

Opening Statement
Senator Richard G. Lugar
Senate Committee on Foreign Relations
Oil-for-Food: An Examination
April 7, 2004

The Senate Foreign Relations Committee meets today to examine the United Nations Oil-for-Food Program. Although the precise extent of the corruption and mismanagement in this program is not yet known, there is no doubt that billions of dollars that should have been spent on humanitarian needs in Iraq were siphoned off by Saddam Hussein's regime through a system of surcharges, bribes, and kickbacks. This corruption was not solely a product of Saddam Hussein's machinations. He required members of the U.N. Security Council who were willing to be complicit in his activities, and he required U.N. officials and contractors who were dishonest, inattentive, or willing to make damaging compromises in pursuit of a compassionate mission.

The costs of this corruption were multifaceted, and they may continue to be felt for years. First, although the Oil-for-Food Program delivered food, medicine, and other essentials to millions of people, countless Iraqis may have died or suffered because billions of dollars were diverted from the humanitarian effort.

Second, Saddam Hussein used the proceeds of the corruption to prop up his regime and his army. The Coalition forces that invaded Iraq faced a better equipped Iraqi military than they otherwise would have faced had the corruption not occurred. According to the new head of the Iraq Survey Group, Charles Duelfer, these funds were the "primary source" for Saddam's efforts to procure military goods and expertise. A portion of these illicit funds may still be accessible to Saddam loyalists who are financing terrorism against Coalition forces and Iraqi citizens.

Third, the corruption in the Oil-for-Food Program almost certainly contributed to the international division over containing and ultimately ousting Saddam Hussein. By exacerbating the humanitarian problem in Iraq, the corruption weakened the international consensus for containment. Even more disturbing is the prospect that governments or individual officials may have opposed the Coalition's decision to use military force against Saddam Hussein in part because an overthrow of the regime would expose ongoing corruption in the Oil-for-Food Program. Even if we assume that such calculations were not a part of any government's deliberative process, we must acknowledge that corruption on this scale carries with it the potential to skew international decision-making.

Finally, the damage to U.N. credibility from corruption in the Oil-for-Food Program is harmful to U.S. foreign policy and to efforts aimed at coordinating a stronger global response to terrorism. Whatever influence and capabilities that the United Nations possesses come from the credibility associated with countries acting together in a well-established forum with well-established rules. Profiteering, mismanagement, and

bureaucratic stonewalling squander this precious resource. At a time when the United States is appealing for greater international help in Iraq, Afghanistan, and in trouble spots around the world, a diminishment of U.N. credibility reduces U.S. options and increases our own burdens. If the United Nations cannot be trusted to run a humanitarian program, its other activities, including peacekeeping, arms inspection regimes, or development projects may be called into question. The U.N.'s ability to organize burden sharing and take over missions best handled by the international community is critical to the long-term success of U.S. foreign policy. As such, the United States must insist on a full investigation of the Oil-for-Food Program and work with the U.N. to prevent corruption on future projects.

The U.N. initiated the Oil-for-Food Program for understandable reasons. The world community felt a humanitarian responsibility to prevent the deaths of innocent Iraqis, who, in essence, were being held hostage by the criminal intransigence of the Iraqi regime. The United States embraced this program in the 1990s not only because of altruistic impulses, but also because, without it, our policy of containing Iraq through sanctions may not have been sustainable within the international community. To provide humanitarian relief, the Security Council voted to allow Iraq to sell a portion of its domestically-produced oil and use the receipts to buy food and medicine. The Security Council made the decision to have the receipts from oil sales deposited with the U.N., and have the U.N. oversee the Iraqi government's purchase of food and medicine. The process was to be managed by the U.N.'s Iraq Sanctions Committee – known as the “661 Committee” after the Security Council Resolution that created it.

Few American or international officials went into this program with the view that Saddam Hussein could be trusted. Any rational observer should have admitted that the leader of a brutal regime who had invaded his neighbors, used weapons of mass destruction, undercut U.N. resolutions, and routinely lied to the international community would try to game the system. Yet, despite this reality, the U.N.'s mechanisms for controlling Oil-for-Food contracts were inadequate, transparency went by the wayside, and effective internal review of the program did not occur. The U.N. allowed Saddam to select not only the suppliers of food and medicine, but also the buyers of Iraqi oil. Such an arrangement was a recipe for disaster. The General Accounting Office estimated that Saddam skimmed some \$4.4 billion from transactions involving both sales and purchases. The GAO also estimated that an additional \$5.7 billion worth of oil was smuggled out of Iraq -- separate from the oil sold through the Oil-for-Food Program. Much of it apparently was transferred through Syria and Turkey.

The American people, who have borne much of the burden in offering the people of Iraq a better future, need answers to some key questions:

- * Why didn't the U.N. Committee set up to oversee the Oil-for-Food Program discover such egregious irregularities?
- * Who were Iraq's business partners and to what degree did they facilitate and profit from the corruption?
- * Was there complicity on the part of the United Nations staff?
- * How much did individual governments know?

* Did individual countries actively aid Saddam – either because they disagreed with the sanctions policy or because they saw a money-making opportunity?

These charges must be fully investigated. Secretary General Kofi Annan's recent announcement that he will undertake a high-level investigation is welcome. But the Secretary General and his staff must understand that the credibility of this investigation will be suspect without diligent efforts to ensure its independence and effectiveness. He must appoint individuals of the highest caliber, internationally recognized for their ability and integrity. The U.N.'s Office of Inspection and Oversight Services' is conducting its own investigation into the possible culpability of U.N. personnel. The executive branch of the U.S. government also should undertake its own investigation. We now have access to records in Iraq, and we have a long and highly developed expertise in contract oversight.

Today, the Foreign Relations Committee commences its contribution to the examination of the Oil-for-Food Program. We welcome Ambassador John Negroponte, the U.S. Permanent Representative to the United Nations. Joining him on our first panel are Ambassador Patrick Kennedy, the U.S. Representative for U.N. Management and Reform; Ambassador Robin Raphel, the Coordinator of the Department of State's Office of Iraq Reconstruction; and Dr. Kim Holmes, Assistant Secretary of State for International Organizations. On our second panel we will hear from Joseph Christoff, the Director of International Affairs and Trade at the General Accounting Office, and Michael Thibault, the Deputy Director of the Defense Contract Audit Agency. They will discuss in greater detail their examination of the process and methodology by which Saddam skimmed billions of dollars from the Oil-for-Food Program.

We thank our witnesses for joining us, and we look forward to their insights.

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