

**Statement by
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U.S. Department of State,
on the UN Oil-For-Food Program
for the Senate Foreign Relations Committee
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Mr. Chairman and distinguished members of the Committee,

Thank you for the opportunity to appear before you today to share my experience with the UN Oil For Food (OFF) program in Baghdad. I was the Coalition Provisional Authority's (CPA) Senior Advisor to the Ministry of Trade (MoT) in Baghdad from April through mid-August last year.

The Ministry of Trade was responsible for Iraq's Public Distribution System (PDS), a system developed after the first Gulf War, essentially to ration the scarcity of basic goods resulting from international sanctions and ensure that all Iraqis had a minimum amount of food to eat. After the OFF program was established in 1995 under Security Council Resolution 986 and implemented in 1996, the PDS system was supplied largely by commodities procured under OFF. The PDS system was based on a computerized database maintained by the Ministry of Trade that was designed to list every family in Iraq. Each family had a ration card that they would use to pick up their rations each month from one of the roughly 45,000 food agents based in neighborhood shops. The food agents collected these commodities from a series of Trade Ministry warehouses distributed throughout the governorates. A fleet of Trade Ministry trucks moved the commodities from the ports of entry to these warehouses.

It was estimated that before the 2003 war, roughly 60 percent of the Iraqi population was totally dependent upon the ration basket. Others would use it to supplement other food sources or to pass on to poorer relatives. In any case, most Iraqis considered their rations a basic entitlement. At least 90 percent of Iraqis picked up their rations each month. Maintaining the ration system was important to the sense of stability and continuity the Coalition was trying to provide in the immediate aftermath of hostilities. While the

MoT ran the PDS, the UN's World Food Program (WFP) was responsible for monitoring the arrival and distribution of OFF food shipments to ensure they were fairly distributed and not diverted.

By the time the coalition arrived in Baghdad, the UN had been authorized by the Security Council initially under UNSC Resolution 986, and modified under UNSC Resolution 1472 (and later extended under UNSC Resolution 1476), to oversee the procurement of new foodstuffs and medicines on behalf of the government of Iraq, a function previously managed by the individual Iraqi ministries. These ministries could no longer enter into new contracts under the program. UN agencies were also authorized to decide which existing contracts for food and medicine should be prioritized and implemented.

The WFP began an Emergency Operation on April 1, 2003, issuing a multilateral appeal to donors, and managing the logistics of delivering this food to warehouses in Iraq. At the same time, WFP was given responsibility for implementing OFF food contracts and managing the movement of this food into Iraq. Under these combined operations, the WFP delivered over two million tons of food between April 1 and the end of the Emergency Operation in October 2003. It was the largest amount of food aid ever delivered in a single WFP program over such a short a period of time.

In January 2004, the CPA, Iraqi Ministry of Trade, and WFP agreed that WFP would procure and transport to Iraqi warehouses more than \$900 million in food items for the PDS using Iraqi money from the Development Fund for Iraq (DFI). This was necessary to help ensure that food pipeline gaps were filled and a buffer stock began to be built. The MoT is now poised to take over all future procurement for the PDS.

During the period before the passage of UNSC Resolution 1483 on May 22, 2003 which provided for the termination of the OFF program and the transition of any remaining activities to CPA, my colleagues and I concentrated on other matters such as reconstituting Ministry of Trade leadership, providing emergency salary payments, determining the status of warehouses and silos--many of which had been looted--and planning for security for these facilities, repairing ministry facilities, sorting out relationships between Baghdad and MoT offices in the governorates which were under new management since senior Ba'athists officials had disappeared, developing a budget, and purchasing the local wheat crop.

Once UNSC resolution 1483 had given the Secretary General the authority to prioritize contracts, in accordance with the needs of the Iraqi people, in coordination with the CPA and the Interim Iraqi administration, the UN Office of Iraq Programs (OIP) staff came to Iraq to work out the procedures for this prioritization process. A tripartite process was agreed to under which the relevant UN agency, the CPA ministry advisor, and Iraqi ministry officials would jointly decide which contracts were of “relative utility.”

By June 2003, we had learned from Iraqi officials that many of the ministries had both records that documented and personnel with detailed knowledge of the “kickback” system under Saddam Hussein’s regime, under which many suppliers had agreed to inflated prices and to pay a certain percentage of the inflated contract value into foreign bank accounts of regime officials. While the CPA was determined to avoid perpetuating any corruption related to these contracts wherever possible, the UN and CPA believed the Iraqis were best placed to determine what OFF goods they needed to rebuild their country – including its oil, electrical, and public works infrastructure. Many of the contracts they selected included “kickbacks.” It was agreed that the best way to deal with these “kickbacks” in the prioritized contracts was for the responsible UN agency to negotiate the removal of the “kickback.”

In early June 2003 the CPA began to work with the UN agencies and Iraqi ministries on the OFF contracts. This work was managed by the “OFF Team” in the CPA Ministry of Trade, and coordinated with OIP and the UN Office of the Humanitarian Coordinator for Iraq (UNOHCI). The general procedures governing the process are described below.

Eligible contracts were those that had been approved and funded by OIP prior to April 14, 2003 when OIP declared a pause in processing of contracts because of concerns about future oil revenues. This comprised roughly 5,000 contracts worth over \$8 billion. (An additional \$1 billion worth of funded contracts had already been prioritized for emergency distribution by UN relief agencies under UNSC Resolution 1472.) Contracts which had been registered with OIP but not approved, or which had not yet been funded, were generally not considered eligible at that time. [Note: A few unfunded contracts for very urgent items such as food, emergency vehicles and fertilizer were later prioritized.] CPA also took the decision

that it would not agree to the prioritization of contracts from entities about which there were outstanding questions concerning their relationship to the former regime. Action on contracts not considered eligible, or on contracts determined to be of questionable utility, was to be postponed until an internationally recognized, representative government of Iraq was in a position to make its own determination as to whether such contracts should be fulfilled.

By late June 2003, the tripartite review process began to gather momentum. Officials from the relevant Iraqi ministry, the CPA ministry advisors and the relevant UN agency sat together to examine the contracts in order to determine relative utility. This ensured that the historical knowledge of the Iraqis would be captured in the process, and that the UN and CPA would be a party to all decisions. The key criterion was whether the particular goods were needed to meet the humanitarian and reconstruction needs of the Iraqi people. The supplier's ability to deliver on a timely basis, and overall reasonableness of price were also considered. Each contract was assigned a priority of one through four, with one being the most urgent, and four indicating that a contract was of no relative utility.

Each ministry was responsible for identifying the amount of any extra fee or "kickback" associated with the contract. We were told that the regime first began to insist on "kickbacks" beginning with phase 8 of OFF in June 2000. Therefore, in our review of contracts, the blanket instruction was that, in the absence of specific information, the level of the fee was 10 percent of the contract value for all contracts in and after Phase 8. In some cases ministries had more specific information as to the exact level of the fee, or that there was no fee assessed.

Weekly meetings of these tripartite groups were established (many ministries met more frequently), with progress reported at a separate weekly meeting co-chaired by UNOHCI and CPA. These meetings continued from July 2003 until the UN bombing on August 19, 2003, after which all UN staff vacated Baghdad. After the bombing, CPA and Iraqi ministries continued the prioritization with deferred UN agency input via email or telephone, though some ministries made periodic trips to Amman, Jordan, to meet with their UN counterparts to obtain their direct input into the process.

Once the tripartite review was complete, a schedule of contracts signed by the appropriate Iraqi ministry official was submitted to the OFF

Team for final CPA review. Once the OFF team had determined that each contract had been assigned a priority, the percentage “kickback” fee to be removed, and the delivery date and delivery location, the list of contracts was signed off by the appropriate CPA ministry Senior Advisor. This information was then faxed and emailed to UNOHCI, who would countersign the document and send it to OIP.

Once OIP received the document, they would notify suppliers by posting those contracts deemed to have relative utility on the OIP website. OIP would also send the contract information to the appropriate UN agency, with instructions to renegotiate the following terms: delivery costs, delivery location and removal of any “extra fees.” These renegotiations were presided over by the UN agencies and did not involve the Iraqis or the CPA ministries. We were told by UNOHCI officials that in their dealings with suppliers, UN agencies made no formal reference to allegations of corruption or improprieties, and did not refer to the extra fees as “kickbacks”. UNOHCI and OIP believed this was the best way to handle this matter so as not to prejudice any possible legal action in the future.

There were approximately 300 cases in which suppliers refused to take out the extra fees, asserting they had never paid anything beyond the value of the contract. Such cases were resolved by CPA querying the Iraqi ministry to confirm -- and, where possible, to document - the presence or absence of the extra fee.

The pace of contract renegotiations picked up considerably in September as OIP completed its processing of contracts and passed them on to UN agencies. Some agencies hired extra staff in an effort to complete the task by the November 21 deadline. Still, 251 contracts had not been renegotiated by November 21. These were turned over to the Defense Contract Management Agency (DCMA), which is still working on the last of the renegotiations.

Since November 21, CPA has also been working with the Iraqi ministries to ensure that the prioritized contracts are delivered on a timely basis. They have focused particularly on food contracts to ensure that the food pipeline for the Public Distribution System is maintained. It is expected that delivery of the remaining OFF contracts will continue beyond June 30, 2004.

Mr. Chairman, in closing I would like to thank you and all members of the Committee for your continuing support for Foreign Service officers, especially those in Iraq, and for your support for the Diplomatic Readiness Initiative. It makes a great deal of difference to people working 16-18 hours per day in dangerous conditions to know that you are interested in and appreciate their service.

