the payment thereof and the United Nations has, in each instance, specifically authorized the Contractor to pay such taxes, duties or charges under protest. In that event, the Contractor shall provide the United Nations with written evidence that payment of such taxes, duties or charges has been made and appropriately authorized.

ANNEX II

(SECURITY COUNCIL RESOLUTION 986 (1995))

8

19.0 OBSERVANCE OF THE LAW: The Contractor shall comply with all laws, ordinances, rules, and regulations bearing upon the performance of its obligations under the terms of this Contract.

20.0 AUTHORITY TO MODIFY: Pursuant to the Financial Regulations and Rules of the United Nations, only the Procurement Division at New York possesses the authority to agree on behalf of the United Nations to any modification or change in this Contract, to a waiver of any of its provisions or to any additional contractual relationship of any kind with the Contractor. Accordingly, no modification or change in this Contract shall be valid and enforceable against the United Nations unless provided by an amendment to this Contract signed by the Contractor and the Chief or Deputy Chief of the Procurement Division.

SECRET

SECRET

HA006526

HA006525



Security Council

Distr. GENERAL

5/1996/636* 12 August 1996

ORIGINAL: ENGLISH

LETTER DATED 8 AUGUST 1996 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

On behalf of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, I have the honour to communicate to you the following: Pursuant to paragraph 12 of Security Council resolution 984 (1995), the Committee was requested to develop, in close coordination with the Secretary-General, specific procedures as necessary to implement the arrangements in that resolution. In this regard, the Committee has held several meetings since its 142nd meeting held on 8 August 1996, adopted the procedures to be employed by it in the implementation of its mandate. A copy of the procedures is attached herewith for the information of the members of the Council.

(ENGLISH) TONE BITE
Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

* Released for technical reasons.

15-2044 (S) 120896 130896

HA006532

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 REQUIRED BY PARAGRAPH 12 OF SECURITY COUNCIL RESOLUTION 984 (1995)

SECTION I

AIM OF PETROLEUM AND PETROLEUM PRODUCTS REGULATION IN IRAQ

- 1. The Committee will select, upon recommendation by the Secretary of the Committee, at least four independent experts in international oil trade, to be appointed by the Secretary-General as "overseers" at the United Nations headquarters. The number of the overseers will be reviewed periodically on the basis of the number of States which have submitted bids to the Committee. The authority and responsibilities set forth in this section shall have the same force and effect as if they were contained in the Charter of the United Nations.
2. Notwithstanding the obligations of States under the Charter, the Security Council resolutions and petroleum products regulation in Iraq, the Committee will select, upon recommendation by the Secretary of the Committee, at least four independent experts in international oil trade, to be appointed by the Secretary-General as "overseers" at the United Nations headquarters. The number of the overseers will be reviewed periodically on the basis of the number of States which have submitted bids to the Committee. The authority and responsibilities set forth in this section shall have the same force and effect as if they were contained in the Charter of the United Nations.
3. A contract for the purchase of petroleum and petroleum products will only be concluded by a State if it is approved by the Committee. The contract shall be a copy of a contract acceptable as an endorsement.
4. SOPO's contracts with purchasers will include all the details specified in paragraph 3 (a) of resolution 984 (1995). In particular, the contract shall include the following: (i) the name of the purchaser; (ii) the quantity of petroleum products purchased; (iii) duration of contract; (iv) credit and payment terms; (v) transportation and quality; and (vi) pricing data.
5. The Government of Iraq or SOPO may submit at any time pricing mechanisms for the sale of petroleum for review by the Committee. The overseers will assess these pricing mechanisms, in particular whether they reflect fair market value, and submit their findings to the Committee. The Committee will then review the pricing mechanisms according to its no-objection procedure within two business days. The pricing mechanism should include the elements listed in paragraph 4 above. In

HA006533

the contract price is fair in view of all relevant circumstances. In particular that it is consistent with a currently approved pricing mechanism, and competitive given world prices and market trends and taking into consideration the provisions of paragraph 6 of annex II of the Memorandum of Understanding.

the transaction does not exceed the limits established by resolution 660, including the requirements set out in paragraph 6 of the resolution.

10. If the contract and supporting documents referred to in paragraph 9 above are approved by the Committee, the national oil purchaser shall immediately approve the contract and inform by fax the national oil purchaser of the Permanent Mission concerned, as well as inform the bank immediately upon reception of any contract by electronic means. In circumstances other than rejection for technical reasons the purchasers will send a full report to the Committee for appreciation.

11. Contracts for the sale of petroleum or petroleum products which do not comply with the pricing mechanism approved by the Committee under paragraph 9 above shall be referred to the Committee for its analysis and recommendations to the Committee. In addition, the features in paragraph 9 above, the overviews shall determine whether the contract's pricing mechanism reflects fair market value. Such review should be conducted by the Committee. The Committee will consider the recommendations from the overviews. The Committee will consider the contracts under its specified objection procedure within two business days.

12. Once a contract is approved pursuant to these procedures, the national oil purchaser shall transmit the contract to the bank holding the account above with paragraph 9. The bank transmits the letter of credit to the overviews. The overviews immediately review the letter of credit in order to determine whether it complies with the information given in the application.

13. If the letter of credit complies with the information given in the application, the bank shall issue the letter of credit. The information provided in the letter of credit to the Central Bank of Iraq for the purpose of issuing same. In addition, the overviews shall verification of supporting documents to the inspectors at Ceyhan and at the entering points at the Iraq-Turkey border, or at Al-Ras-al-Bahr. If the opened application the overviews shall immediately inform the Committee.

14. The overviews will submit a substantive report to the Committee, in which they will include the cumulative quantity and approximate value of petroleum them, including the cumulative quantity and approximate value of petroleum authorized for export, and inform the Secretary-General accordingly. In

order to facilitate this process, regular consultations between the representatives of OMOO will take place consistent with paragraph 6 of annex II of the Memorandum of Understanding. The Secretary of the United Nations and the Government of Iraq on the implementation of resolution 660 (1990) dated 20 May 1990 (hereinafter "Memorandum of Understanding").

When market conditions so require, and in particular during the first month of the implementation of resolution 660 (1990) adjustments to pricing mechanisms may be necessary. The national oil purchaser or the Permanent Mission to the Committee in accordance with paragraph 5 above. The pricing mechanism will in any case be reviewed in accordance with paragraph 5 above whenever necessary, other supporting documents. It shall be the responsibility of the national oil purchaser to ensure that the pricing mechanism will remain in effect until new ones are approved by the Committee.

The Secretary of the Committee will set up a new file to be used exclusively for correspondence with regard to the petroleum and petroleum products transactions. The national oil purchaser or the Permanent Mission to the Committee shall submit by fax to the overviews an application for approval, together with the pricing mechanism and necessary, other supporting documents. It shall be the responsibility of the national oil purchaser to ensure that the pricing mechanism will remain in effect until new ones are approved by the Committee. Only correspondence with the Committee shall go through the already existing channels.

A contract for the sale of petroleum which does not comply with the pricing mechanism approved by the Committee under paragraph 9 above shall be referred to the overviews on behalf of the Committee to determine whether the contract complies with the information given in the application. Such review should be completed within a period of two business days. The overviews shall be notified by or on behalf of the national oil purchaser with the same nationality as the overviews or which is the same as the nationality of the national oil purchaser.

To ensure that all contracts comply with the provisions of resolution 660 (1990) and to determine whether any attempt at fraud or deception, the overviews shall review the contracts and supporting documents to determine whether they comply with the information given in the application.

If the letter of credit complies with the requirements provided in the application, the bank shall issue the letter of credit. The information provided in the letter of credit to the Central Bank of Iraq for the purpose of issuing same. In addition, the overviews shall verification of supporting documents to the inspectors at Ceyhan and at the entering points at the Iraq-Turkey border, or at Al-Ras-al-Bahr. If the opened application the overviews shall immediately inform the Committee.

The overviews will submit a substantive report to the Committee, in which they will include the cumulative quantity and approximate value of petroleum them, including the cumulative quantity and approximate value of petroleum authorized for export, and inform the Secretary-General accordingly. In

- 23. At a meeting, the Committee may provide additional guidance to be followed by the overseers.
 - 24. If any Committee member judges the circumstances to be serious enough, that member may call for a review by the Committee of the system for approving oil contracts established in this section. At an urgent meeting, the Committee may decide to suspend the system for approving oil contracts or to continue or revise the system. In the meeting procedures, whether the system can only be made in accordance with paragraph 11 above.
- SECTION II**
REPORT BY NUMBER OF PETROLEUM AND PETROLIUM PRODUCTS ORIGINATING IN IRAQ
AND THE DISTRIBUTION OF PETROLIUM IN IRAQ
- 25. The report by Turkey of petroleum and petroleum products originating in Iraq and the distribution of petroleum and petroleum products in Iraq, as set out in paragraphs 2 and 4 of resolution 986 (1995), shall be verified by the independent inspection agents, after the verification of the contracts referred to in paragraph 2 of resolution 986 (1995). The report by Turkey of petroleum and petroleum products will be authorized and simplified in accordance with the relevant provisions of section I of the present procedures.
- SECTION III**
REPORT BY IRAQ OF HUMANITARIAN SUPPLIES
- 26. The Government of Iraq will prepare a categorized list of humanitarian supplies, including medical supplies, foodstuffs and accessories, and will submit it to the Committee and report pursuant to resolution 986 (1995). The list and report shall be verified by the independent inspection agents with the distribution arrangements in paragraph 8 (a) (ii) of the resolution.
 - 27. After approving the categorization plan, the secretary-general will forward the list, which shall be a part of the plan, to the Committee, and will make it available to all States.
 - 28. The Government of Iraq or the United Nations Inter-Agency Humanitarian Programme will contract directly with suppliers to arrange the purchase of humanitarian supplies, and will conclude the appropriate contractual arrangements with the suppliers.
 - 29. The Government of Iraq will ensure that humanitarian supplies, including foodstuffs, health supplies, foodstuffs and accessories and supplies for essential civilian needs (hereinafter referred to as "humanitarian supplies"), are transported from the Iraq account in accordance with the following provisions.
 - 30. Applications for each export of humanitarian supplies, to be financed from the Iraq account consistent with paragraph 23 of the Memorandum of Understanding between the Government of Iraq and the Committee, shall be submitted to the Committee at the request of the Government of Iraq by the exporting State with all relevant documentation,

- the light of this report, any document submitted as part of an application for the Iraq account will be available for consultation by Committee members in the Secretariat.
- 13. The export of petroleum and petroleum products will be monitored by United Nations inspection agents stationed at the loading facilities at Ceyhan and Min-al-Bakr and at the unloading station at the Iraq-Turkey border, such as on-site direct observation, as well as quality and quantity verification. The independent inspection agents will authorize the loading, after they have been approved and informed the overseers accordingly. The independent inspection agents will also have the authority to stop the loading of petroleum if there is any evidence of irregularity. They will immediately report any irregularity to the Committee and the secretary-general.
- 14. In accordance with paragraph 3 of resolution 661 (1990) and the provisions of paragraph 2 of resolution 986 (1995), the independent inspection agents will verify the quantity and quality of petroleum and petroleum products in Iraq vessels. In order to facilitate the efficient maritime export of oil under resolution 986 (1995) all purchasers will communicate to the independent inspection agents all available computing/waiver contracts for shipping approved oil exports.
- 17. The Committee will be informed of the appointments of the independent inspection agents by the secretary-general under paragraph 6 of resolution 986 (1995).
- 18. The independent inspection agents shall report weekly to the Committee, through the overseers, on their assessment of the export operations. When the loading of oil under a contract is completed, they shall inform the overseers on the status for completion with the original approved contract.
- 19. Payment of the Iraq account of each purchase of petroleum and petroleum products shall be made in accordance with paragraph 8 of resolution 986 (1995).
- 20. Once the secretary-general forwards to the Committee and to the Government of Iraq statements of the Iraq account, including outlines of the distribution arrangements, the secretary-general will ensure that the necessary arrangements are made to and from that account.
- 21. The plan for the sale of petroleum products will be broadly similar to that described above, and the precise arrangements, consistent with paragraph 8 of resolution 986 (1995), can be elaborated at a later stage, as and when the need arises.
- 22. The overseers will receive monthly reports from SOWO on the actual volume of petroleum and petroleum products exported under the relevant sales contracts.

- 23. At a meeting, the Committee may provide additional guidance to be followed by the overseers.
 - 24. If any Committee member judges the circumstances to be serious enough, that member may call for a review by the Committee of the system for approving oil contracts established in this section. At an urgent meeting, the Committee may decide to suspend the system for approving oil contracts or to continue or revise the system. In the meeting procedures, whether the system can only be made in accordance with paragraph 11 above.
- SECTION II**
REPORT BY NUMBER OF PETROLEUM AND PETROLIUM PRODUCTS ORIGINATING IN IRAQ
AND THE DISTRIBUTION OF PETROLIUM IN IRAQ
- 25. The report by Turkey of petroleum and petroleum products originating in Iraq and the distribution of petroleum and petroleum products in Iraq, as set out in paragraphs 2 and 4 of resolution 986 (1995), shall be verified by the independent inspection agents, after the verification of the contracts referred to in paragraph 2 of resolution 986 (1995). The report by Turkey of petroleum and petroleum products will be authorized and simplified in accordance with the relevant provisions of section I of the present procedures.
- SECTION III**
REPORT BY IRAQ OF HUMANITARIAN SUPPLIES
- 26. The Government of Iraq will prepare a categorized list of humanitarian supplies, including medical supplies, foodstuffs and accessories, and will submit it to the Committee and report pursuant to resolution 986 (1995). The list and report shall be verified by the independent inspection agents with the distribution arrangements in paragraph 8 (a) (ii) of the resolution.
 - 27. After approving the categorization plan, the secretary-general will forward the list, which shall be a part of the plan, to the Committee, and will make it available to all States.
 - 28. The Government of Iraq or the United Nations Inter-Agency Humanitarian Programme will contract directly with suppliers to arrange the purchase of humanitarian supplies, and will conclude the appropriate contractual arrangements with the suppliers.
 - 29. The Government of Iraq will ensure that humanitarian supplies, including foodstuffs, health supplies, foodstuffs and accessories and supplies for essential civilian needs (hereinafter referred to as "humanitarian supplies"), are transported from the Iraq account in accordance with the following provisions.
 - 30. Applications for each export of humanitarian supplies, to be financed from the Iraq account consistent with paragraph 23 of the Memorandum of Understanding between the Government of Iraq and the Committee, shall be submitted to the Committee at the request of the Government of Iraq by the exporting State with all relevant documentation,

5/1996/636
English
Page 6

5/1996/636
English
Page 1

not found in order, the Committee informs the parties concerned that payment can be made from the Iraq account, but the medicines and health supplies can be shipped anyway if the exporter so desires.

(b) Foodstuffs

If the Committee finds, under its expedited no-objection procedure within two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that the contract is in order. If the contract is not found in order, the Committee informs the parties concerned that payment cannot be made from the Iraq account, but the foodstuffs can be shipped anyway if the exporter so desires.

(c) Other Materials and Supplies for Essential Civilian Needs

If the Committee approves the supplies, under its no-objection procedure within seven days, and if the contract is found in order, the Committee informs the parties concerned of the approval, and then the exporter is eligible for payment from the Iraq account. If the contract is not found in order, but the Committee approves the supplies, under its no-objection procedure, it informs the parties concerned that payment cannot be made from the Iraq account, but that the supplies can be shipped and can be approved if the contract is found in order. If the contract is not found in order, the party concerned that the supplies cannot be shipped.

35. When the Committee has informed the parties concerned that the exporter is eligible for payment from the Iraq account, the Central Bank of Iraq will request the exporter to open an irrevocable account to open an irrevocable account for the reimbursement of the purchase of the humanitarian supplies. The letter of credit for the purchase of the humanitarian supplies shall be issued in favour of the Iraqi purchaser in favour of the account, and the payment from the Iraq account. Such requests shall be made to the bank holding the Iraq account. The letter of credit shall be issued by the bank holding the Iraq account to the Secretary-General's administration. The letter of credit will require as condition of payment the presentation to the bank holding the Iraq account of the usual documents, and of the following documents: a copy of the contract, a copy of the invoice, a copy of the bill of lading, and a standardised confirmation by the Secretary-General of the arrival of the humanitarian supplies in Iraq.

36. The arrival of the humanitarian supplies in Iraq will be confirmed by independent inspection agents appointed by the Secretary-General pursuant to the terms of the contract. The inspection agents will be based in Iraq. The inspection agents will be based in Iraq in accordance with the understanding. The independent inspection agents will add their substantiated confirmation of arrival to a copy of the Committee's letter of credit. The Secretary-General will inform the parties concerned and to a copy of the invoice, and will inform the Secretary-General in

/...

HA006539

including the concluded contractual arrangements. Payment from the Iraq account can take place only for items included in the categorised list, unless the Committee exceptionally decides otherwise on a case-by-case basis.

31. The Committee will take action on such applications in accordance with paragraph 20 of resolution 49(1983). Its working procedure shall be as follows: If the contract is found in order, the Secretary-General, and, if appropriate, the independent inspection agents at the intended point(s) of entry into Iraq of the actions taken on the applications submitted.

32. Such applications shall be submitted as follows:

(a) Medicines and Health Supplies

The exporting State informs the Committee that the exporter requests payment from the Iraq account. The application must include the concluded contractual arrangements and intended point(s) of entry into Iraq, must be attached to this communication.

(b) Foodstuffs

The exporting State notifies the Committee. The notification must indicate the intended point(s) of entry into Iraq, must be attached to the relevant documentation, including the concluded contractual arrangements and intended point(s) of entry into Iraq, must be attached to the notification.

(c) Other Materials and Supplies for Essential Civilian Needs

The exporting State submits an application for approval by the Committee under its no-objection procedure. The application must indicate that the exporter requests payment from the Iraq account. A copy of the relevant contract, a copy of the invoice, a copy of the bill of lading, and intended point(s) of entry into Iraq, must be attached to the application.

33. Reports on the contract, including such contracts, in particular the details of pricing, and whether the items to be exported are in the category referred to above. They will also take into consideration the reports of the Secretary-General provided for in paragraph 20 above, in particular the findings of the independent inspection agents. They will inform the Committee of their findings.

34. The Committee acts upon the findings of the reports as set forth below:

(a) Medicines and Health Supplies

If the Committee finds, under its expedited no-objection procedure within two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that the contract is eligible for payment from the Iraq account. If the contract is

/...

HA006538

SECTION IX

REMOVAL OF REASONABLE EXPENSES OTHER THAN EXPENSES PAYABLE TO IRAQ

41. Pursuant to paragraph 8 (f) of resolution 986 (1995), the Committee can approve, under its no-objection procedure, the financing from the Iraq account of reasonable expenses, other than expenses payable in Iraq, which are determined by it to be directly related to the support of the operations of the United Nations Monitoring, Verification and Inspection Regime established by resolution 986 (1995) or to the export to Iraq of the parts and equipment referred to in paragraph 9 of resolution 986 (1995), and of activities directly necessary thereto.

42. Requests for meeting the expenses referred to in the previous paragraph shall be submitted to the Committee on a case-by-case basis by the bank holding the Iraq account and will be approved on a case-by-case basis by the Committee under its no-objection procedure. The Committee will seek, if necessary, the advice of the overseers or the Independent Inspection Agency in reaching a decision.

SECTION IX

GENERAL CONCLUSIONS

43. The Secretariat will arrange for the establishment of the appropriate documentation and will be approved on a case-by-case basis by the Committee under its no-objection procedure. The Committee will seek, if necessary, the advice of the overseers or the Independent Inspection Agency in reaching a decision.

44. The Secretary-General's report regularly to the Committee on the details of the disbursement of proceeds pursuant to paragraph 8 of resolution 986 (1995).

45. Letters of credit issued in these procedures should conform with the Uniform Customs and Practice for Documentary Credits.

46. The Committee will amend or revise the present procedures, if necessary, in the light of future developments.

/...

HA006541

accordance with paragraph 8 (e) (1) of Security Council resolution 986 (1995), the Inspection Agency will report all irregularities to the Secretary-General and to the Committee. If the problem is related to normal commercial practices, the Committee's attention will be informed by the bank holding the Iraq account. Performance bonds may not be opened. Payments in favour of the purchaser resulting from normal commercial resolution practices should be made to the bank holding the Iraq account. The Committee will hold the shipment in question, pending guidance from the Committee. The Committee will make every effort to provide such guidance in the most expeditious manner.

37. The bank holding the Iraq account shall effect payment under any letter of credit only if all documents (listed in para. 35 above) conform with the conditions of the letter of credit and the supporting documents, payment can be made in full and the bank is satisfied that the documents and supporting documents can only be satisfied by the Secretary-General.

38. The provisions of this section are without prejudice to the application of the existing procedure of the Committee for goods which are not supplied pursuant to resolution 986 (1995).

SECTION IX

EXPORT TO IRAQ OF PARTS AND EQUIPMENT AND FINANCIAL TRANSACTIONS RELATED THEREOF, PURSUANT TO PARAGRAPH 8 (f) OF RESOLUTION 986 (1995)

The export to Iraq of the parts and equipment which are essential for the safe operation of the Iraq oilfield pipeline system in Iraq will be approved by the Committee on a case-by-case basis under its no-objection procedure. Requests for such exports to Iraq will be approved by the Committee on a case-by-case basis under its no-objection procedure. The Committee will seek, if necessary, the advice of the overseers or the Independent Inspection Agency in reaching a decision. Paragraph 9 of resolution 986 (1995) is used only for the purpose permitted.

In accordance with paragraph 10 of resolution 986 (1995), until proceeds from the sale of petroleum and petroleum products are deposited into the Iraq account, the Committee may approve, on a case-by-case basis, the export to Iraq of the parts and equipment which are essential for the safe operation of the credit system relating to Iraq oil sales. The Committee will seek, if necessary, the advice of the overseers in considering such requests. In this case the provisions of paragraph 9 above shall apply.

/...

HA006540

2/1996/616
Page 11

Annex II

Information to be included in the letter of credit

1. Be provided for in paragraph 3 of Annex II of the Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq on the implementation of Security Council resolution 986 (1995), signed on 20 May 1996, the following clauses will have to be inserted in each letter of credit:

- Provided all terms and conditions of this letter of credit are in accordance with the provisions of this letter of credit will be irrevocably paid into the Iraq account with ... Bank.

- All charges within Iraq are for the beneficiary's account, whereas all charges outside Iraq are to be borne by the purchaser.

2. Other information to be included:

- nature of the petroleum or petroleum product
- forecast quantity of petroleum or petroleum product
- date of loading
- unit price
- forecast amount of the transaction

2/1996/616
Page 11

Annex I

Standard application form to request approval of contracts for sale of Iraqi petroleum and/or petroleum products

The attached contract with the Iraqi State Oil Marketing Organization (SOMO) for the purchase of petroleum and/or petroleum products is submitted for approval in accordance with paragraph 1 (a) of Security Council resolution 986 (1995) and paragraph 3 of the Memorandum of Understanding between the Government of Iraq and the United Nations Secretariat of the United Nations, signed on 20 May 1996, by resolution 661 (1990) concerning the situation between Iraq and Kuwait, adopted at its ... meeting held on ... (2/....).

Information about the purchaser

Name of purchasing entity:
Place of registration:
Address:
Contact person:
Telephone:

Telex:
Telex:

Summary of contract terms

Quantity of crude petroleum and/or petroleum products:
Quality of crude petroleum and/or petroleum products:
Pricing formula and/or price per b.p.s.d. barrel:
Date(s) of loading:
Date(s) of loading:
Name of vessel:
Payment details (draft irrevocable letter of credit, etc.)

Please find attached a copy of the contract, draft irrevocable letter of credit to be opened and all supporting documents.

Signature
Name of signatory
Title

...

HA006543

HA006542

ANNEX VI

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 No. PD/CON/324/98 between the United Nations and Cotecna Inspection S.A., is solely for my own convenience and benefit 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 provision 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.

Nothing in or relating to this Release shall be deemed a waiver, express or implied, of any of the privileges and immunities of the United Nations, including its subsidiary organs.

Employee _____
Date _____

HA006545

ANNEX V

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 No. PD/CON/324/98 between the United Nations and Cotecna Inspection S.A., is solely for my own convenience and benefit 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.

Nothing in or relating to this Release shall be deemed a waiver, express or implied, of any of the privileges and immunities of the United Nations, including its subsidiary organs.

Passenger _____
Date _____

HA006544

Signed on _____
in the presence of _____
by _____
in the capacity of _____

Signed on _____
in the presence of _____
by _____
in the capacity of _____

on behalf of _____
in the presence of _____
by _____
in the capacity of _____

on behalf of _____
in the presence of _____
by _____
in the capacity of _____

by _____
in the presence of _____
in the capacity of _____

in the presence of _____
in the capacity of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

FORM OF PERFORMANCE BOND

Know all men by these presents, that we, _____ a company incorporated in and under the laws of _____, the principal shareholders of which are _____ as Principal (hereinafter called "the Supplier") and the _____ as Surety (hereinafter called "the Surety") are held obligated to transact business in _____ as Surety (hereinafter called "the Surety") are held and firmly bound unto the United States, an International Intergovernmental Organization with its headquarters at New York, New York, USA, as Obligee (hereinafter called "the Employer") in the amount of _____ (USD), for the payment whereof which sum, well and truly to be made, the Supplier and the Surety bind themselves, their executors and assigns, jointly and severally, firmly by these presents.

Witnesseth that we, the Supplier, have entered into a written contract with the Employer dated the _____ day of _____, 19____ for the _____ said Contract being by reference made part hereof and hereinafter referred to as "the Contract".

Now, therefore, for valuable consideration, this receipt whereof is hereby acknowledged by the Surety, the Surety hereby irrevocably and irrevocably undertakes to, and shall be declared by Employer to be in default under the Contract, without any objection, opposition or recourse, promptly pay the Employer the amount required by Employer to remedy the default and complete the Contract in accordance with its terms and conditions, any amount up to a total not exceeding the amount of this Bond, or remedy the default and complete the Contract in accordance with its terms and conditions.

The Surety shall not be held liable for a greater sum than the specified amount of the Bond. The Condition of this obligation is such that if the Employer shall notify the Surety in writing that the Supplier has failed to perform its obligations under the said Contract (including any amendment thereof) and the obligation shall be null and void, otherwise it shall remain in full force and effect. The Employer shall by written instrument declare the obligation discharged and the obligation shall continue for at least three months following termination of the Contract.

This Bond shall be enforceable without the need to have recourse to any judicial or arbitral authority. The right of action shall accrue on this Bond to or for the use of any person or persons other than the Employer named herein or the heirs, executors, administrators or successors of the Employer.

Signed on _____
in the presence of _____
by _____
in the capacity of _____

Signed on _____
in the presence of _____
by _____
in the capacity of _____

on behalf of _____
in the presence of _____
by _____
in the capacity of _____

on behalf of _____
in the presence of _____
by _____
in the capacity of _____

by _____
in the presence of _____
in the capacity of _____

in the presence of _____
in the capacity of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

in the capacity of _____

in the presence of _____

HA006546

HA006547

CO-INS

COTECNA INSPECTION S.A.

TELEFONO 0432 40000
FAX 0432 40000
TELEX 41517 COT CH
GARBALE COTECNA SENECA
CORRESPONDENZA
P.O. BOX 918 - 10128 ROMA - S
SWITZERLAND

OUR REF.

YOUR REF.

offer in charge
Podium Division
O.C.S.S./D.M.
United Nations
New York / N.Y.
1000 New York, December 30th 1988.
IN THE USA TELEPHONE

Power of Attorney
I, the undersigned F. G. MASSEY, in
my capacity of Chairman of COTECNA
INSPECTION S.A. Geneva, hereby give full
and complete Power of Attorney to Mr. Andrew
PRUMPUX to sign on behalf of our Company
a contract under Panama P.D./CO/324/88,
with the United Nations, New York (U.S.A.)
relating to work & services to be made in 1989
within the Programme of "OIL FOR FOOD".
Made in one Original this 30th
day of December 1988.

[Signature]
F. G. MASSEY
Chairman of
COTECNA INSPECTION S.A.

HA008548

COPY

CONTRACT FD/CO144/01

between

THE UNITED NATIONS

and

COTECNA INSPECTION S.A.

FOR THE PROVISION OF INDEPENDENT INSPECTION SERVICES

WITNESSETH

2
This Contract is entered into by and between the UNITED NATIONS, an international inter-governmental organization, with its headquarters located at New York, New York, USA (hereinafter referred to as the "UN"), and COTECNA INSPECTION S.A., a company incorporated in the town of Switzerland, having its headquarters at 58, Rue de la Perle, Geneva, Switzerland (hereinafter referred to as the "Contractor"). The UN and the Contractor are collectively hereinafter referred to as the "Parties".

WHEREAS the UN, in furtherance of the mandate of United Nations Security Council Resolution, wishes to engage the services of the Contractor to provide independent inspection services and equipment services in Iraq, in accordance with the terms and conditions established by the Committee, all on the terms and conditions set forth in this Contract;

WHEREAS the Contractor represents that it is qualified, willing and able to provide these services on the terms and conditions set forth in this Contract;

NOW, THEREFORE, subject to the terms and conditions hereinafter set forth, the Parties agree as follows:

A. GENERAL

Article I. Contract Documents

1.1 This document and the following named documents, together with the following named documents, which are incorporated by reference, constitute the entire contract (hereinafter referred to as the "Contract" or "Agreement") between the UN and the Contractor:

- (a) Request for Proposal issued by the UN and dated 30 March 2001 under the terms of the Provision of Services for the Provision of Services by Independent Inspection Agents for Humanaid Supplies/LM, as modified or supplemented by the UN and Contractor dated 24 April 2001, (hereinafter referred to as the "RFP") and;
- (b) The Contractor's Proposal dated 24 April 2001, as modified or supplemented by the UN and Contractor dated 24 April 2001, confirming its acceptance of the negotiated rates (hereinafter referred to as the "Proposal").

Contract no: FD/CO144/01

HA001077

HA001078

4

agreements, verbal or otherwise, exist between the Parties except as herein expressly set forth.

Article 2. Terms of Contract

This Contract shall be in force for an initial term of one (1) year, from July 2001 through 31 July 2002, unless earlier termination in accordance with the provisions of this Contract. The Contract shall be extended for one (1) year or for such shorter or longer period as the Parties may agree in writing. The Contract shall be extended for one (1) year or for such shorter or longer period as the UN may in its sole discretion determine, by giving the Contractor written notification to do so not less than fifteen (15) days prior to the expiration of the initial term of the Contract.

Article 3. Obligations of Contractor

The Resolutions direct the Security Council Committee established by UN Security Resolution 661 (1990) (hereinafter referred to as the "Committee") to monitor the import into Iraq of certain humanitarian supplies and equipment for the petroleum industry (such as spare parts and equipment) under the supervision of a "Supplier". Under this Contract, the Contractor shall provide, maintain and repair the equipment referred to in the Resolutions, and shall ensure that the equipment is in good working order at all times. The Contractor shall also ensure that the equipment is in good working order at all times. The Contractor shall also ensure that the equipment is in good working order at all times. The Contractor shall also ensure that the equipment is in good working order at all times.

Article 4. Responsibilities of THE CONTRACTOR

4.1 The Contractor shall provide, maintain and repair the equipment referred to in the Resolutions, and shall ensure that the equipment is in good working order at all times. The Contractor shall also ensure that the equipment is in good working order at all times. The Contractor shall also ensure that the equipment is in good working order at all times. The Contractor shall also ensure that the equipment is in good working order at all times.

Contract no. FDC/CO14401

HA001080

3

1.2 The following Annexes shall form an integral part of this Contract:

- Annex I: UN General Conditions for General Contracts;
- Annex II: Security Council Resolution 386 (1995), 1111 (1997), 1143 (1997), 1153 (1998) and 1175 (1998) (as such Resolutions may be modified or supplemented after the date hereof, hereinafter referred to as the "Resolutions");
- Annex III: Memorandum of Understanding between the Security Council and the Committee of Iraq (1996);
- Annex IV: The Procedures to be Employed by the Security Council Committee Established by Resolution 661 (1990) Concerning the Situation between Iraq and Kuwait, and the Discharge of its Responsibilities therefrom, as amended by Resolution 687 (1993) and Supplement thereto, as amended, hereinafter referred to as the "Procedures");
- Annex V: Transmission Report Form;
- Annex VI: Model Report Form;
- Annex VII: Form of Performance Bond/Guarantee.

1.3 In the event of any discrepancy among the documents constituting this Contract, the following order of priority shall apply:

- (a) this document and Annexes I - VII hereto;
- (b) the RFP; and
- (c) the Proposal.

It is expressly agreed that this Contract embodies the entire agreement of the Parties with regard to the subject matter hereof, and that no promises, understandings, obligations or

Contract no. FDC/CO14401

HA001079

6

This seal may only be removed by the United Nations at the time of the visit to the end-user facility. Subsequent to the inspection and authentication of this assignment, the Agents shall inform the United Nations and, with regard to oil spare parts and equipment, the oil inspection agents, of the arrival at the border of the item(s) in question and also transmit details of the warehouse or storage site location and, where available, details regarding end-use or the end-user facility.

4.5 Should the Government of Iraq consider certain commodities to be defective upon receipt and not in accordance with contractual specifications, it may make arrangements for the export of an item(s) from Iraq back to the supplier (or other approved destination) on occasions, the supplies will also be subject to special inspection procedures by the Agents to ensure the appropriate export of the item(s) in question. This will involve the Government of Iraq, the Agent shall also undertake special inspection of the item(s) in question, which will include the identification of the item(s) and verification of the item(s) and verification of the item(s) in question.

4.6 The Agents will immediately report all irregularities to the UN Secretary-General and the Committee in case of shipment other than those permitted under the United Nations Inter-Agency Humanitarian Programme, if the Government of Iraq fails to furnish 'bonafide' copies of 'non-militarized goods', the Committee will be advised of the irregularities. The Agents determine that the nature of the irregularities is such that it is not possible to certify the item(s) as 'bonafide' goods. If the irregularities are such that they constitute a breach of the terms of the Contract, the Agents shall be responsible for the irregularities, and the Government of Iraq shall be responsible for the irregularities. The Agents shall be responsible for the irregularities, and the Government of Iraq shall be responsible for the irregularities.

4.7 The Contractor shall be responsible for operating the convey control system at the Zakao/Rah, Iraq, and for providing the necessary information, preparing convey lists, collecting passports, and collecting the necessary documents to the relevant authorities.

4.8 The Contractor shall be responsible for making the necessary arrangements to ensure the fulfilment of its obligations under this Contract. The Contractor shall perform its obligations under this Contract in accordance with the highest professional standards.

The Contractor shall perform their obligations under this Contract, the Contractor and its personnel shall comply with all the provisions of the contract, including without limitation, the Restrictions, the MOU, the Procedures, any other procedures

Contract no. FDXCO/14401

HA001082

5

the UN, one (1) field manager, one (1) senior liaison officer, and one (1) electrician all of whom shall be posted as specified in the Proposal. The Agents assigned to perform the Services shall be selected by the UN from among the individuals identified by the Contractor as experienced and qualified to perform their duties. There shall be no substitutions of the Contractor's personnel without the UN's prior written consent in each instance. The UN reserves the right, in its sole discretion, to increase or reduce the number of Agents at any time, in which event the contract price set forth in Article 7.1 hereof shall be proportionately adjusted based on the number of Agents actually employed. The contract price shall be adjusted based on the number of Agents actually employed. The contract price shall be adjusted based on the number of Agents actually employed.

4.3 The Agents shall confirm imports of supplies into Iraq in accordance with Article 4.9 hereof, the RFP, and the Proposal, including without limitation the approval process and testing procedures set forth in the Proposal. In particular, the Agents shall conduct and report on the inspection and testing of the items at the time of their arrival at the destination. The Agents shall, where appropriate, verify the item(s) against manifests, warehouse letters of receipt, and bills of lading. The Agents shall also verify the item(s) against manifests, warehouse letters of receipt, and bills of lading. The Agents shall also verify the item(s) against manifests, warehouse letters of receipt, and bills of lading. The Agents shall also verify the item(s) against manifests, warehouse letters of receipt, and bills of lading.

4.4 The Agents shall conduct a monthly update of the relevant items that require special inspection and authentication procedures. Separate lists shall be prepared for each item category and shall be updated monthly. This monthly update shall also be provided to the UN and the relevant authorities. The Agents shall also be responsible for the inspection and authentication of the items.

The item(s) shall be inspected and authenticated by the Agents upon arrival at the border of the United Nations. The Agents shall report on a weekly basis to the UN on the arrival of the item(s) and the results of the inspection and authentication. The Agents shall also be responsible for the inspection and authentication of the items. The Agents shall also be responsible for the inspection and authentication of the items. The Agents shall also be responsible for the inspection and authentication of the items.

Contract no. FDXCO/14401

HA001081

8

up capable of sustaining operations for a minimum of twelve (12) hours. Each duty station utilizing local power shall also be equipped with a back-up generator with adequate power capacity to power the entire station.

(c) Subject to the Parties' mutual agreement to an appropriate adjustment to the contract price and an amendment of this Contract to effect such price adjustment, each duty station shall be equipped with either a V-SAT terminal or a VSAT terminal. The V-SAT terminal shall be a minimum of 100 Watts and the VSAT terminal shall be a minimum of 100 Watts. The V-SAT terminal shall be a minimum of 100 Watts and the VSAT terminal shall be a minimum of 100 Watts. The V-SAT terminal shall be a minimum of 100 Watts and the VSAT terminal shall be a minimum of 100 Watts.

MEMORANDUM

4.13 The Contractor shall safeguard the security of all documents, equipment, materials and facilities used in connection with the performance of this Contract, including without limitation through the measures set forth in the Proposal.

Article 5: Contractor's Personnel

5.1 No person shall be assigned by the Contractor to perform the Services under this Contract unless the United Nations has approved in writing the assignment of such person in writing. Without limiting the United Nations' or the Contractor's obligations under Article 4.2 and 5.2 hereof, in addition to the sixty-two (62) Agents approved in writing by the United Nations under Article 4.2 hereof, the United Nations shall designate and approve additional personnel from among the personnel used by the Contractor to perform the Services to serve as replacement Agents under this Contract.

5.2 The United Nations may, at any time, the withdrawal or replacement of any personnel of the Contractor assigned to perform the Services under this Contract. The Contractor shall, at its expense, withdraw or replace such personnel forthwith. The assignment of any replacement personnel shall be subject to the UN's prior written approval. The United Nations may, at any time, the withdrawal or replacement of the Contractor's personnel that shall not be deemed a termination of the Contract.

5.3 The Contractor shall be fully responsible for all work and services performed by its employees, servants and sub-contractors. The Contractor shall take all reasonable measures to ensure that they conform to the highest standards of moral and ethical conduct and local customs which are not otherwise inconsistent with the provisions of this Contract, including without limitation the Resolutions, the MOU and the Procedures.

5.4 The Contractor shall ensure that all personnel used to perform services under this

Contract no. PDCOI/44/01

HA001084

7

and decisions approved by the Committee, and instructions and applicable reports of the UN Secretary-General.

4.10 The Contractor acknowledges that (i) the UN shall have no obligation to provide any assistance to the Contractor in performing the Services other than as expressly set forth herein and (ii) the UN makes no representations as to the availability of any facilities or equipment in Iraq or the conduct of Iraqi authorities. The Contractor represents and warrants that all information in the Proposal is true and correct.

4.11 The UN reserves the right at any time, including during the term of this Contract, to terminate the Contractor's performance of the Services. The UN shall have no obligation to provide any assistance to the Contractor in performing the Services. The UN shall have no obligation to provide any assistance to the Contractor by virtue of its entry into such agreement or arrangement. The UN may at any time expand the responsibilities of the Contractor, subject to the UN's obligation to pay for any additional agents that may be required as a result thereof.

4.12 The Contractor shall supply all equipment, materials and facilities necessary to perform the Services, including but not limited to: (i) all vehicles for transmitting and receiving communications and other reports required under the Services and all other equipment, materials, and facilities set forth in the Proposal; (ii) all communications and electronic data processing equipment and software supplied by the Contractor in performing its obligations under this Contract shall be of the highest quality and be fully compatible with the equipment and software utilized by the UN in communication with this Contract. The Contractor shall supply all the necessary equipment, materials and facilities to perform the Services. The Contractor shall provide all personnel to support the information technology services to perform the Services.

(a) Each duty station shall be equipped with at least three (3) desktop PC's (with minimum 100 MHz Processor, 32 MB RAM, 100 MB Hard Drive, 128 MB SCSI DDS) and Routers to support the Services. Each server used PC will run Lotus Notes 4.6 or higher and be fully compatible with the UN's existing equipment and software. The Contractor shall create a Lotus Notes-based application to support the Services and transmit them directly to the UN Notes server in New York. The Contractor shall be responsible for ensuring that the integrity of all authentication data is maintained.

(b) Each duty station shall be equipped with UPS (uninterrupted power supply) back

Contract no. PDCOI/44/01

Handwritten notes:
I have 4.12
SUI should over-see the entire system.
@ 7:35 AM
Contract approved in accordance with the above.

HA001083

10

Article 7. Contract Price and Payment Terms

7.1 In full payment for the complete and satisfactory performance by the Contractor of all its obligations under this Contract, the UN will pay the Contractor a price not to exceed (N.T.E.) a total of U.S. DOLLARS ELEVEN MILLION SEVEN HUNDRED SIXTY-SEVEN THOUSAND SIX HUNDRED (US\$11,767,600.00), at the all inclusive main/day rate of US\$20.00, subject to any adjustment in such price pursuant to Articles 4.2 and 12.1 hereof. This price includes all costs relating to the Services to be provided under this Contract, including without limitation, salaries, benefits, insurance, board, lodging, transportation and communication, electronic data processing and other equipment, and any other costs which may be incurred by the Contractor in the performance of the Services. Such amount shall be paid to the Contractor monthly in arrears.

7.2 Payments under this Contract shall be made only against receipt of the Contractor's written invoices and certification by the UN that the services represented by the invoice have been satisfactorily completed. The Contractor shall submit its invoices to the Office of the Chief Financial Officer, United Nations, 600 Third Avenue, New York, New York, together with such supporting documentation as the UN may require, and shall submit to the Office of the Chief Financial Officer, United Nations, 600 Third Avenue, New York, New York, 10017, Attn: Chief of Procurement, a copy of each invoice within 15 days of the date of the UN's receipt of the invoice and all supporting documentation; provided that the UN shall be entitled to a two percent (2%) discount on any invoice amount paid within fifteen (15) days of its receipt of such invoice and supporting documentation.

7.3 The UN may offset any amounts which are due to it from the Contractor against any payments due from the UN to the Contractor.

C. RESPONSIBILITIES OF THE UN

Article 8. Identification Cards

8.1 The Contractor shall provide the Contractor's personnel with appropriate identification cards. Access to Transport and Medical Facilities

Without limiting the Contractor's obligations under this Contract to provide all transportation, the United Nations agree to allow the Contractor's personnel, on as

Contract no. FDC/COI14403

HA001085

9

Contractor are (i) medically fit to perform the Services and (ii) adequately covered by insurance for any services related thereto. The Contractor shall submit proof of such medical fitness and such insurance satisfactory to the UN before commencing any work under this Contract.

5.5 The UN shall not be liable for any action, omission, negligence or misconduct of the Contractor's employees, agents, servants or sub-contractors, nor for any insurance coverage which may be deemed necessary or desirable for the purpose of this Contract, nor for any claims, expenses or claims associated with any illness, injury, death or disability of the Contractor's employees, agents, servants or sub-contractors performing Services under this Contract.

5.6 The Contractor shall ensure that the Agents are at their stations to commence work under this Contract, in accordance with the RFP and the Program of Work for 2001. The duty stations shall be staffed as specified in the RFP and the Program of Work. The Contractor shall carry out their work in accordance with a shift structure established by the UN. The Contractor shall employ the management structure set forth in the RFP. The UN reserves the right, at any time, to change the number of Agents assigned to any station, as so additional Agents as may be required. The Agents assigned to each duty station shall include at least one (1) information technologist capable of undertaking the support tasks on hardware and software, one (1) food technologist, and one (1) medical officer.

5.7 It is understood and agreed that the Agents performing the Services, whose names will be communicated to the Government of the United States of America, shall be deemed "experts" within the meaning of Article VI of the Convention on the Privileges and Immunities of the United Nations and shall enjoy all of the privileges and immunities accorded to "experts" therein.

Article 6. Reporting

6.1 The Contractor shall submit to the Committee, the UN Secretary-General, and the United Nations Office of the Humanitarian Coordinator for Iraq, the following reports: Such reports shall be submitted to the United Nations Office of the Humanitarian Coordinator for Iraq, and shall be submitted by electronic mail. These reports shall be in Arabic and provide such information, as the UN shall specify.

Contract no. FDC/COI14403

HA001085

11

exceptional basis and to the extent practicable, to travel on UN-provided transport to, in, and from that area for the following purposes:

- (a) evacuation due to security developments, on the understanding that such evacuation shall be to the nearest safe area; and
- (b) medical evacuation due to serious medical conditions, provided that emergency medical evaluation of the Contractor's personnel will be from a country sites to an in-country medical facility or transportation out of that country to a medical facility in an appropriate neighboring country.

9.2. In consideration of the Contractor's personnel being permitted to travel on UN-provided transport, each of such personnel shall sign a release from liability in the form attached hereto as Annex V, prior to their transport on any UN-provided transport. The Contractor undertakes to obtain the signed release from each such person and deliver the signed original to the UN prior to such person's initial use of any UN-provided transport.

9.3. Without limiting the Contractor's obligations under this Article to provide all medical services, in the event that the Contractor's personnel require emergency medical treatment, the UN agrees, on an exceptional basis and to the extent practicable, to allow such personnel access to available UN medical facilities. In consideration of the Contractor's personnel being permitted to utilize such UN medical facilities, each of such personnel shall complete the release from liability in the form attached hereto as Annex VI. The Contractor undertakes to obtain the signed release from each such person and to deliver the signed original to the UN prior to such person's initial use of any UN medical facility.

9.4. The Contractor hereby agrees that the UN and its officials, employees and agents from any and all liability of any person in connection with the provision of any services to the Contractor's personnel. The Contractor, in connection with Article 9 and waives any claims the Contractor may have against the UN, its officials, employees or agents arising in connection with the provision of such services. The Contractor agrees to reimburse the UN for any costs incurred by it in connection with the provision of such services, including but not limited to its official's and employees' expenses for any claim or liability of any nature arising in connection with this Article.

MISCELLANEOUS MATTERS

Contract no. FDI/CO/144/01

HA001087

12

Article 10. Contractor's Obligations Upon Expatriation or Termination

Upon expiration or termination of this Contract, the Contractor shall take immediate steps to terminate its operations in a prompt and orderly manner and shall provide such information and take such actions as may be reasonably requested by the UN for the preservation and protection of (i) the work and services already performed by the Contractor and the results thereof and (ii) all property of the UN provided to the Contractor.

Article 11. Liaison and Inspection

11.1. The UN reserves the right to inspect and test all Services performed by the Contractor under this Contract, to the extent practicable, at all reasonable places and times during the term of this Contract. The UN shall perform inspections and tests in a manner that does not unduly hinder the performance of the services by the Contractor. The Contractor shall cooperate with all inspections and tests.

11.2. If any work or services performed by the Contractor do not conform with the requirements of this Contract, the UN shall have the following options:

- (a) If the UN determines that the Contractor's performance can be remedied by way of re-performance or other corrective measures, the Contractor shall take, at its expense, the measures necessary to correct the Contractor's performance. The UN may request the Contractor in writing to take such corrective measures within fourteen (14) days of receipt of the UN's written request. If the Contractor fails to take such corrective measures within the specified time period, the UN may have the work re-performed by another agency conditions so require, as determined by the UN.

- (b) If the UN determines that the Contractor is unable to timely remedy the improper performance, the UN may suspend the Contractor's work until the Contractor has taken all necessary corrective measures and has provided satisfactory evidence that the Contractor is able to resume work.

- (c) If the UN reasonably determines that the improper performance cannot be remedied by re-performance or other corrective measures by the Contractor, the UN may terminate the Contract in accordance with Article 15 of the UN General Conditions of Contract without prejudice to any of its other rights and remedies under the Contract.

Contract no. PD/CO/144/01

HA001088

Article 14. Performance Bond

Within fifteen (15) days of signature of this Contract by the Parties, the Contractor shall provide the UN with a Performance Bond in the form set forth in Annex VII hereof, or a similar guarantee acceptable to the UN, in the amount of U.S. Dollars One Million One Hundred Seventy Six Thousand Seven Hundred and Sixty (US\$ 1,176,760.00) (i.e., ten percent (10%) of the maximum amount payable specified in Article 7.1 hereof), in full and in cash, to be held by the UN as security for the performance of the Contractor under the terms and conditions of the Contract. The UN shall be entitled to claim the performance bond/guarantee upon first demand of the UN, without having to prove the liability of the Contractor and in accordance with the terms and conditions set forth in Annex VII.

Article 15. Notices

Except as otherwise specified in this Contract or in any addendum thereto, all notices and other communications required or contemplated under this Contract shall be in writing and shall be delivered either by: (i) personal delivery; (ii) registered mail with receipt delivery service; (iii) postage prepaid, return receipt requested, certified mail with return receipt requested; (iv) telex transmission; or (v) telegram, addressed to the Party to whom the communication is intended at the address shown below or such other address as the intended recipient may designate in writing. The Party to whom the communication is intended shall have designated by written notice previously given pursuant to this Contract.

IF TO THE CONTRACTOR

COTECHNA INSPECTO S.A.
35, Rue de la Terrasse
1211 Geneva 6
Switzerland
Tel: No. 022 733 48 89
Fax: No. 022 733 48 89

IF TO THE UN (communications/notice of a contractual nature)

Procurement Division
United Nations
14 East 51st Street, Room 3F-202
New York, NY 10017
Attn: Chief
Procurement Division/GCSS

Contract no. PD/CO/14/01

HA001089

Article 12. Termination at Will

12.1 In addition to the termination rights provided in Article 15 of the UN General Conditions of Contract (Annex I), the UN may terminate the Contract without cause, in whole or in part, at any time. In the event of termination by the UN pursuant to this clause, the UN shall only be responsible for payment to the Contractor for Services satisfactorily performed in accordance with this Contract prior to the effective day of termination and any reimbursement to which the Contractor shall be entitled pursuant to Article 12.2 hereof. In the event of partial termination, the contract price shall be proportionately reduced as set forth in Article 4.2 hereof.

12.2 Notwithstanding the provisions of Article 14 of the UN General Conditions of Contract (Annex I), in the event of any circumstance constituting or necessarily leading to the termination of the Contract, the Contractor shall not withdraw any of its personnel from the Contract, except with the prior written approval of the UN, which approval shall not be unreasonably withheld. The Parties agree that it shall not be unreasonable for the UN to require the Contractor to ensure that UN personnel remain similarly situated in Iraq.

12.3 Without limiting any of the UN's other rights under the Contract, in the event that the Contractor fails to perform the Services satisfactorily in accordance with the Contract, the Contractor shall comply with any contingency plans designated by the UN to ensure continued performance of the Services.

Article 13. Customs Clearance

The Contractor shall be responsible for customs clearance and obtaining all licenses, permits, and authorizations from governmental or other authorities necessary for the performance of this Contract. The UN shall provide reasonable assistance to the Contractor, by liaising as appropriate with relevant authorities, in obtaining visas for the Contractor's personnel and in obtaining through customs any equipment, material and supplies in respect of which a clearance shall be required. The UN's sole obligation with respect to customs clearance shall be to provide the necessary certificates and documents, as requested by the Contractor, and to ensure that such items are for the use of the Contractor in Iraq or elsewhere, the Contractor will advise the UN and the UN will provide the assistance to the Contractor in obtaining such documents.

Contract no. PD/CO/14/01

HA001089

Fax no. (212) 963-6315

IF TO THE UN (communications/voices of an operational nature)

Office of the Ins. Programs
United Nations
New York, New York 10017
Attn: Senior Customs Officer
Fax No.: (212) 963-8883

Notice by overnight mail or recognized overnight delivery service shall be effective on the date it is actually received and is not effective if refused by the intended recipient or returned to the sender. All notices and other communications required or contemplated by this Contract shall be delivered to and received by the addressee and shall be effective on the date of the actual receipt.

IN WITNESS THEREOF, the Parties have hereunto signed and affixed their seals on the date indicated in this Contract.

For and on behalf of:

COTECNA INSPECTIONS S.A.

OF THE UNITED NATIONS

SIGNATURE _____ SIGNATURE _____
NAME: _____ NAME: _____
TITLE: _____ TITLE: Officer-In-Charge, Procurement
Division _____
DATE: _____ DATE: _____

Contract no. PDCO14401

HA001091

ATTACHMENTS

- Annex I - UN General Conditions for General Contracts
- Annex II - Security Council Resolutions
- Annex III - Memorandum of Understanding
- Annex IV - Terms and Conditions of Sale
- Annex V - Procurement and Release Form
- Annex VI - Medical Release Form
- Annex VII - Form of Performance Bond

Contract no. PDCO14401

HA001092

ANNEX A

UNITED NATIONS GENERAL CONDITIONS OF CONTRACT

1.0 LEGAL STATUS: The Contractor shall be considered as having the legal status of an independent contractor under the laws of the United Nations. The Contractor's personnel and sub-contractors shall not be considered in any respect as being the employees or agents of the United Nations.

2.0 SOURCE OF INSTRUCTIONS: The Contractor shall adhere to all written instructions from any authorized personnel of the United Nations in connection with the performance of its services under the Contract. The Contractor shall verify from any source which may adversely affect the United Nations or its interests that such instructions are in accordance with the intent of the United Nations.

3.0 CONTRACTOR'S RESPONSIBILITY FOR EMPLOYEES: The Contractor shall be responsible for the professional and technical competence of its employees and sub-contractors. The Contractor shall ensure that all individuals who will perform effectively in the implementation of the Contract are of the highest quality and conform to a high standard of moral and ethical conduct.

4.0 ASSIGNMENT: The Contractor shall not assign, transfer, or subcontract any part of the Contract or any part thereof, or any of the Contractor's obligations under the Contract except with the prior written consent of the United Nations.

5.0 SUB-CONTRACTING: In the event the Contractor wishes to subcontract any portion of the Contract, it shall obtain the prior written approval of the United Nations. The Contractor shall not subcontract any of its obligations under the Contract. The Contractor shall be subject to and conform with the provisions of the Contract.

6.0 OFFICIALS AND AGENTS: The Contractor warrants that no official of the United Nations has reviewed or approved the Contract. The Contractor agrees that breach of the provisions of the Contract shall constitute a breach of an essential term of the Contract.

7.0 INTELLECTUAL PROPERTY: The Contractor shall identify, hold, and protect all patents, trademarks, copyrights, and other intellectual property of the Contractor, its employees, and sub-contractors. The Contractor shall identify, hold, and protect all patents, trademarks, copyrights, and other intellectual property of any nature or kind, including those owned by the Contractor, its employees, and sub-contractors. The Contractor shall identify, hold, and protect all patents, trademarks, copyrights, and other intellectual property of any nature or kind, including those owned by the Contractor, its employees, and sub-contractors. The Contractor shall identify, hold, and protect all patents, trademarks, copyrights, and other intellectual property of any nature or kind, including those owned by the Contractor, its employees, and sub-contractors.

SPECIAL MEMORANDUM

ANNEX I

[ON GENERAL CONDITIONS FOR GENERAL CONTRACTS]

HA001093

HA001094

3

workbooks, with respect to problems, or documents and other materials which bear a direct relation to or are products or preparation of contracts or documents in connection with the performance of the work under this Contract.

12.0 USE OF NAME, EMBLEM OR OFFICIAL SEAL OF THE UNITED NATIONS. The Contractor shall not advertise or otherwise make public the fact that it is a Contractor with the United Nations, nor shall the Contractor or any member of its staff, or any other person, use the name, emblem or official seal of the United Nations, or any abbreviation of the name of the United Nations in connection with its business or activities.

13.0 CONFIDENTIAL NATURE OF DOCUMENTS AND INFORMATION

13.1 The Contractor shall maintain in confidence all information, data, reports, drawings, plans, specifications, and other data compiled or received by the Contractor under this Contract that is classified as "Confidential" or "Secret" by the United States Government, or information that is classified as "Confidential" or "Secret" by the United States Government, or information that is classified as "Confidential" or "Secret" by the United States Government, or information that is classified as "Confidential" or "Secret" by the United States Government.

13.2 The Contractor shall not disseminate or allow to be disseminated any information, data, reports, drawings, plans, specifications, and other data compiled or received by the Contractor under this Contract that is classified as "Confidential" or "Secret" by the United States Government, or information that is classified as "Confidential" or "Secret" by the United States Government, or information that is classified as "Confidential" or "Secret" by the United States Government, or information that is classified as "Confidential" or "Secret" by the United States Government.

14.0 FORCE MAJEURE, OTHER CHANGES, AND DELAYS

14.1 If the work of and as soon as possible after the occurrence of any cause constituting force majeure, the Contractor shall give notice in writing to the United Nations, of such occurrence or change of the Contract. The Contractor shall also notify the United Nations of any other responsibilities under the Contract. The Contractor shall also notify the United Nations of any other responsibilities under the Contract. The Contractor shall also notify the United Nations of any other responsibilities under the Contract.

14.2 The Contractor shall not be relieved of its obligations under this Contract by the occurrence of force majeure, unless, in fact, by reason of force majeure it is unable to perform its obligations under this Contract. The Contractor shall not be relieved of its obligations under this Contract by the occurrence of force majeure, unless, in fact, by reason of force majeure it is unable to perform its obligations under this Contract.

15.0 TERMINATION

2

services or sub-contractors. The obligations under this Article do not lapse upon termination of this Contract.

1.0 INSURANCE AND LIABILITIES TO THIRD PARTIES

1.1 The Contractor shall provide and thereafter maintain insurance against all risks in respect of the property and any equipment used for the execution of this Contract.

1.2 The Contractor shall provide and thereafter maintain all appropriate workmen's compensation insurance in accordance with the laws of the United States and the laws of the United States.

1.3 The Contractor shall also provide and thereafter maintain liability insurance in an amount not less than the amount required by the laws of the United States and the laws of the United States.

1.4 Except for the workmen's compensation insurance, the insurance provided for in this article shall:

- (a) include a waiver of subrogation of the amount of the insurance to the insurance carrier against the United Nations;
(b) Provide that the United Nations shall not be liable for any claim or demand against the Contractor prior to any completion or receipt of the work.

1.5 The Contractor shall, upon request, file with the United Nations with satisfactory evidence of its insurance required under this Article.

1.6 The Contractor shall not cause or permit any fire, explosion or other damage to the property or equipment of the United Nations or to the work of the United Nations.

1.7 The Contractor shall not cause or permit any fire, explosion or other damage to the property or equipment of the United Nations or to the work of the United Nations.

1.8 The Contractor shall be liable to compensate the United Nations for equipment determined to be damaged or degraded beyond normal wear and tear.

HAC001085

HAC001085

5

18.1 If any party breaches the Contract for cause, in whole or in part, upon thirty (30) days notice, in writing, to the other party. The inclusion of arbitral proceedings in accordance with Article 15 "Arbitration" here and shall not be deemed a violation of this Contract.

18.2 The United Nations may terminate this Contract at any time should the contractor or the beneficiary of the Memorandum be notified or terminated, in which case the Contractor shall be responsible for the United Nations for all reasonable costs incurred by the Contractor prior to receipt of the notice of termination.

18.3 In the event of any termination by the United Nations under this Article, no payment shall be due to the United Nations in the Contract except for work and services satisfactorily performed to the date of termination of the Contract.

18.4 Should the Contractor be assigned, transferred, or be liquidated or become insolvent, or should the Contractor make an assignment for the benefit of its creditors, or should a Receiver be appointed for the assets of the Contractor, the Contractor shall immediately notify the United Nations in writing. The Contractor shall immediately transfer to the United Nations all rights and interests in the Contract.

19.0 SETTLEMENT OF DISPUTES

19.1 The Parties shall use their best efforts to settle any dispute arising out of this Contract or the breach, termination or invalidity of this Contract through negotiation, mediation, conciliation, arbitration or any other method of dispute resolution. If the Parties fail to reach a mutually agreeable solution within sixty (60) days after receipt of the written notice of dispute, the Parties shall refer the dispute to the UNCTAD Arbitration Centre for resolution. The arbitral award shall have the authority to bind the Parties and shall be final and binding on the Parties and shall be enforceable in any court of competent jurisdiction. The Parties shall be bound by any award rendered as a result of such arbitration as the final adjudication of any such controversy.

20.0 AUTHORITY TO MODIFY

20.1 The United Nations, in its sole discretion, may modify or amend the Contract in whole or in part, upon thirty (30) days notice, in writing, to the other party. The inclusion of arbitral proceedings in accordance with Article 15 "Arbitration" here and shall not be deemed a violation of this Contract.

20.2 The United Nations may terminate this Contract at any time should the contractor or the beneficiary of the Memorandum be notified or terminated, in which case the Contractor shall be responsible for the United Nations for all reasonable costs incurred by the Contractor prior to receipt of the notice of termination.

20.3 In the event of any termination by the United Nations under this Article, no payment shall be due to the United Nations in the Contract except for work and services satisfactorily performed to the date of termination of the Contract.

20.4 Should the Contractor be assigned, transferred, or be liquidated or become insolvent, or should the Contractor make an assignment for the benefit of its creditors, or should a Receiver be appointed for the assets of the Contractor, the Contractor shall immediately notify the United Nations in writing. The Contractor shall immediately transfer to the United Nations all rights and interests in the Contract.

HA001058

4

18.1 If any party breaches the Contract for cause, in whole or in part, upon thirty (30) days notice, in writing, to the other party. The inclusion of arbitral proceedings in accordance with Article 15 "Arbitration" here and shall not be deemed a violation of this Contract.

18.2 The United Nations may terminate this Contract at any time should the contractor or the beneficiary of the Memorandum be notified or terminated, in which case the Contractor shall be responsible for the United Nations for all reasonable costs incurred by the Contractor prior to receipt of the notice of termination.

18.3 In the event of any termination by the United Nations under this Article, no payment shall be due to the United Nations in the Contract except for work and services satisfactorily performed to the date of termination of the Contract.

18.4 Should the Contractor be assigned, transferred, or be liquidated or become insolvent, or should the Contractor make an assignment for the benefit of its creditors, or should a Receiver be appointed for the assets of the Contractor, the Contractor shall immediately notify the United Nations in writing. The Contractor shall immediately transfer to the United Nations all rights and interests in the Contract.

19.0 SETTLEMENT OF DISPUTES

19.1 The Parties shall use their best efforts to settle any dispute arising out of this Contract or the breach, termination or invalidity of this Contract through negotiation, mediation, conciliation, arbitration or any other method of dispute resolution. If the Parties fail to reach a mutually agreeable solution within sixty (60) days after receipt of the written notice of dispute, the Parties shall refer the dispute to the UNCTAD Arbitration Centre for resolution. The arbitral award shall have the authority to bind the Parties and shall be final and binding on the Parties and shall be enforceable in any court of competent jurisdiction. The Parties shall be bound by any award rendered as a result of such arbitration as the final adjudication of any such controversy.

20.0 AUTHORITY TO MODIFY

20.1 The United Nations, in its sole discretion, may modify or amend the Contract in whole or in part, upon thirty (30) days notice, in writing, to the other party. The inclusion of arbitral proceedings in accordance with Article 15 "Arbitration" here and shall not be deemed a violation of this Contract.

20.2 The United Nations may terminate this Contract at any time should the contractor or the beneficiary of the Memorandum be notified or terminated, in which case the Contractor shall be responsible for the United Nations for all reasonable costs incurred by the Contractor prior to receipt of the notice of termination.

20.3 In the event of any termination by the United Nations under this Article, no payment shall be due to the United Nations in the Contract except for work and services satisfactorily performed to the date of termination of the Contract.

20.4 Should the Contractor be assigned, transferred, or be liquidated or become insolvent, or should the Contractor make an assignment for the benefit of its creditors, or should a Receiver be appointed for the assets of the Contractor, the Contractor shall immediately notify the United Nations in writing. The Contractor shall immediately transfer to the United Nations all rights and interests in the Contract.

HA001057



S

UNITED STATES DEPARTMENT OF STATE

OFFICE OF THE SECRETARY



Security Council

1946

9/26/48 (1948)
14 April 1948

ANNEX II
[SECURITY COUNCIL RESOLUTION 986 (1955)]

RESOLUTION 986 (1955)

ADOPTED BY THE SECURITY COUNCIL AT ITS 1113TH MEETING
ON 14 APRIL 1955

The Security Council

Recalling its previous relevant resolutions,

Convinced by the serious conditions and the size of the Iraqi population, and by the risk of a further deterioration of this situation,

Convinced also that the Iraqi people have a right to the fulfilment of their basic economic and social needs, and that the Security Council has a responsibility to assist them in this regard,

Convinced also of the need for a equitable distribution of humanitarian relief to all segments of the Iraqi population throughout the country,

Recognizing that the Iraqi people are entitled to all human rights and territorial integrity,

Acting in accordance with the Charter of the United Nations,

- 1. To call upon the Government of Iraq to permit the free importation of petroleum products originating in Iraq, and to permit the free export of petroleum products originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq;
- 2. To call upon the Government of Iraq to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq;
- 3. To call upon the Government of Iraq to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq, and to permit the free import and export of other essential commodities originating in Iraq;

4. Approval by the Committee established by resolution 661 (1980), in order to ensure the transparency of such transactions and the conformity with the other provisions of this resolution, of the submission of an application by the



HA001089

HA001100

7. Request the Secretary-General to establish an escrow account for the purpose of this resolution, to appoint independent and verified public accountants to audit it, and to keep the Government of Iraq fully informed;

8. Requiring that the funds in the escrow account shall be used to meet the humanitarian needs of the Iraqi population, and that the Secretary-General, and accountants, shall be authorized to use the funds deposited in the escrow account;

(a) To finance the export to Iraq, in accordance with the procedure of the Committee established by resolution 661 (1990), of medicines, health supplies, foodstuffs, and materials and equipment essential to the maintenance of the Iraqi population; and

(b) To finance the export of goods to Iraq, in accordance with the procedure of the Committee established by resolution 661 (1990), of medicines, health supplies, foodstuffs, and materials and equipment essential to the maintenance of the Iraqi population;

(11) Iraq effectively guarantees their equitable distribution of goods to all segments of the Iraqi population, including a description of the goods to be purchased;

(12) The Secretary-General shall ensure that the required goods concerned have arrived in Iraq;

(b) To complete, in view of the emergency situation, the distribution of Iraq of goods imported under this resolution, and to ensure an equitable distribution of humanitarian relief to all segments of the Iraqi population; States shall take every 30 days to the United Nations Secretary-General programs operating within the emergency humanitarian relief program, and one billion United States dollars (one billion United States dollars) for the purpose of humanitarian relief (for this purpose);

(c) To transfer to the United Nations the same percentage of the funds deposited in the escrow account as the amount authorized by the Council in paragraph 2 of resolution 705 (1991);

(d) To ensure that the United Nations of the independent inspection agencies and the United Nations public accountants and the activities mentioned with implementation of this resolution;

(e) To ensure that the current operating costs of the special committee, pending the implementation of this resolution, shall be met in full of the costs of carrying out the tasks authorized by resolution 661 (1990);

(f) To ensure that any reasonable expenses, other than expenses payable in Iraq, which are incurred by the United Nations in the implementation of the mandate to be directly related to the report by Iraq of petroleum and petroleum products permitted under paragraph 1 above or to the report to Iraq, and activities

State concerned, endorsed by the Government of Iraq, for each request purchase of Iraqi petroleum and petroleum products, including details of the purchase price at fair market value, the export route, the opening of a letter of credit for the purchase, and the date of the purchase, and any other directly related financial or other essential transaction;

(b) Payment of the full amount of each purchase of Iraqi petroleum and petroleum products directly by the purchaser in the state concerned into the escrow account to be established by the Secretary-General for the purposes of this resolution;

2. In addition to the provisions of paragraph 1, the Secretary-General shall permit the import of petroleum and petroleum products originating in Iraq, and to ensure that the import of such goods is carried out in accordance with the procedures set forth in the Commission's report, to meet the financial needs of the Iraqi population, and to ensure that the import of such goods is carried out in accordance with the procedures set forth in the Commission's report;

3. (a) To ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution, and to ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution;

(b) To ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution, and to ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution;

4. (a) To ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution, and to ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution;

(b) To ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution, and to ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution;

5. (a) To ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution, and to ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution;

(b) To ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution, and to ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution;

6. (a) To ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution, and to ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution;

(b) To ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution, and to ensure that the provisions of paragraph 1 and 2 of this resolution shall be implemented in accordance with the provisions of paragraph 1 and 2 of this resolution;

14. Decides that petroleum and petroleum products subject to this resolution shall while under Iraqi title be immune from legal proceedings and claims in any court of law, and that the United States shall take all appropriate steps to ensure that all States shall take any steps that may be necessary under their respective domestic legal systems to ensure this protection, and to ensure that the proceeds of the sale are not diverted from the purposes laid down in this resolution;

15. Affirms that the narrow account established for the purposes of this resolution enjoys the privileges and immunities of the United Nations;

16. Affirms that all persons appointed by the Secretary-General for purposes of this resolution shall be appointed in accordance with the Convention on the Privileges and Immunities of the United Nations, and shall enjoy the privileges and immunities of the United Nations, and shall be exempt from the discharge of their duties in the implementation of this resolution;

17. Affirms that while in this resolution affects the responsibility to ensure to all of its obligations concerning technical and equipment of its foreign debt, in accordance with the applicable international law;

18. Also affirms that nothing in this resolution shall be construed as infringing the sovereignty or territorial integrity of any State;

19. Decides to remain seized of the matter.

directly necessary thereto, of the parts and equipment permitted under paragraph 9 below;

(9) To make available up to 10 million United States dollars every 30 days from the funds deposited in the narrow account for the purchase envisaged under paragraph 6 of resolution 798 (1995) of 3 October 1995;

9. Authorizes States to permit, notwithstanding the provisions of paragraph 3 (d) of resolution 661 (1990),

(a) The export to Iraq of the parts and equipment which are essential to the safe operation of the Kirkuk-Yamalkah pipeline system in Iraq, subject to the conditions established by the Committee established by resolution 661 (1990) on export controls;

(b) Activities directly necessary for the export, subject to the conditions set out in subparagraph (a) above, including financial transactions relating to the

10. Decides that, since the date of the report submitted under paragraph 9 above are excluded by paragraph 4 of resolution 661 (1990) and by paragraph 11 of resolution 778 (1993) from being made known in any form, the funds deposited in the narrow account shall be used for the purchase of parts and equipment, and following approval by the Committee, for the purchase of credit, direct against funds in the narrow account, which are to be deposited in the narrow account;

11. Requests the Secretary-General to report to the Council 90 days after the date of entry into force of paragraph 9 above, and again prior to the end of the period of the report, on the progress of the implementation of paragraph 9 above in Iraq, and on the basis of the information with the Secretary-General, on whether Iraq has undertaken any steps to ensure the distribution of medicine, health equipment and supplies, and on the progress of the implementation of paragraph 9 above in accordance with paragraph 9 (b) above, including civilian needs, and on the progress of the implementation of paragraph 9 above, and on the progress of the implementation of paragraph 9 above, and on the progress of the implementation of paragraph 9 above;

12. Requests the Committee established by resolution 661 (1990), in close coordination with the Secretary-General, to develop expedited procedures as provided for in paragraph 9 of resolution 661 (1990) and to report to the Council 90 days after the date of the implementation of paragraph 9 above and again prior to the end of the initial period of the implementation of those arrangements;

13. Requests the Secretary-General to take the actions necessary to ensure the implementation of the conditions set out in paragraph 9 above, and to report to the Council when he has done so;



Security Council

DIR. GENERAL
S/1946/156*
20 May 1956
ORIGINAL: ENGLISH

LETTER DATED 20 MAY 1956 FROM THE SECRETARY-GENERAL,
ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL.

I have the honour to submit to you, and through you to the Security Council, the text of a memorandum of understanding on the implementation of Security Council resolution 1137 (XV) of 24 April 1956. I am also submitting to you a letter handed over by the Head of the Iraqi delegation upon signing the memorandum.

The memorandum represents an important step in the arrangements that are being made to bring about the implementation of Security Council resolution 1137 (XV) of 24 April 1956. I am submitting it to you in the hope that the necessary actions have been taken or will be taken in order to report to the Security Council as provided for in paragraph 2 of the resolution. The present memorandum is intended to be a preliminary step towards the Council's assessment of the progress achieved so far in the implementation of the resolution.

(Signed) SEYMOUR DOUGLAS

* Retained for technical reasons.

65-1271 (E) 210596 210596



SECRET

plan adequately ensures equitable distribution of humanitarian supplies to the Iraqi population throughout the country, he will so inform the Government of Iraq.

9. It is understood by the Parties to this Memorandum that the Secretary-General will not be in a position to report as required in paragraph 13 of the present Memorandum until the Secretary-General has received the necessary approval.

10. Once the Secretary-General approves the plan, he will forward a copy of the categorized list of the supplies and goods, which constitutes a part of the plan, to the Security Council Committee established by resolution 661 (1990) for monitoring the situation between Iraq and Kuwait in order to ensure the effective implementation of the plan.

11. After the plan becomes operational, each Party to the present Memorandum will be required to submit to the Secretary-General a report on the progress of the implementation of the plan. It is believed that such adjustment would improve the equitable distribution of humanitarian supplies and their adequacy.

SECTION III

ESTABLISHMENT OF THE ESCROW ACCOUNT AND THE ESCROW BANK ACCOUNT

12. The Secretary-General, after consultation with the Government of Iraq, will select a major international bank and a major international escrow account described in paragraph 7 of the Resolution. The Government of Iraq will deposit the funds referred to in paragraph 7 of the Resolution in the escrow account. The Government of Iraq will also deposit the funds referred to in paragraph 7 of the Resolution in the escrow account. The Government of Iraq will also deposit the funds referred to in paragraph 7 of the Resolution in the escrow account. The Government of Iraq will also deposit the funds referred to in paragraph 7 of the Resolution in the escrow account.

13. The Iraqi authorities will designate a senior banking official to liaise with the Secretary-General and the United Nations on all banking matters relating to the Iraq escrow account.

14. In accordance with the United Nations financial regulations, the Iraq escrow account will be audited by the United Nations. The Secretary-General will issue public notices on the audit of the financial statements relating to the Iraq escrow account.

15. The Secretary-General will be empowered to create a liability on the part of the United Nations for any purchase made by the Government of Iraq or any agents acting on its behalf pursuant to the provisions of the Resolution.

MEMORANDUM OF UNDERSTANDING BETWEEN THE SECRETARIES-GENERAL OF THE UNITED NATIONS AND THE GOVERNMENT OF IRAQ ON THE ESTABLISHMENT OF A DISTRIBUTION PLAN FOR HUMANITARIAN SUPPLIES (S/1982/136)

SECTION I

GENERAL PROVISIONS

1. The purpose of this Memorandum of Understanding is to ensure the effective implementation of Security Council resolution 661 (1990) (hereinafter "the Resolution").

2. The Distribution Plan referred to in paragraph 8 (a) (ii) of the Resolution shall be approved by the Secretary-General and the Government of Iraq. The Distribution Plan shall be implemented in accordance with the provisions of the Resolution.

3. Nothing in the present Memorandum should be construed as prejudging upon the sovereignty or territorial integrity of Iraq.

4. The provisions of the present Memorandum shall be applied exclusively to the implementation of the Resolution and shall not be used as a precedent. It is also understood that the arrangements provided for in the present Memorandum are exceptional and temporary in nature.

5. The Government of Iraq will effectively guarantee equitable distribution to the Iraqi population throughout the country of medicines, health supplies and other humanitarian supplies. The Government of Iraq will also guarantee the equitable distribution of humanitarian supplies purchased with the proceeds of the sale of Iraqi petroleum and other resources.

6. To this end, the Government of Iraq shall prepare a Distribution Plan describing in detail the procedures to be followed by the competent Iraqi authorities in order to ensure the equitable distribution of humanitarian supplies. The Distribution Plan shall be approved by the Secretary-General and the Government of Iraq.

7. The Distribution Plan shall be implemented in accordance with the provisions of the Resolution. The Distribution Plan shall be implemented in accordance with the provisions of the Resolution.

8. The Distribution Plan shall be implemented in accordance with the provisions of the Resolution. The Distribution Plan shall be implemented in accordance with the provisions of the Resolution.

9. The Distribution Plan shall be implemented in accordance with the provisions of the Resolution. The Distribution Plan shall be implemented in accordance with the provisions of the Resolution.

23. As noted above, the 641 Committee will take action on applications for the export of goods to Iraq in accordance with its existing procedures subject to future modifications under paragraph 12 of the Resolution. The 641 Committee will be kept informed of the progress of such applications by the Secretary-General and the account seen on the request submitted.

24. After the 641 Committee has taken action on the applications for export in accordance with its procedures, the Central Bank of Iraq will contact the bank holding the 'Iraq Account' to open irrevocable letters of credit in favour of the beneficiary. The beneficiary's bank will be referred to by the bank holding the 'Iraq Account' upon presentation of credit-conform documents. The letter of credit will be issued by the bank holding the 'Iraq Account' to the beneficiary. The beneficiary will be notified of the establishment of the 'Iraq Account' of the documents to be determined by the bank holding the 'Iraq Account'. The beneficiary will be notified of the establishment of the 'Iraq Account' and letters of credit regarding the purchase orders, contracts and letters of credit regarding the purchase orders from the Government of Iraq, shall determine the claims to be investigated by the beneficiary, whereas all charges outside Iraq are for the account of the beneficiary.

25. The arrival of goods in Iraq purchased under the Resolution will be confirmed by independent inspection agents to be appointed by the Secretary-General. No payment will be made until the goods have been inspected and the Secretary-General has authorized payment. The Secretary-General will provide the beneficiary with a copy of the inspection report and the approved invoice concerned have arrived in Iraq.

26. The independent inspection agents will be stationed at relevant Iraqi entry points, custom areas or other locations as determined by the Secretary-General. The number and location of the inspection points for the goods to be inspected will be determined by the Secretary-General in consultation with the Government of Iraq.

27. The independent inspection agents will confirm delivery to Iraq of shipments. They will issue appropriate documentation, such as bills of lading, other shipping documents, or cargo manifests, and the documents issued by the independent inspection agents will be subject to the authority of the Secretary-General. The independent inspection agents will have the authority to make such checks as necessary for such confirmation, including quantity inspection, weight or count, quality inspection including visual inspection, and, when necessary, laboratory testing.

28. The independent inspection agents will report all irregularities to the Secretary-General. The Secretary-General will be kept informed of the progress of the work of the independent inspection agents. The 641 Committee and the Government of Iraq are informed, but normal commercial resolution practices will apply. The independent inspection agents will hold the shipment in question pending guidance from the 641 Committee.

SECTION II

SALE OF PETROLEUM AND PETROLEUM PRODUCTS ORIGINATING IN IRAQ

16. Crude oil and petroleum products originating in Iraq will be exported via the Kirkuk-Yumurtalik pipeline through Turkey and from the Mira al-Bahr oil terminal. The 641 Committee will monitor the export of petroleum products from Iraq through Turkey and in accordance with the Resolution. The 641 Committee will be kept informed of the progress of such applications by the Secretary-General and the account seen on the request submitted. The 641 Committee will be kept informed of the progress of such applications by the Secretary-General and the account seen on the request submitted.

17. Each export of petroleum and petroleum products originating in Iraq shall be approved by the 641 Committee.

18. Detailed provisions concerning the sale of Iraqi crude oil and petroleum products are contained in Annex II, which constitutes an integral part of this Memorandum.

SECTION III

IMPORTATION AND EXPORTATION OF GOODS

19. The purchase of medicine, health supplies, foodstuffs, and materials and supplies for essential civilian needs of the Iraqi population throughout the country, as referred to in paragraph 12 of the Resolution, shall be subject to normal commercial practices and procedures. The Government of Iraq will follow the Security Council and the 641 Committee.

20. The purchase of goods for the three northern Governorates of Arbil, Dohuk and Sulaymaniyah, as provided for in the Distribution Plan, will be carried out in accordance with Annex I.

21. The export of goods to Iraq shall be at the request of the Government of Iraq. The Government of Iraq will be kept informed of the progress of such applications by the Secretary-General and the account seen on the request submitted.

22. The 641 Committee will be kept informed of the progress of such applications by the Secretary-General and the account seen on the request submitted. The 641 Committee will be kept informed of the progress of such applications by the Secretary-General and the account seen on the request submitted. The 641 Committee will be kept informed of the progress of such applications by the Secretary-General and the account seen on the request submitted.

5/1386/1356
English
Page 5

- 15. The objectives of the United Nations observation process shall be:
 - (a) to confirm whether the equitable distribution of humanitarian supplies to the Iraqi population throughout the country has been ensured;
 - (b) to assess the effectiveness of the operation and determine the adequacy of the available resources to meet Iraq's humanitarian needs.

OBSERVATION PROCEDURES

16. In observing the equitable distribution and its adequacy, United Nations personnel will use, **inter alia**, the following procedures:

Foodstuffs

17. The observation of the equitability of food distribution will be based on the information available to the United Nations, including the activity of agencies on food imports, and on sample surveys conducted in the United Nations. Such surveys will also include the monitoring of the prices of food items imported under the authorization.

18. The surveys will be conducted in order to determine whether a survey conducted by United Nations agencies is sufficient to ascertain the appropriate Iraq's needs. The surveys will be conducted in accordance with the observation of the activities of the agencies, including the activities of the Ministry of Health (MOH) and the relevant United Nations agencies.

19. Observation regarding the distribution of medical supplies and equipment will focus on the existing system of distribution and storage system and will involve visits to hospitals, clinics and medical and pharmaceutical facilities where such supplies and equipment are stored. The observation will be conducted in accordance with health statistics, surveys and surveys by relevant United Nations agencies.

20. The distribution of water/sanitation supplies and equipment will focus on the existing system of distribution and storage system and will involve visits to hospitals, clinics and medical and pharmaceutical facilities where such supplies and equipment are stored. The observation will be conducted in accordance with health statistics, surveys and surveys by relevant United Nations agencies. In this regard the United Nations will rely on all relevant indicators.

5/1386/1356
English
Page 6

29. As regards the export to Iraq of parts and equipment which are essential for the safe operation of the Kirkuk-Ummal-Qasbi pipeline system in Iraq, the requests will be submitted to the Committee in accordance with its procedures. The Committee will be consulted for approval by the Committee in accordance with its procedures.

30. If the 6th Committee has approved a request in accordance with paragraph 29, the provisions of paragraph 24 shall apply. However, since the supplier can expect payment against future oil sales, as stated in paragraph 24, the United Nations will issue an irrevocable letter of credit anticipating that payment can only be effected when at least one of the following conditions is met: (a) the supplier has received a letter of credit from the United Nations Secretariat approving the payment;

(b) the payment of substituted confirmation of receipt of the goods for 10 per cent of the value of the goods, as stated in paragraph 24, for 10 per cent of the value of the goods, as stated in paragraph 24.

Section VI

Distribution of humanitarian supplies to be purchased under the Iraq's plan

31. The distribution of humanitarian supplies to be purchased under the Iraq's plan shall be undertaken by the Government of Iraq in accordance with the distribution plan referred to in Section II of the present Memorandum. However, the Government of Iraq will keep the United Nations informed of the progress of the distribution of the plan and the activities that it is undertaking.

32. The distribution of humanitarian supplies in the three northern Governorates of Arbil, Sulaymaniyah and Erbil shall be undertaken by the United Nations Inter-Agency Humanitarian Assistance Programme on behalf of the Government of Iraq. The distribution of humanitarian supplies in the three southern Governorates of Basra, Dhi Qar and Muthanna shall be undertaken in accordance with Annex I.

Section VII

Observation of the equitable distribution of humanitarian supplies and administration of Iraqi economy

GENERAL PROVISIONS

33. The United Nations observation process will be conducted by United Nations personnel in Iraq. The United Nations will maintain a liaison office in Baghdad. The United Nations will also maintain a liaison office in New York in accordance with the provisions described below. Such observation shall apply to the distribution of humanitarian supplies financed in accordance with the procedures set out in the Resolution.

HA001112

HA001111

the implementation of the Resolution, whose names will be communicated to the Specialized Agencies concerned and to the United Nations Secretariat, to experts on mission for the United Nations or for the Specialized Agency under Article VI of the Convention on the Privileges and Immunities of the United Nations, and to the United Nations Secretariat, the Specialized Agencies and Immunities of the Specialized Agencies respectively;

(c) persons performing technical services for the United Nations in connection with the implementation of the Resolution, whose names will be communicated to the Government of Iraq, shall enjoy the privileges and immunities referred to in paragraph (b) above concerning experts and services supplied by the United Nations.

46. In addition, officials, experts and other personnel referred to in paragraph (c) above shall be issued visas by the Iraqi authorities promptly and free of charge.

47. It is further understood that the United Nations and the Specialized Agencies shall enjoy freedom of entry into and exit from Iraq, and shall be allowed to transport their equipment and supplies, and to import and export such equipment and supplies, free of duty, in accordance with the provisions of this Section shall be governed, except in so far as they may be otherwise provided for in the Resolution.

48. Any issue relating to privileges and immunities, including safety and protection of the United Nations and its personnel, covered by the provisions of this Section shall be governed, except in so far as they may be otherwise provided for in the Resolution.

49. The Secretariat of the United Nations and the Government of Iraq shall, if necessary, hold consultations from time to time to achieve the most effective implementation of the provisions of this Section.

SECTION I
FINAL CLAUSE

50. The present accord shall enter into force following signature, on the day when the present accord is signed, and shall remain in force until the expiration of the 180 day period referred to in paragraph 2 of the Convention on the Privileges and Immunities of the United Nations.

Some Materials and Supplies

41. With reference to materials and supplies which do not fall within the three areas indicated above, in particular, those needed for the rehabilitation of Iraq, the United Nations Secretariat, the Specialized Agencies and the Government of Iraq shall, in consultation with each other, make arrangements for the procurement, distribution and use of such materials and supplies in accordance with the distribution plan and that they are used for the rehabilitation of Iraq. The United Nations Secretariat, the Specialized Agencies and the Government of Iraq shall ensure that the necessary supplies are adequate or necessary to meet essential needs of the Iraqi population.

COORDINATION AND COOPERATION

42. The United Nations observation activities will be coordinated with the Department of Humanitarian Affairs at United Nations Headquarters in New York. The United Nations Secretariat, the Specialized Agencies and the Government of Iraq shall, in consultation with each other, make arrangements for the procurement, distribution and use of such personnel will be determined by the United Nations Secretariat in accordance with the practical requirements. The Government of Iraq will be consulted in all matters relating to the recruitment of such personnel.

43. The Iraqi authorities will provide to United Nations personnel the assistance required to facilitate the performance of their functions. United Nations personnel will cooperate with the Iraqi authorities.

44. In view of the importance of the functions which United Nations personnel will perform in Iraq, the United Nations Secretariat, the Specialized Agencies and the Government of Iraq shall, in consultation with each other, make arrangements for the procurement, distribution and use of such personnel shall have the same status and shall enjoy the same privileges and immunities as those provided for in the Convention on the Privileges and Immunities of the United Nations, or Articles VI and VIII of the Convention on the Privileges and Immunities of the Specialized Agencies to which Iraq is a party.

SECTION XIII

FINAL CLAUSE

55. In order to ensure the successful implementation of the Resolution the following provisions concerning privileges and immunities shall apply:

(a) officials of the United Nations and of any of the Specialized Agencies shall enjoy the privileges and immunities applicable to them in accordance with the Convention on the Privileges and Immunities of the United Nations, or Articles VI and VIII of the Convention on the Privileges and Immunities of the Specialized Agencies to which Iraq is a party;

(b) independent inspection agents, technical experts and other specialists shall enjoy the same status and shall enjoy the same privileges and immunities as those provided for in the Convention on the Privileges and Immunities of the Specialized Agencies in connection with the implementation of the Resolution.

51. Pending its entry into force, the Memorandum shall be given by the United Nations and the Government of Iraq provisional effect.

SIGNED this 26th day of May 1996 at New York in two originals in English.

For the United Nations
(Signed) Hans COOPER,
Under-Secretary-General,
The Legal Counsel

For the Government of Iraq
(Signed) Abdul Muhsin AL-JAMALI,
Head of the Delegation

Annex I

1. In order to ensure the effective implementation of paragraph 4 (b) of the Resolution, the following arrangements shall apply in respect of the Iraqi Government of Achil, Shahr and Sulaymaniyah. These arrangements shall be implemented in Iraq and to the principle of equitable distribution of humanitarian supplies throughout the country.

2. The United Nations Inter-Agency Humanitarian Programme shall collect, analyze pertinent information on humanitarian needs in the three northern Governorates of Iraq and submit it to the Government of Iraq and the Government of the United Nations. The humanitarian requirements of the three northern Governorates shall be discussed with the Government of Iraq and subsequent implementation in the three northern Governorates shall be carried out in accordance with the principles of equitable distribution of humanitarian supplies. All relevant circumstances, both within the three northern Governorates and in the rest of the country, in order to ensure the equitable distribution of humanitarian supplies shall be taken into account. The Government of Iraq shall describe the necessary situation.

3. Within a week following the approval of the Programme, the Government of Iraq shall discuss with the Government of the United Nations the arrangements for the procurement of humanitarian supplies for the three northern Governorates. Such arrangements shall be undertaken with the Government of Iraq and subsequent implementation in the three northern Governorates shall be carried out in accordance with the principles of equitable distribution of humanitarian supplies. The milk purchase by the Government of Iraq of standard food commodities and medicines may be the most effective means of procurement. The Government of Iraq shall submit a list of humanitarian supplies requested for the three northern Governorates and the Government of the United Nations shall approve such supplies in view of the humanitarian situation in the three northern Governorates.

4. To the extent that such supplies and deliveries are made by the Government of Iraq in response to the humanitarian requirements of the Programme, an amount of the United Nations regular budget shall be allocated to the Government of Iraq from the "Iraq account".

5. Humanitarian supplies and deliveries in the three northern Governorates shall be delivered by the Programme to warehouses located within these Governorates. Such supplies may also be delivered by the Government of Iraq to the Government of the United Nations in Iraq and Kuwait. The Government of Iraq shall ensure that such supplies are distributed to the Government of Iraq in accordance with the Programme and administrative arrangements to ensure the safe and equitable distribution of such supplies to the three northern Governorates.

6. The Government of Iraq shall be responsible in the three northern Governorates for the safe handling, internal transportation, distribution and confirmation of the supplies. The Government of Iraq shall ensure that such supplies are distributed to the Government of Iraq in accordance with the Programme and administrative arrangements to ensure the safe and equitable distribution of such supplies to the three northern Governorates.

7. Measures possible and not-effective, the Programme shall use appropriate local distribution mechanisms which are comparable to those existing in the rest of the country.

of Iraq in order to effectively reach the population. Recipients under this program will be selected on the basis of special needs as in the rest of the country. The Program shall ensure that the special needs of internally displaced persons, refugees, hospital in-patients and out-patients, and the needs of supplementary food are appropriately met. and will keep the Government of Iraq informed.

6. The Program will be administered by the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) in cooperation with the Government of Iraq. UNRWA will report to the Department of Humanitarian Affairs at United Nations Headquarters in New York and the Government of Iraq any violations detected by the Program.

MORSELI

1. The State concerned or, if the 611 Committee so decides, the national petroleum purchaser authorized by the 611 Committee, shall submit to the Committee for handling and approval the application, including the relevant contract, for the proposed purchase of Iraqi petroleum and petroleum products by the Government of Iraq or the Iraqi State Oil Marketing Organization, by sending a copy of the contract to the 611 Committee. The application shall include details of the purchase price at fair market value, the export quantity, information required by the Committee. The sale of petroleum and petroleum products shall be covered by contractual documents. A copy of the documents shall be submitted to the Committee. The application shall also include the application for forwarding to the independent inspection company in paragraph 4 of this Annex. The contractual documents shall include the contract, duration of contract, credit and payment terms, pricing mechanism, producer, duration of contract, credit and payment terms, pricing mechanism. The pricing mechanism for petroleum should include loading points, water content, quality, and pricing dates.

2. The contract shall be approved by the 611 Committee. The purchaser's bank with the necessary of use shall that the proceeds of the letter of credit will be paid directly to the beneficiary's account. For this purpose, the following clauses will have to be inserted in each letter of credit:

- "Provided all terms and conditions of the letter of credit are complied with, proceeds of this letter of credit will be irrevocably paid into the beneficiary's account for the beneficiary's account, whereas all charges required shall be borne by the purchaser."
- "All charges related to this letter of credit will be directed by the purchaser's bank to the beneficiary's account. The beneficiary's bank shall confirm the receipt of the proceeds of this letter of credit to the Central Bank of Iraq for the purpose of advising the 611 Committee."

4. The sale of petroleum and petroleum products originating in Iraq will be carried out by independent oil experts appointed by the secretary of the 611 Committee. The sale of petroleum and petroleum products will be carried out by independent inspection agents at the loading points of the oil fields. The 611 Committee will be kept informed of the quantity and quality of petroleum and petroleum products loaded, after they receive the information from the United Nations oil experts that the relevant contract has been approved, and report to the United Nations.

SPECIAL MEMORANDUM

15. The United Nations will receive monthly reports from ECOM on the actual volume and type of petroleum products exported under the relevant sales contracts.

16. The United Nations Secretariat and ECOM shall maintain continuing contact with particular United Nations oil exporters shall meet routinely with ECOM representatives to justify market conditions and oil sales.

17. The Iraq delegation explained during the discussion that the cost of production and transportation of oil is currently estimated at 100 cents per barrel. From the sale price or recovered through the production and export of oil, the Iraq delegation stated that the Iraq Government is currently recovering 100 cents per barrel. In either case the Iraq Government is currently recovering 100 cents per barrel. The Iraq delegation stated that the impact of spare parts and other items necessary for the maintenance of production and transportation operations as it is currently estimated at 100 cents per barrel. The Iraq delegation stated that the cost of spare parts and other items necessary for the maintenance of production and transportation operations would be hindered and eventually come to a halt.

Nevertheless, and in order to facilitate the meeting of the Iraq delegation, the Iraq delegation agreed not to submit its position by the United Nations Secretariat during this stage and to discuss the matter with the United Nations Secretariat in any future discussion.

Although the matter is not discussable, the delegation wishes to state that a third outlet for Iraq petroleum exports could be via the Syrian Arab Republic.

.....
(Name) Ambassador A. Saif Awad
Head of the delegation of Iraq

HA001120

HA001119



ANNEX IV

[PROCEDURE OF THE 661 COMMITTEE]

Security Council



DIAS,
GENERAL
5/1996/634*
12 August 1996
ORIGINAL: ENGLISH

LETTER DATED 8 AUGUST 1996 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT TO THE PRESIDENT OF THE SECURITY COUNCIL

On behalf of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, I have the honour to communicate to you the following:

Pursuant to paragraph 12 of Security Council resolution 661 (1990), the Committee was requested to develop a list of persons and entities who are engaged in activities in support of Iraq's military efforts. The arrangements in paragraphs 1, 2, 4, 9 and 10 of that resolution are intended to inform you that after several weeks of intensive work, the Committee has concluded to be employed by it in the aftermath of its responsibility. A copy of the procedure is attached herewith for the information of the members of the Council.

(Signed) TONO KITZEL
Chairman
Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

* Released for technical reasons.

96-06445 (E) 130894 130896

/...

SECRET

In the light of this report, any document submitted as part of an application to the Committee will be available for consultation by Committee members in the Secretariat.

15. The export of petroleum and petroleum products will be monitored by United Nations Independent Inspection Agents, appointed by the Secretary-General, who will be stationed at the Iraq-Turkey border. Such on-site monitoring will make use of the documents received from the over-seas, direct observation, as well as other means. The Committee will receive the information from the over-seas that the relevant agents have approved, and inform the over-seas immediately to stop the export of petroleum if there is any evidence of irregularity. The over-seas must immediately report any irregularity to the Committee and the Secretary-General.
16. In accordance with paragraph 3 of resolution 661 (1990) and the provisions of resolution 645 (1990) shipments of Iraqi oil and petroleum products to the Iraq-Turkey border (1991) all petroleum products must be to the Secretary-General information when available on the over-seas to the shipping approved oil agents.
17. The Committee will be informed of the results of the independent inspection agents made by the Secretary-General under paragraph 6 of resolution 661 (1990).
18. The independent inspection agents will report monthly to the Committee. When the loading of oil tanks on the over-seas is completed, they shall inform the over-seas on the same day of the completion of the loading with the original approved contract.
19. Payment of the price of each purchase of petroleum and petroleum products shall be made by the over-seas to the account as provided for in paragraph 6 of resolution 661 (1990).
20. One of the Secretary-General's consent to the Committee add to the account, including outflows of the over-seas payments to and from that account.
21. The Committee will be broadly similar to the arrangements described above, and the precise arrangements, consistent with paragraph 6 of resolution 661 (1990), shall be elaborated at a later stage, and shall be subject to the same arrangements.
22. The over-seas will receive monthly reports from UNMOG on the actual volume and type of petroleum and petroleum products exported under the relevant sales contracts.

HA001126

The contract price in this is, in view of all relevant circumstances, in particular that it is consistent with a currently approved pricing mechanism, and competitive given world prices and market trends and taking into consideration the provisions of paragraph 6 of annex II of the Memorandum of Understanding.

10. If the contract and supporting documents reviewed under paragraph 9 above do not exceed the limits established by resolution 661 (1990), including the requirements set out in paragraph 6 of resolution 661 (1990), the Committee will be informed immediately upon rejection of any contract by the over-seas. In circumstances other than rejection for technical reasons, the over-seas will submit a full report to the Committee for appropriate action.
11. Contracts for the sale of petroleum or petroleum products which do not comply with the requirements of paragraph 9 above will be reviewed by the Committee. In addition, the factors in paragraph 9 above will be reviewed by the over-seas and their analysis and recommendations to the Committee. The Committee will be informed immediately upon rejection of any contract by the over-seas. In circumstances other than rejection for technical reasons, the over-seas will submit a full report to the Committee for appropriate action.
12. Once a contract is approved by the Committee, the national oil purchaser shall check the rate of credit consistent with paragraph 9 above to be consistent with the bank holding the Iraq account. The over-seas will immediately review the letter of credit in order to determine whether it complies with the information given in the application.
13. If the letter of credit complies with the information given in the application, the over-seas will be informed by the bank holding the Iraq account which will be consistent with the bank holding the Iraq account. The over-seas will immediately review the letter of credit in order to determine whether it complies with the information given in the application.
14. The over-seas will submit a substantive report to the Committee, in a form to be determined by the Secretary-General, on the actual volume and type of petroleum and petroleum products exported under the relevant sales contracts, including the cumulative quantity and approximate value of petroleum authorized for export, and inform the Secretary-General accordingly. In

HA001125

23. At a meeting the Committee may provide additional guidance to be followed by the contractor.

24. If any Committee member judges the circumstances to be serious enough, that oil contracts established in this section. At an urgent meeting, the Committee will decide, according to its normal procedures, whether to suspend the contract. The Committee will also decide on all contracts which can only be made in accordance with paragraph 11 above.

SECTION II

IMPORT BY TURKEY OF PETROLEUM AND PETROLEUM PRODUCTS ORIGINATING IN IRAQ IN ACCORDANCE WITH RESOLUTION 386 (1985)

25. The Import by Turkey of petroleum and petroleum products originating in Iraq will be undertaken in accordance with the requirements of paragraph 2 of resolution 386 (1985) and the report of the Independent Inspector, as verified as reasonable by the Independent Inspector. The Committee will decide, according to its normal procedures, whether to suspend the contract. The Committee will also decide on all contracts which can only be made in accordance with paragraph 11 above.

SECTION III

REPORT BY IRAQ OF HUMANITARIAN SUPPLIES

26. The Government of Iraq will provide a supervised list of humanitarian supplies which it intends to export to the United Kingdom pursuant to resolution 386 (1985) and the report of the Independent Inspector, as verified as reasonable by the Independent Inspector. The Committee will decide, according to its normal procedures, whether to suspend the contract. The Committee will also decide on all contracts which can only be made in accordance with paragraph 11 above.

27. After approving the supervised list of humanitarian supplies, the Secretary-General will forward the list, which will be a part of the plan, to the Committee, and will make it known to the Government of Iraq.

28. The Government of Iraq or the United Nations Iraq-Agency Humanitarian Programme will enter into a contract directly with suppliers to accept the purchase of humanitarian supplies, and will conduct the appropriate contract.

29. The Government of Iraq will ensure that humanitarian supplies (including medicines, health supplies, foodstuffs, and materials and equipment for essential civilian needs (hereinafter humanitarian supplies)) are not financed from the Iraq account in accordance with the provisions of paragraph 11 above.

30. Applications for each export of humanitarian supplies, to be financed from the Iraq account in accordance with paragraph 11 of the memorandum of the Committee, shall be submitted to the Committee by the Government of Iraq with all relevant documentation, including the invoice and bill of lading, and a copy of the contract.

including the concluded contractual arrangements. Payment from the Iraq account for the supplies included in the categorised list, shall be made by the Committee exceptionally otherwise on a case-by-case basis.

31. The Committee will take action on such applications in accordance with paragraph 20 of resolution 487 (1981), its existing procedures and the provisions of this section. The Committee will also decide on all contracts which can only be made in accordance with paragraph 11 above.

32. Such applications shall be submitted as follows:

- (a) Medicines and Health Supplies
The exporting State informs the Committee that the medicines and health supplies included in the categorised list are intended for export to Iraq. The application must indicate that the medicines and health supplies are intended for export to Iraq, and that the medicines and health supplies are intended for export to Iraq, and that the medicines and health supplies are intended for export to Iraq.
- (b) Foodstuffs
The exporting State informs the Committee that the foodstuffs included in the categorised list are intended for export to Iraq. The application must indicate that the foodstuffs are intended for export to Iraq, and that the foodstuffs are intended for export to Iraq, and that the foodstuffs are intended for export to Iraq.
- (c) Other Materials and Supplies for Essential Civilian Needs
The exporting State informs the Committee that the other materials and supplies included in the categorised list are intended for export to Iraq. The application must indicate that the other materials and supplies are intended for export to Iraq, and that the other materials and supplies are intended for export to Iraq, and that the other materials and supplies are intended for export to Iraq.

33. Reports in accordance with section II, in particular the details of the supervised list, and whether the items to be supported are in the category of humanitarian supplies, shall be submitted to the Committee in accordance with the provisions of paragraph 11 above.

34. The Committee will, upon the findings of the experts as set forth below, decide whether to suspend the contract.

not found in order, the Committee informs the parties concerned that payment cannot be made from the Iraq account, but the medicines and health supplies can be shipped anyway if the exporter so desires.

(b) Foodstuffs

If the Committee finds, under the specified objection procedure with two business days from the circulation of the application, that the contract is in order, it immediately informs the parties concerned that payment can be made from the Iraq account, but the foodstuffs can be shipped anyway if the exporter so desires.

(c) Other Materials and Supplies for Essential Civilian Needs
If the Committee approves the supplier, under its objection procedure, it informs the parties concerned that the contract is in order, but the Committee approves the contract only if its objection procedure, it informs the parties concerned that payment cannot be made from the Iraq account, but the medicines and health supplies can be shipped anyway if the exporter so desires.

35. When the Committee has informed the parties concerned that the exporter is eligible for payment from the Iraq account, the Central Bank of Iraq will transfer the amount of the payment to the supplier's bank for the payment of (transfer) of the purchase of the humanitarian supplies to the supplier, which is payable only at the bank holding the Iraq account, and payment from the Iraq account. Both requests must be made on the same day. The letter of credit will regularize as condition of payment to the supplier's bank on the day of the receipt of the invoice. The letter stating that the exporter is eligible for payment from the Iraq account and a standardized confirmation by the Secretary-General of the humanitarian supplies in Iraq.

The arrival of the humanitarian supplies in Iraq will be confirmed by the Committee. The Committee will inform the parties concerned of the location in Iraq as referred to in paragraph 28 of the Memorandum of Understanding. The Committee will inform the parties concerned of the date of the arrival of the supplies and will inform the Secretary-General in a copy of the invoice, and will inform the Secretary-General in

accordance with paragraph 9 (a) (iii) of Security Council resolution 661 (1990). The inspection agents will report all irregularities to the Secretary-General and to the Committee. If the problem is related to normal commercial practice, the Committee and the inspection agents will not be opened. Payments in favour of the purchaser resulting from normal commercial resolution practices shall be made to the bank holding the Iraq account. The Committee will hold the shipment in question, pending guidelines in the most expeditious manner.

37. The bank holding the Iraq account shall effect payment under the credit only if all documents listed in this section and on the attached such letter of credit are completed with the specific details of the contract and the supporting documents, payment can be made from the Iraq account only if advised by the Secretary-General.

38. The provisions of this section are without prejudice to the application of the existing procedures of the Committee for cases which are not supplied pursuant to resolution 986 (1995).

SECTION IV
FINANCIAL ADMINISTRATION CHARGES

39. The report to Iraq of the financial administration charges for the undertaken in accordance with the procedures set out in section III of the present procedures shall be approved by the Committee. The Committee will verify that the charges are approved by the United Nations personnel in Iraq to verify that the charges are approved for the purpose permitted.

40. In accordance with paragraph 10 of resolution 986 (1995), until proceeds from the Iraq account are available, the Committee and the Secretary-General, on a case-by-case basis, the Committee will issue letters of credit for the purchase of parts and equipment by letters of credit to ensure that the Committee will seek, if necessary, the provisions of paragraph 25 above shall apply.

ANNEX I
STANDARD APPLICATION FORM TO REQUEST APPROVAL OF CONTRACTS
FOR SALE OF IRQI PETROLEUM AND/OR PETROLEUM PRODUCTS

The attached contract with the Iraqi State Oil Marketing Organisation (SOMO) must be approved in accordance with paragraph 1 (d) of Security Council resolution 395 (1985) and the procedures of the Security Council Committee established pursuant to paragraph 4 of the same resolution. The application must be accompanied by the following information:

Information about the purchaser

- Name of purchasing entity;
- Place of registration;
- Address;
- Contact person;
- Telephone;
- Telex;
- Teletex;

Quantity of crude petroleum and/or petroleum products;

- Pricing formula and/or unit price;
- Date(s) of loading;
- Name of vessel;
- Destination (if available);
- Payment terms; and
- Irrevocable letter of credit, etc.)

Signature
Name of signatory
Title

HA001132

SECTION V

Approval of irrevocable contracts, other than those referred to in paragraph 41.

Pursuant to paragraph 8 (f) of resolution 395 (1985), the Committee can approve, under its objection procedure, the financing from the Iraq Government of the purchase of crude petroleum and/or petroleum products and petroleum products permitted under paragraph 1 of resolution 395 (1985) if the financing is approved by the Committee. In accordance with paragraph 9 of resolution 395 (1985), the Committee may, if necessary, request the Government of Iraq to provide information necessary for its decision.

42. Requests for meeting the expenses referred to in the paragraph above will be submitted by the Government of Iraq together with the necessary documentation, and will be approved on a case-by-case basis. If necessary, the Committee may request the Government of Iraq to provide information necessary for its decision.

SECTION VI

GENERAL PROVISIONS

43. The Secretariat will arrange for the implementation of the appropriate communication links to permit direct communication among the necessary parties to the contract. The Secretariat will also coordinate the work of the coordinator of the multinational inspection teams operating in the area under resolution 661 (1990), as well as with the Central Bank of Iraq and SOG.

44. The Secretary-General reports regularly to the Committee on the details of the implementation of paragraph 9 of resolution 395 (1985).

45. Letters of credit issued in these procedures should conform with the Uniform Customs and Practice for Documentary Credit.

46. The Committee will amend or revise the present procedures, if necessary, in the light of future developments.

HA001131

Annex II

Information to be included in the letter of credit

1. As provided for in paragraph 2 of Annex II of the Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq, the letter of credit shall be issued on 20 May 1994. The following clauses will have to be included in each credit:

" Provided all terms and conditions of this letter of credit are complied with, proceeds of this letter of credit will be approvedly paid into the 'Iraq account' with Bank."

" All charges within Iraq are for the beneficiary's account, whereas all charges outside Iraq are to be borne by the issuing bank."

Other information to be included:

- name of the petroleum or petroleum product
- forecast quantity of petroleum or petroleum product
- date of loading
- unit price
- forecast amount of the invoice

ANNEX V

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 No. PD/CON/324/93 between the United Nations and Citecna Inspection S.A., is solely for the purpose of carrying out my official duties and I accept the conditions of special risk. In consideration of my being permitted to travel on such means of transport, I hereby:

(a) Assume all risks and liabilities during such travel; and
(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 during such travel;

(c) Agree, for myself as well as 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.

Nothing in or relating to this release shall be deemed a waiver, express or implied, of any of the privileges and immunities of the United Nations, including its subsidiary organs.

Passenger

Date

Nothing herein or raised hereon shall be deemed a waiver or an agreement to waive any of the privileges or immunities of the United Nations.

Signed on

Signed on

on behalf of

on behalf of

by

by

In the capacity of

In the presence of

In the capacity of

In the presence of

SPERMEN

Mr. SHAYS. Let me start with the counsel to ask some questions, and then I will have some questions.

Mr. HALLORAN. Mr. Smith, in describing the factors that you said led the United Nations to select BNP as the provider of banking services, you said an established commercial trade operation in Europe. Did that include facilities for processing letters of credit of the kind that the program generated?

Mr. SMITH. The program in itself was unique. I don't think that any bank had facilities established to process the type of business that was created by the program itself. However, BNP had an existing trade finance operation which dealt with the issue of letters of credit in New York City.

Mr. SHAYS. Could you just explain what made it unique?

Mr. SMITH. Potentially the size of the program, which was obviously a little bit unclear at the start of the actual program, but especially the additional controls that were included. The confirmations of arrival are unique. As far as I am aware, they are not used anywhere else as far as letters of credit are concerned.

Normally a supplier of goods under a letter of credit would be paid as soon as they presented all of the required documents under the letter of credit, which is usually at the point they ship the goods. Under this program, no payment is possible until the goods have actually arrived in Iraq and been inspected and confirmed to be in accordance with the contract.

Mr. HALLORAN. So that complicated the process both in terms of paper and time?

Mr. SMITH. It complicated the process. It gave us an additional amount of paper that we needed to check against the shipping documents and the letter of credit.

Mr. HALLORAN. In that line of business with your client, the United Nations, when does the Bank get paid, based on what triggering event?

Mr. SMITH. The Bank basically gets paid for the issuance of the letter of credit. There are some associated fees relating to pure payments, to SWIFT messages, etc. But the actual fees charged under the program really related to the issuance of the letters of credit.

Mr. HALLORAN. The Oil-for-Food Program was run in phases designated by the Office of the Iraqi Program?

Mr. SMITH. It was run in 6-month phases, yes.

Mr. HALLORAN. Were there negotiations with the Iraqi Government and other entities from phase to phase as the program matured, and how did that change the Bank's operating?

Mr. SMITH. As far as the Bank was concerned, the banking service agreement was basically extended by the United Nations at each stage during the process. To the best of my knowledge, during the course of a series of extensions over what eventually were 13 phases of the program, there were some changes made to the way the business was conducted.

Mr. HALLORAN. As the processing or the flow of business changed, what kind of capacity did the Bank have to discern trends or novelties in the business? For example, it has been suggested about phase 8, when Saddam got a little more sophisticated about oil vouchers as opposed to directly selling to end users, that the roster of those being paid would have changed both in quality and

quantity, new people and a new number of people. Would that have been discernible by the Bank and would it have put a red light on the border anywhere for any reason?

Mr. SMITH. There was certainly an increase in the volume and the complexity of the business that the Bank was handling around about phase 8. As far as red flags are concerned, I would come back to my statement in that the United Nations was the Bank's customer. The United Nations was approving all of the counterparties on both the oil and the humanitarian contracts. In addition to that, I would remind you that all of this business was screened for OFAC purposes and reviewed against the various OFAC listings.

Mr. HALLORAN. With those safeguards in place, the Bank felt confident that its business was being done according to the rules. But what can go wrong with a letter of credit? What would have sent a bell or red light off in a letter-of-credit transaction?

Mr. SMITH. Most of the immediate thoughts that come to mind regarding that question are purely from an operational point of view in how we check documents, etc., which would not really be caused under the program.

Mr. HALLORAN. If the recipient of the shipment said this is not the quality or quantity of oil I ordered, and there is a rejection, the letter of credit is not claimed upon.

Mr. SMITH. The letter of credit is a written undertaking that a payment will be made on the presentation of documents that are specified within that letter of credit. So a letter of credit is constructed so that the buyer of the goods ensures that they have the necessary documents to give them the comfort that the goods are of the quality they want, of the quantity they want, and will be delivered in a timely manner.

So, for instance, on the oil that was being lifted from Iraq, one of the documents that would need to be presented for payment would be a chemical analysis of the goods or the oil to prove it was of a specific quality. In addition, bills of lading confirming the shipment and the quantity of the shipment would also be presented, so the protection is in the documents which the Bank is dealing with.

Mr. HALLORAN. In the course of these transactions, did BNP have occasion to be in contact with the Central Bank of Iraq?

Mr. SMITH. The Bank received the initial requests to issue letters of credit under the humanitarian program from the Central Bank of Iraq. Once those requests were received, they were referred to the United Nations, and the United Nations would give the approval to issue those letters of credit or not.

As far as the inspection of the documents before payment is concerned, there would be no contact with the Central Bank of Iraq. The Bank would review those documents, check those documents in the same way that it would under any other commercial transaction, albeit with the additional documents and controls that are included in this program, and make a determination whether a payment should be made. If the Bank was comfortable that the documents were in order and a payment should be made, then we would approach the U.N. telling them that we had good documents and we were proposing to make a payment. They would confirm that payment.

Mr. HALLORAN. The Central Bank of Iraq had no say as to who or how much got paid?

Mr. SMITH. That's correct. Once the letter of credit is issued, it governs the conditions of payment. As long as the correct documents are presented, payment should follow.

Mr. HALLORAN. Thank you.

Mr. Pruniaux, describe a little more, if you could, the distinction that is being made in your testimony between authentication and inspection. Our perception from both your testimony, and other documents, is that it was a process that compared paper to paper, sometimes it did not matter what was in the truck behind you, and if the documents said the truck should contain 50 barrels of something, your obligation was fulfilled and you never got to look in the truck; is that correct?

Mr. PRUNIAUX. Authentication is really matching documents. You know that we were present at four sites. The fifth one was opened in 2002, but it never really operated. It was at the border between Iraq and Saudi Arabia. The documents were ordered by U.N. OIP—New York in such a way it provided very detailed information on the goods which had been approved and for which the letters of approval had been issued. So the suppliers would send the goods, the shipments, to Iraq, and we would know beforehand that the goods were going to arrive through the secure transmission of documents coming from the U.N. OIP addressed to each individual site. No one—let me phrase it differently.

The information provided to a certain site was not available to the other sites to keep confidentiality. For instance, at Trebil where we had most of the traffic, the trucks would arrive with containers, and they had to stop. The supplier's and the transporter's duty was to come to us and tell us, this is the shipment so-and-so, these are the references, these are all of the documents; and we would look at all these documents and see that they matched the information we had received from U.N. OIP.

Mr. HALLORAN. When they did not match?

Mr. PRUNIAUX. There were three major reasons. Maybe the letter of approval had expired because it took more time for the goods to arrive in Iraq to be presented at the border. Sometimes—and very often the sites are changed, especially between Turkey—goods landed in Turkey or Jordan. Very often there was substitution in sites. Sometimes the documents were incomplete. That was mostly the case in Umm Qasr. So we would block in the sense that we would not authenticate, but we had no authority and no power to prevent the truck from crossing the border and entering into Iraq. The only thing, nobody would be paid because we had not authenticated. In such a case we would refer these problems to the U.N. OIP and it was up to U.N. OIP to discuss with the supplier and find the reason or maybe extend the validity of the approval.

Mr. SHAYS. Did you know what the outcome was when you would disclose these transactions had taken place? Do you know how they were resolved? Or once they were passed on to the U.N. authorities, it kind of left your hands?

Mr. PRUNIAUX. No, I would not know. We would get information from U.N. OIP, yes, the approval has been extended, it was acceptable that the site be changed and the supplier was requested to

provide the missing documents. On that basis, on that very specific information, requests from U.N. OIP Cotecna would authenticate by electronic mail—that was in 2002, but before that it was faxed and signed by the team leader on each site and it was sent to U.N. OIP so the payment of the supplier could be processed.

Mr. HALLORAN. In your testimony you say the Iraqi ministries complained continuously that the authentication process favored the supplier, often claiming they had received substandard goods or delivery shortfalls. Iraq frequently exerted firm pressure on Cotecna to withhold or retract authentication. OIP directed Cotecna to refer all such matters to the U.N. What does that mean?

Mr. PRUNIAUX. To the U.N. Security Council.

Mr. HALLORAN. Where did that get you?

Mr. PRUNIAUX. Maybe I misunderstood.

Mr. SHAYS. His question is what happened then? What was achieved by doing that?

Mr. PRUNIAUX. The Iraqi authorities in Umm Qasr, that is the place they put us under pressure. The Iraqi authorities would complain that we were authenticating goods which were sub-quality. We would not get involved in those discussions, as long as food-stuffs were fit for human consumption. Now, the fact that the Iraqis considered goods were substandard or were not exactly what they had ordered was a matter of commercial dispute between the supplier and the receiver. In fact, being in the business, in the profession, we always told everyone that it is normal practice in this kind of business, in commercial transactions, to appoint an independent inspection company to verify that the goods which are being purchased matched the contract, the detailed contract specifications, and that was told by the U.N. OIP to the Iraqi authorities to implement these kinds of procedures.

Mr. HALLORAN. But they chose not to?

Mr. PRUNIAUX. They did that occasionally. I would like to mention, for instance, that one of the things that Cotecna was forbidden, we were forbidden from acting as a commercial inspection company providing our services to, of course, the Iraqi receivers and, of course, the suppliers. So there would be no conflict of interest between the independent inspection authentication that we were providing to the U.N. OIP and the commercial disputes between a receiver and the supplier.

Mr. HALLORAN. That was a provision in your contract with the U.N.?

Mr. PRUNIAUX. Yes.

Mr. HALLORAN. Your testimony also says that one of the challenges you faced in executing this contract was that you had to navigate Cotecna's delicate web of contacts with U.N.'s Office of Humanitarian Coordinator for Iraq. Could you amplify on that? There are other references in testimony that particular office was a problem in terms of executing this program.

Mr. PRUNIAUX. I would not say it was a problem. It was a delicate, diplomatic way of having to coordinate on a daily basis in Iraq because we had from 54 to 67 inspectors living and traveling and eating and sleeping in Iraq. You have to realize also, to get into Iraq you need a visa to enter the territory, and the visas were pro-

vided only at the Embassy of Iraq in Amman, in Jordan, and if for some reason the visa was not granted, the inspectors would be stranded and cannot reach their sites. The only way to get some support to clear visas or get transportation authorization to travel in Iraq, you needed a very specific authorization, and that was provided by the Iraqi authorities. The Iraqi authorities for all of these problems of logistics and transportation was handled by the Office of the Humanitarian Coordinator in UNOHCI in Baghdad.

Also and more importantly, a lot of complaints came from the Iraqis, unjustified and justified, on the behavior of certain of our inspectors on things which could have happened on some of the sites which have been reported to the Iraqi officials, and also complaints on the performance of Cotecna, especially in Umm Qasr where we were put under extreme pressure to shorten some of the delays that they were experiencing.

In such case I have to be frank. UNOHCI was adopting a rather friendly attitude toward the requests from the Iraqi authorities; and this is what I mean, "problem" is maybe not the right word, but rather a "delicate."

Mr. HALLORAN. Right. Sounds like a problem to me.

You also say that you had to deal with direct pressure from the Iraqis. What kind of pressure? There is some e-mail traffic describing pressure to move things through and not be so careful about things. Where did that pressure come from?

Mr. PRUNIAUX. From Iraqi officials. We have an example which I presented in the documents you have received where it was in 1999 there was a minister of I think of Kuwait, who came with armored guards to our site in Umm Qasr and told us that we would not be authorized to authenticate unless the goods had already been accepted in terms of quality by the Baghdad laboratories. As we brought in various correspondence which appear in the documents, the inspectors were very shaken on the ground. So we issued a formal complaint that came to my attention in Geneva, and I told the U.N. OIP-New York. But there was pressure of these kinds of things.

Mr. HALLORAN. What would have been the problem of Baghdad checking off on the acceptance of goods?

Mr. PRUNIAUX. They would have blocked all authentication.

Mr. HALLORAN. Until they got paid first?

Mr. PRUNIAUX. Yes, and create a bottleneck so someone would have to pay to get the goods cleared by financial gains to the Iraqi officials.

Mr. HALLORAN. After the Minister of Trade shows up with 20 or more armed guards and intimidates your crew, how was that demand resolved?

Mr. PRUNIAUX. Diplomatically or politically I cannot respond. I can say technically that problem was solved because that did not occur again. However, as I said before, there was constant pressure, especially in Umm Qasr, on Cotecna to authenticate, in a speedy or in a slow way, so the Iraqi officials could exercise some pressure on the suppliers.

Mr. HALLORAN. Thank you.

Mr. Boks, there was an allegation in the Wall Street Journal 2 days ago that in the course of one oil transaction a Saybolt em-

ployee had been bribed to allow a topping-off of the ship. The company's response was that it had been investigated before. Do you have anything more to say about that?

Mr. BOKS. We have investigated that incident at the time we learned of the incident which was in October 2001. At that time we conducted a thorough investigation. We went through the whole process. We looked at off-loadings. We interviewed the team leader. We virtually took all of the events and circumstances and we submitted that report of the investigation to the United Nations with a briefing also to the 661 committee.

What we have now learned from the article in the Wall Street Journal actually is for us a new allegation. We had no knowledge of that before it was published. You can rest assured that we will investigate this further. We will get to the bottom of it. Actually, as a matter of fact, our board has already instructed our general counsel to get a team of lawyers to investigate this to the bottom.

Mr. HALLORAN. If you can supply the subcommittee with whatever product your investigation produces, that would be helpful.

Mr. BOKS. Sure. We will share this with the investigating commission.

Mr. HALLORAN. The incident of the Essex, which was detained and found to have oil loaded in excess of the Oil-for-Food Program contract, what changes were made in the Saybolt inspection process and the U.N. inspection process as a result of that? What confidence do you have that it was effective in preventing the practice of topping off?

Mr. BOKS. That evening I heard we took immediate actions for temporary reasons to have an inspector sitting 24 hours, 7 days a week, on board a vessel if it was alongside the terminal. Given the staff levels, that was not something that we could continue, so we implemented new instructions in terms of sealing the ship's manifold after the loading had been completed and the loading arms were disconnected. These seals would have unique numbers and would be also inserted on the notification letter. The notification letter was a letter which we put on board with the U.N.-authorized quantity loaded on board that specific vessel, actually a procedure that only was implemented earlier in 2001.

In addition to that, we would check the seals prior to departure of a vessel because a vessel would not always depart immediately after it completed its loadings. So before departing, we would check the integrity of the seals. If not, we would then remeasure the vessel.

Other instruction was we would look at the draft of the vessel after its completed loading. Draft is, I would say the surface of the water and the keel of the vessel. Maximum draft is, say, 21 meters, so if a vessel would load with less than that, we would take reference of that and also check it prior to departure.

Basically we would also look at potential vessels that would still have space after it had loaded its U.N.-authorized volume. So if that were the case, special attention would be required. Those new instructions have been adopted by the 661 committee at some stage.

Mr. HALLORAN. The calibration of the measuring methods you describe in your testimony, of the 2,600 loadings, of those, how

many were validated by you based on less than the type of methods you would have preferred?

Mr. BOKS. You mean did we ever?

Mr. HALLORAN. In your testimony you said you would prefer to have the calibration and use other indirect methods to determine the amount of oil.

Mr. BOKS. The consideration is as follows. When we first came to Iraq and we did our fact-finding mission, we came to the conclusion there were no properly calibrated metering facilities in place. Actually the border station in Zakho did not have a metering station so the Iraqis had to cannibalize on the Syrian pipeline and build it there within a couple of weeks.

Generally speaking, the metering equipment has never, during the whole of the Oil-for-Food Program, become on a level which would be able to be used for fiscalisation purposes. So all 2,600 loadings have been done by utilizing the methods that I have described in my statement.

Mr. HALLORAN. In your experience, what is the potential margin of error?

Mr. BOKS. That is a very good question. Actually what we did was we made a total comparison of all of the volumes we lifted from Turkey. In Turkey we had a cross-check possibility of measuring prior to loading and after loading, and then the volume could be calculated, derived from those two measurements. And we did also the ship, applying the vessel experience factor, and of the 1.3 billion barrels which were loaded from that port, actually we found a surplus even; a small surplus of 0.04 percent, which would lead us to believe that method was applied very accurately, and, I would say, very professionally.

Mina Al-Bakr was a different story because we could not cross-check. We did not have any ability. We only could rely on the ship's figures by applying the vessel experience factor. I could not give any estimate as to the accuracy of those figures. Although I would have to say that the percentages would be probably around maximum 2 percent.

Mr. HALLORAN. Two percent, OK.

Finally, for all three of you, what kind of oversight did you get on this contract with the U.N. from the U.N.? Were you subject to an audit or an inquiry by the Office of Internal Oversight at the United Nations, and if so, how often and what was the outcome?

Mr. SMITH. The Bank provided daily statements of the U.N. Iraq account to the United Nations. They also had copies of all of the letters of credit that we were issuing and the amendments that were made to those letters of credit and details of the payments.

From that, I understand that there were internal audits within the U.N. based on that information. As far as I am aware, there was never a physical audit of the Bank or the Bank's premises in our conducting of the business.

Mr. HALLORAN. But certainly the Bank, through perhaps other regulatory channels, had lines of business audited that crossed Oil-for-Food transactions?

Mr. SMITH. The Bank in itself had internal audits and external audits which included the trade finance area that provided the sup-

port to the United Nations. Sorry, my answer was the United Nations.

Mr. HALLORAN. Thank you.

Mr. Boks.

Mr. BOKS. In terms of audits, from what I know, the U.N. has audited us three times in total. At least I have seen three times the report; or let me say in two instances we only got a requirement to answer a few questions which basically were for us very easy to answer.

In one instance there was done a full audit report of which, let us say, there were quite a few comments and we had to go through them and answer them point by point, which we obviously did.

Mr. HALLORAN. Thank you.

Mr. PRUNIAUX. Because of the nature of our activities, we had almost 24-hour coordination with the U.N. OIP-New York, and U.N. OIP would call directly the sites to discuss technical or management matters on the sites. However, we were audited several times, maybe every 3 to 6 months. One of the senior customs officers from the U.N. OIP would go and visit the sites, with or without the Cotecna contract manager. We had an organization where we had a contract manager based in Amman and one working in Geneva working with me. We would go with them or without them. As a consequence, we would have meetings, regular meetings in New York every 3 months, and meetings also with the team leaders in Baghdad or Amman. That was an ongoing exercise that we conducted several times.

Mr. HALLORAN. Thank you.

Mr. SHAYS. I have a number of questions that I would like to go through. I don't think that they will take us long to answer. Some of them simply may not be relevant in the end, but since they are on my mind I want to ask and get them out of my brain if they were not relevant.

Why were transactions carried out in euros instead of dollars?

Mr. SMITH. A decision was made part way through the program to change the pricing and the settlement of the oil sales from U.S. dollars to euros. That decision was made by the Security Council of the United Nations.

Mr. SHAYS. So it was the Security Council and not Saddam Hussein?

Mr. SMITH. The decision was made by the Security Council, sir.

Mr. SHAYS. What sort of challenges, if any, did this present?

Mr. SMITH. In banking terms, the additional challenges were minimal. Whatever currency we are dealing with, whether it is U.S. dollars or Euro's the process is basically the same. The physical payment process is slightly different. But again, it is a well-established process.

Mr. SHAYS. And the charge that your Bank would make would be the standard charge made on every transaction?

Mr. SMITH. Yes. Pricing was agreed based on the transactions that were being undertaken on behalf of the United Nations.

Mr. SHAYS. I am told the bank did not begin an internal investigation for the Oil-for-Food Program and allegations of the corruption began to emerge in 2001. One, is that true; and two, why not?

Mr. SMITH. The Bank undertakes regular reviews of the program. If your question relates to the rumors and the stories relating to overpricing—

Mr. SHAYS. They were rumors that turned out to be true.

Mr. SMITH. Right. From what the Bank could see from the details they had from the information that it had, from the letters of credit and the documents that were presented, there was no evidence that we could see that substantiated anything that was happening. We were dealing with documents presented under a letter of credit which determined what the amount of the payment was, and the payment was basically made to the beneficiary or their bankers. Anything that happened outside of the letter of credit arrangement, obviously, we had no knowledge of at all.

Mr. SHAYS. So your company was not really in the field, this was more papers crossed your desk?

Mr. SMITH. We were dealing solely with paperwork, and we were dealing with it in Manhattan, in New York City.

Mr. SHAYS. The bottom line is when there were rumors that ultimately turned out to be true, your bank pretty much decided that there was not sufficient knowledge to have you conduct your own internal investigation?

Mr. SMITH. We would certainly from an operational point of view look at whatever rumors were going around. Indeed, quite often we would discuss them at what were reasonably frequent operational communication meetings with the U.N. treasury, so I am aware that the U.N. was also aware of those rumors. At the end of the day, it was the Security Council that were sanctioning the various transactions.

Mr. SHAYS. Did you have a sense, or lack thereof, of Saybolt and Cotecna's ability to verify transactions?

Mr. SMITH. We were obviously not on the ground in Iraq, so we did not see their operations at all. We were being provided with certificates that were required under the letters of credit. As far as the Cotecna certificates were concerned, they came to us directly from the United Nations, they did not come through any direct route. Again, the Saybolt inspections, all of the documentation for the payment of an LC relating to an oil shipment were presented to us by the United Nations.

Mr. SHAYS. Mr. Boks, do you have any reaction, or did you have any reaction to the description in the Amman newspaper that said there was a Netherland company of SyBolt, S-Y, and then capital B-O-L-T, as receiving \$3 million in oil? Did that get your attention?

Mr. BOKS. Sure. We looked at that. We were puzzled that our name appeared on that list because we had not received any allocation. That also would have been very unusual. I can say Saybolt did not buy or sell oil or vouchers.

Mr. SHAYS. Being one in that list of 269, it would make us have to question some of the others on that list. In the Essex incident which was the illegal topping-off of oil, how were the Iraqis punished or censured for this obvious illegality?

Mr. BOKS. I'm sorry, I can't answer that question because that is beyond our mandate.

Mr. SHAYS. So you don't know?

Mr. BOKS. I don't know.

Mr. SHAYS. Your mandate, you basically reported the incident?

Mr. BOKS. Well, what happened is a letter was sent by the captain of that vessel with corresponding documents to the United Nations clearly stipulating what happened during the event, and actually said this all happened after the U.N. inspectors left the vessel, after they had completed.

Mr. SHAYS. How did you respond?

Mr. BOKS. When we received that letter, we took immediate action. We changed immediately the working procedures and introduced the seals.

Mr. SHAYS. Could you describe the Clovely incident?

Mr. BOKS. The Clovely incident was of a different magnitude. This vessel was nominated to load in February 2002, and when it arrived alongside the terminal, it was very close to the expiration of the letter of credit.

Mr. SHAYS. I have no sense how long a letter of credit lasts.

Mr. BOKS. It was just a matter of days.

Mr. SHAYS. Letters of credit give you a window of how much?

Mr. SMITH. It depends on the individual letter of credit. Normally the oil letters of credit—and they varied—but normally it would be a period of 4 to 6 weeks.

Mr. SHAYS. Thank you.

Mr. BOKS.

Mr. BOKS. When the vessel arrived, we noticed, because we kept track and record of the expiration date of each individual letter of credit so we would make sure that the completion of the vessel would fall into that window; otherwise there would be problems by, I would say, drawing on the letter of credit to get payment for the oil lifting.

So what we did was basically we instructed our team leader to notify SOMO of this event, and that loading would not be started until we had received from the U.N. oil overseers a revised date or window for the letter of credit.

That took obviously some time, and irrespective of that, the loading master or the Iraqi people on the platform decided still irrespective of that problem to start loading the vessel. And luckily we were able to get the letter of credit arranged prior to the departure of the vessel. But on itself it was clearly, I would say, an abuse.

Mr. SHAYS. This is for both Saybolt and Cotecna. How did the various U.N. offices that you work with coordinate their assistance and responses to your needs?

Mr. PRUNIAUX. I'm sorry?

Mr. SHAYS. Both of you have complained about confusion within the United Nations, sometimes a lack of cooperation from the U.N. Both of you have said that. I want to know how the various U.N. offices that you worked with coordinated their interaction with you. Let me ask you this way: How many different parts of the U.N. did you need to interact with?

Mr. PRUNIAUX. On a daily basis and for technical matters, operational matters, it was only the U.N. OIP. However, when you negotiate a contract, or if you want to modify the content of the contracts—

Mr. SHAYS. You're talking about your own contract?

Mr. PRUNIAUX. Yes. You have to deal with a completely different department or entities at the U.N. One of them is the Procurement Department, and, in fact, since I negotiated and I signed two contracts and several amendments, all the technical work was done with U.N. OIP. But all the rest, the negotiations on the financial conditions, that was done with the Procurement Department, and sometimes there was a lack of coordination between the two departments, which made it difficult for a company like Cotecna to fully and properly negotiate. And on top of that there was the Office of Legal Affairs.

Mr. SHAYS. What affairs?

Mr. PRUNIAUX. Office of Legal Affairs.

Mr. SHAYS. Legal Affairs.

Mr. PRUNIAUX. Yes, which was a very powerful department which included several very tough conditions, administrative contractual conditions, in our contracts. So, in fact, to operate under a contract, we had to work with U.N. OIP, but to implement the contract, we had to deal with three separate entities. That was in New York.

Mr. SHAYS. Yes. Would that describe the same challenge for you, Mr. Boks?

Mr. BOKS. To a certain extent I underlined that we had similar problems with procurement. If our contract was up for renewal, you have—basically when they would not continue it, obviously you would need to have that information prior to the expiration of the contract. But sometimes the amendment was coming after the expiration date, which gave sometimes some problems with insurers, because obviously in Iraq, if you want to ensure yourself, then you need to make sure that there were reasons to be there in a certain country.

With OIP I must say I haven't had any major difficulties other than that we have issues where we asked advice after irregularities were noted, and it took sometimes quite some time. The other contact points we had was with the U.N. overseers, with whom we basically on a daily basis had contact concerning the oil export, and here and there obviously delays were observed, but not to the extent that it was an unworkable situation.

Mr. SHAYS. Both of you lacked power, and you lacked personnel. In other words, there are just certain things you couldn't tell the Iraqis to do. Did you try to get power, and did you have your contracts revised so that you could hire more people to do the job you needed to do? Mr. Boks.

Mr. BOKS. Shall I start? The staffing levels, the staffing levels in the oil program have to a certain extent always been sufficient. Where we faced major difficulties was in monitoring the spare parts and equipment, which were also purchased under the Oil-for-Food Program. When we started, we started with one inspector, very modest, because spare parts were ordered but came.

Mr. SHAYS. You're talking about parts for the oil industry itself.

Mr. BOKS. Yes. Perhaps I should elaborate a bit on that.

In 1998, the Secretary General had been to Iraq, and a proposal was made to change the cap of dollars that could be generated through a phase would be going up to five—

Mr. SHAYS. Greater production.

Mr. BOKS. Exactly. So at the same time, the oil prices were very low, and production was very low, so Iraq was not able to come up to those proceeds and to come up to that cap. And then the Secretary General appointed a group of experts to go to Iraq and, in consultation with the Government of Iraq, try to find ways of increasing production. We were that group of experts. And one of the conclusions as the industry was in an amendable state is that spare parts were needed and equipment was needed to bring the production up to the levels required. And for that purpose, the Security Council decided that they would allow Iraq to purchase spare parts and equipment, as long as there was a monitoring system that would keep track that those spare parts would also be used for their intended purpose.

Mr. SHAYS. And so that's the area where you could have used more people.

Mr. BOKS. Absolutely.

Mr. SHAYS. And did you request more people?

Mr. BOKS. Yes. That was on an ongoing basis because we were facing also difficulties in terms of the fact that the Government of Iraq insisted that our staff would be deployed only in Baghdad, and that we had to travel throughout the country to check all those sites, and we only had, let's say, at the top level, six, seven people.

Mr. SHAYS. So the bottom line is you couldn't do the job properly with the staff you had.

Mr. BOKS. Well, we had to prioritize.

Mr. SHAYS. OK. Did this mean that you then had to take people from one part of your program to put it in the other part, spare parts? Did you have to kind of cannibalize your program?

Mr. BOKS. Given the constraints in traveling, we have used mainly in the beginning some staff from Zakho to do in the northern part of Iraq also some checks on spare parts and equipment for a very short period of time, because his traveling was difficult as we were staying in a Kurdish area, so it was difficult to travel around.

Mr. SHAYS. Let me ask you, Mr. Pruniaux, the whole issue of the lack of power, which you have described, and the lack of personnel, were both of these a serious problem at various times or not?

Mr. PRUNIAUX. Mr. Chairman, respectfully, it was not really a question of having more power. The specifications of our mandate were clear enough for the authentication. There was no need to get further—in my opinion, further power, physical power, to implement and to do the work that we are doing on the sites.

Mr. SHAYS. Yes, sir.

Mr. PRUNIAUX. However, sometimes because of the fluctuations in the volume of goods entering Iraq, or the fact that it was that the transporters were moving from one site to the other, made the work at certain sites more difficult, because all of a sudden we would have almost thousands of trucks arriving at Trebil, which was the border between Jordan and Iraq, or—and especially Umm Qasr, we would have an accumulation of ships and loading and containers being stored in the port. In such a case we would immediately try to ask the U.N. OIP permission to move staff between sites.

In that sense we did not have the power to move at our own will an inspector from one site to the other. The contract specified that we were requested to put a certain number of permanent inspectors on a daily basis per site, let's say 12 in Trebil. So if you want to move that and do that, you are in contradiction with the obligations of the contract. So we had to ask permission. And to move an inspector from one place to the other in Iraq could take a couple of days, so we would rush people to Umm Qasr because there was an accumulation of volume in Umm Qasr.

I must say that in order to have between 54 and 67 permanent inspectors in Iraq, Cotecna had to hire up to 95 permanent inspectors because of the rotation and those that are sick or going on vacation and so on. And this would be illustrated by the statistics that are available at U.N. We had more, always more mandates of inspectors especially in places like Umm Qasr. For instance, we were requested to have between 17 and 22 permanent inspectors in Umm Qasr, but we would have always 25, 26 all paid by Cotecna.

Mr. SHAYS. So sometimes you simply didn't have enough people.

Mr. PRUNIAUX. Yes.

Mr. SHAYS. But was the solution to get more, and did you request more, and did the U.N. say no or yes?

Mr. PRUNIAUX. It was a question of the decisions and convincing the U.N. OIP that it was not to increase our invoice, but we were generally asking for more inspectors on the sites.

Mr. SHAYS. The bottom line is you don't have to worry about the U.N. making money off of this. I mean, their 3 percent, I'm assuming, helped pay your costs; is that right? Does anyone know? In other words, who paid you?

Mr. PRUNIAUX. The U.N.

Mr. SHAYS. And they took a fee for—

Mr. PRUNIAUX. From the 2.2 percent.

Mr. SHAYS. Right. There is nothing that we have seen so far that makes us think that they didn't cover their cost plus; in other words, they made money off of this.

Would you say the U.N. sided more with your side when there was a dispute with the Iraqis or the Iraqis? Did they tend to dismiss—and I am asking both of you this. This isn't a trick question. At the end of the day, did you often feel that you lost more arguments with the United Nations, they just more or less sided with the Iraqis, or did they more or less side with you? I am asking both of you. Do you understand the question?

Mr. BOKS. Would you ask it—

Mr. SHAYS. In other words, when you had a dispute with some transaction, and you contacted the U.N. officials with some disappointment, did they tend more to dismiss it and just say, you know, don't worry about it, or did they take your complaint very seriously and try to deal with it?

Mr. PRUNIAUX. As far as Cotecna is concerned, they took it very seriously, very seriously, because they had the permanent missions to the U.N. from all the countries exporting to Iraq and back, plus they had the suppliers coming there and so on. And there was until 2002 until there was—

Mr. SHAYS. Well, taking it seriously means they paid attention to. It doesn't mean they took your position though. I mean, in other words, they realized they had something they had to deal with, so they dealt with it seriously. I don't want to put words in your mouth. Did they basically say you all were right, and they were wrong, and what was your feeling?

Mr. PRUNIAUX. Ultimately somebody had to make a decision, and they told us to do the job with the number of people that you have, and that's it. So we tried to work under these conditions.

Mr. SHAYS. Mr. Boks.

Mr. BOKS. And in terms of disputes, the U.N. would take it serious if—we have hardly had any disputes, but we have had loadings where the off-takers were dissatisfied for one or another reason. And I must say that OIP did try to come to a solution; not always, I would say, in a quick way, but at the end of the day, they always tried to solve and to assist.

Mr. SHAYS. The number that is thrown out in these two sides of the equation, the Oil-for-Food Program suspected that Saddam basically took out \$4.4 billion, and the smuggling, which we looked at the numbers being more like \$5.7 billion. Did your inspectors ever identify or observe any smuggling?

Mr. BOKS. Although we had not the authority to look for smuggling, and we also have to realize that our inspectors were at very remote locations, we have—

Mr. SHAYS. In other words, there were a lot of sites were you not at?

Mr. BOKS. Absolutely. More than that we were. But we have—

Mr. SHAYS. There were more sites that you weren't at than you were at.

Mr. BOKS. Absolutely.

Mr. SHAYS. OK. Is that true for you, Mr. Pruniaux, as well?

Mr. PRUNIAUX. Well, we operated on the four or five sites. As I explained before, we were told that the goods were presented to us. But there was a permanent flow of goods entering into Iraq which had nothing do with the Oil-for-Food Program. And I visited Iraq several times, Mr. Chairman, and it could be—it was easy to see that, you know, visiting Baghdad there was plenty of goods which shouldn't have been on the open market.

Mr. SHAYS. OK. So in observing smuggling, if you saw it, did you report it, or did you figure that wasn't your responsibility?

Mr. BOKS. Well, basically I can say that we have had instances that I felt that we had to report it, and I realized that was outside our mandate, but still felt that it had to be brought to the attention.

Mr. SHAYS. Right. Mr. Pruniaux, tell me the response to that question.

Mr. PRUNIAUX. When you see goods entering Iraq outside of the Oil-for-Food Program, you do not know if these are the 661 goods or if these are smuggled. These were entirely left to the authority of the Iraqi Customs to check these goods entering Iraq. No, we would not report, because we did not know what kind of goods these were.

Mr. SHAYS. What I see the difference is that in the Oil-for-Food Program, the oil part of the transaction, it seems to me, is a little

easier to have policed. But if a ship came up and loaded up, that was something that you would simply step in. I mean, you weren't going to allow that kind of smuggling, correct?

Mr. BOKS. Well, it wasn't always ships, but at some states we also—

Mr. SHAYS. It could be a truck.

Mr. BOKS. We learned obviously there was traffic to Jordan, although that was more or less of an acceptable phenomena, and we have reported in our fact-finding missions that volumes were estimated at 80,000 barrels a day. But we also have seen the fact that had been used in early 2003, and we reported that to both the Multilateral Interception Force as well as the United Nations.

Mr. SHAYS. So there would be some ships, though, that you would not have inspected, correct?

Mr. BOKS. Sure. But if they were loaded at a different terminal, we would not have staff available to do that.

Mr. SHAYS. I mean, you know, that's kind of significant, how many terminals were you at versus how many terminals exist.

Mr. BOKS. Well, you had not only terminals. We have to make a distinction here. You have the pipeline to Syria. You have trucks to Turkey, trucks to Jordan. You had vessels in the Arabian Gulf, which were loaded at the Shatt al-Arab, which basically—and then we had also a terminal 10 kilometers north of Mina Al-Bakr called Khor al-Amaya. Those were, I would say, the points that activity has been observed, not by us, but by others.

Mr. SHAYS. Why didn't Cotecna operate inspectionsites in neighboring countries as Saybolt did? Let me say it again. Saybolt had inspectionsites in neighboring countries; is that correct, Mr. Boks?

Mr. BOKS. We had one inspectionsite in Turkey.

Mr. SHAYS. Right. And why were you in Turkey?

Mr. BOKS. Well, as a matter of fact, Iraq had from the beginning onwards two export points. One in the south we talked about. But the crude oil which was produced in the north was transshipped through the Iraq-Turkey pipeline to Ceyhan. And in Ceyhan there was a terminal, there is a terminal where that crude oil is stored and loaded subsequently in vessels which then proceed through the Mediterranean.

Mr. SHAYS. Now, why wouldn't you have been in Syria then? If you were in Turkey, why wouldn't you have been in Syria?

Mr. BOKS. Well, that's an interesting question. I can't answer that. That is not up to me. It's beyond—

Mr. SHAYS. No. I understand it's not up to you, but the same logic that would apply that you should be in Turkey would apply, correct, that you should be in Syria as well, correct?

Mr. BOKS. Correct. We discussed that also at some states with OIP, that whether there could be coming a mandate to inspect also the Syrian part. But it was obviously up to the Security Council.

Mr. SHAYS. And their response was?

Mr. BOKS. Well, again, that there was no mandate. Obviously Iraq has subsequently said that they were testing the pipeline.

Mr. SHAYS. Well, I mean, that's absurd. I mean, what we are basically saying is that there was a very viable pipeline through Syria, very viable pipeline through Turkey. We were inspecting the pipeline through Turkey, and we were not inspecting the pipeline

through Syria. And I just would like to have a sense of why. They had to give you some answer.

Mr. BOKS. It is an interesting subject. But having said that, if we would not have the authority, we couldn't do it, and the authority had to come from the Council.

Mr. SHAYS. Let me just say this to you. You're cleared of all responsibility, so you can relax. But what you're doing is you're educating the subcommittee. I want to know what they would have said. I mean, it is a rather porous system that would—I mean, I have wondered how the smuggling could happen, and I didn't realize that we made it so easy. You must have had just general conversations with U.N. officials. Did they give you a logical reason as to why we wouldn't want you also to be in Syria?

Mr. BOKS. What I heard is that it has been discussed also merely during meetings of the 661 committee, and there was no agreement reached as to how to proceed on that.

Mr. SHAYS. An agreement required a unanimous consent. It's kind of like the Senate in Washington, which doesn't give me any comfort.

We're almost done here, gentlemen. And thank you very much.

How often, Mr. Pruniaux, did goods avoid or ignore the authentication or inspection process? How often did you actually inspect goods? I get the feeling, given your mandate, given your personnel, that when ships lined up, when trucks lined up, you were more inspecting the paperwork than actually opening up the containers.

Mr. PRUNIAUX. Yes. It mattered to match the documents and to authenticate. There are two things in your question.

Mr. SHAYS. No, that is your mandate. The mandate was to match the papers, not verify that was what was in the container verified the papers.

Mr. PRUNIAUX. It was left to our appreciation as a professional inspection company to inspect, which means to open, for instance, the containers, or to open the trucks, talking of the land border sites. Now, in such a case, normal practice is about 2 percent, sometimes 5, 6 percent, 5, 6 percent. What we did was on an average basis was about 10 percent of the number of trucks or containers being presented to us were opened, and I have provided some pictures to illustrate this.

Mr. SHAYS. But candidly, when there was the queuing up and a backlog, there was more pressure on you.

Mr. PRUNIAUX. Then the trucks would wait. No.

Mr. SHAYS. The trucks would wait.

Mr. PRUNIAUX. No. The trucks would wait. The drivers are educated. I mean, patience is a virtue in the Middle East, and they would just wait at the border.

Mr. SHAYS. Patience is a virtue. So can I infer from that when there was pressure to—a backlog, that did not impact your—quality of the work.

Mr. PRUNIAUX. No.

Mr. SHAYS. Well, here's the general feeling I get from your testimony, and I want you to tell me whether you agree or disagree. Mr. Smith, I get the sense that BNP basically believed—and I'm not passing judgment on this, I'm just saying what I believe—that

your responsibility was to check documents. You were basically Iraq's bank selected by the United Nations, correct?

Mr. SMITH. We were the U.N.'s bank, in our opinion, maintaining an account for the United Nations, which was styled the Iraq account.

Mr. SHAYS. OK. And I'm happy you're correcting me. You were the U.N.'s bank for Iraq, for Iraqi transactions.

Mr. SMITH. That's right.

Mr. SHAYS. Dollars came in from the sale of oil, and dollars flowed out for the purchase of commodities, and that your responsibility was to make sure that—and you were giving letters of credit to make sure that this would all happen. But ultimately, your responsibility was to make sure that the paperwork matched. Is that a fair assessment of what I've heard you say?

Mr. SMITH. Our responsibility was to ensure that all of the paperwork was in accordance with the letters of credit before we made any payments.

The one additional point I would add in there, that not all of the funds that were received for the sale of the oil were retained at BNP Paribas. A minimum of 41 percent, as I explained in my opening statement, was transferred away to another bank, the U.N.'s main bank, Chase Manhattan, because BNP Paribas was only involved in the part of the humanitarian program that affected the central and southern provinces of Iraq.

Mr. SHAYS. Oh, the Kurdish area was not.

Mr. SMITH. The Kurdish area was within the funds that we moved to Chase Manhattan.

Mr. SHAYS. OK. As long as your paperwork matched, then the transactions took place.

Mr. SMITH. Yes. Basically we were making payment against the letter of credits that we had issued on the U.N.'s behalf.

Mr. SHAYS. OK. And with you, Mr. Boks, and you, Mr. Pruniaux, what I sense is a different challenge. With you, Mr. Pruniaux, you had lots of different commodities to check. You had ports, plus you four transaction points there. You were inspecting trucks, you were inspecting ships, but you were primarily processing paper. You weren't taking a good look at every—you were not able to verify whether or not the paperwork matched what was actually potentially in a ship or in a truck; is that correct?

Mr. PRUNIAUX. We were able to do that. Sometimes, as I mentioned before, there were pressures because of the volumes or for outside reasons, like the Iraqis trying to put pressure on us. But, no, we had IT technicians. The operations that we carried was a combination of physical inspections, as I said, 10 percent or systematic sampling of foodstuffs.

Mr. SHAYS. It was sampling of the cargo. It was a sample of it.

Mr. PRUNIAUX. Of the food basket only, and for which we had to do 100 percent laboratory analysis. But it was a combination, as I said, of physical inspections, matching documents, and receiving and keying data and processing these data on these documents and sending them to New York. So the sites were busy 24 hours per day.

Mr. SHAYS. But your testimony before the subcommittee was you didn't have enough people to do your job.

Mr. PRUNIAUX. On a case-by-case basis, not on a permanent basis. And that was especially, as I mentioned in my testimony—it was specially hard in 2001. And as a request there was an increase, I believe, when we were operating in Umm Qasr at—when there was this peak at the end of 2002, 2001, at the beginning of 2001, we had the total of 62—no, 57 permanent inspectors. And that was the following contract which was won again by us covered additional five inspectors for Umm Qasr.

Mr. SHAYS. In both cases, neither of you were at all the sites that you needed to be in order to see all transactions, which enabled smuggling to take place.

Mr. PRUNIAUX. That was not our duty.

Mr. SHAYS. I'm not saying it's your duty. I'm just saying that you were not at all the potential sites of transaction, either for oil or for commodities; is that correct?

Mr. PRUNIAUX. All the 986, all the Oil-for-Food transactions across the border, and we all authenticated them.

Mr. SHAYS. What's that?

Mr. PRUNIAUX. All transactions under the Oil-for-Food Program crossed the border. Those which crossed the border and we authenticated them.

Mr. SHAYS. Right.

Mr. PRUNIAUX. There was nothing else for us to do but just to look for the—

Mr. SHAYS. You only looked for the Oil-for-Food transactions.

Mr. PRUNIAUX. Yes. Absolutely.

Mr. SHAYS. All the other transactions you did not look at.

Mr. PRUNIAUX. No. We did not know.

Mr. SHAYS. And that's the case with you, Mr. Boks?

Mr. BOKS. That's correct. We were at the authorized export points, and, yes, that was about it.

Mr. SHAYS. I'm sorry to keep you a little longer, but I just need to ask you this one other area. When he undersold his oil, did you have any responsibilities to deal with that issue? In other words, were there questions raised when he would sell oil for below market price because the U.N. approved it, that was good enough? In other words, I mean, any thinking person would wonder why would he undersell for oil. Did that raise questions in your mind? He undersold his oil. He sold it for a price below market.

Mr. BOKS. Well, obviously we didn't have anything to do with the transfers of money. Pricing was not—

Mr. SHAYS. A factor. You just looked at buying. When he offered to pay for commodities, you didn't look at pricing either.

Mr. PRUNIAUX. No, not at all.

Mr. SHAYS. OK. Let me conclude by asking you, each of you, which is the weakness of the program? What was the greatest weakness of the program? Tell me, each of you, what you think the greatest weakness in the program from your perspective? I will start with you, Mr. Smith. If you were designing the program, what would you have designed differently to make sure there weren't the rip-offs that we know took place?

Mr. SMITH. As I said in my opening statement, from a banking perspective, I think the structure was right. From the program as

a whole, more control was required over the procurement process and the pricing process.

Mr. SHAYS. Mr. Boks.

Mr. BOKS. Yes. That is something I can't comment on, but I would say that the unauthorized export points, Syria came on line obviously in a much later stage than the inception of the program. But I think that is obviously a shame that it happened.

Mr. SHAYS. Thank you.

Mr. Pruniaux.

Mr. PRUNIAUX. Well, Cotecna has contracts worldwide for the control of borders and especially provide services to the Customs of various countries in the world. When I say provide, it means really sometimes we replace the Customs or we control the Customs.

Now, the Oil-for-Food Program and the authentication was something totally different, as I mentioned at the very beginning. If a comprehensive program had been designed even for the Oil-for-Food Program, it should have covered or it could have covered the various sectors of a complete control of imports, which is the price verification, the quality, quantity and so on. But that was not written. That was not requested in our mandate.

Mr. SHAYS. You all have been extraordinarily patient, and I think you have changed your schedules, and you have had to stay later than even I thought would happen. And you have been very cooperative with us. You have tried to be, I think, extraordinarily helpful, which is a credit to all three of you and to your companies, and I thank you for that.

Is there anything that you want to put on the record before we adjourn? Anything that you think needs to be on the record before we adjourn?

Gentlemen, thank you very much. This hearing is adjourned.

[Whereupon, at 4:45 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]



[PRINT WINDOW](#) [CLOSE WINDOW](#)

THE REAL WORLD

What's 'Illegal'?

Kofi Annan helped Saddam Hussein steal food from babies.

BY CLAUDIA ROSETT

Wednesday, September 22, 2004 12:01 a.m.

When U.N. Secretary-General Kofi Annan opined last week to the BBC that the U.S.-led overthrow of Saddam Hussein had been "illegal," two words came instantly to my mind: baby food.

No, I'm not comparing Mr. Annan's thoughts to pabulum. He is a smart man, adept enough that even in his BBC moment of condemning the U.S. (perhaps mindful that the U.S. is the U.N.'s chief financial backer) he took the trouble to blur responsibility for his own words, amending his use of "I" to the royal "we." Said Mr. Annan: "From our point of view, from the charter point of view, it was illegal."

It's unclear exactly whose collective view Mr. Annan thinks he was authorized to express, or under what terms in the U.N. charter he casts himself on some occasions as the hapless servant of the Security Council, and at other times, such as this, as the outspoken chief judge of world law.

But if Mr. Annan wants to discuss right and wrong in Iraq, which seems to be the real issue, then it is time to talk about baby formula. Why? Because Mr. Annan's preferred means of dealing with Saddam was a mix of U.N. sanctions and the U.N. relief program called Oil-for-Food. And the heart and soul of Oil-for-Food was supposed to be the feeding of sick and hungry Iraqi babies--including the purchase by Saddam, under U.N. auspices, of large amounts of baby formula. When Oil-for-Food was launched in 1996, it was advertised by the U.N. as a response to such horrors as pictures of starving Iraqi children and alarming statistics about infant mortality in Iraq, released by one of the U.N.'s own agencies, Unicef.

It was in service of that U.N. mix of sanctions and humanitarian relief that Mr. Annan after visiting with Saddam in Iraq in 1998 returned to New York to report: "I think I can do business with him."

And oh what a lot of business the U.N. did. Mr. Annan's Secretariat collected more than \$1.4 billion in commissions on Saddam's oil sales, all to supervise the integrity of Saddam's \$65 billion in oil sales and \$46 billion in relief purchases. The official aim of this behemoth U.N. aid operation was solely to help the people of Iraq, while the U.N. waited for sanctions to weaken Saddam enough so he would be either overthrown from within or forced to comply with U.N. resolutions on disarmament. Instead, Saddam threw out the U.N. weapons inspectors for four years, and, by estimates of the U.S. General Accounting Office, fortified his own regime with at least \$10.1 billion grafted and smuggled out of Oil-for-Food.

But of all the abuses of Oil-for-Food committed by Saddam--and not only allowed but in effect

<http://www.opinionjournal.com/forms/printThis.html?id=110005652>

10/5/2004

approved and covered up by Mr. Annan's U.N.--the most cynical has to have been the trade in baby formula. This was one of Saddam's imports that few even among the U.N.'s critics dared question. Who could be so heartless as to object to food for hungry children? And given the secrecy with which Mr. Annan ran Oil-for-Food (as hapless servant of a Security Council packed with big-time business partners of Saddam, such as France and Russia), no one outside the U.N. except Saddam and his handpicked contractors knew much in any event about Baghdad's traffic in baby formula.

The U.N. insisted that the identities of Saddam's contractors and the terms of his deals remain confidential. Even today, though the names have leaked, many of the vital details of these contracts (such as quantity and quality of goods) remain smothered in the continuing secrecy imposed by the U.N.-authorized investigation into Oil-for-Food, led by former Fed chairman Paul Volcker. And Mr. Volcker, apparently focused mainly on bribery allegations involving officials of the U.N. itself, may never get around to such broader but also important matters as Oil-for-Baby-Food.

But since Saddam's fall, a few windows have opened through which one can glimpse Saddam's U.N.-approved trade in nursery nutrition. Chief among them is a pricing study carried out by the U.S. Defense Department's contract auditing agencies last year, shortly after Saddam's overthrow. Lest anyone suspect the Pentagon of bias, it would of course be handy to draw on other studies as well. But there are none. Mr. Annan's Secretariat, while swimming in cash from its 2.2% commission on Saddam's oil sales, never got around to systematically examining Saddam's contract prices. That was a notable omission, given that Saddam's scam on relief contracts was one of the oldest and simplest in the book: overpaying for goods, using relief funds meant for the Iraqi public; then collecting part of those overpayments in the form of kickbacks.

And when it came to overpricing, which any veteran aid worker should surely recognize as a flashing red sign of probable graft, one of the most roundly abused categories under Oil-for-Food appears to have been the original rationale for the program: food itself.

The Pentagon pricing study looked at a sample of 759 big-ticket Oil-for-Food contracts still awaiting full delivery when Saddam fell--a snapshot of the program in its final years. Among those were 178 contracts for food. Of these almost 90% were overpriced by an average of about 22%-- more than twice the 10% figure often quoted as Saddam's standard kickback. In this sample, totaling \$2.1 billion in U.N.-approved grocery shipping by Saddam, the potential rake-off totaled \$390 million.

And within that Oil-for-Food sample shopping spree, the baby formula deals were estimated to be even more egregiously overpriced than the average contract for most other staples. Compared to the hundreds of baby food and milk contracts in the overall program (many of those with France and Russia) the Pentagon sample was small. The study looked at four baby formula contracts, two originating in Egypt, one in Tunisia and one in Vietnam--totaling \$43 million (which in any normal relief program might actually rank not as a small sample, but as a lot of money). But it seems telling that every single one of those four baby-formula contracts appeared "potentially overpriced" by about 26%, for a total of \$11 million in potential overpayments. On the biggest of these sample contracts, a \$26 million deal between Saddam and a Vietnamese dairy company--approved by the U.N. in October 2002, in the thick of the U.N. debate over going to war to remove Saddam--the estimated overpricing of 26% worked out to well over \$5 million on that contract alone.

Translation: In late 2002, while Mr. Annan was lobbying against U.S.-led removal of Saddam, he was running a U.N. program in which money meant for baby formula, among other goods, was very likely flowing into the pockets of Saddam and his sons and cronies.

Somehow, that was the kind of problem that Mr. Annan's office managed to miss, although

according to a November 2002 statement to the Security Council by Oil-for-Food director Benon Sevan, U.N. staff in Iraq had by then made 1,187,487 total "observation visits" to ensure the integrity of Oil-for-Food. More than one million of those observation visits were devoted to checking on food and nutrition (and all of them were paid for out of the U.N. Secretariat's 2.2% oil sales commissions from Saddam).

In the same November 2002 statement, Mr. Sevan reported that "acute malnutrition" was still rampant among young children in Iraq. Mr. Sevan explained that although malnutrition had been halved since Oil-for-Food began (all this was based on Saddam's statistics), it was still double the rate of 1991--a situation Mr. Sevan himself described as "far from satisfactory." But the solution prescribed by Mr. Annan was not to spot and stop the kickbacks. Rather, while lamenting what he described in Nov. 2002 as the "dire funding shortfall" of Oil-for-Food, Mr. Annan's solution again and again was to urge more oil sales by Saddam. Which meant, most likely, more resources earmarked to feed babies but diverted to the Baghdad regime (and, by extension, more commissions for the U.N.).

It would be interesting for someone with full access to the contract details -- meaning, I suppose, the UN's own investigation into itself -- to total the scores of Oil-for-Food contracts for baby formula, weaning cereal, milk and so on (much of it bought from Security Council member nations Russia and France), and employ some pricing experts to fill in the rest of the numbers.

But what we know already is that Mr. Annan, whose Secretariat turned a blind eye to Saddam's food pricing scams, has never apologized for presiding over the biggest fraud in the history of relief. He has not used the word "illegal." The closest he's come has been to admit this past March, after much stonewalling, that there may have been quite a lot of "wrong-doing"--before turning over the whole mess over to a U.N. investigation that has since smothered all details with its own blanket of secrecy.

Mr. Annan is due to step down next year. If he wants to leave a legacy more auspicious than having presided over Oil-for-Fraud, he might want to devote his twilight time at the U.N. to mending a system in which a U.N. Secretary-General feels free to describe the overthrow of a murderous tyrant as "illegal," but no one at the top seems particularly bothered to have presided over that tyrant's theft of food from hungry children.
Ms. Rosett is a fellow at the Foundation for the Defense of Democracies and the Hudson Institute. Her column appears here and in The Wall Street Journal Europe on alternate Wednesdays.

Copyright © 2004 Dow Jones & Company, Inc. All Rights Reserved.

[PRINT WINDOW](#) [CLOSE WINDOW](#)

