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Mr. Chairman, Ranking Member Levin, and Subcommittee Members:

Thank you for this opportunity to testify before you concerning the Subcommittee's investigation into the United Nations Oil for Food Program and how Saddam Hussein abused that Program. The purpose of my testimony is to examine two ways in which the Hussein regime abused the Program, and present evidence obtained by the Subcommittee that illustrates our conclusions. First, I will discuss what have been called "oil vouchers" – namely, how Saddam Hussein turned oil into influence. The second portion of my presentation will illustrate how Saddam Hussein exacted millions of dollars in illegal surcharges under the OFF Program.

I. BACKGROUND: WHAT IS AN ALLOCATION OF OIL?

To understand how Saddam Hussein turned oil into influence, we start with how Iraq sold its oil under the Program. The arm of the Iraqi government that controlled the sale of Iraqi crude oil was the State Oil Marketing Organization, which was commonly called "SOMO." In order to manage the volume of oil flowing through its pipelines, SOMO divided its oil supply into discrete units. It then allocated these units to prospective oil purchasers, essentially giving those recipients an option to purchase that allotment of oil. These options are typically called "allocations" or "quotas." Allocations typically ranged from 1 to 2 million barrels of crude oil.

SOMO distributed allocations for each of the 13 Phases of the Program, which lasted 6 months apiece. Each allocation would be valid for the current phase of the Program. Witnesses, including at least one recipient of an oil allocation, have informed the Subcommittee that allocations would have a designated number that SOMO, the allocation holder, and the prospective oil purchasers used to identify the particular allotment. While some allocations were solely verbal in nature, others were documented in writing, as we will see in a few moments. These written allocations are where the term "oil vouchers" comes from.

I should note two critical characteristics of allocations. First, an allocation was only an *option* to buy a certain allotment of oil in a certain window of time – it was <u>not</u> a gift of oil and did not mean that a purchase of oil would necessarily follow. In fact, many of SOMO's allocations under the OFF Program never resulted in an oil sale. Page 200 of Mr. Duelfer's report provides a list of 71 unused allocations from the 13th Phase alone. The second critical fact is that allocations were transferable – that is, a recipient of an allocation could sell his/her allocation to a third party and that third party would then have the option to buy Iraqi oil.

II. HOW SADDAM USED OIL ALLOCATIONS TO GARNER INFLUENCE

In Phases I and II of the OFF Program, SOMO allocated oil to traditional oil companies throughout the world. Those companies then contracted with SOMO to purchase the oil and lifted the oil themselves. For example, if you would please turn to pages 168 and 169 of Mr. Duelfer's report, which list the oil transactions in Phases I and II, you will see that the allocation recipients, which appear in under the header "Allocation Holders," and the ultimate purchasers of the oil, which appear under the header "Contracted Company," are identical.

Starting in Phase III of the Program, however, Saddam Hussein attempted to manipulate the typical oil allocation process in order to gain influence throughout the world. His plan was simple: rather than giving allocations to traditional oil purchasers, Hussein gave oil allocations to foreign officials, journalists, and even terrorist entities, who then sold their allocations to the traditional oil companies in return for a sizeable commission. In doing so, Saddam could give a foreign official or journalist a bribe of hundreds of thousands of dollars – *without actually paying a dime.*

Now, the key question is why the allocations were valuable. The answer has to do with the price of Iraqi oil. Although the regulations of the OFF Program required that Iraqi oil be sold at "fair market value," Saddam Hussein instructed SOMO to sell the oil at discounted prices. For example, if the market price for oil was $10 per barrel, Iraq would sell its oil at $9.50 per barrel. Therefore, purchasers of Iraqi oil enjoyed massive profits, and clamored to get access to the discounted oil. By allocating the oil to favored people or entities, Hussein forced oil purchasers to obtain allocations from the favored few. Those favored recipients became gatekeepers to cheap Iraqi oil. As gatekeepers, the allocation holders demanded a "commission," which ranged from 3 to 30 cents per barrel. Oil companies were quite willing to pay that 3- or 30-cent commission because the total price for their oil, even including that commission, was still significantly lower than market price. A commission of 3 to 30 cents on an allocation of 1 million barrels would translate to a $30,000 – $300,000 in cash for the allocation holder. As you can see, an allocation from SOMO was certainly valuable.

According to multiple sources, including SOMO documents obtained by PSI, allocation recipients included:

- Benon Sevan, the Executive Director of U.N.'s Office of the Iraq Programme,
- Foreign officials, such as Vladimir Zhirinovsky, the Leader of the Liberal-Democratic Party of Russia, Charles Pasqua, the former French Interior Minister, and George Galloway, a Member of the British Parliament,
- Terrorist entities, such as the Popular Front for the Liberation of Palestine, and Mujahadeen Khalq of Iran, and
- Journalists, such as Hamidah Na'na.

So how did these allocations get translated into cash? That monetization involved a simple process, which we have illustrated in the chart numbered **Exhibit 5**.

Exhibit 5: The chart reveals the steps used to convert an allocation into a shipment of oil and a commission to the allocation recipient.

STEP 1. Saddam himself would approve the grant of an allocation of oil to whomever he sought to influence or reward, typically a government official, journalist, or terrorist organization;

STEP 2. Next, the recipient of the oil allocation would sell the allocation to oil companies for a hefty commission and then inform SOMO of the sale;

STEP 3. The oil company would then formally purchase oil under the Oil for Food Program – which meant entering a formal contract with the Iraqi government for the allocated oil, submitting that contract to the U.N. for approval under the OFF Program, and then lifting the oil pursuant to the contract. Once the oil was lifted, the purchaser would pay the agreed-upon commission to the allocation recipient.

This 3-step process is the basic framework for the sale of oil allocations, although each instance varied slightly. I will now explore each of these steps and present selected evidence to illustrate the various steps.

STEP 1: Saddam Gives Allocations to Foreign Officials, Journalists, and Terrorist Entities

Numerous sources, including senior officials of the former regime, have stated that Saddam Hussein personally approved the people and/or entities that received oil allocations, and would delete those who had fallen out of favor. The Subcommittee has obtained some evidence that senior officials, such as Deputy Prime Minister Tariq Aziz, were also intimately involved in the allocation process.

Exhibit 6: This document is a letter from SOMO to the Minister of Oil concerning an oil allocation provided to a Syrian journalist named Hamidah Na'na. This letter illustrates the in-depth, personal involvement of high-ranking members of the Hussein regime in the granting of oil allocations. For example, the letter states in the first paragraph of text: "With reference to the allocations of 12/09/2002 for phase (13) and ***the approval of Mr. Taha Yasin Ramadan, the Vice-President, as per the telephone call with your Excellency*** on 11/29/2002 regarding the increase of the quantity allocated to Mrs. Hamidah Na'na at the rate of (1) million barrels...." This letter was personally ratified by the Minister of Oil in the bottom left corner of the letter. From this letter, we can see that both the Vice President and the Minister of Oil of the Hussein regime were intimately involved in oil allocations granted to Hamidah Na'na.

Exhibit 7: Before I describe this letter, I should note that we have redacted out the names of some of the entities and/or individuals mentioned in these letters when they are part of the Subcommittee's on-going investigation. In this case, we have redacted out the name of the author of the letter and the recipient. Turning back to the exhibit, this is a letter from a prospective oil purchaser to an allocation holder that is based in Moscow. In the letter, the oil purchaser refers to a face-to-face meeting in Moscow between the allocation holder and Tariq Aziz, one of Hussein's closest aides. The meeting related to a problem that the allocation holder was having with respect to the allocation. The oil purchaser suggests that the allocation holder inform SOMO of the meeting, saying: "***During last week a high ranked*** [sic] ***Iraqi delegation lead*** [sic] ***by his Excellency Mr. Tariq Aziz visited Moscow. The allocation holder... had a personal meeting with him and we are informed that the discrepancies regarding this allocation will be solved very soon.***"

Exhibit 8: This document appears to be one of the written allocations that I referred to previously – the original certificate in Arabic is on the left and the translation is on the right. In this allocation, it appears that Saddam Hussein personally ordered an allotment of 6 million barrels to journalist Mahmud Al-Tamimi in recognition of his pro-Saddam stances during the first Gulf War: "***The President leader … has ordered*** … as follows: ***six million barrels of petroleum*** will be allocated to ***journalist Mahmud Al-Tamimi in appreciation of his nationalist positions which he has adopted*** since the thirty-nation aggression in the year 1991 in confronting the unjust blockade of our dear country." I should note that this journalist does not appear in any report of allocation recipients, including the *Al Mada* list, Charles Duelfer's report or SOMO documents obtained by PSI.

STEP 2: The Sale of the Oil Allocation and Assignment of the Allocation to the Purchaser

Once recipients learned that they had been allocated oil, they would negotiate with an oil company to sell the allocation. The primary issue of the negotiations was the commission paid to the allocation holder. PSI has obtained evidence, including testimony from witnesses, that some of these negotiations occurred in the lobby of the Al-Rashid Hotel in Baghdad. In those situations, an allocation recipient or their representative would literally bargain with oil traders in the hotel's lobby over the allocation and the rate of the commission. Aside from bargaining at the Al-Rashid, these negotiations also occurred in writing. PSI has obtained evidence of the written negotiations between the allocation holders and the prospective oil purchasers:

Exhibit 9: This letter is written by Vladimir Zhirinovsky, the leader of the ultra-nationalist Liberal-Democratic Party of Russia. On official Party letterhead, Zhirinovsky invites an international oil company to Moscow to "negotiate" with him: "***It is my honor to invite you for negotiations to Moscow, from the 18th to the 25th of January 1999. Will be happy to meet with you.***" I should note that PSI has obtained evidence that Zhirinovsky obtained an oil allocation from Hussein in Phase V of the Program, which ran from November 1998 through May 1999. In addition, if you turn to page 173 of Mr. Duelfer's report and look at entry 51, you will see Mr. Zhirinovsky's name next to the Liberal-Democratic Party of Russia as the allocation recipient.

Exhibit 10: This document is a fax from a representative of an allocation holder who is offering a "Full Corporate Offer" for 2 shipments of 2 million barrels of oil. We know that this is a contract under the Oil for Food Program because it is dated April 2001, which falls in the correct timeframe, and the qualifications of the offer (which are listed in the middle of the page) require that the contract be approved by the United Nations. For our purposes, the key aspect of this offer is that the representative demands a "Seller's Fee" of "***U.S.$ 0.75 / net barrel inclusive of SOMO's***." For now, the key concept is that the holder of the allocation, who is acting as the gatekeeper to the oil, is demanding a significant fee. We will return to the question of what "inclusive of SOMO's fee" means shortly. I should note that the actual recipient of this allocation is unknown.

Exhibit 11: In this series of letters between an allocation holder and a prospective oil buyer, the parties negotiate the amount of the commission. On page 1 of the first letter, the purchaser states that the allocation recipient has been offered "***oil development project opportunities in Iraq***, which are being offered to [the allocation recipient] for completion ***after sanctions are lifted***." These "*oil development project opportunities*" for "*after the sanctions are lifted*" might explain why Hussein would give this company an oil allocation. We will return to this concept later in the presentation. Moving on to Page 2 of that letter, the purchaser offers to by the allocated oil at "SOMO's official selling formula price applicable for the month of lifting ***plus $0.07/barrel***." In the next letter, the purchaser raises its offer, saying "***I refer to the portion of our proposal which includes the purchase of [the recipient]'s allocation under the fourth period U.N. oil sale*** [*sic*], ***we are pleased to increase our premium to S.O.M.O's official selling price from $0.07/barrel to $0.09/barrel***." In the next letter, the allocation recipient rejects that bid, saying commissions of less than 12 cents "***are not competitive and will not be taken into consideration***." In the following letter, the prospective oil purchaser caves in and accepts the allocation holder's demand. Months later, the purchaser confirms its "***bid of USD 0.13 premium above [official selling price] for any quantities of Iraqi oil that you may decide to make available to us***."

These letters provide a first-hand glimpse at how the negotiations between an allocation recipient and a prospective oil purchaser occurred. Once the allocation holder and the prospective oil purchaser agreed on the amount of the commission, the allocation holder would assign his/her right to the allocation to the purchaser, and inform SOMO of the assignment. In doing so, the allocation holder established a direct link between the prospective oil purchaser and SOMO, thereby eliminating his/her further involvement in the transaction. PSI has obtained evidence of such assignments by the allocation holders and the subsequent notification of SOMO:

Exhibit 12: In this letter, an allocation holder memorialized his commission agreement with a prospective oil purchaser in a letter entitled, "Acceptance of commission": "***Thank you for your cooperation and your letter dated 22 November 1999 in which you guarantee the payment of US $0.10 (ten cents of a US Dollar) per barrel for my commission, referred to in your above mentioned letter.*** I enclose herewith a letter addressed to S.O.M.O. by which I nominate your company [] for the lifting of the crude oil allocated to me[.]" In the attached letter, the allocation holder informed SOMO of the assignment and authorized the purchaser to "handle the crude oil that is allocated to me in all its stages."

Exhibit 13: In this letter, an allocation holder informs SOMO that Devon Petroleum will lift the oil in connection with her allocation, saying "I, Mrs. Hamidah Na'na the presentee cede my allocation for phase (13) totaling (1.5) million barrels to Devon Petroleum Ltd., and empower Mr. Denney Gunel to sign for me."

STEP 3: Oil Purchased & Payment to Allocation Holder

Once the allocation recipient informs SOMO of the identity of the prospective oil purchaser, that oil company would have to execute a formal contract with SOMO. Only after a contract was executed would the parties notify the U.N. of the agreement and seek approval. As a result, the moment the contract is submitted to the U.N. for approval is the first time that the U.N. gets involved.

PSI has obtained evidence of these contracts and the related correspondence with the U.N. For example, please refer back to **Exhibit 6**, which we reviewed earlier when discussing the involvement of senior Hussein officials. In that exhibit, the Minister of Oil was informed that Na'na has assigned her allocation for Phase XIII to Devon Petroleum and that Devon and SOMO had executed a contract. Notice that the contract was numbered M/13/26.

Exhibit 14: These documents illustrate how contract M/13/26 between Devon-SOMO was approved. They are (a) the first page and the signature page of the contract M/13/26, (b) the application of Devon Petroleum to the U.N. for approval of the contract M/13/26, (c) the approval of the U.N. for contract M/13/26, and (d) the official invoice from SOMO for the purchase of oil pursuant to contract M/13/26. If you would turn to page 197 of the Duelfer Report, you will see in entry 26 that contract M/13/26 was allocated to Hamidah Na'na and ultimately purchased by Devon Petroleum.

Once the oil was lifted, the commission for the allocation holders would become due. PSI has obtained some invoices from the allocation holders:

Exhibit 15: This invoice is from Al Wasel & Babel Co. for "*[s]elling of Iraq oil allocation*." It is our understanding that the oil purchaser actually prepared this invoice themselves and that it could be a draft of an invoice. The key point, however, is that the oil purchaser was paying a commission of 0.17 euros per barrel to Al Wasel & Babel. Notably, Al Wasel & Babel is a well-known front company for the Hussein regime.

So that is the story of how Saddam would use oil to reward friends and exert influence throughout the world. The key question remains: **what did the allocation holders do for Saddam in exchange for the allocations?** While we have no direct evidence of a quid-pro-quo for the allocation of oil, we have seen circumstantial evidence. For example, please turn back to **Exhibit 11**, which we reviewed when discussing the negotiations over the commission payment. In this letter, it appears that the allocation holder, a Russian entity that we believe to be affiliated with the Russian government, was negotiating "***oil development project opportunities ... for completion after the sanctions are lifted***" when it received the allocations. This could suggest that Saddam granted this company an allocation in connection with deals for the post-sanction Iraq. Similarly, the Subcommittee has learned that Vladimir Zhirinovsky and his Liberal-Democratic Party received allocations of nearly 80 million barrels of oil. We have observed that, when Hussein kicked out weapons inspectors in the late 1990s and the U.S. threatened military action in response, Zhirinovsky pushed Russia to provide military support to Iraq. That timeframe coincides with the allocation to Zhirinovsky that we discussed earlier (in **Exhibit 9**), which was granted in Phase V (November 1998 through May, 1999). Finally, we discussed the Syrian journalist Hamidah Na'na who received allocations and transferred those allocations to Devon Petroleum and other companies. Ms. Na'na stated in an interview in 2003 that "***The embargo that was imposed on Iraq has been my biggest obsession, and I have devoted much time and effort, as both a journalist and a citizen, in endless attempts to lift the embargo. I have also written a lot about this topic in the papers and magazines I've worked for.***" When she made this statement, she had already received allocations totaling between 10 – 12 million barrels of oil. SOMO estimated her profit from those allocations at $1.4 million.

I will now move on to a different topic related to the oil side of the OFF Program – namely, how Saddam exacted millions of dollars in surcharges from oil purchasers.

III. SURCHARGES – BACKGROUND

A. The Surcharge period: September 2000 to Mid-2002

In mid-2000 (which fell in Phase VIII), Hussein directed SOMO to generate additional revenues outside the OFF Program in connection with the sale of oil. Pursuant to that directive, on September 1, 2000, SOMO began lowering the price of oil even further than usual and demanding a "surcharge" of 10 cents for each barrel exported from Iraq. Over the succeeding months, the rate of the surcharge fluctuated widely, reaching a peak of roughly 30 cents per barrel.

These surcharges were to be paid by the oil purchaser directly to the regime – *i.e.*, outside the U.N.-controlled escrow account maintained at BNP Paribas. Because those payments were not deposited to the BNP account, these surcharges were in direct violation of the OFF Program. As a result, many of the traditional oil companies refused to pay the surcharges. Out of the shadows, however, came numerous unknown middlemen that were quite eager to participate in the scheme. Those middlemen would contract with Iraq to purchase oil (at the below-market rate), pay the surcharge, and then sell that oil on to the traditional oil industry for a significant profit.

For example, if hypothetical market price of oil was $10 per barrel, Iraq would sell oil to the middleman at only $9.50 per barrel, and then demand a 30-cent surcharge. Therefore, the middleman would pay $9.50 to the U.N.-controlled account at BNP and then 30 cents to a regime-controlled account. Even after paying the surcharge, the middleman would have essentially bought oil at $0.20 per barrel below market rate. The middleman would then sell the oil on to the oil industry at market price – i.e., $10 per barrel. While the profit margin may appear slim (in terms of cents per barrel), Iraqi oil shipments routinely amounted to millions of barrels of oil. As a result, such spreads can be incredibly lucrative – a one million barrel shipment in the example above would net the middleman a quick profit of $200,000.

The amount of the surcharge fluctuated over the subsequent two years. Eventually, Saddam settled on a surcharge range of 25 – 30 cents per barrel. Exports to the U.S. carried a higher surcharge than shipments elsewhere in the world, possibly to spite the U.S.

B. The U.S. and U.K. End Surcharges through "Retroactive Pricing"

Complaints about the illegal surcharge were widespread. In fact, numerous articles concerning Saddam's illegal surcharges appeared in newspapers worldwide. The U.N. learned of the charges and instructed approved purchasers to refuse to make such payments, but did little more to enforce the rule. After roughly 2 years of U.N. inaction in stopping the surcharges, the U.S. and the U.K. (as members of the committee that oversaw the Program) devised a method to eliminate the illegal fees, called "retroactive pricing."

Retroactive pricing meant that the U.S. and U.K., as members of the oversight committee, would not approve the price of oil until the end of the month – *i.e.*, after the sale had been completed. In doing so, the monitors could retroactively set the price at the market price, thereby eliminating any opportunity for a surcharge. Retroactive pricing was completely effective in ending Saddam's illegal surcharges. Over the two year "surcharge period," Saddam amassed $228 million in illegal surcharges. Every single one of those dollars was obtained outside the OFF Program. I will now address how those dollars went into Saddam's coffers and present detailed evidence that illustrates how those transactions occurred.

IV. BEHIND THE SCENES: HOW THE SURCHARGES WERE PAID

PSI has learned that oil purchasers generally paid surcharges to the Hussein regime in two ways – (1) through direct payments to regime-controlled bank accounts and (2) through third parties that would facilitate the transaction.

Exhibit 16: This chart illustrates the two general methods that illegal surcharges were paid.

A. Direct payments by oil purchaser

The simplest method for the surcharge payments was a direct payment from the oil purchaser to the regime-controlled bank account. To that end, the Hussein regime maintained numerous accounts at banks throughout the Middle East, in particular Jordan and Lebanon.

B. Payments through Third-Parties

While many oil companies were willing to comply with Saddam's demand for illegal surcharges, they wanted to conceal those payments as much as possible. As a result, they refused to make direct payments to regime-controlled accounts. In those circumstances, the oil purchaser would make payments to a third party, who would then forward the surcharge on to the regime accounts. Similarly, the recipients of the allocation of oil were also used as a conduit for the surcharge payment.

Exhibit 17: This is an example of the surcharge payment going through the allocation recipient. In this letter, Hamidah Na'na, the Syrian journalist that we discussed earlier, commits to pay the oil surcharge, saying "***I hereby undertake to settle the surcharge at the rate of 30 U.S. cents per barrel for American destination, and 25 U.S. cents per barrel for Europe or the Far East destinations for 1.5 million barrels which Devon Petroleum Company will lift from contract M/11/100 dated 02/11/2002 signed in the name of the aforesaid company on my behalf during Phase 11.***"

In addition, I refer back to **Exhibit 10**, in which a representative of an allocation holder issued a "Full Corporate Offer" for 2 – 4 million barrels of oil under the Program. In connection with this Offer, the representative demands a "Seller's Fee" amounting to "U.S.$ 0.75 / net barrel ***inclusive of SOMO's***." Notably, the price for the oil is already set at the "SOMO price formula." Therefore, the "fee" to SOMO referred to in "Seller's Fee" cannot refer to the price of the oil, but instead must be a separate payment to SOMO – *i.e.*, an illegal surcharge. In short, this document reveals that the seller of the allocation is offering to pay the surcharge for the oil purchaser.

Exhibit 18: This set of documents relates to a contract between Al Hoda International Trading and an oil company. Al Hoda purchased 4 million barrels of oil in connection with Contract M/9/15 under the OFF Program, and sold half of that oil to the oil company. According to Page 2 of the contract between Al Hoda and the oil company, the oil price was the official selling price of the oil plus 40 cents per barrel. Interestingly, the payment mechanism is divided in three parts. Starting with the last paragraph on page 2, we see the payment "inside the letter of credit," which we will see refers to the letter of credit used to pay the U.N.-controlled account under the OFF Program. Moving up to the next paragraph is a payment of 10 cents per barrel "outside the letter of credit" at the direction of Al Hoda. Third, however, is another "payment of [U.S. dollars] 0.30 per … barrel to be paid outside the letter of credit as instructed by Al-Hoda…" The next document is an invoice from Al Hoda requesting payment for the "Balance amount due not covered by Letter of credit NR. LCIM 2176337," which PSI has confirmed is the letter of credit for payment for the oil to the U.N.-controlled account within the OFF Program. The balance requested is 40 cents per barrel shipped (the 10 cent commission plus the 30 cent surcharge) which amounts to more than $836,860.60. The next document is the order from the oil company to its bank to make the payment for the $836,860.60 invoice. The next document is an excerpt from the oil company's ledger that confirms that a payment for the $836,860.60 invoice to Al Hoda was actually paid.

So how do we know that that payment (or some portion thereof) was a surcharge payment to Iraq? The Subcommittee has obtained SOMO records that provide detailed information about the surcharge payments it received.

Exhibit 19: This is an excerpt of a chart created by SOMO in February 2004 that details each oil contract in which a surcharge was paid. Specifically, the chart details the contract number, the surcharge payer, the amount of oil lifted, the rate of the surcharge, the surcharge owed, the amount of the surcharge that was actually paid, and whether there are any outstanding balances. If we look at the highlighted entry on the chart, which relates to Al Hoda's contract M/9/15, *this chart confirms that, for Contract M/9/15, Al-Hoda made a surcharge payment of 30 cents per barrel.* Therefore, it appears that the 30-cent clause in the Al Hoda-oil company contract did indeed reflect a surcharge payment.

With that, I will end my presentations and I would be happy to answer any questions that the Subcommittee may have.

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