SOURCES OF REVENUE FOR SADDAM & SONS

A Primer on the Financial Underpinnings of the Regime in Baghdad

September 2002

Prepared by the Coalition for International Justice
2001 S Street, NW, Suite 740
Washington, D.C., 20009

EMBARGOED FOR RELEASE
UNTIL 6:00 AM EST, SEPTEMBER 18, 2002

SOURCES OF REVENUE FOR SADDAM & SONS

Table of Contents

Introduction

Since 1997 Iraq has earned an average of $6 billion a year in civilian goods *via* the United Nations Oil-for-Food program, the country's only legitimate source of income, through which Iraqi oil is exported in exchange for imports deemed by international experts to have no military utility. On top of this, Saddam, aided variously by his two sons and close relations before them, has managed to earn more than $2 billion a year in hard currency by illegally exploiting the UN system and running extensive smuggling operations outside it.

This paper details the sources of that estimated $2 billion, which is projected to increase to $2.5 billion in 2002. Oil smuggling accounts for 90 percent of it. Examined herein are nine channels outside the Oil-for-Food program through which the Baghdad regime has managed to export oil in exchange for hard currency and goods *not* subject to UN oversight. These channels involve Turkey, Jordan, Syria, Lebanon, Iran and the Gulf States and are widening over time.

This study also explains how the UN system works and how Saddam and his inner circle have succeeded in manipulating it -- both to their financial betterment, by exacting kickbacks on Oil-for-Food contracts, and to Saddam's political and diplomatic advantage, by directing contracts to states that press Iraq's case in the international arena.

Also described here are additional minor sources of income, ranging from transportation ventures to the cigarette-smuggling that has developed into a turf war between Saddam's sons, to the cynical exploitation of opportunities afforded through the Iraqi Olympic Committee, to the gouging of Shi'i pilgrims visiting Iraq's holy sites.

Profiled briefly as well are four key principals whom Saddam has tapped to establish his global smuggling network and to handle the logistics of financing his regime: sons Udai, 38, and Qusai, 36, who are rivals for succession; half-brother, Barzan Ibrihim al-Tikriti, 51, whose daughter was for a time married to Udai and who for years used his diplomatic perch in Geneva to build a clandestine financial and corporate global network for Saddam; and Hussein Kamel Hassan al-Majid, Saddam's late cousin, son-in-law and formidable Military Industrial Commission head who amassed millions from kickbacks while building Saddam's weapons. An introduction to these actors is essential to appreciating both the character of Saddam's criminal enterprises and how he appears to be revising the script for his own succession.

Although the Iraqi people always are the last to be served by this ruthless and mercenary leadership, Saddam has successfully persuaded much of the world that the UN sanctions regime is to blame for their increased misery. In May 2002 the UN Security Council, sensitive to that complaint, revised the Oil-for-Food program to focus it more narrowly on limiting Saddam Hussein's capacity to import weapons of mass destruction (WMD) while sparing the Iraqi people as much as possible from the sanctions' effects. However, the new, so-called smarter sanctions will do little to impede Saddam's ability to raise hard currency; in fact, they may actually enhance it.

The flaw in the UN program, both before and since its revision, is that it does not – nor is it intended to – stanch the money flow to Baghdad generated by the illicit trade that falls outside Oil-for-Food. Actually, the hard-currency flow to Saddam and his sons will likely increase as a result of the changes, through expanded opportunities for kickbacks and sanctions-busting.

The international community, while continuing to express its increasing concern over Saddam's weapons program, has long been aware of Saddam's ongoing revenue stream but has nevertheless turned a blind eye, for a range of reasons. UN Security Council members and regional governments have been openly enticed into supporting Baghdad and advocating for the lift of sanctions in exchange for lucrative contracts under the UN program.

The United States and United Kingdom, by far the hardest-nosed about enforcing the sanctions regime, nevertheless have been sensitive to the plaints of their close regional ally, Turkey, which claims to have suffered severe economic damage from a decade of sanctions and whose impoverished and rebel-ridden southeast enjoyed a boost from the illicit, $300m diesel trade until its shutdown earlier this year. The diesel trade has been tolerated by the US and UK in part for this reason, in part because it has been brokered by and has handsomely benefited the Iraqi Kurds. It has now been replaced by a significant increase in official, government-to-government trade in crude oil, which also benefits deeply indebted Turkey and has likely been allowed to continue for this reason – despite the fact that Baghdad nets far more from this trade than does Ankara.

In the case of Syria, whose business ties with Iraq are burgeoning, the US recognizes that cooperation is critical to success in the war against terrorism and has therefore been reluctant to demand that President Bashar Assad make good on his year-old promise that he would crack down on his country's illicit trade with Baghdad. Instead, Syria has continued to expand its trade and transport arrangements along with the increasing volume of oil moved through the pipeline. These include moving Iraqi oil to Lebanon and, in return, facilitating the transshipment through Syria of Lebanese goods. *In toto*, these arrangements are estimated to pump close to a billion dollars a year, or half of all illicit revenue, directly into Saddam's coffers.

The lax enforcement resulting from the international community's important but ancillary concerns regarding Iraq's neighbors has enabled Saddam to use the UN program to further consolidate his grip on power, thereby jeopardizing any effort to bring down his government. Not only has Saddam been able to extort sympathetic diplomatic postures from Security Council members eager to do business in Iraq, thereby strengthening his prestige in the Arab world and his position internationally; he has also exploited the UN program to solidify his domestic control over the Iraqi people. Because he and his sons control the distribution of the civilian goods imported through Oil-for-Food, ordinary

Iraqis must now depend on the regime even for basic goods formerly available in the marketplace.

This investigation, all based on open-source documents, has yielded other interesting data that heretofore have received scant attention. Three examples are illustrative, from both inside and outside the Oil-for-Food program and with regard to the family.

- *Within Oil-for-Food*: The US has long been the most adamant UN Security Council member about prohibiting the flow to Iraq of imports that might be used in weapons production, and President George W. Bush has singled out Saddam Hussein as a major target in the war against terrorism and the states that sponsor it. Yet the US is the single largest consumer of Iraqi oil. In January, when President Bush designated Iraq a constituent member of his axis of evil, the US consumed 75 percent of all Iraqi oil exported under Oil-for-Food.

While no US-based oil firms are currently direct purchasers of Iraqi oil, Saddam's illegal per-barrel surcharges are passed up the line -- from the buyers which are mostly Russian, firms and small "nameplate" companies registered in Western countries, to the major traders; to the American refineries, and, presumably, to the ordinary motorist. This suggests that American companies and consumers are the last links in a chain of enablers who have helped to underwrite Saddam's end run around the UN system.

- *Outside Oil-for-Food*: Eleven free trade agreements have been signed with Iraq over the last two years, and several others are under discussion. In announcing each new bilateral agreement, trade officials have heralded vastly expanded trade relations. This public brandishing by other Middle Eastern nations of increased business linkages with Iraq, coupled with their increasingly flagrant violations of UN sanctions and Oil-for-Food protocols, may be means of expressing opposition to stated American intentions to effect "regime change" in Baghdad.

- *Entre famille*:

Conventional wisdom has long maintained that Saddam's heir-apparent was his elder son, Udai Hussein, who until 1999 was pre-eminent in Iraqi business and media affairs. However, in recent years Saddam would seem to have been put off by Udai's violent and irrational behavior, which has only increased since a 1996 assassination attempt left him physically impaired. In any case, Saddam has gone to great lengths to bolster the prospects for his second son, Qusai, a far less flamboyant and public figure whose strength lies in his cumulative acquisition of state power, including the command of nearly all Iraq's military, security and intelligence forces.

Within the last two to three years, the traditional line dividing the two sons' turf seems to have blurred, as Qusai, using state structures, has moved in on Udai's financial territory. Throughout most of the 1990s, Udai's illicit earnings came mostly through private, largely *ad hoc* arrangements with Turks, Kurds, Iranians and others. But as Iraq has reached out to reestablish official ties with its neighbors, Qusai appears to have taken the lead, and the new, state-to-state nature of many of these arrangements has begun to cut

Udai out. Both the new infatuation with Syria, rather than Jordan, as a trade partner, and the tremendous drop in the diesel trade with southeast Turkey in favor of dealings in crude with Ankara appear to have accelerated this effect. Other large-scale, longstanding smuggling operations seem also to have shifted to benefit Qusai; e.g., agents and front companies of his Mukhabarat, or secret service, appear to have taken over the cigarette trade.

As none of these shifts has happened without Saddam's knowledge and approval, it is reasonable to conclude that he has been deliberately broadening Qusai's authority to more firmly position his younger son to take over when the time comes.

It is the authors' hope that this first compilation of available public knowledge detailing Saddam's sources of revenue will serve as a tool for policy-makers, as well as scholars and journalists. Understanding Baghdad's funding mechanisms and those who devised and run them is critical to grappling with the slew of questions currently troubling the international community:

- How, given the Oil-for-Food program, the world's largest humanitarian program ever, can there remain shortages of basic medicines and foodstuffs?

- Why has Iraq continually drawn out and obstructed talks with the UN regarding the resumption of weapons inspections?

- How can certain Security Council members be induced *not* to advocate for Baghdad?

- Why, and how firmly, have Iraq's neighbors – and Iraq's own beleaguered Kurdish population – resisted the Bush administration's call for "regime change" in Baghdad?

- Why would a palace coup, acknowledged as a militarily efficient way to replace Saddam with one of his sons or top officials, not effect real "regime change?"

- Might more sharply targeted sanctions, focused on constraining the movement and freezing the assets of Saddam and his sons and associates, prove more effective at strangling his financial capabilities than the current sanctions regime?

To this final question, it is worth noting that lifting the current UN sanctions program would surely rob Saddam of his triumph in the realm of public diplomacy. However, it would also entail acknowledgement on the part of the international community that the Oil-for-Food program, whether or not it is earnestly enforced, cannot stop Saddam from procuring most of what he needs to remain a grave regional and worldwide threat.

The Iraqi economy prior to the imposition of sanctions

Iraq has a state-directed economy, which has allowed its leadership, an extended family clique run by Saddam Hussein since the 1970s, to reward its friends and punish its enemies. The year 1979, the same year that Saddam proclaimed himself president, marked the height of Iraq's economy, with oil production at 3.5 million barrels per day (bpd).[1] Domestic consumption was 300-350,000 bpd, leaving around 3.2 million bpd for export. Oil contributed over 90 percent of all Iraqi exports: the balance included dates, sulfur, fertilizer and cement.

Iraq had developed several export mechanisms for its oil: *via* pipelines through Syria and Turkey to the Mediterranean, *via* offshore loading terminals in the northern Gulf and by pipeline through Saudi Arabia to the Red Sea. The year 1980 saw the peak of Iraqi hard-currency earnings from exports, totaling over $26 billion.[2]

In all, by 1980 Iraq had some $35 billion in hard currency reserves.[3] In September of that year, hoping to take advantage of the new and insecure revolutionary regime in Tehran, Iraq invaded Iran, anticipating a quick war and a rapid expansion of its influence over the Gulf region. Eight years later, Iraq's oil infrastructure severely damaged, its reserves gone, and now in debt by an estimated $75-80 billion, the war ground to a halt.

In 1982, after siding with Iran, Syria closed its pipeline. Using force, Iran put the Gulf offshore terminals out of commission, and a tanker war erupted, frightening traders away from shipping through the Gulf. Iraq oil exports plummeted to about one million bpd, which brought in roughly $10 billion.[4]

Iraq reacted by increasing its exports through the Turkey and Saudi pipelines, by setting up exports by road through Jordan and Turkey and by redirecting its imports *via* the Jordanian port of Aqaba. By the late 1980s Iraq's oil exports were back over two million bpd; but due to the depressed price of oil on the world market, hard-currency earnings were still in the $10-12 billion range.[5] The end of the Iran-Iraq war heralded the chance for a major increase in Iraqi exports to a level far beyond its 1979 high. But it was not to be: Iraq invaded Kuwait in August 1990, and sanctions were imposed immediately. Turkey and the Saudis shut down the pipelines. With only Jordan remaining as a customer, exports in 1991 were virtually non-existent, less than $400 million.[6]

---

[1] Library of Congress, "Iraq: A Country Study," 1990.
[2] UNCTAD, "Handbook of International Trade and Development Statistics," 1991.
[3] Library of Congress, "Iraq: A Country Study," 1990.
[4] UNCTAD, "Handbook of International Trade and Development Statistics," 1991.
[5] UNCTAD, "Handbook of International Trade and Development Statistics," 1991.
[6] UNCTAD, "Handbook of International Trade and Development Statistics," 1995.

I. Exports under the UN Oil-for-Food Program

Background

In the wake of the US-led coalition's military action against Iraq in early 1991, Iraq's withdrawal from Kuwait, and the massive violent repression by the Iraqi government of uprisings in the north and south, several high-profile international missions visited the country to assess the humanitarian situation. The first, in March 1991, was led by Under-Secretary-General Martti Ahtisaari and included representatives of many UN agencies. In its summary of findings Ahtisaari's team noted:

> "The recent conflict has wrought near-apocalyptic results upon the economic infrastructure of what had been, until January 1991, a rather highly urbanized and mechanized society. Now, most means of modern life support have been destroyed or rendered tenuous. Iraq has, for some time to come, been relegated to a pre-industrial age."[7]

The UN Secretary-General's Executive Delegate, Sadruddin Aga Khan, produced a report in July 1991 that led to action by the Security Council. After outlining all the misery of the Iraqi people and the imminent catastrophe facing the country, the report noted that under current UN resolutions, the Iraqis had the authority to import most of the goods necessary to avoid these problems. The mission reported that:

> In most of the cases that came to its attention, problems to date with importing the above items had more to do with the financing of such imports than actual prohibitions. [8]

The report recommended the establishment of a transparent mechanism that would allow Iraq to export a limited amount of oil to pay for humanitarian imports. The Security Council promptly passed Resolution 706, authorizing such; but the government of Iraq refused to accept the resolution for nearly four years.

Jordan, pleading particular hardship, was allowed by the UN to continue to import oil from Iraq and pay for it with food and medicines, and Iraq also exported sanctions-busting oil to Turkey and Iran. During this period from 1991-1996, prior to the start of the Oil-for-Food program, trade with these three nations brought between $300 million and $1 billion per year into Iraq.[9]

Reports continued to chronicle the misery of the Iraqi people. In April 1995, the Security Council passed Resolution 986, establishing the Oil-for-Food program. Eighteen months of negotiations ensued before the government of Iraq and the UN Security Council could come to an agreement regarding the program's implementation. Finally, in December 1996, the first oil flowed, and in March 1997, nearly two years after the passing of UNSCR 986, the first food purchased through this program finally arrived in Iraq.

[7] UN, "Report to the Secretary-General on humanitarian needs in Kuwait and Iraq," S/2366, March 20, 1991.
[8] UN, "Report to the Secretary-General dated 15 July 1991 on humanitarian needs in Iraq," S/22799, July 15, 1991.
[9] UNCTAD "Handbook of International Trade and Development Statistics," 1995 and 2001.

Every six months Iraq and the UN renew the Oil-for-Food program. At first, the Iraqis were permitted to export only $1 billion worth of oil every 90 days and to import only from a highly restricted list of humanitarian items.[10] Early in 1998 oil exports were allowed to increase to $5.2 billion each six months,[11] and they have been unlimited since December 1999.[12] The types of goods allowed to be imported also has broadened to include such items as vehicles, spare parts for water systems, electric grids and, finally, spare parts for the oil field infrastructure.

In little more than five years, over $50 billion in oil revenues have passed though the UN account, and Iraq's exports have reached the level attained just prior to its 1990 invasion of Kuwait.

Oil Exporting Procedure[13]

1. The Iraqi State Oil Marketing Organization (SOMO) proposes a pricing mechanism to the UN for the upcoming month, and the UN either accepts or rejects the proposal;
2. An oil trader negotiates a purchase from SOMO;
3. UN "oil overseers," experts with considerable private sector experience appointed by the Secretary-General, reject or approve the contract;
4. "Liftings" are taken from either the offshore port at Mina al-Bakr, at the head of the Gulf, or from Ceyhan, the pipeline outlet on the Turkish Mediterranean coast;
5. After receiving the bill of lading, the contractor makes its payment within 30 days to the UN escrow account at the New York branch of the Banque National de Paris (BNP).

Logistics

Only two ports are authorized to load Iraqi oil under the Oil-for-Food program. Ceyhan, on the Mediterranean coast of Turkey, serviced by pipeline from Kirkuk, Iraq, is supposed to be the primary port; the secondary port allowed to export Iraqi oil is the offshore loading platform at Mina al-Bakr, in the northern Gulf. The other Iraqi offshore port in the northern Gulf, Khor al-Omaya, is still unusable due to damage suffered in the Iran/Iraq war. Aside from the Jordanian special case, all other routes, including by pipeline to Syria, tanker truck to Turkey or Iran, and barge through Iranian or Kuwaiti territorial waters, are considered to be violations of sanctions. The UN contracted the private Swiss firm Saybolt to monitor the flow of oil under the program.[14] Saybolt deployed six monitors to the southern port of Mina al-Bakr, and four to the Turkish port of Ceyhan. Both ports are accessible to very large crude carriers (VLCC).

Foreign contracting companies

From the beginning of the UN's Oil-for-Food program in 1996, the government of Iraq has repeatedly stated that it will use its contracting ability, in both oil sales and the

[10] UN SC Resolution 986, April 14, 1995.
[11] UN SC Resolution 1153, February 20, 1998.
[12] UN SC Resolution 1284, December 17, 1999.
[13] This is a summary of procedures compiled from the UN's Office of the Iraq Program's website. http://www.un.org/Depts/oip/
[14] UN, "Interim Report of the Secretary-General on the implementation of Security Council Resolution 986 (1995)," S/1996/978.

purchase of humanitarian goods, to reward its supporters in the international community.[15] Indeed, over the course of five years of oil exports under the UN program, the bulk of the contracts have gone to Russian firms, Iraq's most energetic supporter on the Security Council. Nevertheless, the largest end-consumer of the Iraqi oil has been the United States.[16] While the Iraqis have threatened to "blacklist" any companies found selling Iraqi oil to the US, in practice they cannot prohibit their oil from ending up there.[17] However, they could and did make sure that at least some of the profits from these sales to the US went to "friendly" traders.

The names of individual companies contracted to purchase oil under the UN program is not a matter of routine public record. Nevertheless, some names have come out in the press.[18] In Phase 1, which started in mid-December 1996, the Turkish refiner TUPRAS and the US firm Coastal Oil, a long-time Iraqi customer, led the list, with purchases of 13.5 and 10.8 million barrels, respectively.[19] These two were followed by Russian and French firms and another American company, Bay Oil. Phase 1 contracts were also won by the Dutch branch of London-based Trafigura, a firm run by one-time associates of Marc Rich and trading partners with Slobodan Milosevic's Yugoslavia.[20]

At least 25 Russian companies have contracted to purchase oil from SOMO. At first, the state-owned firm Zarubeshneft coordinated the various Russian interests. But by Phase 6, in the second half of 1999, the Russian Ministry of Fuel and Energy had begun to take a more direct hand in issuing quotas that recognized the preeminence of both Zarubeshneft and of Lukoil, Russia's largest privatized oil company, by according each of these just over 20 percent of all Russian oil contracts under the UN program.

Russia's quota system lent itself to rewarding patrons. In mid-1999, for instance, the newly installed Energy Minister, Viktor Kaliuznij, retracted Transneft's quota and rerouted it to Sibneft, a large shareholder of which had helped Kaliuznij land his job.[21] Under Minister Kaliuzniji, Zarubeshneft and Lukoil increased their shares from 20 to around 30 percent, and Sibneft climbed into third place with about seven percent.[22] The oil was not destined for the Russian market, which is awash in its own domestic production; rather, it was, and still is, resold to American and European buyers. There is also some question about what happened to the money. Early in 2002, the office of the

---

[15] Arab Oil and Gas Directory 1999, Arab Petroleum Research Center, Paris, France, p.172.
[16] OECD Imports from Iraq, 1990-2000 http://www.eia.doe.gov/emeu/ipsr/t417.txt
[17] Nadim Ladki, "Iraq Oil Stays on Hold, Baghdad Wants Surcharge," *Reuters,* December 11, 2000. US firms have also contracted directly with Iraq, though little since Phase 4, in the second half of 1998.
[18] The UN published the details of the contracts under the first two phases of the program. They have since stopped, pointing to the need to maintain the confidentiality of contractual proprietary information.
[19] "Iraq Approaches Oil Export Limit," *Middle East Economic Digest*, January 17, 1997.
[20] "New twist in SA oil scandal," *The Mail and Guardian*, February 23, 2001, and "Trepηa under the Yoke of the Serbian Occupier," *Kosova Daily Report*, October 3, 1996.
[21] As noted by *The Financial Times* in June 1999, "It is thought that this was Kaliuznij's way of thanking Sibneft's 40 per cent shareholder R. Abramovic for helping him to win the post of energy minister."
[22] More recently there has been some question as to just how much sway the Russian ministry has over the process. According to one account, Iraq is no longer blindly adhering to the Russian ministry's recommendations. See *Platt's*, March 19, 2002.

Russian prosecutor-general began investigating the whereabouts of up to $15 billion in proceeds that Russian companies generated from the Iraqi trade.[23]

Allegations regarding extensive kickbacks exacted by members of the regime in Baghdad (described in detail below) prompted Western major oil companies to withdraw from contracting directly with the government of Iraq. Since the beginning of Phase 9 in early 2001, the place of the majors has been taken by a host of smaller firms, many of which are not known for trading in oil.[24] Some of these companies are legitimate businesses, albeit not in the oil sector, such as Thailand's rice-exporting Chaiyaporn, Jordan's Middle East Advanced Semiconductor or the Jordan Grain Company; others have little business background, such as the Russian government's humanitarian agency, Emercom, or the Concern Regions of Ukraine. A host of firms, many unknown and registered in such lightly regulated countries as Liechtenstein, Cyprus and Panama, round out the list. Of these firms the Russian humanitarian agency Emercom has recently become the largest contractor of Iraqi oil under the Oil-for-Food program, having agreed to purchase 12 million barrels in July 2002, a volume believed to be twice that of any other recent contract.[25] According to unnamed Western diplomats, Emercom is making kickbacks to the Iraqis through a Jordanian bank account. Emercom strongly refuted the allegation, claiming the firm had been awarded the contract as a result of its humanitarian work.[26]

Clawbacks, kickbacks and retroactive pricing

A kickback is the payment of a minor portion, usually five to ten percent, of the price of a good by one party in a transaction with another. It is a form of bribery or extortion that is tolerated by the party making the kickback so as to clinch a deal. The recipient is usually a government official in position to either block or facilitate the transaction. Kickbacks have been a hallmark of trade with the regime of Saddam Hussein since its grasp of power in the late 1970s. While the practice has usually been associated with weapons procurement, it was also a regular feature of the Reagan administration's agricultural support program to Iraq, as administered by the US Department of Agriculture's Commodity Credit Corporation (CCC). In this guise it was known as "after sales service."[27] The latest incarnation of Saddam's kickbacks, bringing in up to $275 million to the Iraqi regime, became publicly known in November 2000, as part of a complex scheme of price manipulation within the Oil-for-Food program.

In the world market setting the price of oil between a producer and a buyer is fraught with numerous complications and influenced by a myriad of factors. Political calculations, differences in crude grading, technical refining capacities, and trading in

---

[23] "Russian prosecutors to investigate Iraq oil deals," *Alexander's Oil & Gas Connections*, January 11, 2002, Source: *Energy24*.

[24] "Small traders dominate Iraqi oil customer list," *Reuters,* January 25, 2002, and Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France.

[25] "Russia 'giving illegal millions to Saddam for trade deals,' " *The Guardian,* August 20, 2002.

[26] Ibid.

[27] Alan Friedman, *Spider'sWeb: The secret history of how the White House illegally armed Iraq*, Bantam Books, NY, 1993, and Peter Mantius, *Shell Game: A true story of banking, spies, lies, politics and the arming of Saddam Hussein*, St. Martins Press, NY, 1995.

futures and other derivatives must all be juggled.[28] Free-market mechanisms rarely come into play. In 1996 the UN, in establishing the procedures for its Oil-for-Food program, came up with a novel method of establishing the price for Iraqi oil sold under the program.

Toward the end of each month SOMO, Iraq's state-owned oil marketing firm, presents the UN with a proposed price for the next 30 days. Although the UN Sanctions Committee, a Security Council body, has the discretion either to accept or reject these pricing proposals, until late 2000 the Committee almost always accepted the Iraqi proposals.[29] To apprise the Sanctions Committee of the intricacies and possible machinations inherent in the international crude oil trade, in 1996 the Secretary-General appointed four "oil overseers" to assess and approve contracts for the purchase of Iraqi oil. The first four overseers were from Russia, the US, Norway and France.[30] Over the next couple of years, three of the four resigned, leaving in place only the Russian overseer, Aleksandar Kramar. The Sanctions Committee locked horns on approving replacements: China insisted that its nominee should be approved, and the US disagreed.[31] In this high-profile hot spot, from July 1999 until August 2000, Mr. Kramar was the sole UN oil overseer.[32] Finally in August 2000, the Sanctions Committee managed to agree on the nationality and personality of two new overseers and appointed Michel Tellings from the Netherlands and Morten Buur-Jensen of Denmark.[33]

In November 2000 the Iraqi government opened a new front in its ongoing campaign to erode and avoid the UN sanctions when it declared that surcharges were to come into effect on oil export contracts and humanitarian goods imported under the Oil-for-Food program. The Iraqis' first tack was to request that the UN transfer, from its BNP account, 1.5 Euros per barrel to an account controlled by the Iraqi Central Bank.[34] This money, the Iraqis claimed, was needed to cover costs associated with oil production and transportation. As might have been predicted, the UN Sanctions Committee did not agree to this plan. So Baghdad tried a different approach: all oil contractors, the Iraqis announced, would now have to pay a $0.50-per-barrel surcharge directly to the government of Iraq over and above the money paid into the UN escrow account.[35] In order to make this self-styled production tax cost-effective in the highly fluid oil trading market; the Iraqis attempted to set their prices below market rate. Again, the UN Sanctions Committee balked.

---

[28] "*Oil Pricing Regimes,*" speech delivered by Professor Robert Mabro, Director, Oxford Institute for Energy Studies, at the OPEC/CWC sponsored seminar on "OPEC and the Global Energy Balance," held in Vienna on 28-29 September. *Middle East Economic Survey*, Oct 8 2001.

[29] The only exception occurred in July 1998, when, in a hint of things to come, the US objected to a pricing proposal, calling it too low.

[30] "U.N. Sanctions Committee Selects Overseers," August 20, 1996, *UN Press Release* SC/6255.

[31] "Saddam's Phantom Funds," *Platt's Global Energy Business*, January/February 1999.

[32] Daily Press Briefing of Office of Spokesman for Secretary-General, August 11, 2000.

[33] http://www.un.org/News/briefings/docs/2000/20000811.db081100.doc.html

[34] "Iraq asks UN for control over some of its oil revenues," *Reuters* from *Newspage*, November 9, 2000.

[35] "SOMO's Customers In Turmoil Over New Premium," *Middle East Economic Survey (MEES)*, November 20, 2000.

In late November 2000 the Sanctions Committee rejected Iraq's price for December oil. In response, the Iraqis stopped loading tankers. Two other factors influenced the decisions of both the UN and the Iraqis. First, the UN's BNP account at the time still held some $5 billion in uncommitted funds, so the contracting of humanitarian shipments would not be affected by a short halt in revenue flow.[36] Second, the Iraq-Syrian pipeline had begun carrying Iraqi oil for the first time in nearly 20 years, meaning that Iraq had another potentially lucrative market for its production. Because the Syria-bound oil was and is sold outside of the Oil-for-Food program, the proceeds from these sanctions-busting sales bypass the UN's BNP bank account and go straight into Iraqi coffers.

The Iraqi government treated the period of the shutdown, which lasted from December 1-12, 2000, as a forum for business negotiations. At one point the Iraqis reduced their surcharge demand, which oil companies were now openly calling kickbacks, to 40 cents a barrel.[37] On December 11 the UN Sanctions Committee approved the proposed Iraqi pricing mechanism for December at a discount of 30 cents per barrel below market rates. Oil analysts, though, still thought the price too low, as apparently did the UN's new team of oil overseers, who told the Committee, during another wave of disputes in September 2001, that a nickel a barrel would have been a reasonable premium for these traders and ample recompense for the amount of work and risk involved.[38]

The major oil companies agreed. Even with UN approval of a price so discounted that a surcharge/kickback would not render the purchaser non-competitive, all the major companies, including those from such friendly nations as Russia, China and France, refused to handle Iraqi oil under these conditions.[39] Instead, it was left to minor traders, so-called nameplate companies, from Liechtenstein, Belarus, Cyprus, Panama and others to contract the Iraqi exports. These contractors, however, have never been the end-users. Rather, the purchasers include a host of firms, some of which are full-service oil companies, but most of which act purely as brokers. According to the minutes of a UN Sanctions Committee meeting, these ". . . contract holders . . . the middlemen (a unique situation in Iraq). . . carried no risk and made no investment."[40]

But these firms, mostly inexperienced in the complexities of oil trading, began to default on contracts. Western companies such as Bayoil, Vitol and Taurus stepped in to help settle a chaotic market by buying up Iraqi oil, possibly even at a loss.[41] Ensuing major contracts went to less well-known enterprises with links to these major traders.[42] The Iraqis, ever sensitive to their foreign contractors' bottom line, also fell in step with the UN's agreed-upon pricing and cut the surcharge to 30 cents for shipments to Europe and

[36] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France, p.175.
[37] Nadim Ladki, "Iraq Oil Stays on Hold, Baghdad Wants Surcharge," *Reuters*, December 11, 2000.
[38] http://www.un.int/france/documents_anglais/010924_cs_presidence_resume.htm
[39] Carl Mortished, "Oil boycott over Iraqi 'breach of UN scheme,'" *London Sunday Times*, January 7, 2001, and Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France.
[40] Meeting of UN Security Council Committee 661, August 27, 2001.
[41] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France.
[42] Ibid.

25 cents for shipments to the US. Iraq reportedly even offered rebates to those contractors who had paid 40 cents over the previous couple of weeks.[43]

Given these solicitous overtures from the Iraqis, the major companies' lockstep boycott of Iraqi exports began to crumble. BP and Exxon astonished the other majors by resuming purchases from middlemen of Iraqi crude in mid-January 2001.[44] Both firms claimed not to have paid kickbacks, to have bought from reputable dealers from whom they exacted contractual stipulations that they, too, had not paid kickbacks. However, if these reputable dealers had in turn bought the oil from nameplate companies which *had* paid kickbacks, the turnover of the oil, at least on paper, provided the end-users with enough distance from the illegal payment for the kickback to become incorporated into the final price.

In any case, no analyst doubts that, at least during this period of time, kickbacks or surcharges paid to the Iraqi government were the norm. Indeed, the *Wall Street Journal*, in a carefully researched article, recently reported that every barrel of Iraqi oil sold is subject to kickbacks.[45] At 30 cents per barrel -- the average determined by the UN oil overseers to have been paid since December 2000[46] -- the Iraqis would have made $175 million from the winter of 2000 through the fall of 2001, when the Sanctions Committee instituted new measures to hamper the kickbacks.[47]

In August 2001, after another stoppage of exports by Iraq due to a pricing dispute, Britain suggested reducing the Iraqis' ability to manipulate pricing by shortening the pricing cycle from 30 days to 10. After some hesitation over fears that an abbreviated cycle could inflict undue disruption in world oil markets, the US agreed to back the UK's revised proposal of a 15-day pricing cycle. Russia objected, claiming that 15 days would still disrupt the market.[48] Nevertheless, the Sanctions Committee continued to battle the kickback scheme.

By the end of 2001, through the US's use of holds on the pricing mechanism, the system had been transformed into a retroactive pricing mechanism. Under this arrangement, which, as of this writing, still holds, a contractor buying Iraqi oil does not know how much he will have to pay for the crude until after he has delivered it to a refinery. According to the Iraqis, the Russians and many trading companies, this retroactive pricing or "blind-purchase" system has resulted, not surprisingly, in a dearth of buyers.[49] Indeed, since the adoption of this pricing mechanism and the feverish speculation over

---

[43] "Iraq finds way to regain direct control over oil export revenues," *Reuters* via *Newspage*, February 1, 2001.

[44] "BP and Exxon buy cargoes of Iraqi crude oil," *Alexander's Oil and Gas*, February 8, 2001, source Times Newspapers Ltd., January 16, 2001.

[45] Alix M Freedman and Steve Stecklow, "How Iraq Reaps Illegal Oil Profits," *Wall Street Journal*, May 2, 2002.

[46] http://www.un.int/france/documents_anglais/010924_cs_presidence_resume.htm

[47] The *Wall Street Journal* article (cited above, May 2, 2002), using estimates from UN officials, puts the figure at $300 million.

[48] Colum Lynch, "U.S. Supports Britain in Move To Tighten Pricing of Iraqi Oil," *Washington Post*, August 25, 2001.

[49] "New pricing hurting Iraqi oil exports," *Reuters,* February 28, 2002.

the last few months regarding possible US military action against Iraq, exports under Oil-for-Food have dropped off by more than 40 percent. In recent months an effort has been made by the UN Security Council to push Iraq to eliminate the kickback scheme. In early June, supposedly due to a shortage of buyers under the Oil-for-Food program, Iraq reduced its kickback rate from 30 to 15 cents per barrel.[50]

Although the kickback is denominated in dollars, the Iraqis insist that payment through the UN's BNP escrow account is transacted in euros. This demand, to which the UN acquiesced with little debate, was made in October 2000, coincident with the kickback demand, and began to be implemented in December of that year.[51] While the UN's Oil-for-Food program agreed to facilitate the change, and the UN Security Council approved it, the UN treasurer Suzanne Bishopric warned that the move would not be in the financial interest of the program. She estimated that the cost to the program over the first year would be at least $270 million, of which $185 million would come from lost interest payments, due to lower rates for euro deposits, and $83 million in lower revenue, as the price of oil would have to be discounted at least 10 cents per barrel for buyers to cover the added costs of dealing in euros.[52]

The Iraqis claimed that their action was purely political, in that they no longer wished to support the currency of their enemy and hoped to further drive a wedge between the US and Europe over policy towards Iraq. However, Iraq missed a follow-up opportunity when it failed to insist on converting the $10 billion sitting in the UN escrow account into euros. Having done so might have had some impact upon global exchange rates and set off a chain reaction that may actually have proven detrimental to the dollar.[53] But since the Iraqis didn't make this move, the rationale for the switch to euros may relate instead to their kickback scheme – that is, the Iraqis may have hoped to further muddy the waters and obscure the pricing mechanisms so as to facilitate the kickbacks. It may be purely coincidental, but the $270 million in estimated annual losses to the Oil-for-Food program made in October 2000 is strikingly close to the reported estimate of how much Saddam is likely to have made from kickbacks over the same period, that is, $175-300 million.

Consuming nations

The US Department of Energy tabulates the amounts and destinations of the UN-approved exports, nearly all of which go to OECD countries. From Phase 1 of the Oil-for-Food program, which ran from December 1996 to May 1997, through Phase 10, which ended in December 2001, non-OECD countries have steadily bought 200,000-350,000 bpd. The vast bulk of the exports, up to two million bpd, have gone to OECD countries.[54]

The US has always topped the list of end-consumers. The other major importers of Iraqi oil under the Oil-for-Food program have been France, Spain, Italy, Netherlands, Turkey

---

[50] Peg Mackey, "Iraq Cuts Kickbacks to Boost UN Oil Sales," *Reuters*, June 6, 2002.
[51] "U.N. to let Iraq sell oil for euros, not dollars," *CNN* from *Reuters*, October 30, 2000.
[52] Report of Suzanne Bishopric, UN Treasurer, to the 661 Sanctions Committee on 26 October 2000.
[53] Charles Recknagel, "Iraq: Baghdad Moves To Euro," *Radio Free Europe/Radio Liberty (RFE/RL)*, November 1, 2000.
[54] OECD Imports from Iraq, 1990-2000 http://www.eia.doe.gov/emeu/ipsr/t417.txt

and Japan. In 1997, the first year of the program, the US took only 13 percent, though it was still the largest end-user. By 1999, the US portion had climbed to 35 percent, and since September 11 the US has been purchasing well over 50 percent of all the Iraqi oil sold under the Oil-for-Food program.[55]

In numbers of barrels, the figures look like this: from the beginning of the program in December 1996 until July 1998, US monthly imports grew to just under nine million barrels of Iraqi oil, roughly 2.3 percent of all US oil imports. A sharp increase the following month brought the total to just over 22 million barrels, or 6.1 percent of all imports, with Exxon and Chevron responsible for the bulk of the increase. As a result, Iraq moved from being the US's twelfth largest petroleum supplier to being its sixth largest.[56]

September 2001 saw another sharp increase in US imports of Iraqi oil, this time, to 38.2 million barrels.[57] Iraq was now providing over 10 percent of US oil imports and had climbed over Nigeria to become the fifth largest exporter to the US, with only Canada, Mexico, Venezuela and Saudi Arabia providing more. (Since 1998, the increase in exports from Iraq has been offset by cutbacks in purchases from Venezuela, Saudi Arabia, Nigeria and Angola.)

It is not clear why the US purchased such large quantities of Iraqi oil in the wake of September 11 and amid the heightened threats toward the Baghdad regime emanating from Washington. It could be that the Iraqis, fearing they may be blamed for September 11, sought to tone down criticism and hence began sending more of its oil through the UN channel rather than through one of its sanctions-busting routes. Recognizing this, US authorities may have encouraged domestic refiners to absorb this extra capacity, in the interests of putting as much of the resulting revenue through the UN-scrutinized bank account as possible.

Since the start of 2002, apparently due to the retroactive pricing mechanism, the Iraqi exports under the Oil-for-Food program have declined dramatically to about one million bpd. While US imports have now dropped off due to the decline in Iraqi exports, Europeans consumers have almost totally curtailed their purchases. Therefore, for January-March 2002, the percentage of Iraqi exports bought by the US increased to over two-thirds of all Iraqi exports under the UN program.[58] In June 2002 US imports of Iraqi oil plummeted. Iraq fell to 14th place in exports of crude to the US, accounting for less

[55] OECD Imports from Iraq (Most Recent 12 Months), http://www.eia.doe.gov/emeu/ipsr/t314.txt
[56] http://www.eia.doe.gov/oil_gas/petroleum/data_publications/company_level_imports/cli.html
[57] Ibid.
[58] http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/company_level_imports/historical/2002/2002_03/data/import.xls. In late March 2002 Senator Frank Murkowski (R-Alaska) proposed a ban on all Iraqi oil imports. "Remember, this isn't 'oil-for-food," he told his colleagues; "Smuggled oil is 'oil for terror.'" Murkowski argues that America's ill-advised dependency on Iraqi oil is an important justification for drilling in the Arctic National Wildlife Refuge. In his proposal, Murkowski would lift his ban on all purchases of Iraqi oil only when UN weapons inspectors have verified that Iraq is cooperating with the weapons inspection regime.

than 1.5 percent of all US crude exports for that month.[59] While many analysts credit the retroactive pricing scheme with undercutting the market, a combination of the bad press generated by the large US imports, congressional pressure, and the major oil companies not wanting to be dependant on Iraqi supply should war break out, may also explain the reduced US imports.

II. Imports Under the Oil-for-Food Program

Background

The UN Oil-for-Food program began with the passing of UN Security Council Resolution 986 in April 1995. But because of disputes on how it was to be implemented, the first oil exports did not begin until December 1996, and the first humanitarian goods did not arrive until March 1997. Since then, the quantities and variety of goods labeled humanitarian have grown steadily, and in June 1998 the program was expanded to include the importation of spare parts for the Iraqi oil industry. From the first exports of Iraqi oil under the UN Oil-for-Food program in December 1996 until the end of August 2002, over $56 billion in revenues have been received by the UN escrow account at the New York branch of the Banque National de Paris (BNP).[60] Of this, over $36 billion has been contracted for the supply of humanitarian goods, including just over $3 billion contracted for oil field spares and supplies. Of the $36 billion total, only about $24 billion worth of humanitarian goods and $1.4 billion of oil spares have actually been delivered, with the rest in production or pending delivery. About $4.2 billion worth of contracts have been placed “on hold” by the Sanctions Committee because they involve supplying Iraq with materials suspected of having dual-use capabilities; another $2 billion remains available for further contracts.

Upon receipt of funds from a contractor, BNP, following UN Security Council resolutions, divides the money into sub-accounts as detailed below. It is worth noting that neither the Iraqi government nor the Kurdish governorates receives cash. Both governments, with the assistance of the UN, produce lists of needed goods. The Iraqi government is responsible for contracting for both the 59 percent and 13 percent accounts – that is, the Iraqis negotiate with foreign suppliers not only for all goods and delivery destined for areas under Baghdad’s control, but also for the areas under the control of the Kurdish authorities. Still, the UN authorizes the dispersal of cash from the BNP account.

The funds are allocated according to the following formula:

1. 59 percent goes toward humanitarian goods for Central and South Iraq (areas under the control of the Iraqi government). The original 53 percent figure was increased to 59 percent in October 2000;

---

[59] http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/company_level_imports/current/data/import.xls

[60] http://www.un.org/Depts/oip/

2. 13 percent is allocated for the three northern governorates that are under the control of the Kurdish Regional Government;
3. Costs for spare parts for the oil industry come proportionally from the 59-percent (Baghdad) and 13-percent (Kurdish) accounts;
4. 25 percent goes toward compensation claims stemming from Iraq's invasion of Kuwait, as per UNSC Resolution 687 and 705. The Geneva-based UN Compensation Committee processes claims and makes the awards. This figure was originally 30 percent but was reduced to 25 percent, with the difference going to the 59-percent allocation for humanitarian goods;[61]
5. 2.2 percent goes to the UN and its agencies for the costs of administering the program, though some of these funds deemed surplus are transferred to the 59-percent account;
6. 0.8 percent covers the cost of weapons inspections by United Nations Special Commission (UNSCOM), now United Nations Monitoring, Verification and Inspection Commission (UNMOVIC);
7. 1 percent goes to the administration of the BNP bank account;
8. Turkey receives transit fees for the use of its pipeline, which thus far have yielded nearly $1 billion for the Turkish state-owned pipeline company, BOTAS.

Procedure

Until May 14, 2002, the supply of humanitarian aid and oil field spares works as follows:[62]

1. The Iraqi government submits a distribution plan for each six-month phase to the UN Secretary-General, outlining in considerable detail the goods needed and where they will be distributed. This plan incorporates the program for the northern Kurdish region;
2. In a letter to the Security Council, the Secretary-General then approves the Iraqi plan, often with caveats and/or criticisms of the plan or the implementation of the previous plan;
3. The Iraqi government then contracts with foreign suppliers for the goods itemized in the plan;
4. The supplier then submits the contract and supporting technical documentation to the Office of the Iraqi Program (the OIP) at UN headquarters in New York. These submissions are made through suppliers' home governments' permanent missions to the UN;
5. Once the OIP has approved an application, it is passed on to the UN Sanctions Committee, which consists of all Security Council members and is responsible for determining whether the proposed imports could be used to build, disseminate or in any way facilitate Iraqi production of weapons of mass destruction. If any single member disagrees, an application can be put on hold. Since early 2000, many goods

---

[61] That figure may decrease even further, as more firms, after being threatened by the Iraqi government with the loss of its business, drop their Gulf War-related claims against Baghdad in the interests of retaining or increasing market share. (Steve Stecklow and Alix M. Freedman, "Iraq presses firms to forgo billions: Companies quietly drop war-reparations claims," *Wall Street Journal*, June 19, 2002.)

[62] This is a summary of procedures compiled from the UN's Office of the Iraq Program's website. http://www.un.org/Depts/oip/

no longer require Sanctions Committee approval but instead are approved by the OIP under a “fast-track” procedure;

6. Upon approval by the Committee or under the fast-track procedure, the OIP issues a letter both to the relevant permanent Mission and to the Iraqi government;
7. The government of Iraq then requests the BNP’s New York branch, which holds the UN escrow account for the Oil-for-Food program, to issue a letter of credit to the supplier;
8. The supplier commences implementation of the contract;
9. Upon delivery of the goods at one of four [five as of June 22, 2002] entry points into Iraq, UN inspectors check the shipment and, if correct, issue an authentication notice back to UN headquarters;
10. The OIP then authorizes the BNP to make a payment to the supplier.

On May 14, 2002, the Security Council unanimously approved UN Resolution 1409, the revised or so-called “smart sanctions.”[63] From now on, after approving a contract, the OIP will pass the application to the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) and the International Atomic Energy Agency (IAEA). Should UNMOVIC or the IAEA determine that among the goods proposed on the application are potential dual-use items that appear on a carefully drawn-up “Goods Review List (GRL),” the application is to be forwarded to the Sanctions Committee with an "assessment of the humanitarian, economic and security implications, of the approval or denial of the GRL item."[64] For applications in which no GRL items are found, or for those portions of an application devoid of GRL items, the Sanctions Committee now has no role to play. This change essentially does away with the need for a distribution plan. Iraq can now produce and sell as much oil as it wishes and spend the money on what it sees fit. The continued involvement of the UN is to insure that the goods are not on the GRL list and to course the funds through the UN account.

Resolution 1409 was not designed to further interdict the financial revenue accruing to Saddam and his sons. From all appearances, the new sanctions regimen will actually weaken international control and facilitate increased hard-currency opportunities for the Hussein regime in two ways. First, all efforts to increase international monitoring or oversight of sanctions-busting trade with Iraq were abandoned in the course of negotiations leading to the passage of this resolution.[65] With no new incentive for neighboring states to tighten their sanctions-busting trade,[66] Turkey, Syria, Jordan, Iran and the Gulf states will likely view this resolution as a “green light” to continue and expand their bilateral trade with Iraq. Second, the streamlined procedures will make it much easier for Iraqi officials to insist upon kickbacks on contracts supplying goods to the Oil-for-Food program. While some claim that this system has long been in place to a

[63] http://www.un.org/Depts/oip/background/scrs/scr1409.pdf The changes to the original procedures as described above are mainly in Points #5 and #6.
[64] Ibid.
[65] United States General Accounting Office, "Weapons of Mass Destruction: U.N. Confronts Significant Challenges in Implementing Sanctions against Iraq," May 2002, p.23.
[66] Victor D. Comras, " Shoving Saddam Back in His Box," *Washington Post*, December 31, 2001.

level of five percent on each contract,[67] with the UN oversight procedure now focused solely on dual-use items, little if any effort will be spent on preventing contract-related kickback arrangements.

The Kurds are also in a weaker position due to Resolution 1409, for while oversight on Iraqi importing processes has been eased, the Kurds' dependence on Baghdad remains. Although the Iraqis can import whatever they wish, the Kurds must still appeal to Baghdad to contract and transport their 13 percent of the goods. Should the Iraqis continue to be intransigent, contract substandard goods at high prices and foster significant delays, the Kurds have no recourse. The UN, to which they have appealed in the past, has even less bite.

Logistics

The UN and the Iraqi government have agreed to five ports of entry, of which three were in the original agreement -- Trebil, Jordan; Zakho, Turkey; and Umm Qasr, Iraq in the Persian Gulf. The others, Al Waleed, in Syria, and Ar'ar, Saudi Arabia, were added later. Umm Qasr is a seaport at the head of the Persian Gulf; the other four are road ports. The UN has stationed independent monitors at the ports. Lloyd's Register was originally contracted to staff these positions but was replaced in February 1999 by the Swiss firm, Cotecna. These monitors must authorize all shipments into Iraq before a supplier can receive payment. The monitors do not inspect every cargo that enters Iraq, only those that wish to be paid for their goods *via* the Oil-for-Food program.[68] "Only one out of 20 trucks [is] checked at the Jordanian border; at the Turkish border it is one in 200."[69]

Transport by sea to the ports of Aqaba, Jordan or Umm Qasr are handled by a variety of commercial shipping agents, largely from Jordan and the UAE. Several transport companies, mostly joint ventures with the Iraqi government or Iraqi firms, have been set up to handle the trucking from Aqaba to Baghdad. Inside Iraq it is the responsibility of the government to transport, warehouse and distribute the goods in the central and southern areas under its control.

The infrastructure deficiencies in the Iraqi transport system were noted as long ago as early 1991.[70] Since Phase 1 of the Oil-for-Food program, hundreds of millions of dollars have been allocated for purchase of vehicles and spares, but it is unclear how many have actually been delivered.[71] The US claims that hundreds of those that have been delivered have not been deployed for humanitarian work but rather have been requisitioned for use by the Iraqi military.[72]

---

[67] United States General Accounting Office, "Weapons of Mass Destruction: U.N. Confronts Significant Challenges in Implementing Sanctions against Iraq," May 2002.
[68] http://www.un.org/Depts/oip/cpmd/authentication.html, and Gary Milholin and Kelly Motz, "Shopping with Saddam Hussein," *Commentary*, July-August 2001.
[69] "Preparing to do business with Iraq," *BBC News, Middle East,* March 5, 2001.
[70] Report to the Secretary-General on humanitarian needs in Kuwait and Iraq, S/2366 March 20, 1991.
[71] http://www.un.org/Depts/oip/ The site has detailed "distribution plans" -- in fact, Iraqi shopping lists -- for Phases 5-11.
[72] "US Sat Recon Upstages UN-Iraq Talks," *AFP,* March 6, 2002.

Relations between the Iraqi government, BNP and the UN

The Banque National de Paris (BNP) was chosen in consultations between the Government of Iraq and the UN secretariat to handle the revenue from the Oil-for-Food program.[73] Relations between the Iraqi government and both the UN and BNP have often been acrimonious, with particular difficulties arising over delays in issuing letters of credit. The Central Bank of Iraq has criticized BNP for dragging its feet both on issuing letters of credit and paying suppliers.[74] However, as the Executive Director of the UN's Office of the Iraqi Program, Benon Sevan, has pointed out, it is first up to the Iraqis to issue requests, based on signed contracts with suppliers, before the UN can authorize BNP to issue letters of credit. In his reports Mr. Sevan has declared that the Iraqis were extremely tardy in furnishing the stipulated requests. More than $1 billion, and at times considerably more, usually sit untapped in the BNP account because of these Iraqi government delays.[75]

While the UN has managed to weather that complaint, the Iraqis seem to be making headway with regard to another of their grievances. As part of their criticism of the banking arrangements, the Iraqis have said that the sheer volume of money, as well as the complications inherent in the convoluted sanctions mechanism, have overwhelmed BNP's ability to function efficiently. The UN responded by suggesting that Swiss and Swedish banks may be used to lighten BNP's administrative load, and the Iraqis parried with requests for an even wider distribution of banking services.[76] In late January 2002, the UN received final bids for banks other than BNP to provide services under the Oil-for-Food program. One week later, the UN issued letters of intent to pursue negotiations with Credit Agricole of France; Deutsche Bank and Hypovereinsbank of Germany; Banco Bilbao of Spain, Rabobank of the Netherlands and Switzerland's Credit Suisse Group, as well as BNP-Paribas. Such broad diversification will likely facilitate Iraq's manipulation and abuse of the system as it plays one bank off against another.[77] As of the end of May 2002, the UN had entered into negotiations with the new banks, with the expectation that the requested diversification would soon be implemented.[78]

The Kurds as well as the Iraqis also complain about the interest accrued on unspent funds. For a variety of reasons, funds accumulate in the UN's BNP account. At times it has reached the astronomical amount of over $10 billion. According to the UN treasurer, as of October 2000, $541 million in interest had been generated and been ploughed back into the account for further purchase of humanitarian supplies.[79] Nevertheless, both Iraqis and Kurds complain about the lack of transparency in the method of handling the

---

[73] The interim report of the Secretary-General on the implementation of Security Council resolution 986 S/1996/978, (1995).

[74] "Iraq in talks with UN to spread UN-controlled oil revenues," *Alexander's Oil and Gas* from *AFP*, May 8, 2001.

[75] Briefing by the Executive Director of the OIP to the Security Council, February 26, 2002, http://www.un.org/Depts/oip/background/latest/bvs020226.html

[76] "UN worried about unspent Iraqi oil revenues in one French bank," *AFP,* November 17, 1999.

[77] Carola Hoyos, "Banks compete over Iraq contract," *Financial Times*, February 19, 2002: "It will be easier for the Iraqis to play games and abuse the system after the diversification than it is now. When you are a customer of several banks you have more power than when you are the customer of just one bank."

[78] UN OIP, Note By the Office of the Iraqi Programme, May 24, 2002.

[79] Report of Suzanne Bishopric, UN Treasurer, to the 661 Sanctions Committee on 26 October 2000.

interest, while the Kurds continue to insist that they are not receiving their 13 percent share.

The Major Traders[80]

By Country

Over the first seven phases of the program, from December 1996 to May 2000, France and Russia garnered more contracts than any other countries, worth about $2 billion each. In each of the first three phases, Australia, thanks to wheat sales through the Australian Wheat Board, was among the top three sellers, with over $100 million per phase. More recently, Australia has again been exporting major amounts of wheat, building up to some $420 million in 2001.[81] China has steadily increased its market share, often pulling down third place in the rankings per phase.

Despite their refusal to sell oil to their enemies, aside from the US's Coastal Oil and some little known UK firms, the Iraqis have offered to include US and UK firms on the humanitarian supply side, but neither country has encouraged its companies to be major contractors.[82] In total, the US has only $220 million worth of business contracted, the bulk of which came in the first two phases; the UK has just over $130 million, spread across the first eight phases.

In the second half of 2000, because France only went so far as to advocate for *reforming* the UN sanctions rather than for Iraq's preferred option of lifting them entirely, French companies saw their market share slashed dramatically, from nearly half a billion dollars in Phase 7 to just over $150 million in Phase 8. Russia and China also suffered major cuts. The beneficiaries of these cuts were Arab nations: Egypt, Jordan, Tunisia, Syria and the UAE. The Iraqi government had shifted strategy, from cozying up to Security Council members toward cultivating Arab brethren.[83]

Egypt and Jordan were always among the top 10 exporters per phase.[84] But with Phase 7 (first half of 2000), their exports saw a sharp rise, in Egypt's case doubling to $570 million. The Iraqi trade minister claimed that by the end of 2002 Iraq would have imported $3 billion worth of goods from Egypt.[85] Also during Phase 7 Tunisia showed a

---

[80] Except where otherwise noted, the following analysis is based upon information inadvertently released by the UN in February 2001. The UN's Office of the Iraqi Program, in the interest, OIP officials claim, of protecting proprietary information, does not normally disclose the names of companies that have contracts with the Iraqi government.

[81] "Farmers say government's hard line on Iraq is hurting exports," *Associated Press (AP)*, August 11, 2002.

[82] "Iraq happy to see so many firms interested to supply spare parts," *Alexander's Oil and Gas* from *Associated Press (AP)*, September 25, 1999.

[83] Nevertheless, to keep the Russians, Chinese and French on board, the Iraqis continued to dangle post-sanctions oil field concessions for which the Arab oil companies lack the necessary capital and technology.

[84] Jordan also exports to Iraq $300-400 million annually outside of the UN program, as payment for cut-rate oil. See below.

[85] "Egypt exports to Iraq to reach three billion dollars by end-2002: minister," *AFP,* February 25, 2002. This effective piece of propaganda leaves the reader believing that this is the level of annual trade, when in fact it is the total trade since 1996.

dramatic rise, exporting almost $400 million in the course of the year 2000. The UAE's exports, which had been growing steady since late 1998, nearly tripled during the second half of 2000, to over one-half billion dollars. Many of the goods were re-exports -- that is, Arab trading companies were selling goods they had purchased elsewhere, mostly from Europe. Turkey also began increasing its exports in the year 2000, but not in such dramatic fashion as would be expected from a neighboring state with a competitive manufacturing industry. Of course, Turkey does export huge amounts to Iraq -- just not through the Oil-for-Food program. The two neighbors' illicit trade is carried out openly at the Habur border crossing, which at times is overwhelmed and impassable due to the two-way, sanctions-busting traffic. The traffic across this border is covered below.

Southeast Asian countries such as Vietnam, Thailand and Malaysia have done steady business with Iraq. Vietnam, largely through sales of tea and rice, for which Iraq is its foremost market, has increased its share per phase, from $38 million in the first phase to $250 million in Phase 8. Last year the Iraqi Grain Board signed an agreement to invest over $6 million in a rice-processing plant in the Mekong Delta.[86]

By Company

Through the end of the year 2000 the main exporter to Iraq, with contracts worth more than twice those obtained by any other single company, was the Australian Wheat Board, which in less than three years sold Iraq some $1.2 billion worth of wheat. The Iraqis have exerted considerable political pressure on the Australians and its farm lobby to link continued sales to the withdrawal of Australia's support for the US/UK stance on Iraq.[87] Iraq is Australia's second leading market and the largest supplier of wheat to Iraq.[88] Baghdad's second and third largest suppliers under Oil-for-Food were Vietnam Northern Food Corporation, with $450 million of rice, and Egypt's Holding Company for Food Industries, with nearly the same amount in sugar, ghee and other food. Fourth was Thailand's Chaiyaporn Rice Co., selling rice; fifth, Al Wasel and Babel General Trading, a Dubai-based member of the Lootah Group, was set up "to cater for the needs of Iraq Government under 'Oil for Food program,'"[89] and sold some $300 million, mostly in vehicles.

In sixth place came Egypt's Ginza Company, with nearly $300 million worth of steel products, followed by Russia's Technopromexport, with over $230 million of "mechanical equipment." In eighth spot was Vietnam's Dairy Products Company, selling $220 million of milk and baby food, and ninth was India's Bharat Heavy Electrical, which garnered $200 million from just two contracts for gas turbine equipment. Rounding out the top ten -- surprisingly, bearing in mind the longstanding public antipathy between the two nations – was Saudi Arabia's Al-Riyadh International Flour Company, selling $200 million worth of wheat, ghee and other foodstuffs. France, up until this time the country selling the most to Baghdad, was also the most egalitarian,

---

[86] http://www.vietnampanorama.com/business/fies.html

[87] "Aust farmers worry over Iraqi wheat sales," *South News*, http://southmovement.alphalink.com.au/southnews/Mar8.htm

[88] Virginia Marsh, "Baghdad, Canberra in deal on wheat exports", *Financial Times*, August 21 2002

[89] http://www.lootahgroup.com/wasel.htm

spreading its contracts out to many different companies. The top French companies, placing only 32nd and 33rd, were Schneider Electric High Voltage SA followed closely by Renault, each with contracts worth just under $75 million.

The two US companies with export contracts worth more than $50 million (most of which were negotiated during the first three phases) are Telwar International, a Tennessee-based firm that deals in bulk foodstuffs such as wheat and rice, and Luxor California Exports Corporation, which also dealt in bulk foods from its San Diego base. Luxor was founded during the 1980s to take advantage of a US government-subsidized program designed to encourage exports bound for Iraq and Algeria.[90] When the Oil-for-Food program opened for business, Luxor opened an office in Baghdad. Then, according to the company's website:

> Also, due to the variable nature of politics in the United States, we opened an office in Paris, Luxor Exports-France. Because France has a more stable relationship with Iraq, it is through this office that we have done our business with the Iraqi governmental buyers, specifically through the export of equipment, machinery and spare parts.[91]

From this office Luxor sold another $16 million of oil field spares under the UN program.

Holds/ non-compliance

Until the passage of Resolution 1409 in May 2002, any member of the UN Security Council could object to any proposed contract. While this system is now being phased out, there was considerable controversy over its application. The system used to work as follows. Once the UN secretariat approved a contract, it was circulated among all Sanctions Committee members (i.e., the 15 Security Council members). If any member objected to a particular contract (in practice, only the US and the UK ever did so), the contract was put "on hold." The term "non-compliant" was used when a contract was submitted to the UN's Office of the Iraqi Program (OIP) in New York and the UN official decided that application lacked sufficient information either to accord it fast-track approval or to circulate it to the Sanctions Committee. As of year-end 2000, China had the most contracts put "on hold" or deemed "non-compliant:" a total of 660, or about 15 percent of all such contracts. The next four countries with contracts "on hold" were European: France, Russia, Italy and Switzerland. Regional countries followed -- Jordan, Egypt, UAE and Turkey -- after which came Tunisia and another flush of European nations -- Austria, Sweden, Yugoslavia and Germany. Overall, companies from Western European countries were responsible for 36 percent of the total number of blocked contracts, Middle Eastern companies for 31 percent, 20 percent came from Asian companies and 12 percent from firms in Eastern Europe.

The list of individual companies responsible for submitting contracts that ended up "on hold" or "non-compliant," as of the end of 2000, was led by China's CMEC (China National Machinery and Equipment Import & Export Corporation). The bulk of the holds were for what the UN itemized as "Equipment," nearly a quarter billion dollars' worth of gas-powered turbine generators.

---

[90] http://www.luxorexports.com/ENG/background.html

[91] Ibid.

In fact, five of the next six companies on the list had contracts to export gas turbines to Iraq: the Swiss firms ABB Power and Sitea International, each with well over $100 million; Russia's Technostroyexport, Yugoslavia's Energoprojekt and China's Dongfang Electric. Of the top eight companies with contracts "on hold," only Egypt's Leatsco, which was trying to sell $128 million of vehicles, and France's Alcatel, with its attempted exports of $72 million in telecommunications equipment, were *not* trying to sell gas turbines.

Oil field spare parts

Beginning with Phase 4, in June 1998 the UN authorized the purchase of spare parts in order to halt the degradation of the Iraqi oil fields and increase Iraq's oil production. At first the quota for spare parts was $600 million per year, which was raised to $1.2 billion in March 2000. Of the first $2 billion in contracts issued by the Iraqis, France garnered by far the most, worth nearly $400 million, or 20 percent of the total. Italy came in second, with $230 million, followed by Russia, with $191 million. The UAE and Jordan came in just behind, with $186 and $174 million, respectively. China was sixth, with $146 million.

Broken down by company, the Russian oil company Zarubezhneft placed first, capturing over $56 million of contracts in oil spares. A Tunisian firm, Petroleum & Industrial Realization Contractors came in second, with a $51 million contract for a water treatment plant that was subsequently placed "on hold." Other oil field-related water treatment equipment came next and was contracted to Italy's Ionic Italba, for over $40 million; next came Pakistan's Oil and Gas Services Group and France's Phoceenne, each with over $30 million in contracts.

Quid-pro-quo: Contracts for Political Support

Under the Oil-for-Food system, Iraq decides upon the allocation of funds and determines which countries and which suppliers within those countries will receive contracts. Competitive bidding, transparency of process and efficacy or accountability of a chosen firm are not factors in Iraq's decision-making, despite the oversight and influence of the UN's Office of the Iraqi Program. Iraqi officials have never hidden the reasons, prerequisites or criteria behind their choices of contractors under the Oil-for-Food program; indeed, they have stated many times that the money will flow to those who demonstrate political support for Baghdad in the international arena.

From the outset of the Oil-for-Food program in late 1996 through the first half of 2000, the Iraqis focused on purchasing from sympathetic permanent members of the UN Security Council, primarily France, followed by Russia, then China. During the year 2000, as momentum towards easing or even lifting sanctions began to gather steam, and revenue from the Oil-for-Food program vastly increased, Iraq shifted its focus to other friendly states, particularly Arab countries. By the end of the year 2000, Egypt, UAE and Jordan had become the favored trading partners.

III. Iraqi oil exports outside of the Oil-for-Food program

There are at least nine routes by which Iraq exports oil outside of the UN's Oil-for-Food system. These are: by truck to Turkey, Jordan, Syria and Iran; by barge through Iranian and Kuwaiti territorial waters, by topping up Oil-for-Food-authorized tankers at Mina al-Bakr, and most recently, *via* pipeline and railway to Syria. When using these routes, Iraq is paid directly, either in cash or barter. That is, the proceeds from these sales do not pass through the UN account at Banque Nationale de Paris's New York branch, nor are they subject to the 41 percent of Oil-for-Food profits set aside for compensation for Kuwait, support for the Kurds and UN expenses.

Tankers to Turkey

Background

Turkey benefited significantly from the Iraq/Iran war as both nations turned to Turkey for trade. Just prior to the war, in 1980, Turkish exports to Iraq were $135 million;[92] five years later they had increased seven-fold, to one billion dollars. Due to the damage done to the offshore ports in the Gulf, Iraq shifted most of its oil exports to Turkey and Jordan. Along with the Iraqi-Turkish pipeline, which was expanded to carry a maximum of 1.5 million bpd, an estimated 250,000 bpd were trucked across the two borders.[93] The traffic dropped off significantly at the end of the Iraq/Iran war, as both countries reverted to using the Gulf for trade. Turkish officials, in denial that the 1980s trade boom was destined to be short-lived, regularly complain that Turkey has suffered $40 billion in lost trade because of the UN sanctions. That figure seems grossly inflated.

In the spring of 1991, in the immediate aftermath of the Gulf War, the Iraqi government violently quashed an uprising in the Kurdish north. Nearly half of the population of Iraqi Kurdistan, 1.5 million people, fled toward Turkey and Iran. The US, with its British and French allies, responded by declaring parts of northern Iraq to be "safe havens," and under threats of military action, Iraqi forces withdrew. Within days the Kurds began to return. Literally days later, oil was again flowing from Iraq to Turkey. This time, though, the oil did not move *via* the Kirkuk-Ceyhan pipeline, which had been shut down in 1990 with the imposition of UN sanctions, but rather was carried on anything with four wheels.[94]

The Kurdish militia, the Peshmerga, with the backing of US air cover, established its hold just north of the oil storage areas near Kirkuk. Turkish truckers, therefore, had to traverse Kurdish lines to transport fuel from Kirkuk across the Turkish border. Improvised tankers were used, and every truck had some type of ad-hoc extra fuel tank strapped to its underbelly or hidden beneath the flat bed. The workmanship was so shoddy and the tanks so overfilled that the road between Kirkuk and the Habur crossing was at times impassable due to oil slop.

---

[92] Henri J. Barkey, "Hemmed in by Circumstances: Turkey and Iraq since the Gulf War," *Middle East Policy,* October 2000.
[93] U.S. Library of Congress, "Iraq- A Country Study," 1990.
[94] "Turkish Truckers Smuggling Oil Across Kurdistan," *AFP,* December 13, 1991.

The Kurds immediately took financial advantage of the opportunity presented. As Iraq, Turkey and the new authorities in this region -- those of Masoud Barzani's Kurdish Democratic Party (KDP) -- came to develop a *modus vivendi*, trade in oil products became better organized.[95] Tankers were redirected from other tasks and brought in from the Iranian trade. The economy began to boom on both sides of the border. Saddam Hussein put his son Udai and son-in-law Hussein Kamel in charge at the Iraqi end.

Trading mechanisms

The trade in petroleum products between Turkey and Iraq outside of the Oil-for-Food program entails two commodities: crude oil and diesel fuel. The first involves direct arrangements between the Turkish and Iraqi governments; for the second, the Iraqi Kurds act as middlemen between Iraqi “private sellers” and Turkish entrepreneurs.

TUPRAS, the Turkish state-owned refining operation and Turkey's largest company, was the first firm to load or “lift” oil upon the resumption of Iraqi oil exports under the UN program.[96] Until the year 2000, TUPRAS was the largest non-Russian contractor under Oil-for-Food, importing some 50-100,000 bpd. The company also purchased up to another 100,000 bpd of sanctions-busting crude.[97] Between May 2000 and May 2001, Turkey imported illicit crude at the rate of about 70,000 bpd.[98] As distinct from the diesel trade, trade in crude is not effected by individual truckers in makeshift tankers slopping fuel along the roads in two countries. It is a more organized and professional operation, using the internationally regulated, TIR-qualified tankers contracted by TUPRAS, which drive down to the Iraqi storage areas south of Kirkuk. The drivers do not need to negotiate roadside purchases or concern themselves with exchange rate calculations; all negotiating has been done previously at the governmental level. The drivers return through the customs post with relative ease and deliver the crude to the TUPRAS refinery in the southeast Turkish town of Batman and to Iskenderun on the Mediterranean.[99] In their eagerness to circumvent the UN system, the Iraqis provided some oil without charge as payment for debts owed by the state prior to the imposition of sanctions.[100] Tekfen, the Turkish firm that built the Iraq/Turkey pipeline, has been a beneficiary of such a deal.[101]

In early 2001, as noted above, most reputable oil companies stopped buying Iraqi crude under Oil-for-Food due to the Iraqi insistence on their paying kickbacks. TUPRAS was

---

[95] "Dollars reportedly earned by selling gasoline to Kurds,” *AFP,* August 15, 1993.

[96] Arab Oil and Gas Directory 1997, Arab Petroleum Research Center, Paris, France.

[97] "Turkey aims to boost Iraqi border crude imports,” *Reuters,* February 7, 2002.

[98] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France p.178.

[99] "Toros Marine Terminal appointed for the handling and storaging of Iraqi Crude Oil," http://www.tekfen.com.tr/english/news_tpic.asp. Also, *Alexander's Oil and Gas Connections*, from *MEES* via *Newspage*, "Turkey to increase cross-border Iraqi crude imports outside UN program,” May 12, 2000.

[100] "Iraq Trucks 2Mn Tons Of Crude Oil To Private Turkish Firms Outside Oil-For-Food Program", Middle East Economic Survey, June 7, 1999..

[101] "Turkey to increase cross-border Iraqi crude imports outside UN program,” *Alexander's Oil and Gas Connections* from *MEES* via *Newspage*, May 12, 2000. Also, "Toros Marine Terminal appointed for the handling and storaging of Iraqi Crude Oil," http://www.tekfen.com.tr/english/news_tpic.asp

no exception: in 2001 the state-run firm stopped buying crude through the UN. But then, unlike the majors, TUPRAS began solely buying straight from the Iraqis.[102]

The mechanics of trade in the second commodity, diesel fuel, have always been more chaotic, more locally driven and more prone to the vagaries of officials on both sides of the border. From the beginning in 1991, thousands of makeshift, ad-hoc tankers hauling two to eight tons of fuel each have been the mainstays of the diesel business. In 1993 the Iraqi government designated that, henceforth, private companies, al-Sadirah, Wadi Hajar, and al-Basha'ir, rather than the state marketing firm SOMO, would handle the Turkish trade.[103] This appeared to entail a shift from state control of the trade under Saddam's since murdered son-in-law, Lt. Gen. Hussein Kamel al-Majid, to companies under the direct control of Saddam's son Udai.[104] Two other small companies, Nineveh, also reportedly controlled by Udai, and Asia, allegedly in the hands of Massoud Barzani's Kurdish Democratic Party (KDP), are said to act as intermediaries between the Iraqis and the Kurds.[105]

After paying some nominal amount to SOMO, Udai's "private" Iraqi firm delivers tanker loads of diesel to "private" Iraqi Kurdish storage dumps in Dohuk and Zahko, the towns closest to the Turkish border crossing at Habur.[106] The Iraqi Kurds in charge of this region are from Barzani's KDP, and this trade represents their government's main source of revenue. Rather than deny the trade or their party's role in it, KDP spokesmen extol the virtues of their position, geographic and commercial, as middlemen between the Iraqi supplier and Turkish consumer.

> The KDP's [representative in Ankara] Dizayee says that the diesel trade is tying the economy of his faction's territory close to that of Turkey. Almost all the goods that Kurdish businessmen purchase with their profits from the diesel trade come from Turkey. And Turkish entrepreneurs are beginning to take an interest in the KDP's market. So far, that has spawned several joint ventures in hotels and the opening of the first private supermarket in Dahuk.[107]

By the time the diesel hits the Habur border, where both the KDP and Turkish governments tax the truckers, its price already surpasses world market rates.[108] A profit margin remains, thanks only to the low level of taxation the Turkish government was willing to tolerate in order to keep this trade going.

For six years successive Turkish governments decided to forego imposing normal taxation and duties on the diesel coming across the Habur border, while maintaining them

---

[102] "Turkey aims to boost Iraqi border crude imports," *The Kurdistan Observer* from *Reuters*, February 8, 2002.
[103] "Government: 3 companies to sell oil to Turkey, Iran," *AFP* from *MEES*, FBIS-NES-93-195, October 12, 1993.
[104] Hussein Kamel no longer participates in the diesel trade, having been murdered by Udai and his associates in 1996. The bad blood between the brothers-in-law is covered in The Family section below.
[105] "KDP makes over $1 million daily from sanctions-busting," *Iraqi National Congress News*, July 15, 2000.
[106] Ibid.
[107] Charles Recknagel, "Turkey: Ankara Builds Influence In Northern Iraq," *RFE/RL*, August 4, 2000.
[108] "Iraqi Diesel Trade to Turkey Restarts," *Reuters,* December 7, 1997.

on diesel imports elsewhere. The trade with Iraq continued to grow and by 1997 accounted for nearly a quarter of the Turkish diesel market.[109] At first the government tried to limit the extent of the retail outlet for the Iraqi diesel to the southeast of the country, which, having suffered the brunt of the sanctions on Iraq, sorely needed the relief provided by lower fuel prices. But once across the border, the diesel, like water in the sand, disappeared into the Turkish economy, popping up in fuel stations and roadside stands nationwide.[110] The mainstream oil companies cried "foul" at what they perceived to be unfair competition, and when Shell Oil pulled out of a refining and marketing joint venture in early 1998, the government began attempts to regulate the trade.[111] At the same time, a report by Turkish oil field executives was given to the Turkish National Security Council, alleging that rather than providing an economic boost to the impoverished southeast, the profits from the Iraq diesel trade were going to the terrorist-designated Kurdistan Workers' Party, or PKK.[112]

In the summer of 1998 the Turkish government instituted a set of regulations that effectively legalized the sanctions-busting trade in diesel.[113] A new subsidiary of the state-owned company Turk Petrol, Turkish Petroleum International Corporation (TPIC), was formed and tasked with creating a depot in the Turkish town of Silopi, where all diesel traders would be mandated to dump their loads. All tankers and drivers were to be registered and taxed and were only allowed limited trips and quantities. The truckers, companies and local authorities protested, fearing that any government regulation was likely to impede trade and reduce profits. The Turkish government responded to their concerns by granting a monopoly on the retail trade to 15 local trading companies which joined forces in the firm SILOPI A.S.[114] Even so, the government had to fight for more than a year to overcome the truckers' and companies' resistance, and the new system was only implemented on September 1, 1999.[115]

During the new plan's first three months in operation, the Turkish government took in $74 million in taxes.[116] Even so, the retail price still remained lower than that of other imported or locally refined fuel.

The following two years have proved the truckers' and traders' fears to be well founded. The depot in Silopi has turned out to be a bottleneck, the computerized system of registration has restricted truckers to one trip every three to four months and TPIC has

---

[109] "Silopi A.S. established for Habur diesel trade," *Turkish Daily News*, July 28, 1998.
[110] Jon Hemming, "Illicit Iraqi Fuel Trade at Gates of U.S. Base," *Reuters*, July 14, 1998.
[111] Slchuk Gokoluk, "What Made Shell Go?," *Turkish Probe*, issue 284, *Turkish Daily News*, June 21, 1998.
[112] "Automatic Pricing for Fuel -- Deregulation with Diplomatic Consequences," *Turkish Probe*, *Pulse of Turkey*, June 20, 1998.
[113] Amberin Zaman, "Turkey Shrugs Off U.N. Blockade of Iraq Commerce: Nation lets truck drivers openly import, sell diesel from Kurdish-controlled area," *Los Angeles Times*, August 4, 1998.
[114] "Silopi A.S. established for Habur diesel trade," *Turkish Daily News*, July 28, 1998.
[115] Ersan Ercoy, "Snags seen in Turk control of illicit Iraqi diesel," *Reuters*, September 3, 1999. Coincidentally, Iraq, seizing the opportunity presented by a devastating earthquake that had struck Turkey two weeks earlier, pledged a gift to the stricken nation of 500,000 barrels of oil ("Iraq donates 500,000 barrels of crude oil to Turkey," *Alexander's Oil and Gas Connections,* from *AP*, November 5, 1999).
[116] "At Iraq's Backdoor, Turkey Flouts Sanctions," *New York Times*, March 30, 2001.

been slow in paying for the loads delivered.[117] The involvement of the Turkish government has also further politicized the diesel trade: as the Turkish government now has a direct financial stake in each transaction, the Iraqi government enjoys new leverage.

In the aftermath of September 11, the Iraqis shut down the diesel trade. The trade in crude, however, continued with little or no interruption.[118] Some of the Turks, who had up to 5000 truckers in northern Iraq waiting to load, claimed that the interruption was due to the Iraqis' desire to stockpile refined oil products in the event that they were attacked by the US. This is possible, as the Iraqi refining capacity is limited. But bearing in mind that the crude, a government-to-government arrangement, is still flowing, it is also possible that the apparent need to stockpile diesel may have served as a convenient excuse to drastically curtail this trade. On the Turkish side, moves to restart the diesel trade in January 2002 were limited by a government decree in March that capped imports of Iraqi diesel at 15,000 bpd, ostensibly to reduce tax losses[119] and -- at least according to the Turkish military – to cut the revenue of Turkish firms that are sympathetic to the PKK.[120]

From the Iraqi side, the ongoing increase in government-to-government diesel sales to Syria[121] suggests that cutting out Udai and other intermediaries has taken precedence over stockpiling. Indeed, eight months into the cutback, one would think the Iraqis would have stockpiled sufficient diesel for any war scenario; yet the Turkish diesel trade has only resumed to about 20 percent of its former level. Turkey has threatened to shut the diesel trade down entirely on September 1, 2002.

Political economy

Saddam's son Udai's control over the Turkish sanctions-busting trade may be waning. Taking his place appears to be his younger brother Qusai, who over the past few years has taken on many official roles, including military command of the northern area from which the oil trade is organized.[122] Qusai's growing involvement may explain, at least from the Iraqi side, the shift from the entrepreneurial diesel trade to the organized government-to-government dealings in crude.

Despite the hefty cut taken by the Kurds, Iraqis do better by selling their oil directly to the Turks than through the UN structure. *Via* the Turkish truckers, the Hussein family nets cash, after minimal expenses; *via* the UN, the remuneration comes in the form of humanitarian aid. Moreover, the sanctions-busting traffic is two-way, with truckers and

---

[117] "Truck Drivers Protest TPIC," *Turkish Daily News*, FBIS-NES-2002-0307, March 5, 2002.
[118] "Turkey Calls Back Trucks in N. Iraq, Not Clear When Iraq To Resume Diesel Supply," *Ankara Anatolia,* September 21, 2001, FBIS-NES-2001-0925; also *Ankara Anatolia*, December 20, 2001.
[119] "Turkey Tightens Border Trade Regulations To Avoid Tax Losses," *Turkish Daily News*, FBIS-NES-2002-0307, March 7, 2002..
[120] "PKK-Linked Company Wins Bid to Store N. Iraq Fuel; Military Cancels Contract," *Sabah*, May 20, 2002.
[121] Qusai Hussein likely engineered the increase in diesel trade with Syria at his older brother's expense. See section below on trade with Syria.
[122] "Iraqi Official on Qusay's Rise to Power," *RFE/RL*, August 13, 1999.

traders bringing in many types of consumer goods for sale.[123] The truckers often spend up to a week in Iraq and hence spend money in restaurants, hotels and on vehicle maintenance. The Turkish truckers thus provide spin-off economic benefits to those northern regions of Iraq under Baghdad's control, such as Mosul and Kirkuk.[124]

For the Kurds, the Iraq-Turkey oil trade is a mixed blessing. The wholesale and retail trade in Iraqi Kurdistan of Turkish and European goods has flourished due to this arrangement, and estimates of revenue run as high as $3 million a day, though most estimates put it at about one-third of that. The trade in oil, diesel and other commodities is the most significant source of funds for the embargoed area.[125] However, it has put one of the two key Kurdish parties, the Kurdistan Democratic Party (KDP), in a very profitable joint venture with the very regime that only 15 years ago committed genocide against the Kurdish population and is still involved in mass expulsions of Kurds. The other main Kurdish party, the Patriotic Union of Kurdistan (PUK), which unlike the KDP holds no territory between the Iraqi suppliers and the Turkish market, has largely been cut out of this financial windfall and criticizes/envies its rival.[126] In 1998 an agreement to unite the Kurds against Saddam that was brokered by the Clinton administration and signed in Washington had as its primary clause the sharing of this revenue between the two parties. That part of the agreement has never been fully implemented.

As for the Turks, at one point an estimated 45,000 Turkish truckers used the Kirkuk-Habur route. This so overwhelmed logistical capacities that Turkish authorities limited each trucker to one trip every three months. The trade in crude oil and diesel fuel did provide a significant economic boost to the impoverished southeast, not only to the thousands of truckers and their families, but also to the attendant service industry and the producers and wholesalers of the goods bound for Iraq. Clearly, some in the Turkish government appreciate how vital the sanctions-busting business has been to this Kurdish area of Turkey, where the government has fought a violent insurgency for nearly 20 years. As a local business leader said, " . . . if people were not offered employment, they would have no alternative but to take their guns and go to the mountains."[127] On a trip to the southeast last year, Prime Minister Bulent Ecevit promised to increase, not curtail the illicit trade. True to his word, in February 2002 the Turkish government declared its intention to increase imports of sanctions-busting crude to 80,000 bpd.[128] However, due to the new restrictions on the once-open diesel trade in favor of the more organized dealing in crude oil, most of the economic benefits previously accruing to the people of the southeast now go to the Turkish government.

---

[123] Some of this material is treated in greater depth in the Minor Sources section below.
[124] At the same time, the Iraqi government has re-invigorated an Arabization campaign in those same areas, the objective of which is to expel non-Arabs (Kurds and Turkmen) from the oil-rich areas around Kirkuk.
[125] The Oil-for Food program brings in mostly goods.
[126] Association of Kurdish Tribes spokesman Hussein Khader al-Sourchi has gone so far as to claim that this rivalry over who should receive the smuggling income and the taxes on cross-border trade has been the primary cause of the internecine fighting that divided the two parties for many years ("US military action won't benefit Iraqi Kurds," *Daily Star* [Beirut], March 12, 2002).
[127] "Habur strike highlights splits in fuel-trading," *Turkish Daily News*, May 2, 2000.
[128] "Turkey aims to boost Iraqi border crude imports," *Reuters*, February 7, 2002.

International response

The United States and the UN Sanctions Committee have allowed this trade to flourish with only nominal protestations. With the northern no-fly zone patrolled from Turkish airbases, the US and UK are not eager to press the Turkish authorities to shut down the smuggling. Moreover, Western governments see some advantage in allowing the trade to go on, to benefit, even compensate, the Turks and the Kurds for some of the difficulties both have endured under the sanctions regime. As one State Department official put it, "The Kurds are getting a lot of money through the oil trade, and we like the Kurds."[129]

Three American presidents appear to have calculated that Baghdad's profits from the Turkish oil trade were a tolerable cost for the above-mentioned benefits to other participants in that trade. The argument put forward has been that, as long as the Turks took care to inspect and interdict materials that would support Saddam's development of weapons of mass destruction, US policy *was* being implemented. The current Bush administration has until now continued to follow this line. However, now that the rampant violations so obviously benefit Baghdad and can no longer be rationalized as bolstering the economy of Turkey's troubled southeast, that calculation may change.

[129] "Fatter in Lean Times Iraqi elite gets richer from illegal smuggling ignored by U.S.," *NY Newsday,* June 19, 2000.

TABLE I: Trade with Turkey outside Oil-for-Food

Diesel Trade Estimated Revenue (in millions)[130]

	1996	1997	1998	1999	2000	2001	2002
Average bpd	30,000	30,000	50,000	100,000	75,000	30,000	15,000
Iraqi Gov't.	$ 27	$ 27	$ 46	$ 92	$ 68	$ 27	$ 14
Udai's Companies	$ 72	$ 55	$ 55	$ 247	$ 243	$ 73	$ 38
KDP Gov't.	$ 56	$ 56	$ 93	$ 186	$ 139	$ 56	$ 28
KDP Companies	$108	$ 82	$ 82	$ 370	$ 365	$ 109	$ 57
Turkish Gov't.				$ 74	$ 185	$ 74	$ 37
Turkish Companies	$333	$333	$555	$1,036	$ 648	$ 259	$ 130

Crude Oil Trade Estimated Revenue (in millions)[131]

	1996	1997	1998	1999	2000	2001	2002
Average bpd					50,000	75,000	100,000
Iraqi Gov't./ KDP Gov't.					$ 347	$ 356	$ 438
Turkish Gov't.					$ 109	$ 164	$ 219
Turkish Companies					$ 22	$ 33	$ 45

Totals in diesel and crude trade with Turkey

Total Diesel	$596	$553	$830	$2,005	$1,648	$ 598	$ 304
Total Crude					$ 478	$ 553	$ 702
Total Diesel + Crude	$596	$ 553	$830	$2,005	$2,126	$1,151	$1,006

[130] To come to the above figures, the average yearly price of oil was taken from "US Department of Energy, Cost of Crude Oil Imports, Persian Gulf Nations." From this figure, we calculated from press accounts that the Iraqi government received $2.5/bbl. From the remainder we calculated that the Kurdish companies took 60 percent, Udai's companies 40 percent. KDP government taxes are calculated at 3 cents per bbl. The Turkish companies (truckers and retailers largely based in the Southeast) received 18 cents per liter until 1999, when the Turkish government began taking 4 out of the 18 cents, leaving the companies a 14-cent profit. These percentages and bpd were taken from published estimates. Total revenue is much more than the world price, as it includes revenue to the truckers and retailers that would otherwise have gone to the Turkish government in the form of taxes.

[131] Crude price is the same as above; the Turkish Government received $6/bbl. The remainder went to the Iraqi and KDP governments, but the authors have not found any estimates of how those numbers break down, nor is it clear whether the KDP government also extracts taxes on the crude trade. The Turkish company figure is based on transport costs of $8.90/ton, or about $1.2/bbl, taken from press accounts.

Tankers to Jordan

Background

As with the trade between Turkey and Iraq, the Iraq/Iran war altered other regional trading relationships. During the 1980s Iraq replaced Saudi Arabia as Jordan's main oil supplier.[132] The Saudis cut Jordan out completely in 1990, ostensibly for unpaid bills, but possibly in retaliation for Jordan's sympathy for Iraq during the run-up to the Gulf War. At the same time, the Jordanian port of Aqaba replaced the Gulf ports of Basra and Umm Qasr as the main route for Iraqi imports and exports. However, the trade between Iraq and Jordan grew lopsided: Iraq needed more goods than Jordan needed oil, and Iraq began running a deficit. At the imposition of sanctions in 1990, Baghdad was in debt to Amman for $1.3 billion.

King Hussein's Jordan had managed to position itself as an essential and moderate interlocutor with the West, all the while doing business with the ugly regime just down the road in Baghdad. His strategy proved effective: in recognition of Jordan's dependency on Iraqi oil, the UN never objected to Jordan's sanctions-busting trade with Iraq. Beginning at 65,000 bpd in 1991, the volume of Iraqi oil exports to Jordan has officially climbed to almost 110,000 bpd, while some observers think it may be significantly higher. The implementation in 1997 of the Oil-for-Food program caused no ripples in that steady increase.

About half of the oil Baghdad has called a gift from Iraq to Jordan; the other half is paid for, at concessionary prices, with Jordanian goods, largely food, medicines, appliances and fertilizer. In 1995, to facilitate the oil flow, Jordan and Iraq began discussing the construction of a pipeline.

Trading Mechanisms

Each year in November and December, negotiations between the two countries take place to determine the quantity and price of oil imports for the following year. These negotiations are often prolonged and contentious, and the King of Jordan or President Saddam Hussein usually makes the final decision. On top of the steady increase from 65,000 bpd to the current level of nearly 110,000 bpd,[133] some analysts believe the trade could be as much as 50 percent higher, with another 50,000 bpd being trucked into Jordan, presumably for export, on top of the amount agreed to in the yearly trade protocol.[134] But exact figures for the last two years, at least, are difficult to come by: there has been no international oversight at the port of Aqaba since the year 2000. (See *International Response* section, below.)

---

[132] Laurie A Brand, *Jordan's Inter-Arab Relations: The Political Economy of Alliance Making*, Ch. 6, Columbia University Press, New York, 1994.
[133] External Trade Statistics of Jordan, http://www.dos.gov.jo/owa-user/owa and "Iraq and Jordan sign oil agreement," *Arabic News,* December 24, 2001.
[134] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France, p.177.

The half of the oil not deemed "free" is valued at a discount, believed to be $5-6 below market price.[135] As mentioned above, this second portion is supposed to be traded for Jordanian goods, the overall annual value of which has ranged from $200 million in the early 1990s to $450 million in 2001. The last year, though, has seen a dramatic drop-off in exports to Iraq. Despite the eagerness of Jordanian officials and businesses, the Iraqis have neither been signing as many contracts with Jordan as their annual agreement calls for, nor fully implementing those already signed.[136]

The way money changes hands to accommodate this trade is far from transparent. According to the Arab Oil and Gas Directory, a well-respected source in the petroleum industry, Jordan deposits payment for the cut-rate oil into an Iraqi-controlled account at the Central Bank of Jordan.[137] These funds are intended to be used to purchase Jordanian goods for export to Iraq. In practice, these funds could be used to purchase anything, including items imported into Jordan that are otherwise banned by UN sanctions. A Jordanian merchant, importer or agent must present an invoice to the commercial attaché at the Iraqi embassy in Amman to receive payment from this account.[138] There is no international oversight, not only on these banking transactions, but also on the entire Iraqi-Jordanian annual trade arrangement. Recently Iraq has openly recognized this re-exporting approach and has named Russia, Egypt and Jordan as the main buyers of foreign goods on its behalf.[139]

On an average daily basis, 300 tanker trucks move oil from Iraq to Jordan.[140] The monopoly on trucking is held by the Iraqi-Jordanian Overland Transport Company,[141] a joint governmental venture established in 1980.[142] This company is supervised directly by the Ministers of Transport of the two governments, who report on its status to their respective heads of state, the President of Iraq and the King of Jordan.[143] Despite this being a joint venture, Jordan ends up paying Iraq some $50-80 million annually for this

[135] "$600m Oil Protocol With Iraq 'Key Weight' in Kingdom's Economic Balance," *Jordan Times,* FBIS-NES-2000-1101, November 1, 2000.
[136] "Jordan vies for Iraq's external trade," *Iraq Press,* August 20, 2001.
[137] Arab Oil and Gas Directory 2000, Arab Petroleum Research Center, Paris, France, p. 178.
[138] Gary Milholin and Kelly Motz, "Shopping with Saddam Hussein," *Commentary*, July-August, 2001.
[139] "Jordan, Russia, Egypt doing business on Iraq's behalf," *Iraq Press,* October 10, 2001.
This *modus operandi* is far from new: using the Central Bank of Jordan to provide funds, ostensibly to subsidize Jordanian-produced goods, but in fact to help powerful Jordanian firms move foreign goods to Iraq, was a technique employed by Baghdad in the 1980s, well before the imposition of sanctions (Laurie A Brand, *Jordan's Inter-Arab Relations: The Political Economy of Alliance Making*, Ch. 6, Columbia University Press, New York, 1994).
[140] "Jordanian-Iraqi company examines expanding land transport fleet," *Jordan Times,* June 30, 1998.
[141] Ibid.
[142] Laurie A Brand, "*Jordan's Inter-Arab Relations..*, cited above, ftnote 134.
[143] "General Assembly of Iraqi-Jordanian Land Transport Company Meets in Baghdad," *Iraq News Agency,* FBIS-NES-2002-0216, February 16, 2002, and, "King, Crown Prince meet with Iraqi transport minister," *Jordan Times,* June 30, 1998.

transport.[144] The company also hauls a significant portion of the goods from Aqaba to Iraq imported under the Oil-for-Food program.[145]

The proposed pipeline, now under discussion for seven years, may actually be coming into existence. Tenders were finally floated late in 2001, and contracts are expected to be issued in late 2002,[146] with the first oil scheduled to flow in October 2004.[147] The pipeline's capacity, 350,000 bpd, will be significantly more than Jordan requires, affording possible surplus for Palestine, Israel or as exports into the world market from the port of Aqaba.[148]

Political Economy

Jordan has regularly joined the chorus of those demanding that the sanctions be lifted.[149] Numerous highly publicized visits have taken place by officials from both countries, capped in November 2000, with a trip to Baghdad by the Jordanian Prime Minister Ali Abdul Ragheb.[150] The PM had been to Baghdad before, when he was the Minister for Industry and Trade and responsible for the trade arrangements between the two countries. In September 2000 Jordan became the first Arab country to fly into Baghdad since the imposition of sanctions.[151] This flight came just days after the groundbreaking, embargo-stretching flights from France and Russia. Also in 2000, Jordan terminated the contract of Lloyd's Register, the company monitoring the port of Aqaba for compliance with the UN sanctions regime. (See below for more on Lloyd's.)

Jordan, however, has also sent signals that it opposes the Iraqi regime. For example, the newly installed King Abdullah paid two widely publicized visits to Kuwait in 1999 and 2000.[152] More importantly, Amman permits the Iraqi National Accord to operate on its territory, thereby dealing Baghdad a significant blow. From this office the INA has orchestrated several damaging defections of high-ranking Iraqi officials.[153]

Domestically, the Jordanian government cannot be seen as being too anti-Iraq because of the numbers of Palestinians in Jordan, a constituency energetically cultivated by Saddam. Regionally, Jordan has significant trade with Israel and some with the Saudis. An

---

144 "Jordan, Iraq Oil Pipeline Reportedly Attracts Thirty Potential Contractors," *Jordan Times,* FBIS-NES-2002-0219, February 19, 2002.

145 Despite all this activity the company generates very little profit: only $350,000 in 1997. "King, Crown Prince meet with Iraqi transport minister," *Jordan Times,* June 30, 1998.

146 "Jordan, Iraq Oil Pipeline Reportedly Attracts Thirty Potential Contractors," *Jordan Times,* FBIS-NES-2002-0219, February 19, 2002.

147 "Iraq to supply Jordan with crude oil through pipeline from 2004," *Alexander's Oil and Gas,* from *AFP*, May 12, 2002.

148 Iraqi exports to Israel are not out of the question. According to *The Jerusalem Post* in August 1994, Israel had made a tentative agreement to import sanctions-busting oil *via* Jordan. "Minister Cited on Deal With Jordan to Buy Iraqi Oil," *Jerusalem Post,* FBIS, NES-94-160, August 18, 1994.

149 "$600m Oil Protocol With Iraq 'Key Weight' in Kingdom's Economic Balance," *Jordan Times,* FBIS-NES-2000-1101, November 1, 2000.

150 Ibid.

151 "Jordan flight arrives in Baghdad," *BBC*, September 27, 2000.

152 "King Abdullah in Kuwait," *Arabic News,* May 21, 2001.

153 "A correction to an article in the Guardian Newspaper regarding Iraqi National Accord," Iraqi National Accord, February 25, 2002, http://www.wifaq.com/news1.html

alternative source of cheap oil would be a prerequisite for the Jordanians to get out from under the Iraqis' sway, but neither the Kuwaitis nor the Saudis has offered them the level of oil subsidy that Saddam provides.

As for the recent cooling of trade activity between the two countries, several factors may be in play. The mechanisms of trade with Jordan, including the reliance on trucking, have fallen far more under the control of Udai than of Qusai. If Qusai has indeed been gaining influence over the last year, as is suggested here, then he may well be moving to undermine his brother's profits from the Jordanian trade. [154]The construction of a pipeline would also eliminate the need for the IJLTC trucks, thereby cutting Udai out of a lucrative revenue stream. The Syrians, who apparently prefer to deal with Qusai, seem thus far to have been the beneficiaries of the drop-off in trade with Jordan.

International Response

The UN has never formally issued any documentation authorizing the Jordanian-Iraqi trade. Instead, the UN Sanctions Committee has regularly "taken note" of this irregular bilateral arrangement.[155] This diplomatic two-step did not, however, signify Western forces' trust that the Jordanians would adequately control sanctions-busting activities through the port of Aqaba. In 1991, the US, the UK and France set up a naval patrol outside the port and inspected incoming cargoes. The blockade increased costs to shippers and suppliers of goods to Jordan, due to the delays inherent in having one's ship inspected by US sailors.[156]

Complaints began pouring in, and under this pressure US Secretary of State Warren Christopher traveled to Amman in August 1993. He came away thanking King Hussein for his "effective enforcement of the sanctions."[157] In 1994 the blockade was lifted, in exchange for which the Jordanian government agreed to contract the UK firm, Lloyd's Register, to inspect all cargo entering Aqaba that was destined for Iraq.[158]

While the foreign military presence was removed, importers of goods to Jordan still complained of being unduly obstructed[159] and rejected allegations that shipments destined for Iraq were being imported into Jordan under false paperwork. It took six years, but under pressure from the Iraqi government and local businesses, in late 2000 the Jordanians banned Lloyd's from Aqaba. As the Prime Minister Abdul Ali Ragheb explained, Jordan's expansion of trade with Iraq was the government's prime objective.[160] Since then, there has been no independent inspection of the trade between Jordan and Iraq.

---

[154] See The Family section below for more on this.

[155] "Turkey to increase cross-border Iraqi crude imports outside UN program," *Alexander's Oil and Gas Connections* from *MEES* via *Newspage*, May 12, 2000.

[156] "Further on Expected Agreement with Lloyds," *Jordan Times,* FBIS-NES-94-130, July 7, 1994.

[157] "Special Office to Regulate Iraqi Exports Opened," *Jordan Times,* FBIS-NES-93-153, August 11, 1993.

[158] "Further on Expected Agreement with Lloyd's," *Jordan Times,* FBIS-NES-94-130, July 7, 1994.

[159] lham Sadeq, "Lloyds inspection team in Aqaba under fire," *The Star* (Amman), July 2, 1998.

[160] "Aqaba: After Lloyds!," *The Star* (Amman), October 19, 2000.

TABLE II: Trade with Jordan outside Oil-for-Food

Estimated Revenue (in $millions)[161]

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Protocol bpd	76,000	82,000	84,000	90,000	96,000	96,000	96,000	100,000	110,000
Actual bpd	78,000	83,000	88,000	87,000	94,000	91,000	94,000	125,000	135,000
Protocol imports		$220	$220	$220	$255	$200	$300	$450	$260
Iraq	$197	$317	$185	$249	$199	$162	$190	$430	$424
Jordan	$407	$442	$502	$510	$330	$414	$677	$734	$646

Pipeline to Syria

Background

Syria and Iraq have been rivals and at times enemies for more than 35 years. Syria sided with Iran during the Iran/Iraq war, and in 1982 it closed the oil pipeline between the two countries. A thaw in relations began in 1995, road transport was opened between the two countries in the summer of 1997 and later that year a memorandum of understanding on re-opening the oil pipeline was signed. By mid-1998 Iraq had repaired its portion of the pipeline and awaited final Syrian approval for the re-opening. It wasn't until two years later, though -- after Iraqi engineers had helped repair pumping stations on the Syrian side,[162] French companies had helped expand the pipeline[163] and, more significantly, after the death of President Hafez al-Assad in June 2000, when the traditional rivalry between the two counties lost much of its ferocity -- that Iraqi oil began to flow.

The oil flow accelerated the thaw in bilateral relations. Syria reopened the Aleppo-Mosul railroad, inactive since 1981, and established trucking and bus companies to facilitate the transport of Syrian goods and people to Iraq. The Syrians also made plans to upgrade their diplomatic presence in Baghdad, negotiated and signed a free-trade agreement, and attended groundbreaking trade meetings at which the Iraqi trade minister promised a massive increase in trade volume.

Trading Mechanisms

Via Pipeline: The Iraqi Petroleum Company (IPC) pipeline, which runs from Iraq's northern oil fields of Kirkuk to Syria's Mediterranean coast at Banias, with a spur to

[161] Figures for imports and exports of goods are taken from Jordanian Department of Statistics and converted form Jordanian dinar to dollars. http://www.dos.gov.jo/dos_home/home_e.htm. To the resulting figure for Jordanian exports, $50 million annually was added for transport. Figures for 2001 and 2002 also include an extra 25,000 bpd outside of the trade protocol. For this oil $6 a barrel was added for Jordan, the rest (world price minus six), to Iraq.

[162] "Syria's decision to import Iraqi crude follows example," *Alexander's Oil and Gas* from *Energy24*, October 31, 2000.

[163] "Iraqi-Syrian Pipeline Expansion," *AP,* April 11, 2000.

Tripoli in Lebanon, has a capacity of 700,000 bpd.[164] The Syrian oil fields, near the Euphrates city of Deir al-Zor, also feed into the pipeline. The negotiations regarding the re-opening of the pipeline were initiated by Udai Hussein and went on for nearly five years.[165]

The first agreement, in late 1997, called for the Syrians to pay half-price for the oil.[166] At the time the price of oil was about $13 per barrel.[167] When oil began to flow in late 2000, however, the price was closer to $30 a barrel.[168] Analysts believe Iraq's agreement with Syria was renegotiated and is now similar to that with Jordan, in that Syria receives a discount, in this case estimated at $2-6 per barrel.[169] Analysts also expect the Syrians, like the Jordanians, to facilitate the procurement and transport of goods proscribed under the Oil-for-Food program.[170] In the fall of 2000, as the first reports surfaced of oil flowing through the pipeline, Syria claimed that small quantities of oil were moving, sufficient for testing purposes only.[171] However, since December 2000 Syria, whose normal exports were about 350,000 bpd, has been exporting over 450,000-550,000 bpd, mostly to European customers.[172] As the Syrian oil fields have been in decline for quite some time, the overnight increase can only be due to Iraqi oil. The Syrians, though, do not re-export the Iraqi crude directly; rather, the Iraqi oil is first refined and then used to replace Syrian oil for the purposes of domestic consumption, thereby freeing up an equivalent amount of Syrian oil for export. Some experts believe Iraqi exports to Syria will increase to 250,000 bpd during 2002,[173] and plans are underway for the construction of a *new* Iraqi-Syrian pipeline, with a capacity of 1.4 million bpd.[174]

In 2001 Lebanon and Iraq came to an arrangement, modeled on that of Iraq and Jordan, whereby Iraq would provide Lebanon a quantity of free oil *via* the Syrian pipeline -- 400,000 barrels to begin with -- and sell Lebanon more.[175] This agreement was

---

[164] Arab Oil and Gas Directory 2001, Arab Petroleum Research Center, Paris, France, p.184-5.

[165] "Iraq, Udayy's Control Over Economy, Trade Viewed," *Al-Watan al-Arabi,* FBIS-NES-96-137, July 16, 1996.

[166] Con Coughlin, "Saddam sets up new oil smuggling deal to beat sanctions," *Sunday Telegraph*, November 1, 1998.

[167] US Department of Energy, http://www.eia.doe.gov/emeu/international/petroleu.html#CrudePrices

[168] Ibid.

[169] Alan Sipress and Colum Lynch, "U.S. Avoids Confronting Syrians on Iraqi Oil", *Washington Post*, February 1, 2002.

[170] Con Coughlin, "Saddam sets up new oil smuggling deal to beat sanctions," *Sunday Telegraph*, November 1, 1998. In this capacity, the recently reopened rail line between Mosul, in northern Iraq, and Aleppo, Syria's second largest city, came in handy: in June 2002 Western intelligence officials told *The Times of London* (Michael Evans, "Baghdad 'using Syria rail link to smuggle in military hardware,'" June 10, 2002) that Iraq has been using the rail line to smuggle in "a vast range of military equipment and parts for weapons of mass destruction." According to *The Times*, these include old Bulgarian tanks once sold to Syria, Czech-made Scud missile-guidance systems and surface-to-air missiles and possibly components for Iraqi's NBC weapons program.

[171] Alan Sipress and Colum Lynch, "U.S. Avoids Confronting Syrians on Iraqi Oil," *Washington Post*, February 1, 2002.

[172] "Syria-Iraq oil pipeline still flowing," *Reuters*, February 28, 2001.

[173] "Iraqi Oil Industry in 2002: A Turning Point," *Middle East Economic Survey,* January 14, 2002.

[174] "New Syrian-Iraqi oil pipeline will carry 1.4 million barrels per day," *Syria Live,* March 29, 2002.

[175] "Lebanon to receive 400,000 barrels oil under Iraqi government grant," *Alexander's Oil and Gas* from *Reuters* and *Newspage*, October 12, 2000.

announced just prior to the re-opening of the Iraqi-Syrian pipeline. During the summer of 2002, Baghdad and Tripoli, as a part of the free trade agreement, began making preparations to restore the pipeline to Lebanon for regular use.[176] They expect to put it into use for up to 50,000 bpd, estimated to be Lebanon's domestic consumption.[177] The oil will be sold to Lebanon at a cut-rate price. As the Lebanese import over $1 billion of petroleum products, there is ample scope for Iraqi exports.[178] Both the Syrian and Lebanese arrangements with Baghdad fall outside the Oil-for-Food program.

By Tanker: Since the re-opening of trade between Syria and Iraq in October 1997, four border crossings have come into use.[179] UN Oil-for-Food monitors, who only inspect goods being imported to Iraq under their program, are present at only one of these crossings;[180] at the other three, there is no international observation of the sanctions-busting trade. Late in 1998, prior to the completion of the repairs to the pipeline, an agreement was struck between Iraq and Syria to begin exporting Iraqi oil to Syria *via* tanker truck.[181] Although it is unclear when the transport actually commenced, trucks were certainly rolling prior to the fall of 2000, when the pipeline came into use,[182] and have carried on since.[183] Likely the cargo is Iraq's surplus diesel that at one point went to Turkey. It is reported that hundreds of trucks are involved in the transportation,[184] suggesting that up to 30-40,000 bpd are being moved – a volume roughly equal, as noted above, to the decrease in the Turkish diesel trade. Rail tankers may also be in use: in March 2001, there were suspicions that oil was being transported by rail to the new Syrian power plant near Aleppo, which reportedly requires some 30,000 bpd.[185]

Political economy

Syria, Jordan and Iraq have at times had the type of zero-sum triangular relationship wherein improvements in relations between any two parties signify a degrading of relations with the third. Recent moves would seem to confirm this analysis: Baghdad's increased trade with Syria saw a concurrent decline in Iraqi trade with Jordan. Working in Jordan's favor, however, has been its better road and port infrastructure, amenities the Syrians have begun to appreciate. Recently President Bashar Assad allocated $34 million to upgrade Syria's main port of Tartous.[186] In January 2001, just six weeks after the opening of the pipeline, Iraq announced it would direct much more of the transit of the Oil-for-Food imports through Syrian ports.[187] For the Syrians, the cut-rate Iraqi fuel,

---

176 "Iraq and Lebanon to rehabilitate oil pipeline", *UPI*, July 11, 2002
177 "Iraq to assist Lebanon to repair idle pipeline" *Iraq Press*, August 25 2002
178 "Lebanon's Petroleum Import Bill Rises To $1.1bn In 2000", *Middle East Economic Survey*, March 19 2001.
179 "Iraq's trade with Syria booms despite U.N. embargo," *Iraq Press,* July 20, 2001.
180 UN Office of the Iraqi Program, http://www.un.org/Depts/oip/cpmd/authentication.html
181 Con Coughlin, "Saddam sets up new oil smuggling deal to beat sanctions," *Sunday Telegraph*, November 1, 1998.
182 "Syria's decision to import Iraqi crude follows example," *Alexander's Oil and Gas* from *Energy24*, October 31, 2000.
183 "Iraq's trade with Syria booms despite U.N. embargo," *Iraq Press,* July 20, 2001.
184 Ibid.
185 Brian Whitaker, "Syrian rehabilitation is in the pipeline," *The Guardian*, March 26, 2001.
186 "$34 million for Tartous port," *Syria Live,* February 23, 2002.
187 "Iraq increases its imports though the Syrian ports," *Arabic News*, January 3, 2001.

which allows them to export more of their own oil, represents a hard-currency windfall that could pump as much as a half-billion dollars annually into Syria's $7.5 billion budget.[188] The new arrangements with Lebanon, with oil passing through the Syrian pipeline and the planned Iraqi imports from Lebanon traversing Syrian territory, will bring in additional income and, as an added boon, is likely to enhance Lebanese dependency on Syria.

Iraqi relations with Syria can be viewed from several perspectives. First, the new warmth may signal an overt attempt to encourage Syria not to side with Iraq's enemies in any upcoming armed confrontation, as Syria has done in Iraq's last two wars. Second, the Iraqis may hope that enhancing its illicit trade relations with Syria will impede Syria's move toward a more open economy, which, in turn, could compel similar movement toward a more transparent political process that Iraq, like other nations in the region, would likely perceive as a dangerous precedent. Improved relations with Syria also puts pressure on Jordan to be more compliant with Iraqi wishes relating both to the importation of goods and to restricting the activities in Jordan of Iraqi dissidents. Finally, Iraq’s improved relations with Syria can also be read as another move by Qusai in his ongoing contest with Udai for the seat of their father. One key sector, transport, may have fallen under Qusai's sway, as the al-Dhilal company, thought to be an Iraqi security service front, has taken over much of the transport between Syria and Iraq that was previously run by an Udai-controlled company, Al-Hoda.[189] Qusai is also said to enjoy friendlier relations with President Bashar Assad, a development that has caused his elder brother considerable unease.[190]

International responses

Criticism of Syria has been mild from the UN Sanctions Committee and its hard-line members, the US and UK. The US will not unduly pressure the Syrians, whom it now deems essential for any serious movement toward peace in Israel and for cooperation in the war on terrorism. Shortly after taking office, in late February 2001, US Secretary-of-State Colin Powell visited Syria. Secretary Powell said that President Bashar Assad had thrice assured him that Syria would put the resumed pipeline flow under the UN Oil-for-Food program.[191] It has yet to happen. The UK has made somewhat stronger protestations, but to no avail: no threats of punitive action were made in response to these blatant violations of UN sanctions. In the fall of 2001, Syria was elected to the UN Security . And as of January 1, 2002, Iraq’s prime sanctions-busting partner sits on the UN Sanctions Committee and will do so through 2003.

---

[188] "Syria passes 2002 budget with $7.6 bln spending,” *Syria Live*, November 30, 2001.

[189] "Iraqi security use Transport Company on Baghdad-Damascus Line,” *Iraq Press*, May 7, 2001. More on this in the Minor Sources section below.

[190] "Saddam mulls fresh cabinet reshuffle to boost son's standing," *Iraq Press,* August 18, 2001.

[191] Charles Recknagel, "Iraq: Syria Considering End To Oil Smuggling,” *RFE/RL,* March 7, 2001

TABLE III: Trade with Syria outside Oil-for-Food

Estimated Revenue (in $ millions)[192]

	2000	**2001**	**2002**
Avg bpd	180,000	180,000	230,000
Iraq	$205	$854	$1,175
Syria	$ 65	$394	$ 504

Barges hugging the Iranian coast

Background

At the head of the Persian Gulf are the Iraqi offshore ports of Mina al-Bakr and Khor al-Omaia, both of which are served by an oil pipeline from Basra. Roughly half of all Iraqi exports under the Oil-for-Food program originate from Mina al-Bakr. Nearby are two other ports: Umm Qasr, along the Kuwait-Iraq border, and, up the Shatt al-Arab toward Basra, the port of Abu al-Flus. While these ports were built to be the main facilities for Iraqi imports and exports, they suffered heavy damage in the Iraq/Iran war and endured further bombing during the 1991 and 1998 US-led coalition air strikes.

Trading Mechanisms

The sanctions-busting in these ports occurs *via* four mechanisms: first, by loading up small barges, which stick within Iranian territorial waters until the Strait of Hormuz, whereupon they cross to unload in the UAE; second, by loading barges that travel to the Emirates by way of the Kuwaiti coast; third by topping off with illicit fuel tankers already stocked with legitimate loads under Oil-for-Food, and finally, by transporting oil by truck to Iranian destinations for re-export.

Barges along the coasts

Barges and smaller tankers fill up at the Shatt al-Arab ports of al-Muftiya and Abu al-Flus, north and south of Basra respectively, cross to the Iranian side and then travel along the Iranian coast, all the way to the islands of Qesh or Qeshim.[193] Along the way, naval patrols of the Iranian Revolutionary Guard, particularly from the Revolutionary Guard's maritime station just north of the mouth of the Shatt al-Arab, record and facilitate the transit.[194] These vessels, each with carrying capacities in the range of 15,000-50,000 barrels, are old, not designed for the transport of petroleum products, and are often overloaded and listing.[195] Iran furnishes its own pilots to navigate the shallow waters

[192] Figures based for 2000 (November-December only) and 2001 on an average of 150,000 bpd through the pipeline and 30,000 bpd of fuel transported by truck or rail. For 2002, 200,000 bpd through the pipeline and 30,000 bpd by truck or rail. The figures are based on Syria receiving $6 per barrel (upper range of published estimates), Iraq the balance.

[193] Barbara Crossette, "Smuggling of Iraqi Oil Is Rising, U.N. Is Told," *New York Times*, March 24, 2000. Robin Wright, "Use of transit point to skirt U.N. sanctions," *Los Angeles Times*, July 2, 2000.

[194] Kenneth Bacon, "Department of Defense News Briefing," April 20, 2000, and Robin Wright, "Use of transit point to skirt U.N. sanctions", *Los Angeles Times*, July 2, 2000.

[195] Charles Recknagel, " Iraq: Oil Smuggling Produces High Profits," *RFE/RL,* June 21, 2000.

close to shore and to help prevent polluting spills.[196] At Qeshim, at the Strait of Hormuz, the smugglers may acquire Iranian certificates of origin for their cargo.[197] For all these services the Iranians reportedly charge a fee of approximately $7 a barrel.[198] The oil is then either transferred into larger vessels, or, bearing the new documentation, the barges proceed to Pakistan, India or cross the Strait of Hormuz to the ports of Fujayrah or Dubai, where the oil enters the world market system and is reloaded for onward shipment. [199] During the height of sanctions-busting in December 1999, up to 100,000 bpd were transiting this route.[200] Udai Hussein, according to a former close associate, has a fleet of 50 ships plying this trade.[201] Iraqi opposition press has claimed that Udai wants to buy another fleet of 250 tankers from Japanese and Korean firms.[202]

Another method, likely less used, is for barges to leave from the port of Umm Qasr. They then either use the same route through Iranian waters as do the ships from Abu Flus, or they hug the Kuwaiti, Bahraini and Qatari coasts all the way to the UAE. While there is some evidence to support the claim that this route is well used, those choosing to embark from Umm Qasr face extra constraints. Not only is Umm Qasr the main Iraqi port for the importation of goods under the UN's Oil-for-Food program and is therefore watched by UN inspectors; the port is also home to the UN's Iraq-Kuwait Observation Mission, UNIKOM, which monitors the border.[203] Finally, the barges must traverse Kuwaiti waters, which are patrolled by an authority more likely to inhibit the smuggling.

Topping up on Oil-for-Food

Over the last few years there have been many press accounts outlining the details of the barge smuggling operations. The heightened spotlight on the issue, coupled with more aggressive interdictions, appear to have reduced dramatically the flow of oil *via* barges. At the end of 2001 the US Admiral in charge of interdicting smuggled oil through the Gulf estimated that the flow was down from a high of 100,000 bpd to about 30,000 bpd in 2001.[204] But the Iraqis have been experimenting with other ways to smuggle their oil out, and within the past year a new type of arrangement has come to light. In a recent, highly publicized case, a Dutch oil trading firm, Trafigura, having chartered a Liberian-flagged tanker, the Essex, bought crude from a French broker, Ibex Energy, and sold it to American and Venezuelan refiners, Koch and PDSA. The Essex was caught having topped up with an extra 270,000 barrels *after* UN inspectors had approved its load of 1.8 million barrels at Mina al-Bakr.[205] Trafigura's lawyer has denied, "'unequivocally' that

---

[196] Ibid.
[197] Robyn Allen, "Iraq oil smuggling bonanza nets Dollars 2bn a year," *Financial Times*, October 4, 2000.
[198] Ibid.
[199] International Chamber of Commerce, Commercial Crime Services, "Tougher port controls sought against smuggled Iraqi oil," June 12, 2001, http://www.iccwbo.org/ccs/news_archives/2001/iraq.asp
[200] Charles Recknagel, "Iraq: Oil Smuggling Produces High Profits," *RFE/RL*, June 21, 2000.
[201] "Interview of Defector (Abbas al Janabi) with *Al Hayat*," *Iraq News* from Laurie Mylroie, October 18-22, 1998.
[202] "Saddam's son to set up tanker fleet for oil smuggling," *Iraq Press,* July 28, 2001.
[203] http://www.un.org/Depts/DPKO/Missions/unikom/unikom_body.htm
[204] "Iraqi Oil Smuggling Under Scrutiny," *RFE/RL*, December 7, 2001.
[205] Carola Hoyos, "Oil smugglers keep cash flowing back to Saddam," *Financial Times*, January 16, 2002.

the company had anything to do with the 'top-up' scheme."[206] Payment for at least part of the load managed to find its way into Swiss or Lebanese bank accounts, rather than into the UN's BNP account in New York.[207] This elaborate, multilateral smuggling effort was brought to the attention of the UN Security Council, and the responsible UN officials have called for reviews of the monitoring procedures to prevent further such occurrences.[208]

By truck to Iran

In contrast to the media spotlight on Iraq's sanctions-busting trade with other neighbors, there has been comparatively little reporting on the Iraqi oil trade with Iran *via* road. During 1993-94, Iraq was reported to be exporting 30,000 bpd of refined oil products by road to Iran, some of it transiting through oil-rich Iran to oil-hungry Pakistan.[209] The routes used have either been by road to Khaniqin-Qasr Shirin or by barge across the Shatt al-Arab and then by road to Iranian ports for export.[210] This arrangement was first brokered in the early 1990s by then-Minister of Industry Hussein Kamel al-Majid, who built up this part of the Iranian trade to 30,000 bpd.[211] One of Kamel's schemes -- for he was also responsible for weapons procurement -- was reportedly a plan to export fuel overland to Iran, which would then send on equivalent amounts to North Korea.[212] In exchange, Iraq was to be paid in hard currency, and Iran would receive Korean-made long-range missiles. It is not clear whether the deal, estimated to be worth some $120 million, ever went off.

Early in 1994 Saddam's son Udai muscled in on the land exports to Iran and succeeded in pushing out an ailing Kamel.[213] Udai reportedly solidified the trade by brokering a deal with then-Iranian President Rafsanjani's son Mehdi.[214].

It is not clear to what extent sanctions-busting oil is still trucked into Iran. However, transport between these two countries is clearly a priority -- at least for the Iranians, as

[206] Alix M Freedman and Steve Stecklow, "The Oil "Top-Off": Another Way Iraq Cheats U.N.," *Wall Street Journal*, May 2, 2002.
[207] Carola Hoyos, "Oil smugglers keep cash flowing back to Saddam," *Financial Times*, January 16, 2002, and Alix M Freedman and Steve Stecklow, "How Iraq Reaps Illegal Oil Profits," *Wall Street Journal*, May 2, 2002.
[208] "Iraq: UN sanctions panel seeks measures in response to illegal oil smuggling," *UN News Service*, January 8, 2002.
[209] "Iraqi oil, goods said smuggled in via Iran," *Al-Hayah* newspaper, FBIS-NES-93-242, December 20, 1993.
[210] Adnan Husayn, "Regime Said to Export Oil Via Iranian Ports," FBIS-NES-94-239, December 13, 1994.
[211] "Saddam Family Dispute Over Oil Sales Reported," *Voice of Iraqi People,* FBIS-NES-93187, September 29, 1993.
[212] Walid Abi-Murshid, "DPRK Missiles for Iran in Secret Deal With Iraqi Oil," *Al-Sharq Al-Awsat*, June 17, 1993; FBIS- NES-93-118, June 22, 1993.
[213] "Saddam Family Dispute Over Oil Sales Reported," *Voice of Iraqi People,* FBIS-NES-93187, September 29, 1993. Hussein Kamel went on to defect and then to repatriate under a promised amnesty, immediately after which he was murdered at the behest of his former partner, Udai. This sordid saga is treated in more detail in The Family section below.
[214] Michael Theodoulou, "Sons of Iraq and Iran rulers join to flout UN embargo," *The Times of London*, February 24, 1994. Also, "Alleged Iraqi-Iranian-Turkish Plan on Kurdistan," *Al-Watan al-Arabi,* FBIS-NES-95-215, November 7, 1995.

evidenced last month, when a greatly expanded border terminal was inaugurated at the frontier post of Khosravi in Kermanshah province.[215] A rail line linking Syria-Iraq-Iran that will terminate at a main Iranian port, Khorramshar, is scheduled for completion in 2003. In Iraq, extra rail tankers are reportedly currently under production.[216] Recent examples of Iranian re-export of Iraqi oil are detailed below, in the section entitled *International Response*.

Political economy

At times the Iranian Navy has cracked down on smuggling operations that depend upon access to Iran's territorial waters.[217] The Iranian Revolutionary Guard naval patrol, considered to be the main facilitator and beneficiary of this trade, is not under the direct control of President Khatami, Tehran's moderate leader; indeed, its sanctions-busting use of this route appears instead to furnish hard currency to Iran's hard-liners.[218]

Baghdad may actually view this trade with Iran, its longtime enemy, as a mechanism to weaken it. Had Iranian President Khatami been able to solidify power in the hands of the moderates, a rapprochement with the US and other enemies of Saddam Hussein might have gained momentum. Instead, bringing the Iranian Revolutionary Guard into a lucrative trading relationship helps to keep the Tehran government divided.

For a few months in the first half of the year 2000, the three-way tussle between Iraq, Iran and the United States began to swing against Iraq. In mid-March the US State Department announced a minor lifting of US sanctions on Iran, which included freeing up trade in pistachios, carpets and caviar.[219] Far more than the re-opening of possible trading opportunities, the initiative was the first concrete signal that the United States believed the election of reformer Mohammad Khatami three years prior could lead to improved relations. Responding to the US initiative, in April 2000 Iranian naval units began interdicting vessels smuggling Iraqi oil through Iranian waters.[220] At one point it appeared that even the Iranian Revolutionary Guard had joined in the blockade of Iraqi goods, from which only a few months previous they had been profiting handsomely.[221] By early summer, though, coincident with a crackdown by Iran's hard-liners on the

---

[215] "Iran's Largest Border Terminal Inaugurated; To Serve Pilgrims Visiting," *Iran News Agency,* March 6, 2002.

[216] "Iraq using rail link to smuggle oil," *Iraq Press,* June 10, 2002.

[217] This appeared to be the case in late June, as this paper went to press ("Iraqi Oil Smugglers Avoid Tankers," *AP*, June 26, 2002). The new Iranian vigilance on its coastal waterways has forced smugglers to substitute small sailboats, or *dhows*, for oil tankers, on the theory that they would be harder to spot. The theory was flawed: within one week, 21 mostly small vessels loaded with Iraqi oil were apprehended by US and allied naval ships constituting the Multinational Interception Force (see below).

[218] Kenneth Bacon, Department of Defense News Briefing, April 20, 2000; also Robin Wright, "Use of transit point to skirt U.N. sanctions," *Los Angeles Times*, July 2, 2000.

[219] Secretary of State Madeleine K. Albright, "Remarks before the American-Iranian Council," March 17, 2000, Washington, D.C.

[220] Charles Recknagel, "Iraq: Mystery Surrounds Iran's About-Face On Oil Smuggling," *RFE/RL*, June 21, 2000.

[221] "Iran detaining 10 tankers with Iraqi oil," *Alexander's Gas and Oil,* April 11, 2000.

Khatami moderates, Iraqi smuggling through Iranian waters had re-commenced[222] and quickly climbed to an estimated 100,000 bpd.[223]

In hindsight, US officials may have speculated as to the reasons behind Iran's resumption of their laissez-faire attitude toward the smuggling. Had the hard-line in Tehran cracked down on concrete manifestations of a rapprochement between Iran and the US? Was the sanctions-lifting "carrot" not big enough? Had Iraq made a better offer? Was the divide between Iran and the US too wide to be bridged by such incremental steps? Or did the lure of hard currency simply win out in the end?

Iran may also be a field in which the struggle for power between Udai and Qusai plays out. As noted above, Udai was thought to have business arrangements with a son of Iranian leader Hashem Rafsanjani. In August 2002, Rafsanjani's daughter, Faezeh Hashemi, visited Baghdad in her capacity as the chairperson of Islamic Countries' Women's Sport Federation. Upon her return to Tehran and in response to speculation in the Iranian press, Hashemi was compelled to issue a statement saying that although she had met with officials of the Iraqi Olympic Committee, she had not met with Udai Hussein, the IOC president.[224] At nearly the same time, Qusai Hussein was rumored to have traveled to Iran in order to seek weaponry and political support in Iraq's confrontation with the US.[225] It is thought that he was unsuccessful in his mission.

International response

In 1991, the UN authorized the establishment of the Multinational Interception Force (MIF) to deploy ships to the international waters of the Persian Gulf in order to interdict Iraqi oil exports.[226] The MIF is a largely American force bolstered by the UK, Canada, Australia and New Zealand. US aircraft carriers and accompanying vessels are deployed, with the dual purpose of monitoring the oil shipments and enforcing the US/UK no-fly zones. Using radar and overflights, all ships into and out of Iraqi ports are tracked,[227] and the MIF boards and physically inspects on average two ships per day.[228] However, the MIF has no authorization from the Iranians to enter their waters and hence can only sit and watch the barge traffic hugging the Iranian coast. Due to its exclusion from Iranian territorial waters, the MIF estimates that it interdicts less than five percent of the ships carrying smuggled Iraqi oil.[229]

On occasion, when a ship is boarded and sanctions-busting oil is found, the cargo and ship are usually turned over to UAE or Omani authorities, who put them on auction and

---

[222] "Iranian policy shift opens sea lanes to illegal Iraqi Oil," *Alexander's Gas and Oil* from *Reuters*, June 6, 2000.

[223] "US accuses Iran of helping Iraq to smuggle oil," *Alexander's Gas and Oil* from *Energy24*, July 3, 2000.

[224] "Iran News Carries 'Press Review' Feature for 7 August ", FBIS-NES-2002-0807, August 7, 2002
"ISNA says foreign ministry aware of Faezeh Hashemi's visit to Iraq", FBIS-NES-2002-0807, August 7, 2002.

[225] "Report: Saddam's son secretly visited Iran", *UPI*, July 22, 2002.

[226] UN Security Council Resolution 665 (1990), http://www.fas.org/news/un/iraq/sres/sres0665.htm

[227] Linda D Kozaryn, "U.S. Sailors Divert Arabian Gulf Smugglers," *American Forces Press Service*, October 21, 1998.

[228] Ibid.

[229] Charles Recknagel, "Mystery Surrounds Iran's About-Face On Oil Smuggling," *RFE/RL*, June 21, 2000.

give the proceeds to the UN.[230] It is believed that those oil traders whose ships and cargos have been seized often buy the goods back at auction. There may even be an understanding among traders in the UAE not to compete with each other at these auctions.[231] No other punitive measures are taken; hence, the few interdictions simply become another business expense.

Nevertheless, because traders don't wish to risk using expensive shipping assets or having them tied up for weeks or months, they assign their outdated and/or ill-fitted vessels to this trade, which, inevitably, has increased pollution in the Gulf. In early 1998, one overloaded barge spilled 30,000 barrels off the northern coast of the UAE. Iranian resort islands are also said to have been sullied by such spills.[232]

Early in the year 2000, US naval forces boarded and detained two Russian ships carrying Iraqi oil that had been loaded in Iran. The first, a tanker named the Volgoneft-147,[233] was owned by the private Russian firm SFAT (SovFinAmTrans), a joint venture among the Russian Ministries of Railroad and Petrochemicals and an American company, Transcisco, with financing provided by the European Bank for Reconstruction and Development (EBRD).[234] One of SFAT's main activities is the construction, maintenance and leasing of railway tankers for the petroleum industry; a minor activity is the shipment of oil by sea.

Although US officials claimed not to have uncovered the owner of the cargo,[235] the Russian government paper, *Rossiyskaya Gazeta*, said that the firm Transpetro-Volga, a SFAT subsidiary, had leased the vessel, and the cargo was owned by a British Virgin Islands company, Primstar.[236] A report by an Estonia-based, non-governmental think-tank claimed that the Volgoneft-147 and a sister ship had made 40 trips smuggling Iraqi oil.[237] Another account maintains that the US officials had been complaining for some time about Russian-flagged ships violating the embargo.[238] The cargo of the Volgoneft-147 was seized and auctioned. The second instance, in April 2000, involved a Russian tanker owned by Novorossiisk Shipping, whose cargo of over half a million barrels -- about 100,000 of which were alleged to be Iraqi -- was owned by Royal Dutch/Shell. Shell denied knowledge that there was Iraqi oil on board, claiming that the ship, destined for Singapore, had loaded its oil in Iran. The US claimed chemical analysis determined the

---

230 Charles Recknagel, "Iraq: Oil Smuggling Produces High Profits," *RFE/RL,* June 21, 2000.
231 Robyn Allen, "Iraq oil smuggling bonanza nets Dollars 2bn a year," *Financial Times*, October 4, 2000.
232 "Emirates want to stop the smuggling of Iraqi oil," *Alexander's Oil and Gas,* January 20, 1998.
233 David Storey, "Boarded Russian Oil Tanker in Gulf Is Detained," *Reuters*, February 3, 2000.
234 Transisco Industries 10-K Annual Report, March 1996.
235 Steven Lee Myers, "UN Concludes, Fining Shell, That Tanker Carried Iraq Oil," *New York Times*, April 26, 2000.
236 Alexei Baliev, "All in all suspected of smuggling," *Rossiyskaya gazeta,* February 9, 2000, http://www.rg.ru/english/Archiv/2000/0209/2.htm
237 "Boris Birshtein and relatives of the Minister of Railways of Russia Nikolay Aksenenko," *Russia Monitor,* http://www.russiamonitor.org/en/main.asp?menu_id=1_a_177_25
238 David Storey, "Boarded Russian Oil Tanker in Gulf Is Detained," *Reuters*, February 3, 2000.

Iraqi origin of both cargoes. The oil was released to its owner after Shell Oil paid a $2 million fine, even as the firm continued to claim that all the oil was of Iranian origin.[239]

The smuggling continues: in late May 2002, the British frigate HMS Portland stopped and seized its second ship of the year bearing illegal cargo,[240] the MV Devo, containing over 20,000 barrels of Iraqi crude on board.[241] This was not the first time that the Burmese ship, flying a Bahamian or Honduran flag of convenience, had run into international difficulties.[242]

Table IV: Iraqi-Iranian-Gulf Oil Trade outside Oil-for-Food

Estimated Revenue (in millions)[243]

	1996	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Avg bpd	25,000	49,000	70,000	90,000	75,000	52,000	45,000
Iraq	$117	$222	$314	$402	$336	$235	$205
Iran	$ 53	$ 97	$135	$172	$144	$107	$ 89
Smugglers	$ 4	$ 21	$ 37	$ 51	$ 40	$ 23	$ 18

[239] Steven Lee Myers, "UN Concludes, Fining Shell, That Tanker Carried Iraq Oil," *New York Times,* April 26, 2000.
[240] "Birthday surprise for Saddam Hussein," *Navy News,* May 8, 2002.
[241] "Navy frigate stops Iraqi smugglers," *BBC,* May 30, 2002.
[242] "Violation of Burmese Seafarer's Basic Rights Continues Unabated," *BurmaNet News,* March 4, 2002, and ICFTU, "Annual Survey of Violations of Trade Union Rights in Burma (2001)," http://rebound88.tripod.com/sp/fl/sicftu2001.html
[243] Barrels per day are calculated from press reports based on US officials and oil industry analysts. To figures for smuggling by sea, another 20,000 bpd have been added to account for oil trucked into Iran. Iran's cut has been estimated at $6/bbl for the trucked oil (on par with other neighboring states), and $5 for oil smuggled by sea. (Press accounts usually cite $7/bbl or $50/ton; however, not all the oil smuggled by sea goes through Iranian waters.) Smugglers include foreign partners for the trade by sea only, and here the authors have put a figure of $2bbl.

IV. Minor Sources of Iraqi Government Income

Transport

Iraqi-Jordanian Land Transport Company (IJLTC)

The company, sometimes called the Jordanian-Iraqi Overland Transport Company, was established as a joint venture of the two governments in 1980 to handle the increased imports from the port of Aqaba through Jordan to Iraq.[244] The closure of the Gulf ports during the Iran-Iraq war provided a great boost to the new company, as most of Iraq's trade shifted to Aqaba.

IJLTC handles the trucking of --

- Iraqi oil exports to Jordan (on which IJLTC has a monopoly);
- Iraqi imports such as fertilizer from Jordan (on which IJLTC collects a percentage);
- Iraqi imports from the port of Aqaba, including Oil-for-Food goods (of which IJLTC collects 16 percent).[245]

Jordan's former Minister of Transport, Issa Ayoub, was also chairman of both IJLTC and the Port of Aqaba. The responsible minister on the Iraqi side is Dr. Ahmed Murtada, a longtime member of the government. The Jordanians pay Iraq for the oil transport, resulting in an estimated net flow to Baghdad of $50-80 million a year. It is not clear how this relates to the ostensible "joint venture" nature of the partnership.[246] This extraordinary arrangement has left only some $350,000 in profits to be split between the two governments.[247] The joint venture is important enough to warrant the attention of the King of Jordan, who is briefed at least annually on the state of the firm.

IJLTC is also important enough to have warranted the attention of the US government's Department of the Treasury, Office of Foreign Assets Control, which has put the firm on its Special Designated National List, thereby subjecting it to US sanctions.[248]

Iraqi-Syrian Land Transport Company (ISLTC)

Land transportation of people and goods between the two countries has been seen as vital since the beginning of the rapprochement in 1997. The first concrete sign of cooperation was the establishment of regular bus service between the capitals in July 1997.[249] In 1999, a Udai Hussein-controlled company, Al-Hoda, held the monopoly on transporting

---

[244] Laurie A Brand, *Jordan's Inter-Arab Relations: The Political Economy of Alliance Making*, Ch. 6, Columbia University Press, New York, 1994.

[245] Ahmed Naser, "Jordanian-Iraqi company examines expanding land transport fleet," *Jordan Times*, June 30, 1998, and Ahmed Naser, "King, Crown Prince meet with Iraqi transport minister," *Jordan Times*, July 2, 1998.

[246] "Jordan, Iraq Oil Pipeline Reportedly Attracts Thirty Potential Contractors," *Jordan Times,* FBIS-NES-2002-0219, February 19, 2002.

[247] Ahmed Naser, "King, Crown Prince meet with Iraqi transport minister," *Jordan Times*, July 2, 1998.

[248] http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf

[249] "Syria-Iraq bus link," *ArabicNews,* July 4, 1997.

pilgrims, mainly Iranian, to the Shi'i holy sites, *via* Syria.[250] By spring of 2001, the al-Dhilal company, thought to be controlled by Iraqi intelligence services and hence under the sway of Qusai Hussein, had taken over the passenger and some of the cargo runs from Damascus[251] and made plans to expand to Beirut. By the fall of last year an agreement had been reached to establish the ISLTC, and in March 2002 an expansion of its fleet was authorized.[252] The ISLTC is headquartered at Syria's main port, Tartous,[253] in order to facilitate the vastly increased use of the Syrian route for imports to Iraq, both within and outside of the UN Oil-for-Food program. The relationships between the ISLTC and al-Hoda and/or al-Dhilal are unclear.

Exports other than oil: Sulfur

Late in 2000, the Jordan Phosphates Mine Company (JPMC) a state-owned enterprise slated for privatization in 2002, began importing sulfur from the Mishraq Sulfur Company, part of the Iraqi Ministry of Industry and Minerals, located south of Mosul on the Tigris River. Jordan uses the sulfur as a component in manufacturing fertilizer. In the 1980s Jordan and Iraq had an agreement by which Iraq provided sulfur and received fertilizer in return. As distinct from its arrangement to obtain oil, throughout the 1990s Jordan has not challenged the sanctions regime in its procurement of sulfur, importing it instead from Saudi Arabia and the UAE.[254]

But in October 2000, Iraq offered to provide sulfur at a 33-percent discount from the price of the Saudi sulfur.[255] The Iraqi sulfur would be transported by sea from Umm Qasr to the port of Aqaba. In the year 2000, 100,000 tons were to be traded, at a cost to Jordan of a little over $3 million. The 2001 trade in sulfur was intended to reach some 700,000 tons, equaling the peak of Iraqi sulfur exports from the late 1980s.[256] That volume would bring revenues of over $20 million into Iraq.

During the 1980s, UK officials, concerned that the sulfur would be used as a component in the production of nerve gas, refused governmental backing under the Export Credit Guarantee Department for a credit application by a British firm that wished to undertake a 5.4-million-pound refurbishment of the Mishraq Sulfur Company.[257]

Trade Fairs

In 1995, for the first time since the imposition of sanctions, the annual Baghdad International Fair took place. Fifteen countries sent over 400 companies to participate.[258]

---

[250] "Iraq Fleeces Iranian Pilgrims," *RFE/RL,* April 16, 1999.
[251] "Iraqi security use Transport Company on Baghdad-Damascus Line," *Iraq Press,* May 7, 2001.
[252] "Iraq, Syria sign joint cooperation minute," *Iraq News Agency,* March 23, 2002.
[253] "Syria, Iraq sign transport agreement," *Syria Live,* March 26, 2002.
[254] Saad G. Hattar, "Jordan strikes delicate balance by improving Iraq ties while maintaining good relations with US," *Jordan Times*, November 5, 2000.
[255] "Iraq To Start Shipping Sulfur to Aqaba," *Jordan Times,* FBIS-NES-2000-1030, October 30, 2000.
[256] UNCTAD Handbook of International Trade and Development Statistics, 1995, and "Iraq To Start Shipping Sulfur to Aqaba," *Jordan Times,* FBIS-NES-2000-1030, October 30, 2000.
[257] http://www.iraqwatch.org/government/uk/scott%20report/d2-65.htm
[258] State Company for Iraqi Fairs, http://www.businesslink.co.ae/facility.html

By 2001, the ten-day fair's exhibitors had grown to 1650 companies representing 48 nations, with an attendance of 631,000 people.[259] European countries such as France, Germany, Turkey, Sweden, Denmark, Italy, Austria and Russia send major delegations, as do most Arab countries.[260] In 2001 Palestine brought 325 companies, Russia and Turkey over 200 companies each, and France and Egypt were each represented by roughly 150 firms.[261]

Both the host country and commercial delegations are keenly aware of the Trade Fair's political impact. Held during the first 10 days of November, the event is usually opened by such luminaries as Vice-President Taha Yassin Ramadan, who in 1999 held forth on the much-vaunted plaint that the sanctions are a "terrorist weapon" responsible for the deaths of over a million Iraqi children, then concluded by pledging to direct Oil-for-Food contracts toward countries that oppose the sanctions.[262] Participants also see the politics involved in this ostensibly purely commercial event, as the *Daily Star* of Beirut put it: "Competitive prices without sound political stands will not tempt Iraqi authorities to strike business deals."[263]

The Iraqis have become very effective at using the annual Trade Fair for their wider purposes. In 2000, fair attendees witnessed a parade of foreign dignitaries flying into Baghdad airport, actively skewing in the Iraqis' favor a liberal interpretation of whether or not international flights were a violation of sanctions.[264] In 2001, at least six foreign government ministers, including the Jordanian Prime Minister, attended the fair,[265] and some of them used the opportunity to sign wide-ranging trade agreements with Iraq.[266]

Noticeably absent from the Baghdad International Fair are Kuwait, Japan, the US and the UK.[267] Those nations' companies do not miss out entirely, however: some foreign subsidiaries or agents companies from these countries have been known to attend.[268] British businessmen, too, appear to be eager for their piece of the action. In response to a query from the Foreign Affairs Committee of the House of Commons, the Foreign Office stated:

---

[259] http://www.imag.de/english/imag/home.html
[260] "Sanctions? What sanctions?" *Alexander's Oil and Gas* from *Reuters* and *Energy24*, November 7, 2001.
[261] "170 Egyptian Companies to Attend Baghdad International Fair," *People's daily,* October 28, 2001, "Foreign Delegations Arrive for Baghdad International Fair," *RFE/RL,* November 2, 2001.
[262] "Iraq Holds Grand Baghdad International Fair," *China Radio International,* November 2001, and "Baghdad Stages Trade Fair," *RFE/RL,* November 5,1999.
[263] Dania Saadi, "Iraqi Trade Fair Is A Political Event - Opposing Sanctions Will Secure Deals," *Daily Star* (Beirut), November 6, 2001.
[264] "Foreign ministers and traders attend Baghdad's trade fair," *Alexander's Oil and Gas* from *Reuters*, November 1, 2000.
[265] "Baghdad Fair Attracts 1500 Firms," *RFE/RL,* November 3, 2000.
[266] "Iraq, Tunisia, Morocco to Boost Trade Relations, Algeria Iraq Set Up Free Trade Zone, Lebanon Iraq to Sign Free Trade Agreement," *RFE/RL,* November 9, 2001.
[267] "Sanctions? What sanctions?" *Alexander's Oil and Gas* from *Reuters* and *Energy24,* November 7, 2001.
[268] Chuck Sudetic, "The Betrayal of Basra," *Mother Jones*, November/December 2001. The German firm IMAG helps to organize such participation in the fair. http://www.baghdad-international-fair.de/

> . . . the annual Baghdad Trade Fair is not in itself a breach of sanctions. The UN "Oil for Food" humanitarian program, with revenue of about $14 billion since SCR 1284 was passed in December 1999, offers considerable opportunities for legitimate trade with Iraq. We are supporting British companies in their efforts to win a share of this trade.[269]

Nominally, exhibitors must have approval of the UN Sanctions Committee even to bring display goods to Baghdad. However, there is little oversight that might stop a firm either from ignoring the Sanctions Committee and shipping in display goods directly, or from disposing of their samples after the fair is over by selling or "donating" them locally. Fair regulations do not allow exhibitors to engage in retail transactions from their booths but do permit exhibitors to apply for a "sales quota." The regulations also note that, "...purchase priority [is] given to the public sector."[270]

Along with the annual Baghdad International Fair, the fairgrounds are used throughout the year for trade fairs from a wide variety of countries that come to display their goods and wares. Over the last two years Turkey, Egypt, Morocco, the Philippines, Syria, Lebanon, Algeria and the UAE have sponsored fairs in Baghdad. As a part of the recent warming of relations, Saudi Arabia held a trade fair in mid-September 2002. In 2001 the Ukraine went so far as to sponsor a trade fair in conjunction with the main Iraqi weapons-procurement agency, the Military Industrial Commission.[271] Iraq also reciprocates by displaying its companies at fairs in other countries, in the hope of expanding relations. The investment has paid off: an Iraqi trade fair in Cairo in August 2001 led to an increased Egyptian presence, including the attendance of two ministers, at the Baghdad International Fair last November.[272] Iraq has had an increasingly large showing at the annual Paris International Fair,[273] which was quickly followed by the Fourth International Commercial Fair held in Sana' Yemen,[274] and a large presence in Turkey in August 2002 at the Izmir International Fair.[275]

Aside from the political spin-off and financial advantage gained from negotiating contracts on their home turf, the Iraqis profit from the trade fairs in a more immediate sense by collecting the fees and costs incurred by visiting delegations. For the Baghdad International Fair, floor space rents for between $50 and $100 per square meter, depending on location, with a minimum allotment that brings the rental fee to $2000 per exhibitor; on top of that is a mandatory construction and furnishing fee of $30 per square meter.[276] In 2001, nearly 28,000 square meters of indoor floor space and 18,000 square meters of outdoor space were used.[277] Finally, water, telephones and taxes bring the fee to around $3,000 per exhibitor. Fees for those ten November days alone, therefore,

---

[269] http://www.parliament.the-stationery-office.co.uk/pa/cm200001/cmselect/cmfaff/428/428ap13.htm
[270] http://www.krysalex.de/baghdad/terms.html
[271] "Ukrainian firms stage trade exhibit in Baghdad," *Iraq Press,* May 14, 2001.
[272] "Baghdad to Hold Trade Fair in Cairo," *RFE/RL,* August 24, 2001, and "Egyptian Minister to Visit Baghdad in November," *RFE/RL,* October 12, 2001.
[273] "Iraq participates in Paris International Fair," *Iraq News Agency,* May 4, 2002.
[274] "Iraq participates in 4th International Commercial Fair," *Iraq News Agency,* May 21, 2002.
[275] For a spreadsheet of participants see http://www.izmirfair.com.tr/kat_olog.xls
[276] http://www.krysalex.de/baghdad/appl.html
[277] "Iraq Holds Grand Baghdad International Fair," *China Radio International,* November 2001.

brought $4.5 million into the Ministry of Trade's State Company for Iraqi Fair's Account #20006, at the Baghdad branch of the Rafidain Bank- Al-Mansour.

On top of these fees are the hard-currency expenses of the attendees, which average a little less than two people per exhibitor -- meaning that just under 3000 business people attended the most recent Baghdad International Fair at an estimated $100 per day for 10 days, bringing in another $3,000,000.

Numerous sectoral fairs are also held throughout the year. The First International Specialized Motor Show, held in late November of 2001, with rates of $150 per square meter, was organized by the Dubai-based company Business Link, which facilitates conferences in Iraq, the UAE and the region.[278] The Oil and Gas Product Exhibition was held in 1999, where mostly British, French, Italian and Canadian "firms lobbied furiously for contracts to revamp Iraq's ailing oil industry."[279]

More recently, the First Arab International Construction Fair was held in late March 2002, the twelfth Baghdad fair organized by Lebanese company Imaco/GBF.[280] According to the *Iraqi News Agency*, the General Manager of the Lebanese company cited two objectives for the fair: to promote the notion of taking advantage of the $17 billion worth of available contracts under the Oil-for-Food program, and, somewhat contradictorily, to help the Iraqis "break unjust sanctions."[281] Booth space fees for this fair, reflecting its more exclusive nature, were $225 per square meter, to be remitted to the organizing firm's account at the Banque Libano-Francais.[282] For $65,000, a foreign exhibitor was invited to become "a Star Sponsor," which would furnish him or her not only with booth space, but also VIP treatment, including an HIV test waiver and "Private One to One meetings with Iraqi VIPs & Officials."[283]

Free Trade

Over the past two years the Iraqi government, led by Trade Minister Mohammed Mehdi Salih and Vice President Ramadan, has been energetically negotiating, signing and ratifying free trade agreements with other states. By June 2002, eleven agreements had been signed, with several more in negotiations.

Ramadan articulates the goal of the Iraqis.

> The free market agreements are steps on the road of Arab economic integration and unity. This is Iraq's principled stand. Unlike some of the industrialists, we do not view every stage and every step that we take in this regard from the angle of loss and profit. This is a

[278] http://www.businesslink.co.ae/about.html

[279] "Iraq happy to see so many firms interested to supply spare parts," *Alexander/s Oil and Gas* from *AP*, September 25, 1999.

[280] http://www.icf2002site.com/main.htm

[281] Shahla al- Azzawi, "The First Arab and International Fair for Construction in Baghdad concludes its activities," *Iraqi News Agency*, March 2002.

[282] http://www.icf2002site.com/REGISTR%20F.pdf

[283] http://www.icf2002site.com/star.htm

> huge strategic action. Any pan-Arab step has gains and may have losses although we do not consider them as losses from our principled and pan-Arab perspective.[284]

Iraq stands to gain from these agreements on several fronts. First, it gets the immediate political benefit of publicizing agreements that can demonstrate domestically and internationally the ongoing erosion of sanctions. Second, the agreements enable Iraq to increase its presence in the Arab world, which has ongoing trade negotiations both among Arab nations and with other key partners, particularly under the EU-Mediterranean free-trade pact. Iraq's apparent objective here would be to solidify its standing with regard to a future Arab Common Market. Third, these agreements, once ratified -- and so far, only the UAE and Tunisia have done so – will guarantee Iraq preferential trading access as soon as sanctions are lifted.

For the partnering states, the downsides incurred by making agreements with a pariah state appear to be more than offset by the elimination of Iraqi customs fees when trading under the UN Oil-for-Food program. Iraq has also promised to increase Oil-for-Food trade with signatories, but the record so far is spotty: Egypt and Syria, both signatories, have increased their trade significantly, while Jordan, which has not yet signed, is nevertheless a major trader. With non-Arab trading partners such as Turkey and Iran, Iraq has said that a free trade arrangement would be premature.

Agreements	**Signed**
Egypt	January 2001
Syria	February 2001
Tunisia	February 2001
Yemen	August 2001
Algeria	October 2001
UAE	November 2001
Sudan	March 2002
Bahrain	March 2002
Oman	April 2002
Lebanon	April 2002
Qatar	June 2002

Under Discussion	**Last Talks**	**Status**
Jordan	July 2002	Preliminary accord signed
Saudi Arabia	May 2002	Border post re-opened
Morocco	June 2002	Cooperation being discussed

Luxury goods: Cigarettes

According to defector Abbas al-Janabi, chief aide for years to Udai Hussein, Udai has long controlled the importation of cigarettes into Iraq. Indeed, Mr. al-Janabi, who claims to have negotiated with foreign suppliers on Udai's behalf, insists that "hundreds of

[284] "Iraqi VP Taha Yasin Ramadan Interviewed on Current Events, Situation," *Baghdad Al-Ittihad,* FBIS-CHI-2002-0824, August 24, 2002

million of dollars" were at stake in the deal he was working on just prior to his defection in February 1998.[285]

Iraqis are heavy smokers, consuming some 18 billion cigarettes annually,[286] about 75 percent of which are produced domestically. Roughly four billion cigarettes, then, are imported each year, as are over 2000 tons of tobacco leaves.

Cypriot-registered companies appear to be the main organizers of this trade. According to US Department of Agriculture and World Health Organization figures, in the mid-1990s Cyprus was importing nearly 25 billion cigarettes annually, of which 10 billion, worth over $100 million, came from the US.[287] The Cypriots also produced about five billion per year. During the same period Cyprus exported about 3.5 billion per year, leaving some 26.5 billion to be consumed, or about 44,000 cigarettes per man, woman and child per year (or six packs a day each).[288] While Cyprus is infamous for smuggling cigarettes to many countries, particularly to the former Yugoslavia, it would seem to have had ample quantities left over for the Iraqi market.[289]

According to the European Union, this is exactly what happened: Iraq became a prime market for cigarettes smuggled *via* Cyprus. The EU has long been chasing cigarette smugglers and on several occasions has sued American firms in American courts. In November 2001 the EU launched another suit against RJ Reynolds and Phillip Morris, charging such "violations of the Racketeer Influence and Corrupt Organizations (RICO) Act of 1970" as "money laundering, wire fraud and mail fraud."[290] The EU is also arguing that among the beneficiaries of the cigarette trade are terrorist organizations and sponsors of such: "There is a clear and direct link between cigarette smuggling in this case and the Kurdistan Worker's Party (PKK) and the Iraqi regime," claims a supporting document submitted in the suit.[291]

As for the scale of cigarette and alcohol trade with Iraq, the British Foreign Office released some figures in October 2000. According to the Foreign Minister:

> "In the last 6 months, and these figures incidentally have been provided through the United Nations Security Council, Saddam Hussein has

---

285 "Interview of Defector (Abbas al Janabi) with *Al Hayat*," *Iraq News*, from Laurie Mylroie, October 18-22, 1998.

286 Figures used in this paragraph come from the Center for Disease Control and the World Health Organization, which uses the Tobacco Marketing Association as its source. http://www.cdc.gov/tobacco/who/iraq.htm

287 http://www5.who.int/tobacco/repository/tld101/Cyprus.pdf

288 http://www5.who.int/tobacco/repository/tld101/Cyprus.pdf. Coincidentally, in May 1998, just after the defection by al-Janabi, the US exports to Cyprus plummeted. They have slowly been regaining market share but are only back to just over seven billion cigarettes per year.

289 "Local firm could face court after seizure of contraband cigarettes," *Cyprus Mail,* December 13, 2001.

290 Erik Schelzig and Mary Beth Warner, "Tobacco Firms Used Suspected Drug Traffickers, EU Lawsuit Claims," http://www.public-i.org/story_01_110700.htm

291 Plaintiff's Memorandum of Law in Support of Motion to Submit a Proffer of Evidence Concerning the Link Between Cigarette Smuggling in their Case and Terrorism, United States District Court, Eastern District of New York, Case No: 01-Civ-5188.

> imported over 300 million cigarettes, 38,000 bottles of whisky per month, 230,000 cans or 115,000 liters of beer per month, over 120,000 cans or 40,000 liters of vodka per month and almost 19,000 bottles of wine a month."[292]

Fleecing Pilgrims

Because of its world-renowned archeological and holy sites, prior to the imposition of sanctions Iraq attracted about one million visitors per year.[293] But during the 1990s, the number of tourists dwindled to a trickle. Yet there are a couple of ways in which Iraq has managed to generate revenue from tourism: from visitors (mostly Shi'i en route to the religious sites); and from Iraqis leaving (mostly on *hajj* to Saudi Arabia).

Pilgrimages to the Shi'i shrines

In 1998, following a visit to Tehran by Iraqi Foreign Minister Muhammad al-Sahaf and a meeting on the border between Saddam's son Qusai and the Iranian Minister of Intelligence, Iraq and Iran came to an agreement by which Iranian Shi'i pilgrims could, for the first time since 1980, visit the holy shrines in Najaf and Karbala.[294] For the Iraqis the issue involved more than just how much money they stood to gain; these southern Iraqi cities had been hotbeds of Shi'i insurrection in 1991. Saddam's army had violently put down the uprising and deliberately targeted the shrines, and repeated crackdowns have occurred ever since. Along with the Iranians, visitors to the shrines come mainly from Pakistan, India and Lebanon.[295] At first visitors were routed through Damascus, Syria. To control the pilgrims' movements, the government of Iraq has not only compelled them to transfer into Iraqi-provided buses from the Al-Hoda company, thought to be under the sway of Udai Hussein,[296] but to stay in specifically designated hotels. At first Al-Hoda charged $350 for a six-day visit, then $435 for an eight-day visit.[297] The charge quickly doubled to $900, which broke down in the following manner: $600 directly to the Iraqi government; $100 for the visa, and $150 for the ticket and food, not to mention the requisite exchange into dinars of $50 at the border.[298] The trade ground to a halt later in the year, after a renewed falling out between the two governments.

Late in 2000 Iranians were once again allowed to visit the Iraqi shrines.[299] The two governments agreed to allow an increase from 3000 visitors per year to 4800. The $435 fee for an eight-day visit brings in just over $2 million to the Iraqi hosts.[300] Others, however, put the visitors' costs and resulting Iraqi income much higher. Using Iraqi

---

[292] UK Briefing on Iraq By Peter Hain, Minister of State, Foreign and Commonwealth Office, UK *Extract from Foreign and Commonwealth Office, UK,* October 23, 2000.
[293] "Tourists returning to controversial Iraq," *USA Today,* October 14, 1998.
[294] Michael Evans, "Iran and Iraq forge anti-West pact," *Times of London*, February 12, 1998, and "New road opened between Iran and Iraq," *Arabic News,* May 19, 1998.
[295] "Tourists returning to controversial Iraq," *USA Today,* October 14, 1998.
[296] "Iraq Mistreats Iranian Pilgrims," *RFE/RL,* May 10, 1999.
[297] "Iraq Fleeces Iranian Pilgrims," *RFE/RL,* April 16, 1999.
[298] "Iraq Mistreats Iranian Pilgrims," *RFE/RL,* May 10, 1999.
[299] "Iranian Pilgrims To Resume Visits to Holy Shrines in Iraq," *Iran News Agency,* FBIS-NES-2000-1028, October 28, 2000.
[300] Ibid.

government figures, the Iraqi opposition press puts the figures as high as 12,000 visitors a week, with annual revenues of a half-billion dollars.[301] A Swiss press account said 3000 a week were allowed to cross, resulting in an Iraqi revenue stream of $45-50 million per year.[302] Whatever the actual number, the Iranians need no longer fly to Damascus, but can cross at the recently refurbished Khosravi post, which is expected to be able to handle up to 10,000 people daily.[303] Most recently, the Iranian embassy in Kabul said they would be willing to facilitate travel by Afghanis through Iran to the religious sites in Iraq.[304]

Iraqis on Hajj

According to the quota system set up by the Saudi authorities, one percent of a country's population can perform the *hajj* in any given year. Prior to the imposition of sanctions, Iraq's quota was 18,000 per year and has recently been raised to 24,700. However from 1991 to 1997, Iraq would only permit 1000 Iraqis to go on the pilgrimage. The government increased this to 3000 in 1997. The route was through Jordan, as the land crossing between Iraq and Saudi Arabia was closed.

In April 1997, in an attempt to flout or re-interpret sanctions, Iraq sent unannounced a planeload of pilgrims to Jiddah, in Saudi Arabia. The UN Security Council made only mild protestations, aware perhaps of the political downside in the Muslim world of taking visible steps to block pilgrims.[305] By the next year's *hajj*, Iraq had upped the ante by requesting that Oil-for-Food funds be used to pay for these trips. In principle, the UN Sanctions Committee agreed and began considering mechanisms by which this could happen. The Iraqis proposed the simplest procedure -- transferring $2000 per pilgrim from the UN's BNP escrow account to the Iraqi Central Bank, with the government handling it from there. France, Russia and China thought that sounded reasonable; the US, the Netherlands and the UK objected.[306]

Over the next three years the Sanctions Committee and the OIP proposed a range of alternatives to avoid direct transfers of cash to the Iraqi government. These included using Jordanian travel agents, the Saudi government and UN Development Program or UN Office of the Humanitarian Coordinator in Iraq (UNOCHI) as third-party implementers. The Iraqi government stuck to its line: the Central Bank or nothing.[307] Given the prospect of having Oil-for-Food pay the way, the government raised the numbers of Iraqis permitted to go on *hajj* to take full advantage of their 24,700-person quota. The amounts requested by the Iraqis: $50 million.[308]

---

301 "Slump in tourism spurs government to amend law," *Iraq Press,* June 27, 2001.

302 "Iranian Pilgrims Visit Shiite Shrines in Iraq," *RFE/RL*, citing *Neue Zuercher Zeitung*, January 12, 2001.

303 "Iran's Largest Border Terminal Inaugurated; To Serve Pilgrims Visiting," *Iran News Agency,* March 6, 2002.

304 "Iran to facilitate visits to Iraqi holy sites by Afghan nationals", Iran News Agency, FBIS-NES-2002-0805, August 05, 2002.

305 "Security Council Says Iraqi Flight to Saudi Arabia Proceeded Without Consultation with Sanctions Committee," UN Press Release, April 16, 1997.

306 "Sanctions Committee Decisions on Iraqi Hajj Pilgrims," USIS "Info File," March 2, 2000.

307 Ibid.

308 United Nations, "Letter Dated 24 February 2000 from the Secretary-General to the President of the Security Council," S/2000/166, March 1, 2000.

In 1999, after negotiations with the UN broke down, the Iraqis tried a different tack. The government bused some 18,000 Iraqi pilgrims to the Saudi border, where they proceeded to storm the desert border crossing, closed since 1990, stopping only at the outskirts of the town of Ar'ar.[309] There the pilgrims began demonstrating against the Saudis, demanding that they be allowed to proceed and that the Saudis release frozen Iraqi assets to pay for their trip. Iraqi television crews accompanied the pilgrims to provide footage for domestic and international consumption. Saudi King Fahd yanked the rug out from under the Iraqis' intended public-relations coup, however, when he welcomed the pilgrims in. Furthermore, he promised that Saudi Arabia would provide all necessary arrangements for the Iraqi pilgrims *gratis*.[310] But, he added, there would be no bank transfers or freeing of Iraqi government assets. Saddam immediately recalled all 18,000 pilgrims to Baghdad, and the foreign press reported that the mood on the pilgrims' ride home was despondent.

Since then the Saudi-Iraqi border post has been officially re-opened, not only for *hajj* pilgrims, but to facilitate the increasing trade between the two countries. Pilgrims are allowed to cross, but they are not funded under Oil-for-Food. Each year Iraq also sends some flights to Saudi Arabia, and each year the UN Security Council chastises the Iraqi authorities for not providing it with advance notice.

Miscellaneous

In addition to the numerous revenue sources discussed above, according to Kroll Associates -- the high-profile financial investigations firm which, under contract to the Kuwaiti government, attempted more than a decade ago to track Saddam's assets in order to have them seized or at least frozen -- as of 1992, Saddam and his family are believed to have amassed a personal fortune of up to ten billion dollars.[311] Of this, Kroll suspected, about one billion was invested in European companies. The largest such investment publicly announced was an 8.4-percent stake in the French publishing firm Hachette, worth $70 million.[312]

There are several other sources of hard currency for Saddam, his sons and cronies which we have not yet developed sufficient information to document. Under the Oil-for-Food program these include kickbacks on import contracts; transportation fees paid to logistics firms and the re-export of Oil-for-Food goods such as medicines, lentils, baby food and vehicles. Outside Oil-for-Food, these sources include port and customs fees; over-flight and landing fees; commissions on foreign travel arrangement; visa fees for foreigners as well as Iraqis; exports of Iraqi-produced goods such as grain, dates and cement, and the manipulation of currency and foreign exchange.

[309] "Pilgrimage politics," *Al-Ahram Weekly,* March 25-31, 1999.
[310] Ibid.
[311] John Greenwald, "Did Saddam Skim Billions?" *Time*, April 8, 1991.
[312] "On Saddam's Money Trail," *Newsweek,* April 8, 1991.

Table V: Estimated Revenue from Minor Sources of Iraqi Government Income (in millions annually)[313]

	Low	High
IJLTC (Ministry of Transport)	$ 50	$ 80
Sulfur exports (Ministry of Industry)	$ 3	$ 25
International Trade Fairs (Ministry of Trade)	$ 15	$ 30
Cigarettes	$ 30	$ 100
Tourism	$ 6	$ 40
Total	$104	$ 275

Table VI: The Bottom Line

Iraq's Estimated Revenue Outside the UN System (in $ millions)[314]

	1996	1997	1998	1999	2000	2001	2002
From Turkey (diesel)	**$ 99**	**$ 82**	**$ 99**	**$ 339**	**$ 301**	**$ 100**	**$ 52**
From Turkey (crude)					**$ 347**	**$ 356**	**$ 438**
From Jordan	**$185**	**$249**	**$199**	**$ 162**	**$ 190**	**$ 430**	**$ 424**
From Syria					**$ 205**	**$ 854**	**$1,175**
From Iran/Gulf	**$117**	**$222**	**$314**	**$ 402**	**$ 336**	**$ 235**	**$ 205**
From Minor Sources	**$ 70**	**$ 70**	**$ 70**	**$ 80**	**$ 125**	**$ 125**	**$ 125**
From Oil Contract Kickbacks						**$ 175**	**$ 100**
Total	**$471**	**$623**	**$682**	**$983**	**$1,504**	**$2,275**	**$2,519**

Another way to project Iraq's 2002 approximate income is to base estimates on a range of oil exports to the various countries, positing $20 per barrel as the Iraqis' cut.

	Bpd		**$ millions**	
Exports to	**Low**	**High**	**Low**	**High**
Turkey	**10,000**	**80,000**	**73**	**584**
Jordan	**60,000**	**135,000**	**438**	**985**
Iran	**10,000**	**100,000**	**73**	**730**
Syria	**100,000**	**280,000**	**730**	**2044**
Total	**180,000**	**560,000**	**1314**	**4343**

313 Figures are based on published estimates. IJLTC figures are also included in The Tankers to Jordan section above. For some sources, such as ISLTC, insufficient data make it all but impossible to produce useful estimates. Estimated income on Saddam's international investments portfolio has also been omitted.

314 These figures are compilations of the figures from the tables in the text. In all instances the authors have tended toward a conservative approach, usually taking the lower of a range of estimates, unless there is corroborating evidence to show why higher estimates are more accurate. There are other factors which also tend to result in under-estimations, e.g., only crude oil prices have been used here, even though possibly up to one-third of the illicit exports are refined products, such as diesel fuel, which command a higher price. The authors have also estimated that the Iraqis sell oil at a $6/bbl discount; others think the discount is less.

V. The Family

Saddam Hussein has always awarded the highest positions in his government, Army, and myriad intelligence and security services to members of his close and extended family, including people from both his al-bu Nasir tribe and his hometown, Tikrit. These are the only individuals with access to lucrative business dealings and intimate knowledge about what Saddam seems to consider "the family jewels:" oil, money and weapons. This capsule rundown of the most prominent financial players in Saddam's inner circle illustrates both the extent of these relatives' power and the reportedly brutal and often criminal methods used in their revenue-generating activities.

In recent years the circle of empowered associates has grown smaller and smaller, as Saddam has eliminated potential rivals and alleged spies, coup plotters and mere opportunists whom he suspects of prizing their own political or financial gain above his own. Because Tikritis and other relatives have figured so prominently -- holding important positions in the Republican Guard, the special Republican Guard,[315] the sundry security services and key ministries throughout the government -- they have also numbered high among those given the axe.

The net effect of these layers of countervailing influence and authority has been to concentrate the rivalry for succession, once spread among an array of senior officials, within the immediate family – primarily, that is, between his two sons, Udai and Qusai.[316] While both men have shown themselves to be brutal, ruthless and remorseless, they have very different styles, rarely see eye-to-eye and are longtime rivals in their respective quests for power.

Many commentators have long considered the allocation of spoils to be roughly as follows: Qusai exerts primary control over the regime's defense, intelligence and security apparatus, while Udai's bailiwick concentrates on making money, primarily through the sanctions-busting oil trade, accompanied by lucrative smuggling operations in other commodities. However, as mentioned above, a closer reading of the evidence over time suggests a recent shift. Although Udai has long been making millions by virtue of his protected status and insider knowledge, over the past few years Qusai has significantly eroded his brother's sources of revenue. Where Udai, assuming his position as heir-in-waiting was safe, has chosen the path of hedonism and personal enrichment, Qusai, instead of amassing a personal fortune, has quietly undertaken to channel the illicit earnings into state mechanisms under his control that he can exploit to solidify his grasp on power. This financial consolidation on Qusai's part has run parallel to Saddam's tendency in recent years of showering appointment after appointment on his younger son, clearly advertising Saddam's preference for Qusai as his chosen heir.

[315] An elite unit within the Republican Guard that Saddam packed heavily with members of the Al-bu Nasir tribe.

[316] Saddam and Sadjida Hussein have five children, three girls - Raghad, Rana and Halan - and two boys, Udai and Qusai. Saddam has a sixth child, Ali, by his second wife, Samira.

In addition to profiling Udai and Qusai, this section offers brief precis of the lives and business activities of Lt. Gen. Hussein Kamel, Saddam's murdered son-in-law and once a close associate, weapons procurer and a Baghdad-based organizer of the regime's illicit finances; and Saddam's half-brother, Barzan Ibrihim al-Tikriti, formerly a Swiss-based member of the Iraqi financial brain trust who is currently out of favor and residing in Baghdad.

Udai Hussein

Born in 1964 when his father was in jail, Udai considers himself, as the eldest child, his father's rightful heir. However, Udai's propensity for murder, rape and extortion, compounded by his physical and mental disabilities resulting from a 1996 assassination attempt, has given his father doubts as to the wisdom of anointing his eldest son. To this point, the highest political office he has attained was his 1999 "election" to Iraq's rubber-stamp General Assembly, for which he received, according to his own television station, 100 percent of the vote from his Baghdad constituency.[317] Subsequently he conspired to be named the Assembly speaker.[318] His father, who may have feared Udai's grasp at such a high-profile political position, particularly at the expense of a senior Shi'i, Sa`dun Hammadi, thwarted him in the Ba'athist hierarchy.[319]

Udai has taken on several other key roles. In 1995, with his father's blessing, he created the Saddam Fedayeen, or Saddam's Martyrs, a privileged paramilitary force of some 30,000 that is outside the control of other military structures such as the Republican Guard. Having grown from a far smaller and more rag-tag unit, the Fedayeen has nevertheless had mixed results in the field -- it was claimed they were routed by an organized tribal force in early 2000 in the south of the country.[320] Qusai has several times attempted, unsuccessfully, thus far, to wrest control of the Fedayeen from Udai.[321] Recently the group has acquired the collective persona of a feared band of black-garbed thugs with a penchant for executions and such gruesome public spectacles as extracting the tongues of the President's critics.

Udai is also Iraq's preeminent media mogul. All non-state print media are under his control, and he runs the country's most popular radio and television stations, on which he has not hesitated to broadcast popular, even Western offerings prohibited on the state-run stations. These media outlets promote Udai as a key political figure and often feature government ministers making pilgrimages to his office. They also give him an outlet to express his views on democratization and reform, as he stakes out positions that distinguish himself from his father, Qusai and incipient business rivals by openly criticizing government corruption and the regime's trade practices and partners.[322]

---

317 "Uday: election victory a message to Iraq's enemies," *AFP,* March 29, 2000.

318 "Sa'dun Hammadi Unmoved by Criticism from Udayy Organization," *Al-Sharq al-Awsat,* FBIS-NES-2000-1025, October 25, 2000.

319 "Saddam's son voted Iraq's 'heir-apparent,'" *Iraq Press,* May 18, 2001.

320 "A Crushing Defeat for a Special Unit of 'Saddam's Fedayeen,'" *Iraq News* No. 108, March 31, 2000.

321 "Saddam moves to strip elder son of military clout," *Iraq Press,* May 21, 2000.

322 "Report of Saddam illness said to be absurd," *Financial Times,* January 4, 2001, and "Uday Saddam Husayn Comments on Democracy," *Babil* newspaper (Baghdad), FBIS-NES-92-177, September 11, 1992.

Udai heads Iraq's Football Federation, Bar Association, Student Federation, Association of Artists and Cultural Creators, virtually all the nation's unions and has eked tremendous mileage out of his position as President of the Iraqi National Olympic Committee.[323]

On the diplomatic front, in the fall of 2000, Udai's deputy at the Olympic Committee, Asil Tabra, was the official greeter at the Baghdad airport for a series of sanctions-stretching flights arriving into Iraq.[324] The implicit Olympic-torch backdrop lent a shade of palatability to this charade of placing athletes alongside artists, businessmen and politicians on planes that, quite literally, flew in the face of UN sanctions.

A second abuse of the Olympic shield to expand Udai's political power is the alleged use of Olympic warehouses to store commodities imported under the UN's Oil-for-Food program.[325] Whether these humanitarian goods, food and medicines are distributed as Iraqi government welfare or sold to the highest bidder, the end-user has no choice but to recognize the chosen middleman: the Olympic Committee, run by Udai Hussein. Reportedly, any potential importer or exporter must first gain permission from this office.[326]

Udai has also exhibited sophistication in using the Olympic symbol to co-opt another actor in the international humanitarian community: the International Committee for the Red Cross (ICRC). In an ill-considered humanitarian initiative, the ICRC funded the inclusion of a description of its own activities on Olympic lottery tickets.[327]

Udai has not resisted using his Iraqi sporting status either to feather his own financial nest or to indulge his more sadistic appetites. There have been several high-profile defections from Iraqi athletic teams over the past few years in response to Udai's rage at Iraqi losses in international sporting events. At first, Udai responded to sporting losses by treating his athletes to whippings and tortures such as being beaten on the soles of the feet, dragged through a gravel pit and immersed in sewage. But the defections continued, provoking Udai to devise a more sophisticated preventive strategy: touring athletes must now post bonds and identify accountable family members, lest they defect. Then in December 2001 Udai granted traveling athletes permission to change dinars into dollars at the official rate -- that is, 0.330 dinars to the dollar – as long as they agree to surrender $300 of the $400 they are allowed to exchange.[328]

Finally on the sports front, Udai has shown himself to be a man of vision. In preparation for Iraq's bid to host the 2012 Summer Olympics, the Committee has been entertaining bids, through a Jordanian company, to build a 100,000-seat stadium that would anchor a

---

[323] http://www.olympic.org/uk/organisation/noc/noc_uk.asp?noc_initials=IRQ. The Iraqi National Olympic Committee is officially recognized by the International Olympic Committee.
[324] "Jordanian, Syrian planes land in Baghdad," *Reuters,* November 24, 2000.
[325] Interview of Defector (Abbas al Janabi) with *Al Hayat,* October 18-22, 1998, provided by *Iraq News* from Laurie Mylroie.
[326] David Rose, "Iraq's Arsenal of Terror," *Vanity Fair*, May 2002.
[327] ICRC, "Annual Report 1998 The Gulf: Iraq," http://www.icrc.org/Web/eng/siteeng0.nsf/iwpList74/C2137F85DA60D8E8C1256B890033D62C
[328] "Iraqi athletes flee," *Iraq Press*, February 10, 2002.

new, 300-acre Olympic sports complex.[329] It is hard to fathom whether the regime or Udai actually believe the IOC will consider Iraq a serious candidate, or whether the much-touted effort represents some combination of domestic public relations, patronage disbursement of locally-generated funds and/or international kickbacks from a money-laundering scheme, should the bid fail. In any case the project is to get a jumpstart. The Distribution Plan for Phase 12 of the UN's Oil-for-Food program, approved by the Secretary-General on June 13, 2002, includes a $20 million project for construction of the Olympic Stadium.

Perhaps Udai's most important role has been in the export of Iraqi oil outside of the restrictions imposed by UN sanctions. Much of what has been outlined in the previous section was initiated, supervised and at times spoiled by Udai Hussein. Luckily for his father, and to Udai's everlasting chagrin, a second son was born.

Qusai Hussein

Two years younger than Udai, Qusai appears to be more calculating, less impulsive and less flamboyant. In contrast to Udai's loose-cannon killings, the crimes for which Qusai bears responsibility appear to be more consistently premeditated and of an overtly political nature. Unlike Udai, who is not above abducting women off the streets and forcing them to one of his palaces to do his bidding, Qusai has one wife and three children, lives quietly and steers clear of the public eye.

Qusai's path toward the presidency has been through the security and military mechanisms of the state. He did not work his way up through the ranks, nor did he extort positions or assets, as did Udai. Every one of his posts has come as an appointment by his father. Qusai now heads or is his father's deputy of the most powerful military, security and intelligence organizations, including the Republican Guard, the Directorate of Intelligence (Mukhabarat), Military Intelligence and the National Security Council.[330] He also heads Amn al-Khass, an intelligence unit tasked with surveillance of key personnel in military, security and other intelligence units, along with the Special Security Organization (SSO), the agency responsible both for dealing with UN weapons inspectors and for hiding the WMD activities from them. The SSO now monitors international telecommunications between Iraq and the outside world, including, most recently, the satellite broadcast of pleas for exiled dissidents' prompt return, made by their clearly desperate and tormented family members.[331] It was reportedly Qusai who managed the situation that resulted in UNSCOM's departure in 1998, marking his public debut in the realm of international political controversy. Finally, Qusai is responsible for his father's personal security, through the Himaya, or palace guard.

[329] "Baghdad to bid for 2012 Olympics," *Washington Times*, March 5, 2002. According to Udai Hussein's website, in early June Iraq signed an agreement with a Turkish company to build an 80,000-seat stadium "within the Saddam Sports City" in Baghdad. The report states that the new stadium is being built with UN approval, as will the construction of an 8000-seat Indoor Hall, to follow.

[330] "Saddam Prepares Qusayy for Presidency," *Al-Sharq al-Awsat,* FBIS-NES-1999-0721, July 17, 1999.

[331] "Iraq tightens noose on dissidents' families," *Iraq Press,* March 4, 2002.

Over the past two years Saddam has appointed Qusai to several more critical posts. He is now deputy commander of the Army, a position believed to be senior to that held by the Minister of Defense.[332] As commander also of the northern Army, he would be responsible for any future attempts to retake the Kurdish areas outside of the control of Baghdad.[333] In 2000 Qusai was named "caretaker of the presidency" in the event that Saddam should become incapacitated and was reportedly made head of a family council that would govern in the event of Saddam's death. In May 2001, Qusai was appointed to the 18-member Ba'ath Party's Regional Command, further rankling his elder brother, who does not hold a seat on this important party governance board.[334]

Making money has not appeared to have been Qusai's highest priority in his climb to power. However, from his positions as head of intelligence and the northern Army, he appears to have wrested control of the lucrative Turkish trade from Udai. The trade is much more orderly than previously and has been set up on a firmer government-to-government basis. He also seems to have moved in on the Syrian oil deal and, as mentioned above, enjoys far better relations with Syrian President Bashar Assad than does Udai.[335] Qusai's Mukhabarat, or secret service, reportedly has embroiled itself in a fierce turf struggle with Udai over the lucrative cigarette-smuggling business (see section above on Minor Sources of Iraqi Government Income).[336] Qusai is likely able to make good use of the money, not so much to support a lavish lifestyle as to retain the loyalty of the thousands of members of his various services.

Barzan Ibrihim al-Tikriti

Barzan is a half-brother to Saddam Hussein, born in 1951 to Saddam's mother's second husband. He was very close to Saddam in the regime's early days, when he helped create and then headed the Mukhabarat secret service. He was stripped of his intelligence position in the mid-1980s, reportedly when he objected to the betrothal of Saddam's eldest daughter Raghad to Hussein Kamel, insisting that Raghad should instead marry Barzan's own son. His compensation or punishment was to have his daughter married off to Udai. The marriage didn't last long, and Raghad fled to her parents in Geneva, where her father was serving as ambassador to Switzerland and as Iraq's permanent representative to the UN in Geneva.[337] From this post Barzan is thought to have created a web of companies which held covert and widely diversified investments.

At the outset of his new career in international investing, the money believed to be under Barzan's control was a rumored $30 billion that Saddam had stashed overseas for any future contingencies -- which, of course, became vital once sanctions were imposed. Barzan anticipated the pinch: immediately after Iraq's August 2, 1990, invasion of Kuwait, he called in tens of millions of dollars of investments from all over Europe,

[332] "Saddam promotes son to general," *Iraq Press,* May 8, 2001.
[333] "Iraqi Official on Qusay's Rise to Power," *RFE/RL,* August 13, 1999.
[334] "Baghdad Television Announces Iraq Command Members, Including Qusay," *Republic of Iraq Television,* FBIS-NES-2001-0517, May 17, 2001.
[335] "Saddam mulls fresh cabinet reshuffle to boost son's standing," *Iraq Press,* August 18, 2001.
[336] "Saddam's son in clash with Mukhabarat over smuggling," *Iraq Press,* August 14, 2001.
[337] Ian Black, "Saddam half-brother 'defects' amid feuds in Iraq's ruling clan," *The Guardian*, September 9, 1999.

which he moved into Iraq through Jordan's Central Bank, fearing the international embargo that quickly ensued. In that one timely move, he rendered the assets fungible for the regime's purposes and kept them from being frozen by international investigators.

In 1998 he fell out with Baghdad, in part because of his daughter's breakup with Udai. Barzan was recalled from Geneva but delayed his return for several months and was rumored to be considering defecting, with $10 billion of Iraqi assets under his control said to be unaccounted for.[338] On his way home Barzan took care to withdraw from an Amman bank approximately $5 million which he apparently owed Udai.[339] Upon his arrival in Baghdad, Barzan was watched closely and then interrogated by agents under Qusai's direction and by Udai himself. Iraq's chief diplomat for a decade Barzan, was accused of having met with American politicians and intelligence agents during his years in Europe and of embezzling the $10 billion.

Nearly a year later, in September 1999, Barzan al-Tikriti left Iraq, traveling to Switzerland and the UAE, amid rampant speculation that he had defected, but all parties -- Barzan, the Iraqis and the UAE -- denied it.[340] Barzan and the Iraqi government claimed he was visiting family in Geneva, while the Iraqi opposition claimed he was trying to clear up embezzlement charges allegedly filed against him by the government of Iraq.[341] Still others said he was tidying up financial arrangements in both Switzerland and the UAE. In any case, two months later he returned to Baghdad, where he was once again investigated. Since then Barzan has served as an adviser to the President,[342] a post that may have been intended more to keep Barzan under surveillance than for any investment tips he may have to offer. In March 2002 Barzan was further demoted, when his Ba'ath party leadership position in Baghdad was revoked.[343]

Lt. Gen. Hussein Kamel Hassan al-Majid

Cousin of Saddam Hussein and husband to Saddam's daughter Raghad, Hussein Kamel and his brother Saddam Kamel were brought into the upper ranks of the regime by their Uncle Hassan Ali al-Majid, or, as he became known for his brutality against the Kurds, "Chemical Ali." Thanks to Ali al-Majid, the two were admitted to the Republican Guard as presidential motorcade motorcycle drivers.[344] Raghad swiftly fell in love with the dashing young biker, and with the active backing of her mother, convinced her father to spurn Barzan's son and allow her to marry Hussein Kamel, whereupon the young man's future was assured.[345] Hussein's brother also moved up: Saddam Kamel became

---

[338] "Saddam's Half-brother Leaves Iraq," *RFE/RL,* September 10, 1999.
[339] Ibid.
[340] Ian Black, "Saddam half-brother 'defects' amid feuds in Iraq's ruling clan," *The Guardian*, September 9, 1999.
[341] "Barzan on 'Private Business' in the UAE," *Al-Sharq al-Awsat,* FBIS-NES-1999-0910, September 10, 1999.
[342] http://www.polisci.com/world/nation/IZ.htm
[343] Saddam sidelines half brother," *Iraq Press,* March 18, 2002.
[344] Mohammad al-Khaffan, "The Mysterious Amman Massacre May Be Linked to Funds Embezzled by Saddam's Murdered Sons-in-Law," *Washington Report*, April 1998.
[345] Al-Majallah, "Saddam's Family Relations, Secrets Revealed," FBIS-NES-95-217-S, August 20, 1995.

commander of the Special Security Service, putting him in charge of the bodyguard units constituting Saddam's Presidential Security, a near-sacred position in Saddam's hierarchy. Indeed, it is thought that Saddam married his second daughter, Rana, to Saddam Kamel to curry favor among his bodyguards.

Hussein Kamel rose fast. He was tapped to manage Saddam's personal security during the Iran-Iraq war, when he also managed to greatly expand the elite Republican Guard and other special forces. He later served as a senior commander during the Anfal campaign in the late 1980s against the Kurds in northern Iraq. He was promoted to Lieutenant General and put in charge of intelligence operations, which post he exploited both to recruit talented scientists and engineers and to purchase conventional armaments, missiles and the critical components for the production of advanced chemical, nuclear and biological weapons. He oversaw the build-up of the non-conventional weapons program and the transformation of Soviet Scuds into long-range missiles, all the while reportedly profiting handsomely from the commissions he negotiated on the arms purchases.

In 1987 Saddam appointed Kamel Minister of Industry and Military Industries and head of the Military Industrial Commission (MIC), that portion of the state bureaucracy tasked with special projects by the President. Weapons procurement, particularly WMD components or other military equipment intended to be hid from international inspectors, falls under its purview. The draining of the southern marshes, a vital component in the genocide of the Marsh Arabs, was also a task undertaken by the MIC during Hussein Kamel's tenure.[346]

It was in this post as MIC head that Hussein Kamel locked in his fortune. Weapons procurement in the 1980s was rife with kickbacks to the buyer, and Hussein Kamel was the buyer on behalf of Iraq, armed with billions to spend on arming his country. Former Iraqi intelligence chief Wafiq al-Sammarra'i, who defected in early 1995, claimed that Kamel made $60 million on one deal alone, by buying missiles from the Chinese.[347]

The Jordanian weekly A*l-Bilad* reported that Kamel developed an elaborate network of agents and officers abroad and moved vast amounts of money into offshore bank accounts used to purchase information and materials that would help strengthen Iraq's nuclear, biological and chemical programs. Only Kamel himself had knowledge of and access to these accounts.[348]

After Iraq's defeat at the hands of the US-led coalition in 1991, Hussein Kamel adopted a pragmatic stance with regard to the UN weapons inspection program, urging Saddam to comply with UN resolutions so that sanctions might be lifted. He also began urging reconciliation with the Kurds. Udai, nursing a bitter rivalry with Kamel that dated back years, fiercely disputed both these positions.

---

[346] "Plant Seized for Canal Project," *Middle East Economic Digest*, July 1, 1992.
[347] "Former Intelligence Chief al-Sammarra'I," *Al-Shariqah al-Khalij,* FBIS-NES-95-217-S, November 9, 1995.
[348] "Story of Power Struggle, Defections Detailed," *Al-Bilad,* FBIS-NES-95-159, August 17, 1995.

A more abrasive source of friction between the two, predictably, was money. As master of the kickback, Kamel had developed the authority and expertise in acquiring a fortune. But by the early 1990s Udai felt it time to take these matters into his own hands. At first, the two ran smuggling operations side by side, and one gets a sense that Udai was the junior partner or apprentice.[349] But by 1993 the brothers-in-law had begun to fall out over the sanctions-busting oil trade with Iran. Udai, feeling proprietary about what he believed was his special relationship with Iranian President Rafsanjani's son Mehdi, tried to muscle Hussein Kamel, the senior partner, out of the deal. It appears Udai was not able to succeed on his first attempt, but then, flaunting his closer connection to Saddam Hussein -- son rather than son-in-law – he persisted,[350] and by 1994 he is believed to have taken over most of the Iraq-Iran oil trade. Shortly thereafter, Hussein Kamel went to Jordan for brain surgery and remained there to recuperate. Saddam appointed Udai to replace Kamel as acting director of the Ministry of Industry,[351] a lucrative post Udai may well have anticipated would become permanent, assuming that Kamel would thenceforth be out of the picture. Kamel's full recovery and the discovery that his tumor was benign frustrated Udai's ambition to run these posts to his exclusive advantage and thereby exacerbated the tension between the two.

Before long, their partnerships, of which the oil smuggling to Iran was the most lucrative, led to rivalry, threats and violence. Udai went on the attack, demanding that Hussein Kamel account for every dinar spent on military industries since 1987.[352] Kamel didn't oblige. Well aware, however, that the groundwork was being laid to discredit and marginalize him, in July 1995 he made a foray to Amman to scout it out as a possible refuge in the event that he should feel compelled to leave Iraq.

Kamel returned to Baghdad and, sensing it was indeed time to go, began preparing his family's orderly departure. However, he was forced to flee more hurriedly than expected when, after a bitter family argument reportedly over whether or not to cooperate with weapons inspections, Udai shot his own uncle, Barzan's brother and former interior minister Watban Ibrahim Takriti, along with several others. Udai allegedly also threatened Kamel, who piled his family into a car and headed that same night for Amman, along with his brother Saddam Kamel and *his* family, an entourage of some 30 others, exclusive knowledge of the secret foreign bank accounts and some $35 million in cash.[353] Rumor had it that a coup was brewing, possibly led by Kamel's uncle, Hassan al-Majid, or "Chemical Ali."

Once in Amman, having been graciously welcomed by Jordan's King Hussein, Kamel and his brother anointed themselves leaders of an Iraqi liberation movement. Few Iraqi exiles signed up for his resistance movement, though: opposition members – and reportedly King Hussein, as well -- were suspicious of his longstanding, deep and bloody

---

[349] Michael Theodoulou, "Sons of Iraq and Iran rulers join to flout UN embargo," *The Times of London*, February 24, 1994.

[350] "Saddam Family Dispute Over Oil Sales Reported," *Voice of Iraqi People,* FBIS-NES-93-187, September 29, 1993.

[351] "Udayy 'Temporarily' Running Industry Ministry," *Al-Sharq al-Awsat,* FBIS, February 22, 1994.

[352] "Story of Power Struggle, Defections Detailed," *Al-Bilad,* FBIS-NES-95-159, August 17, 1995.

[353] "IBC Reports Details," *Iraqi Broadcasting Corporation,* FBIS-NES-95-159, August 17, 1995.

ties to the regime. Hussein Kamel reportedly stashed his funds in Amman, presumably for safekeeping and investment, with other Iraqi exiles from Saddam's regime.[354]

Only six months after his widely publicized defection, Hussein Kamel was issued a formal pardon and multiple assurances from Baghdad, whereupon he moved his family back to Iraq. Almost immediately upon his arrival Hussein and Saddam Kamel, another brother, their father and some passersby were murdered at the father's home. The murder was carried out under the close supervision of Udai and, in a rite of "family purification," by their uncle, "Chemical Ali," the man responsible for bringing them into the family business in the first place. Apparently eager to atone for the disgrace of Kamel's defection and to prove his loyalty, Ali, aka Hassan al-Majid, felt obliged to murder his nephews.

Summary

The surreptitious movement of large quantities of crude oil is difficult to accomplish. Oil's sheer bulk is hard to hide, and by and large, Iraq has not attempted to do so. Rather the Iraqis have taken the opposite tack, practically flaunting their sanctions-busting activities and denouncing the UN regimen as an unjust infringement on their sovereignty. With exports to Jordan and Syria, Iraq has been very public with its intentions and its progress toward fulfilling them. At the Turkish and Jordanian borders and the Gulf ports, any observer can see the extent of the trade. The Iraqis have attempted to undermine the sanctions regime by demonstrating in broad daylight how easy and profitable it can be to flout it.

From Baghdad's perspective, the neighboring states are partners that can be bought, bullied and set at competition with each other. Nor has the regime been wrong in this judgement: the governments of Turkey, Syria, Jordan, Iran and even that of the autonomous Kurdish areas have all succumbed to the financial temptations of cooperating with Baghdad. Other interested parties, such as Saudi Arabia, Kuwait, the US and its allies, have at times impeded the sanctions-busting activity -- most successfully with the Multinational Interception Force -- but have never taken any serious action to shut the trade down.

Once having successfully hooked the governments of the neighbor states on the hard-currency windfalls, the government in Baghdad has found it a fairly simple task to open or restrict the tap according to the political comportment of the neighboring state.

A little harder to fathom is how the relationship and rivalry between Saddam's two sons fit into an economic overview. Where Udai seems to make lavish use of violence and extortion to feather his own nest, Qusai prefers to do so on behalf of the state, albeit one he intends to rule. Although Udai was on top during the mid-1990s, Qusai now controls

[354] Mohammad al-Khaffan, "The Mysterious Amman Massacre May Be Linked to Funds Embezzled by Saddam's Murdered Sons-in-Law," *Washington Report*, April 1998.

not only the security and military apparati, but, in a form of internal and external trade war, has pulled some of the key economic assets out from under his older brother. Both the Turkish and Syrian trade in oil outside of the UN are primarily government-to-government, thereby benefiting Qusai to the detriment of Udai. It is not clear how Saddam Hussein views this tussle between his sons: having witnessed and been enraged by a number of Udai's egregious excesses, has he now assumed a more defensive posture, masterminding his own succession, of "divide and rule?" Or has he simply chosen Qusai but not yet managed to overcome the formidable power base that Udai has built for himself?

Finally, after the co-optation of the neighbors and the family's intra-scholastics, dealing with the UN has been a breeze. Whenever Saddam Hussein wishes to increase his hard currency earnings at the expense of the Oil-for-Food program, the Iraqis shut down the export or claim lack of spares and imminent infrastructure collapse, and, as if on cue, his supporters in the international community warn of the horrific consequences that will befall the already miserable Iraqi people. The UN eases the sanctions regime, Saddam gets his hard currency and the oil fields are maintained to a level sufficient for his purposes.