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UNITED NATIONS OIL-FOR-FOOD PROGRAM

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PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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I. Introduction

Thank you, Chairman Coleman and members of the Subcommittee. The international community was very concerned about the potential impact of sanctions on the Iraqi people when it created the Oil-for-Food Program. The Program was created in large part to allow the Iraqi regime to purchase humanitarian goods with revenue from oil sales. As we have seen, however, Saddam Hussein manipulated the Program to the tune of billions of dollars. You have just heard from my colleague how Saddam Hussein peddled influence and generated illicit revenue by granting oil vouchers and demanding surcharge payments. Not satisfied with the extra cash made from oil sales, he concocted a scheme to siphon off billions for himself by demanding kickbacks on contracts for humanitarian goods.

Under the terms of Security Council Resolution 986, Saddam Hussein was permitted to purchase humanitarian goods from whomever he pleased. Theoretically, the Oil-for-Food Program was designed to permit Iraq to negotiate contract terms that were in the best interests of its people. In practice, however, Saddam was permitted to negotiate contract terms that were in his own best interests and the interests of his brutal regime. Among the various ways that Saddam abused the Oil-for-Food Program was to demand "kickbacks" from companies who were supplying Iraq with humanitarian goods.

II. Kickbacks on Contracts for Humanitarian Goods

A "kickback" is defined as a bribe paid by a seller of goods to a purchasing agent in order to induce the agent to enter into the contract. Kickbacks under the Oil-for-Food Program had a direct impact on the people of Iraq -- by definition, every dollar that was siphoned off by Saddam Hussein from the Iraq escrow account at BNP Paribas was a dollar that did not go to buy food, medicine, or other humanitarian goods for the Iraqi people.

Over 3,500 companies contracted with Iraq under the Oil-for-Food Program and likely hundreds upon hundreds paid kickbacks to the Hussein regime. My testimony this afternoon concerns the kickbacks paid by one such company, The Weir Group, and we will walk through one specific kickback transaction from its inception to the kickback payment.

III. The Weir Group PLC

The business of The Weir Group is the manufacture and sale of industrial valves and pumps for the oil industry, the water and sewer industry, and for other major engineering projects. The Weir Group is hardly a “fly-by-night” company or paper corporation. Nor is it one of the many front companies created by the Hussein regime to generate illicit cash from the Oil-for-Food Program. Rather, Weir is a legitimate, reputable, publicly-traded “blue chip” engineering company based in Glasgow, Scotland. Weir is a multinational corporation with subsidiaries and operating companies across the globe, including ten locations in the United States. In short, Weir is not the type of company one would normally associate with shady Iraqi middlemen or with secret Swiss bank accounts. Yet that is what occurred here.

The Weir Group did over 80 million dollars worth of business under the Oil-for-Food Program, the vast majority of the deals were done through two of Weir’s subsidiaries -- Wemco EnviroTech Pumpsystems in France and Wesco Dubai in the United Arab Emirates.

Weir dealt with three Iraqi entities -- the North Oil Company and the South Oil Company, which are divisions of the Ministry of Oil, and the Baghdad Mayoralty -- essentially the Mayor of Baghdad. Weir utilized an agent in Baghdad to secure contracts on Weir’s behalf. For completed contracts, Weir would pay this agent a commission between 17 and 27%.

Now, for the first seven phases of the Oil-for-Food Program, Weir’s contracts with these Iraqi companies followed a standard protocol:

- Weir’s Baghdad agent would forward to Weir a list of parts needed by Iraq for an oil project or a water and sewer project;
- Weir would submit a tender offer to the Iraqis quoting a price for the job;
- The Iraqis would then ask a Weir sales representative to travel to Iraq to complete the contract;
- The contract would be signed, submitted to the U.N., the goods would be shipped from Scotland to Iraq, and Weir would receive payment from the escrow account at BNP Paribas.

IV. Iraq Demands Kickbacks from The Weir Group

This standard protocol changed at the beginning of Phase Eight of the Program, in June of 2000. At that time, Weir had three tender offers pending with Iraq -- one each with the Baghdad Mayoralty, the North Oil Company, and the South Oil Company. The Weir sales representative traveled to Iraq to complete the contracts, but when he arrived he was informed by the Iraqis that they would no longer enter into contracts with Weir unless the contract price was inflated by 10% and that the additional amount would be paid back to Iraq.

This was the critical moment for Weir. They could have refused to inflate their contracts, they could have refused to pay any money back to the Hussein regime. Unfortunately, they agreed to move forward with the new Iraqi demands. Weir was given information for a bank account in Geneva, Switzerland where the kickback was to be paid. For the remainder of the Oil-for-Food Program, each of Weir's 15 contracts were inflated by between 11 and 14% and Weir deposited the inflated amount into a bank account in Geneva in the name of "Corsin Financial Limited" -- a company that has no existence other than being the holder of that bank account.

Now, you may ask how Weir and the Iraqis were able to pull this off while Iraq was under sanctions. How were these contracts approved by the U.N. when -- given the commission of the Iraqi agent and the inflated kickback amount -- Weir's contracts were regularly priced 30, 35, or even 40% higher than the actual cost of the goods. For answers, we will look at one of those 15 contracts in greater detail.

V. Step-by-Step Transaction for Contract Number 1030484

This chart displays each step in Contract Number 1030484; (1) the initial tender offer from Weir to Iraq, (2) the meeting between Weir and the South Oil Company, (3) the revised tender offer from Weir inflating the previous tender by 13.17%, (4) the contract between Weir and Iraq, and (5) the submission and approval of the contract by the U.N. Office of the Iraq Program.

The first tender offer, dated August 15, 2001, is the original offer that Weir made to Iraq for an oil project for the South Oil Company. The prices reflect Weir's actual cost to ship the parts to Iraq plus Weir's standard commission of 17.5% to their Iraqi agent. Naturally, the commission amount is not itemized on the offer, but is instead built into the price. The total price of the offer is €2,156,536.

Now, after the Iraqis received the first offer, the Weir representative was required to come to Iraq and meet with the Iraqis to negotiate the final contract. At that meeting, the kickback was demanded and was agreed to by the Weir representative.

What results is a revised tender offer dated September 15, 2001. A side-by-side comparison of the two tender offers reveals that the price of each part has been inflated by 10%. Now, because the kickback demanded on this particular contract was 13%, Weir manipulated the quantity of the parts so that the final revised price -- €2,440,640.40 -- met the 13% requirement. The second line item of each tender offer presents a good illustration:

Tender Offer #1: 2 Grub Screw M6 at €24.00 ea. for a total of €48

Tender Offer #2: 20 Grub Screw M6 at €26.40 ea. for a total of €528

In this manner, Weir manipulated the price of the parts as well as the quantity of the parts until the total revised tender offer was 13% higher than the original tender offer.

With the revised tender offer in place, Iraq agreed to sign a contract with Weir for the inflated price on December 8, 2001. The contract was signed by both parties and the inflated tender offer was attached as an exhibit.

Through the UAE mission to the U.N., the completed contract was submitted to the Office of the Iraq Program for review and approval. Now, despite the fact that the contract

amount includes a 17% commission for Weir's Iraqi agent, and despite the fact that the contract was inflated by an additional 13% kickback, the contract is approved by the Office of the Iraq Program, who states that "the item price and value have been examined ... and appear within a reasonable and acceptable range."

Once the contract was approved by the U.N., the goods were shipped from Scotland to Iraq, in this case to the port of Umm Qasr.

At Umm Qasr, the goods are supposed to be inspected by the independent inspection agent -- Cotecna Inspection. If an actual inspection had taken place, Cotecna may have discovered that the quantities listed in the bill of lading were in conflict with the actual quantities shipped. The inspection, however, amounted to no more than an "authentication" that certain goods had actually arrived at the port. As with every other shipment of Weir goods, Cotecna authenticated the arrival of the goods for Contract #1030484 and issued a "certificate of authentication" to BNP Paribas.

Now, once BNP Paribas receives the confirmation of arrival, it wires payment for the contract to Weir. Weir would then make good on its agreement to pay the inflated amount back to Iraq by paying the kickback amount into the account for Corsin Financial Limited at Banque Safdie on the Rue de la Tour-de-L'ile in Geneva, Switzerland.

VI. Contract #1030484 is Amended to Remove the 10% Kickback

However, there is a footnote to Contract #1030484. After Operation Iraqi Freedom, the Coalition Provisional Authority took over the responsibility for any Oil-for-Food contracts that were in the pipeline -- contracts that had been approved by the U.N. but had not yet been shipped to Iraq. CPA officials learned that most, if not all, of the contracts in the pipeline were inflated by at least 10%. As a result, the CPA forced hundreds of companies, including Weir, to reduce their total contract price by 10% to remove the kickback. Companies who refused to remove the kickback amount were not permitted to have their contracts funded. In the case of Contract #1030484 and one other contract, Weir agreed to the amendment. As you see in the highlighted portion, the amendment removes 10% of the total contract price from €2,440,640.40 to €2,218,764, a difference of €221,876.40.

VII. Total Kickbacks Paid by The Weir Group

This final chart details the kickbacks paid by Weir into the Corsin account for each of the 15 kickback contracts. The contracts themselves were transacted in British Pounds and Euros, and the kickbacks were paid into the Corsin account in Pounds. The final column shows the kickback amounts as converted into today's dollars. As you can see, Weir paid a total of over 8 million dollars into the Corsin bank account.

Thank you for allowing me to testify. I would be pleased to answer any questions you may have.