

Regime Finance and Procurement

*We have said with certainty that the embargo
will not be lifted by a Security Council resolution,
but will corrode by itself.*

*Saddam speaking in January 2000
to mark the 79th anniversary
of the Iraqi armed forces.*

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A Word on the Scope of This Chapter

This chapter of the Comprehensive Report details the evolution of Iraq's campaign to evade and overcome the UN ban on its import of material related to Weapons of Mass Destruction and conventional military forces. It also describes Iraq's effort to use the sale of its oil to hasten the end of the entire sanctions Regime. Because this chapter deals with Iraq's international trade and finance, half of the picture rests with entities outside Iraq—countries, companies, and individuals.

To tell the story, we had to describe—usually naming—Iraq's trade partners or entities Iraq thought sympathetic to its plight. Most of those individuals or entities are clearly identified in Iraqi documents, some of which were substantiated through interviews with former Iraqi Regime officials. We name those individuals and entities here in the interest of candor, clarity, and thoroughness. But it is not in ISG's mandate or capabilities to investigate or judge those non-Iraqi individuals or entities. And in many cases, the Iraqi documents and detainees stop short of confirming that a particular transaction was consummated, or that a courted foreign government official said "yes" to Iraqi blandishments.

We also must point out that some Iraqi trade was legal and legitimate under the UN Oil-For-Food Program. It is important to understand that the Iraqi Regime used both sanctioned and unsanctioned trade to buy influence and gain allies. But Iraq's intent to circumvent sanctions by no means incriminates those who may have in some cases unwittingly provided unsanctioned commodities to Iraq. We would like to emphasize that this report does not intend to analyze or assess the legal implications for non-Iraqis.

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Key Findings

Throughout the 1990s and up to OIF (March 2003), Saddam focused on one set of objectives: the survival of himself, his Regime, and his legacy. To secure those objectives, Saddam needed to exploit Iraqi oil assets, to portray a strong military capability to deter internal and external threats, and to foster his image as an Arab leader. Saddam recognized that the reconstitution of Iraqi WMD enhanced both his security and image. Consequently, Saddam needed to end UN-imposed sanctions to fulfill his goals.

Saddam severely underestimated the economic and military costs of invading Iran in 1980 and Kuwait in 1990, as well as underestimating the subsequent international condemnation of his invasion of Kuwait. He did not anticipate this condemnation, nor the subsequent imposition, comprehensiveness, severity, and longevity of UN sanctions. His initial belief that UN sanctions would not last, resulting in his country's economic decline, changed by 1998 when the UNSC did not lift sanctions after he believed resolutions were fulfilled. Although Saddam had reluctantly accepted the UN's Oil for Food (OFF) program by 1996, he soon recognized its economic value and additional opportunities for further manipulation and influence of the UNSC Iraq 661 Sanctions Committee member states. Therefore, he resigned himself to the continuation of UN sanctions understanding that they would become a "paper tiger" regardless of continued US resolve to maintain them.

Throughout sanctions, Saddam continually directed his advisors to formulate and implement strategies, policies, and methods to terminate the UN's sanctions regime established by UNSCR 661. The Regime devised an effective diplomatic and economic strategy of generating revenue and procuring illicit goods utilizing the Iraqi intelligence, banking, industrial, and military apparatus that eroded United Nations' member states and other international players' resolve to enforce compliance, while capitalizing politically on its humanitarian crisis.

- From Saddam's perspective, UN sanctions hindered his ability to rule Iraq with complete authority and autonomy. In the long run, UN sanctions also interfered with his efforts to establish a historic legacy. *According to Saddam and his senior advisors, the UN, at the behest of the US, placed an economic strangle hold on Iraq.* The UN controlled Saddam's main source of revenue (oil exports) and determined what Iraq could import.
- UN sanctions curbed Saddam's ability to import weapons, technology, and expertise into Iraq. Sanctions also limited his ability to finance his military, intelligence, and security forces to deal with his perceived and real external threats.
- In short, Saddam considered UN sanctions as a form of economic war and the UN's OFF program and Northern and Southern Watch Operations as campaigns of that larger economic war orchestrated by the US and UK. His evolving strategy centered on breaking free of UN sanctions in order to liberate his economy from the economic strangle-hold so he could continue to pursue his political and personal objectives.

One aspect of Saddam's strategy of unhinging the UN's sanctions against Iraq, centered on Saddam's efforts to influence certain UN SC permanent members, such as Russia, France, and China and some nonpermanent (Syria, Ukraine) members to end UN sanctions. *Under Saddam's orders, the Ministry of Foreign Affairs (MFA) formulated and implemented a strategy aimed at these UNSC members and international public opinion with the purpose of ending UN sanctions and undermining its subsequent OFF program by diplomatic and economic means.* At a minimum, Saddam wanted to divide the five permanent members and foment international public support of Iraq at the UN and throughout the world by a savvy public relations campaign and an extensive diplomatic effort.

Another element of this strategy involved circumventing UN sanctions and the OFF program by means of "Protocols" or government-to-government economic trade agreements. Protocols allowed Saddam to generate a large amount of revenue outside the purview of the UN. The successful implementation of the Protocols, continued oil smuggling efforts, and the manipulation of UN OFF contracts emboldened Saddam to pursue his military reconstitution efforts starting in 1997 and peaking in 2001. These efforts covered conventional arms, dual-use goods acquisition, and some WMD-related programs.

- Once money began to flow into Iraq, the Regime’s authorities, aided by foreign companies and some foreign governments, devised and implemented methods and techniques to procure illicit goods from foreign suppliers.
- To implement its procurement efforts, Iraq under Saddam, created a network of Iraqi front companies, some with close relationships to high-ranking foreign government officials. These foreign government officials, in turn, worked through their respective ministries, state-run companies and ministry-sponsored front companies, to procure illicit goods, services, and technologies for Iraq’s WMD-related, conventional arms, and/or dual-use goods programs.
- ***The Regime financed these government-sanctioned programs by several illicit revenue streams that amassed more than \$11 billion from the early 1990s to OIF outside the UN-approved methods.*** The most profitable stream concerned Protocols or government-to-government agreements that generated over \$7.5 billion for Saddam. Iraq earned an additional \$2 billion from kickbacks or surcharges associated with the UN’s OFF program; \$990 million from oil “cash sales” or smuggling; and another \$230 million from other surcharge impositions.

Analysis of Iraqi Financial Data

The Iraqi revenue analysis presented in this report is based on government documents and financial databases, spreadsheets, and other records obtained from SOMO, the Iraqi Ministry of Oil, and the Central Bank of Iraq (CBI), and other Ministries. These sources appear to be of good quality and consistent with other pre- and post-Operation Iraqi Freedom information. All Iraqi revenue data and derived figures in this report have been calculated in current dollars.

Saddam directed the Regime’s key ministries and governmental agencies to devise and implement strategies, policies, and techniques to discredit the UN sanctions, harass UN personnel in Iraq, and discredit the US. At the same time, according to reporting, he also wanted to obfuscate Iraq’s refusal to reveal the nature of its WMD and WMD-related programs, their capabilities, and his intentions.

- ***Saddam used the IIS to undertake the most sensitive procurement missions. Consequently, the IIS facilitated the import of UN sanctioned and dual-use goods into Iraq through countries like Syria, Jordan, Belarus and Turkey.***
- The IIS had representatives in most of Iraq’s embassies in these foreign countries using a variety of official covers. One type of cover was the “commercial attaches” that were sent to make contacts with foreign businesses. The attaches set up front companies, facilitated the banking process and transfers of funds as determined, and approved by the senior officials within the Government.
- The MFA played a critical role in facilitating Iraq’s procurement of military goods, dual-use goods pertaining to WMD, transporting cash and other valuable goods earned by illicit oil revenue, and forming and implementing a diplomatic strategy to end UN sanctions and the subsequent UN OFF program by nefarious means.
- Saddam used the Ministry of Higher Education and Scientific Research (MHESR) through its universities and research programs to maintain, develop, and acquire expertise, to advance or preserve existent research projects and developments, and to procure goods prohibited by UN SC sanctions.
- The Ministry of Oil (MoO) controlled the oil voucher distribution program that used oil to influence UN members to support Iraq’s goals. ***Saddam personally approved and removed all names of voucher recipi-***

ents. He made all modifications to the list, adding or deleting names at will. Other senior Iraqi leaders could nominate or recommend an individual or organization to be added or subtracted from the voucher list, and ad hoc allocation committees met to review and update the allocations.

Iraq under Saddam successfully devised various methods to acquire and import items prohibited under UN sanctions. *Numerous Iraqi and foreign trade intermediaries disguised illicit items, hid the identity of the end user, and/or changed the final destination of the commodity to get it to the region.* For a cut of the profits, these trade intermediaries moved, and in many cases smuggled, the prohibited items through land, sea, and air entry points along the Iraqi border.

By mid-2000 the exponential growth of Iraq's illicit revenue, increased international sympathy for Iraq's humanitarian plight, and increased complicity by Iraq's neighbors led elements within Saddam's Regime to boast that the UN sanctions were slowly eroding. In July 2000, the ruling Iraqi Ba'athist paper, Al-Thawrah, claimed victory over UN sanctions, stating that Iraq was accelerating its pace to develop its national economy despite the UN "blockade." In August 2001, Iraqi Foreign Minister Sabri stated in an Al-Jazirah TV interview that UN sanctions efforts had collapsed at the same time Baghdad had been making steady progress on its economic, military, Arab relations, and international affairs.

- Companies in Syria, Jordan, Lebanon, Turkey, UAE, and Yemen assisted Saddam with the acquisition of prohibited items through deceptive trade practices. In the case of Syria and Yemen, this included support from agencies or personnel within the government itself.
- Numerous ministries in Saddam's Regime facilitated the smuggling of illicit goods through Iraq's borders, ports, and airports. The Iraqi Intelligence Service (IIS) and the Military Industrialization Commission (MIC), however, were directly responsible for skirting UN monitoring and importing prohibited items for Saddam.

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Chapter Summary

The Illicit Finance and Procurement chapter focuses on the economic means, key actors and organizations, foreign suppliers, and procurement mechanisms used by Saddam to pursue his set of objectives: survival of himself, his Regime, and his legacy. The first section of the chapter provides an historic background divided into key economic phases. The chapter then examines Saddam's major revenue streams outside the UN sanctions regime: bilateral trade Protocols, UN OFF oil surcharges, commodity kickbacks, and "cash sales" or oil smuggling activities. ISG estimates the total amount of revenue earned between 1991 and 2003, while paying special attention to money earned after the introduction of the OFF program. ISG also addresses how the Regime used its oil assets to influence non-Iraqi individuals by means of an institutionalized, secret oil voucher program.

Following the illicit revenue section, the chapter identifies the Iraqi Regime's key individuals, ministries, organizations, and private entities within the Regime that were involved in Saddam's procurement and revenue activities. Next, the section identifies foreign suppliers—governments, state-owned and private firms, and/or individual agents that engaged in the export of goods in contravention of UN resolutions. In some cases, ISG has uncovered foreign government activity and knowledge that ranged from tacit approval to active complicity. ***In other cases, firms engaged in the illegal activities without their government's consent or knowledge.*** Moreover, ISG's investigation exposed Iraqi and foreign trade intermediaries' deceptive methods used to purchase, acquire, and import UN-banned items.

Finally, this chapter provides several annexes that give more detail on the spectrum of issues examined in the procurement chapter of ISG's report. Annex A consists of translations of Iraq's major trade Protocols; Annex B is an oil voucher recipient list that ISG obtained from Iraq's State Oil Marketing Organization (SOMO). Annex C relates Iraq's normal governmental budgetary process, while Annex D provides general Iraqi economic data. Annex E outlines ISG's illicit earnings sources and estimation methodology, and Annex F provides an illustrative oil smuggling case study. Annex G explains Iraq's banking system, and Annex H lists Iraqi-related UN Security Council Resolutions. Annexes I and J reveal suspected Iraqi dual-use and conventional weapons procurement transactions, while Annex K lists suspected companies engaged in military-related trade with Iraq. Finally, Annex L provides a list of procurement acronyms found throughout this section.

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The Regime Timeline

For an overview of Iraqi WMD programs and policy choices, readers should consult the Regime Timeline chart, enclosed as a separate foldout and in tabular form at the back of ISG report. Covering the period from 1980 to 2003, the timeline shows specific events bearing on the Regime's efforts in the BW, CW, delivery systems and nuclear realms and their chronological relationship with political and military developments that had direct bearing on the Regime's policy choices

Readers should also be aware that at the conclusion of each volume of text, we have also included foldout summary charts that relate inflection points—critical turning points in the Regime's WMD policymaking—to particular events, initiatives, or decisions the Regime took with respect to specific WMD programs.

Inflection points are marked in the margins of the text with a gray triangle.

Ambition (1980-91)

During the Ambition phase in Iraq, Saddam and his Regime practiced open, traditional procurement of conventional weapons and developed clandestine methods for obtaining WMD materials and dual-use items. Iraq's oil wealth allowed Saddam to overcome the inherent inefficiencies of a centrally planned economy. **After the costly war with Iran**, Saddam's procurement efforts focused primarily on restocking Iraq's war materials. These defense-related procurement goals, however, were hindered by economic weakness. In the later part of this period, the Iraqi economy began to falter, saddled with a high international debt from the war, rising costs of maintaining a generous welfare state, low international oil prices, and the high cost entailed in weapons and WMD programs. Saddam's ill-conceived, shortsighted economic reforms in 1987 and reactionary price controls, nationalization, and subsidies in 1989 pushed the Iraqi economy further into crisis. **Capping the Ambition phase, Saddam chose to fight his way out of economic crises by invading Kuwait.**

Decline (1991-96)

In the post-Gulf war decline phase, the possession of WMD remained important to the Regime. Saddam's procurement of conventional weapons and WMD, however, was hindered severely by a potent combination of international monitoring and a collapsing oil-based economy. **These constraints were compounded by the decision not to make full WMD disclosures** and the subsequent attempt to remove **WMD signatures through unilateral destruction.** The poor handling of the WMD disclosures further hardened the international community. UN sanctions, resulting from Saddam's refusal to comply with UN resolutions, froze the Regime's export of oil and import of commodities—cutting off Saddam's ability to generate the revenue needed for illicit purchases on international arms and dual-use markets. The Iraqi economy also suffered under UN sanctions during this period as gross domestic product (GDP) per capita fell from \$2304 in 1989 to an estimated \$495 in 1995. The decline in the street-value of the Iraqi Dinar rendered the average Iraqi citizen's savings worthless, casting the Iraqi middle-class into poverty. Simultaneously, this period of decline exhibited an increase in corruption, incompetence, and patronage throughout Saddam's Regime.

Husayn Kamil's flight to Jordan in 1995 and Saddam's handling of the issue led to further WMD disclosures and subsequent international opprobrium. Saddam retained a desire for WMD, but economic growth and the ending of sanctions became the overriding concern as the **economy hit rock bottom in late 1995.** The combination of these factors motivated Saddam's decision to accept UNSCR 986, the UN OFF in 1996.

Recovery (1996-98)

The Recovery phase was ushered in by Saddam's acceptance of UN SC 986 and the UN OFF Program. Trade fostered under the OFF program starting in 1997 allowed Saddam to pursue numerous illicit revenue earning schemes, which began generating significant amounts of cash outside of the auspices of the UN. With the legitimate side of the OFF program

providing the Iraq population with economic relief, Saddam was free to develop illicit procurement programs to arm his Regime against perceived and real threats. By the end of this period, Iraq had developed a growing underground network of trade intermediaries, front companies, and international suppliers willing to trade oil or hard currency for conventional weapons, WMD precursors, and dual-use technology. After 1996, the state of the Iraqi economy no longer threatened Saddam's hold on power in Iraq, and economic recovery underpinned a more confident Regime posture.

Transition and Miscalculation (1999-2003)

The Transition and Miscalculation phases opened with Iraq's suspension of cooperation with UNSCOM and IAEA. The subsequent lack of effective monitoring emboldened Saddam and his procurement programs. The Regime successfully manipulated Iraq's oil production and sales policies to influence international political actors and public opinion. However, during this period, Iraq's long-neglected oil infrastructure began to falter, resulting in an inability to meet demand. As a result, the growth in the legitimate side of the Iraq economy slowed. Meanwhile, Saddam's increasing illegitimate revenue and profits from UN oil sales compensated for legitimate revenue losses. ***Illicit oil revenue provided Saddam with sufficient funds to pay off his loyalists and expand selected illicit procurement programs.*** From 1999 until he was deposed in April 2003, Saddam's conventional weapons and WMD-related procurement programs steadily grew in scale, variety, and efficiency. Saddam invited UNMOVIC and IAEA back into Iraq in September 2002, in the face of growing international pressure, calculating that a surge in cooperation might have brought sanctions to an end.

Directing and Budgeting Iraq's Illicit Procurement

Overview

Throughout the 1990s and up to OIF (2003), Saddam continually directed his advisors to formulate and implement policies, methods, and techniques to terminate the UN's sanctions and obtain prohibited conventional military and WMD-related goods.

- ***Saddam directed and approved illicit procurement*** by his Regime.
- The Diwan and Presidential Secretary facilitated Saddam's procurement directives by processing nonbudget funding for conventional military and WMD programs.
- The Iraqi budget process was divided into two different systems: a formal budget that served as a common governmental budget and a supplemental or secret budget that was controlled by Saddam and the Economic Affairs Committee (EAC). ***This supplemental process, which emerged in its most efficient form after 1995, used illicit hard currency to finance prohibited procurement programs.***

President and Presidential Secretary's Role in Illicit Procurement

The highest levels of the government, including the President and the Presidential Secretary, used trade Protocols and other cooperative agreements after 1991 as vehicles to circumvent UN sanctions and to facilitate the continued arming of Iraq. Iraq negotiated bilateral trade agreements called "Protocols" with Syria, Jordan, Turkey, and Egypt and less formal cooperative trade agreements with several East European countries such as Belarus, Poland, Ukraine, and Russia.

- The Syria, Jordan, Turkey, and Egypt Protocols were official bilateral cooperative agreements approved by officials of the countries involved (see Annex A: Translations of Iraq's Bilateral Trade Protocols).
- According to press reporting, Aziz traveled to Moscow on 25-26 January 2002. Recovered documents also indicate that Tariq Aziz delivered a letter to Moscow in person, and he met with senior Russian leaders.
- Belarusian President Lukashenko and Saddam developed a special relationship in which Lukashenko agreed to support Saddam because of the Iraqi President's support of the 2001 Belarusian Presidential elections.

Saddam approved and directed the illicit procurement relationships that Iraq had with other countries in order to improve Iraq's military capabilities against regional threats. The Presidential Secretary, Abid Hamid Mahmud al-Tikriti, was a member of the committee that was formed to task the IIS via IIS Director Tahir Jalil Habbush al-Tikriti to procure technology for the MIC. In accordance with Saddam's instructions to Huwaysh to improve Iraq's missile capabilities, the MIC-IIS joint effort was to emphasize the support to Iraq's missile programs.

The oil vouchers that the Regime would give to those who supported his Regime goals further emphasized Saddam's influence over these trade agreements. The Presidential Secretary along with Vice President Taha Yasin Ramadan al-Jizrawi facilitated the issuance of these vouchers and approved other trade arrangements by handling the paperwork involved and giving approval on behalf of Saddam for allocation of the oil shares.

Reportedly, Russian, Ukrainian, and Belarusian individuals, who in Baghdad's view, had contributed in some special way to Iraq's security, received oil shares at the request of Saddam (for the full list, see Annex B: Known Oil Voucher Recipients). Some of these persons have also been identified in Iraqi military procurement efforts (see Table 1).

Table 1 A Selection of Oil Vouchers Awarded by Saddam Husayn		
Name	Position	Barrels of Oil Per Year
Ruslan Khazbulatov	Speaker of the Supreme Soviet Parliament under President Boris Yeltsin's administration	1.5
Gennadiy Zugarov	Head of Communist Party of the Russian Federation	1.5
Sergey Rudasev	Chairman of the Russian Solidarity With Iraq organization	1.5
Vladimir Zametalin and Nikolai Yevanyinko	Chairman of the Federation of Trade Unions and Former Presidential Administration Deputy Chief	3
Dr. Victor Shevtsov	Director of Infobank and Head of Belmetalenergo (BME) a major Belarusian foreign trade company	1.5
Yuri Shebrov	Director of BELFARM enterprise	1.5
Aleksandr Roboty	Officer in the Belarusian security network (possibly the Belarusian KGB)	1.5
Oleg Papirshnoy	Director of private Ukrainian company	1.5
Professor Yuri Orshaniskiy	Director of MontElect, a Ukrainian firm	1.5
Olga Kodriavtsev	Unknown	1.5
Leonid Kozak	Belarusian Federation of Trade Unions	3

Presidential Diwan's Role in Illicit Procurement

The Presidential Office of Saddam comprised two sections: the Presidential Secretary, and the Presidency Office or Presidential Diwan. The Diwan was created in July 1979 to research and study specific issues requested by the President, the Council of Ministers, the Economic Affairs Committee (EAC), and the Revolutionary Command Council (RCC). The Diwan was purely an administrative presidential bureau with no policymaking authority. It had several departments representing a variety of issues (see Figure 1). There was also an Administrative Department and a Financial Accounts Department.

Diwan's Role in Supplemental Funding of Government Ministries

Military and security service entities such as the IIS and the (MIC) could submit requests for additional funds to the Presidency. The information on this procedure is often contradictory.

- According to the Minister of Finance, the Iraqi security organizations submitted written requests for additional funds either to the chief of the Presidential Diwan, or to the head of the Presidential

Secretariat. The latter, who was also the Secretary of the National Security Council (NSC), probably handled all requests from any security organization and may have been preferred by some organizational heads as he was considered to be closer to the President.

- The head of the MIC, the Minister of Defense and the Governor of the Central Bank of Iraq (CBI) have also described approaching the Diwan for supplementary funds. The Chief of the Diwan and Presidential Secretary were sometimes unaware of requests made to one another. Saddam reportedly did this to limit the number of people who had access to expenditure data. Requests sent to the Presidential Diwan were sometimes sent to the Diwan's Financial Accounts Department for study. The chief of the Presidential Diwan sometimes directed the head of the Financial Accounts Department to discuss the request with the concerned minister. (Both Khalil Mahudi, the Secretary of the Council of Ministers (CoM), and Muhammed Mahdi Al Salih, the Trade Minister, were former heads of the Financial Accounts Department.)
- Organizations seeking budget supplements could also schedule a personal appointment with Saddam.

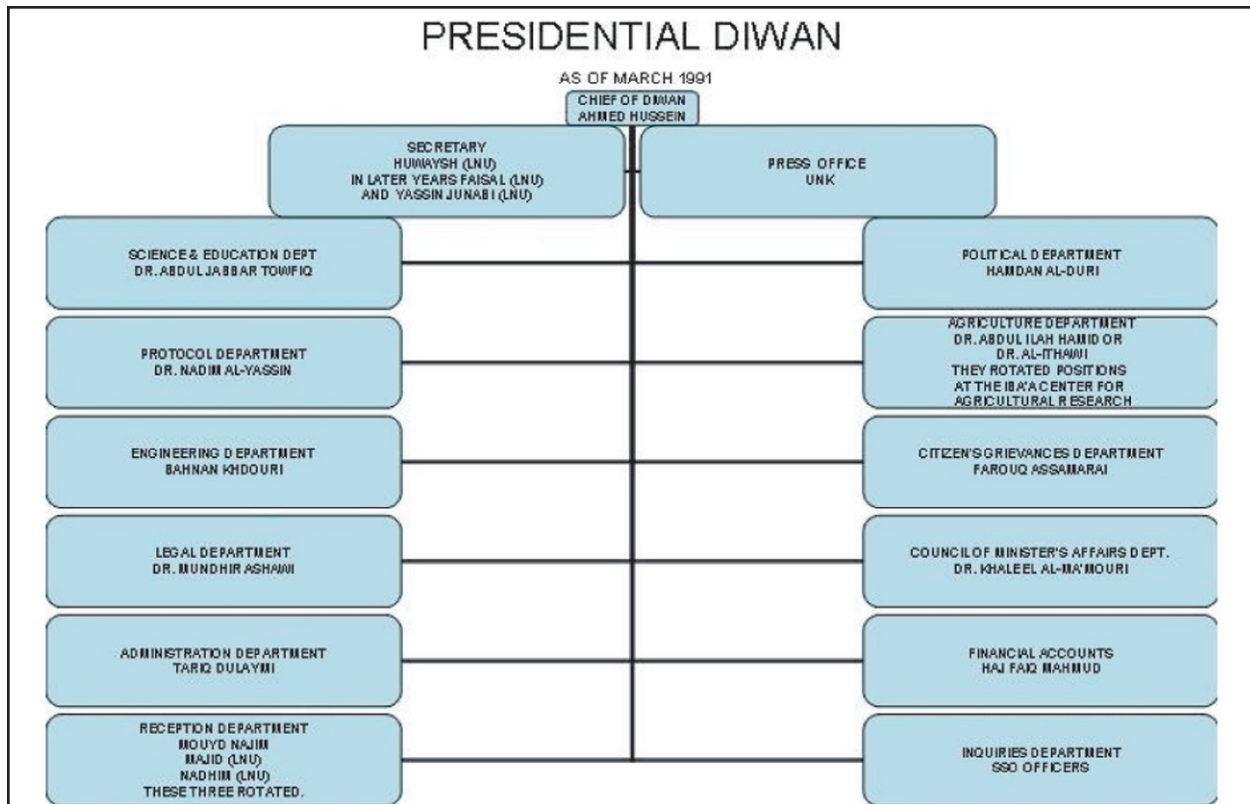


Figure 1. Organization of the presidential Diwan, March 1991.

Extent of Knowledge of the Former President of the Diwan

The Chief of the Diwan, Ahmad Husayn Khudayir al-Samarra'i, maintains that he authorized payments to bodies such as the MIC only on the orders of the President through the Presidential Secretary without knowing the details of the projects being financed. However, the head of the MIC and Minister of Finance identified him as having been involved in the processing of requests for extra-budgetary payments to the military and security services. Moreover, the Minister of Finance stated that documents containing details of the request, such as project information or justification, were kept at the Chief of the Diwan's office, or with the Presidential Secretary, depending

on where the request had been submitted. In addition, captured documents suggest the Chief of the Diwan had at least some knowledge of military and security matters.

- In April 1996, al-Samarra'i provided a cover note for paperwork covering Protocols with a Georgian entity for a military aircraft industrialization complex.
- In April 2002, al-Samarra'i provided a cover note for paperwork concerning problems with a contract between the MIC and the Moldavian company Balcombe for an assault rifle (7.62 x 39mm) ordinance production line.

Budgeting Iraqi Procurement

Off-budget and secret budget planning bypassed large government forum and was processed directly between the Ministry of Finance (MoF) and the Presidency, between the requesting organization and the Presidency, or between the requesting organization and Saddam. The former Regime relied heavily on liquidating assets (forcing the Central Bank of Iraq to print more money) to meet its yearly budget shortfalls.

General Government Budget

The general government budget, made up of current and capital spending, however, does not represent the total Iraqi budget because sensitive issues, such as defense, intelligence, and security were excluded.

As a result, government expenditures and debt probably were higher than what was listed in the budget.

- In 2001, according to statistics from the CBI, the former Regime spent over \$1.1 billion (constant 2001 dollars). This represents an increase of 49.5 percent over 2000.
- Complete data about Iraqi government budget spending after 2001 are unavailable. A common refrain among government officials and detainees is that many of these records perished during looting and fires after the US invaded Baghdad.

Because of the economic constraints following the war with Iran (see Economics Section), it became difficult for the Regime to draft and adhere to an accurate budget. Figures estimated in January diverged considerably by the end of the fiscal year. Also, because of Saddam's patronage policies, the Presidential accounts were reportedly routinely overdrawn by 15 percent, and about 50 percent of the infrastructure expenditure was spent by Saddam.

Sources of Government Revenue

On-budget revenue—revenue included in the general government budget—came from sources such as:

- Income and property taxes.
- Customs duties and tariffs.
- A percentage of the profits from government-owned institutions and businesses such as banks and insurance companies.
- The revenues of leased state properties.
- The municipalities.

Not all-Iraqi government revenue was accounted for in the general government budget. Some of these off-budget funds included income earned through:

- The Syrian, Turkish, and Jordanian trade Protocols.
- Kickbacks on UN OFF Program import contracts.

Supplemental Budgetary Process

The procurement programs supporting Iraq's WMD programs and prohibited conventional military equipment purchases were financed via a supplemental budget process that occurred outside of the publicized national and defense budgets (for details on the development, approval, and execution of the common national budgets, see Annex C: Iraq's Budgetary Process). The approval process and disbursement of funds from the supplemental budget illustrate who was distributing the money into the illicit procurement programs and reflect, in quantitative terms, the intent of the Regime.

Supplemental Budget Submission Procedure

There were two methods for ministries and organizations to obtain fundraising for specific projects or procurement activities that were over and above the scope of their annual budgets:

- One method was through the (EAC).
- The other was to go directly to the Presidential Diwan or the Presidential Secretariat.

Iraq's National Budget 1991-2002

As illustrated in Figure 2, from 1991 to 1995, Iraqi revenues decreased by an average of 34.3 percent. From 1996 to 2001 revenues increased by an average of 42.3 percent. The reason for the 143.7-percent increase in revenues in 1996 is unclear because significant oil revenues from the UN Oil-for-Food Program (OFF) would not have been realized until early 1997. Some of this increase, however, is probably a result of revenues rising from such a low base. In 1997, there was a 66.8-percent increase in revenues

over 1996—a large increase that would be consistent with an increase in revenues from OFF. Expenditures also decreased from 1991 to 1995, but by an average of 28.2 percent. From 1995 to 2001, expenditures increased by an average of 16.8 percent—highlighted by a 49.5-percent increase in 2001. At the same time, over the 10 years since 1991, the government budget deficit decreased from \$1.6 billion to \$410 million (see Annex C: Iraq's Budgetary Process).

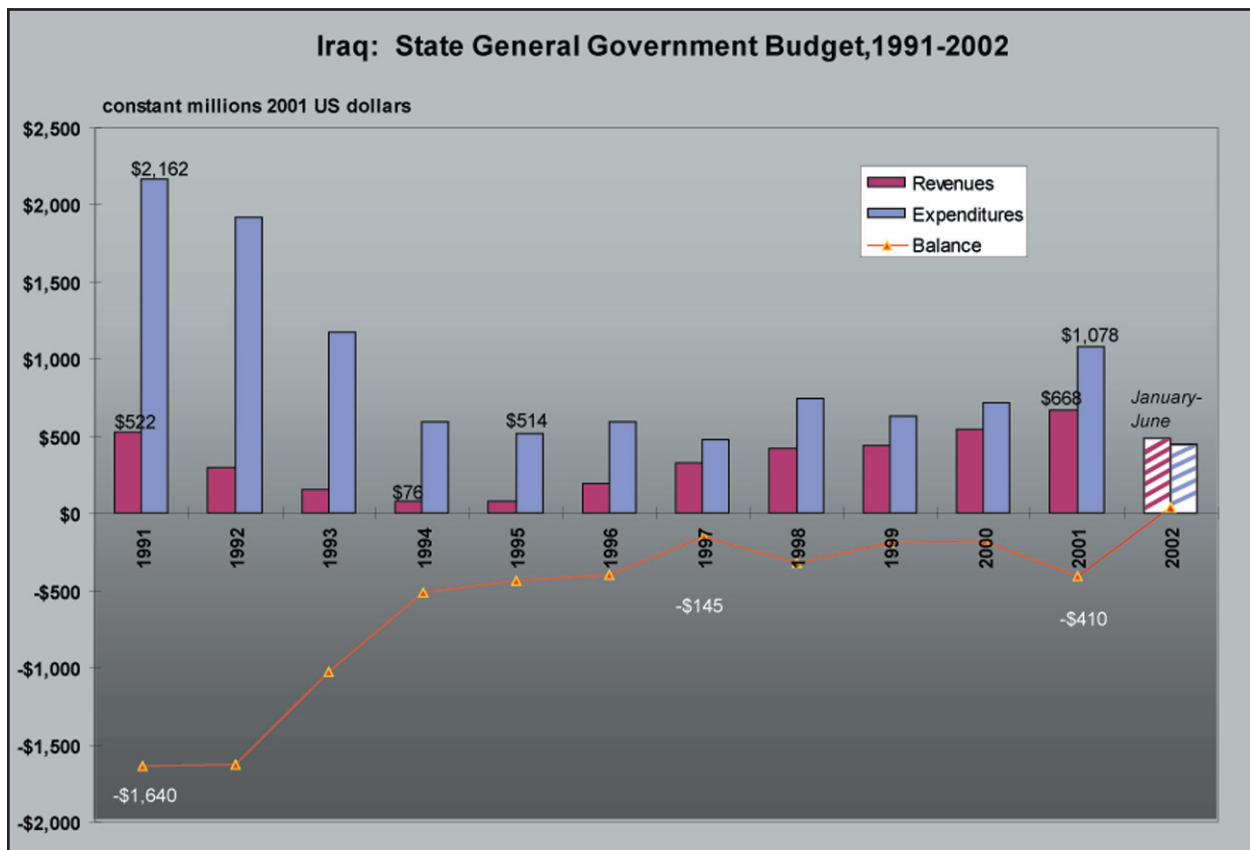


Figure 2. The Iraqi state general government budget, 1991-2002.

The Economic Affairs Committee (EAC)

*In late 1995, Saddam reestablished the EAC to handle economic issues that would have normally gone to the Presidential Diwan (the EAC existed in the 1980s but was abolished at an unknown date). **The EAC had influence over fiscal and monetary policy issues such as government spending, taxation, and importation and interest rates.** Only the head of the committee, rather than presenting them to the other committee members, handled some presumably sensitive issues.*

The first method, which was common for most ministries and organizations, was to apply for approval from the EAC for the allocation of additional funds (see Figure 3).

- These requests may have been submitted to the chief of the Presidential Diwan or the Secretary of the Council of Ministers (CoM), who would submit the requests to Saddam. It is unclear how much control Saddam exerted during this phase of the process.
- If the EAC voted positively, the Minister of Finance would send a directive to the CBI to send the prescribed amount to the domestic or overseas account or accounts of the concerned ministry.
- If there were a dispute regarding the approval, the issue would be elevated to the CoM for approval. If the dispute were resolved in the requestor's favor, the Minister of Finance would direct the CBI to complete the transaction.

The second method was reserved for the military and security service entities such as the IIS, the MoD, MIC, and other security organizations that submitted requests for additional funds to the President. The information on this procedure is often contradictory (see Figure 4).

- According to the MoF, the Iraqi security organizations submitted written requests for additional funds to the President, through either the Chief of the Presidential Diwan or the head of the Presidential Secretariat. The latter, who was also the secretary of the NSC, probably handled all requests from any security organization, and may have been preferred by some organizational heads as he was considered to be closer to the President.

- The head of the MIC, the Minister of Defense, and the Governor of the CBI have also described approaching the Diwan for supplementary funds. The Chief of the Diwan and Presidential Secretary were sometimes unaware of requests made to one another. Saddam reportedly did this to limit the number of people who had access to expenditure data. Requests sent to the Presidential Diwan were sometimes sent to the Diwan's Economic Department for study. The Chief of the Presidential Diwan sometimes directed the head of the Economic Department to discuss the request with the concerned minister. Both Khalil Mahudi, the Secretary of the Council of Ministers (CoM), and Muhammed Mahdi Al Salih, the trade minister, were former heads of the Economic Department.
- Organizations seeking budget supplements could also schedule a personal appointment with Saddam.

Approval and Authorization of Supplemental Funding

While Saddam was the primary approval authority for requests for extra funds, signed authorizations were also issued from the Chief of the Presidential Diwan or the Presidential Secretary (both were authorized to represent Saddam).

If the supplement request were made during a personal meeting between Saddam and the head of an Iraqi security organization, Saddam would immediately approve or disapprove the additional funds.

- This verbal approval was put in writing and sent to the requesting ministry, and a disbursement order was sent to the MoF.
- Confirmation of these payments would usually be presented as an order from the Presidential Secretary to the Chief of the Diwan.

Approvals for all other ministries would be issued in writing to the concerned ministry and the MoF (It is unclear whether this includes the IIS, MOD, MIC, and Iraqi security organizations).

- Disbursement orders sent to the MoF contained the date, signature of approving authority, amount, but no information about the request. Documents containing details of the request, such as project

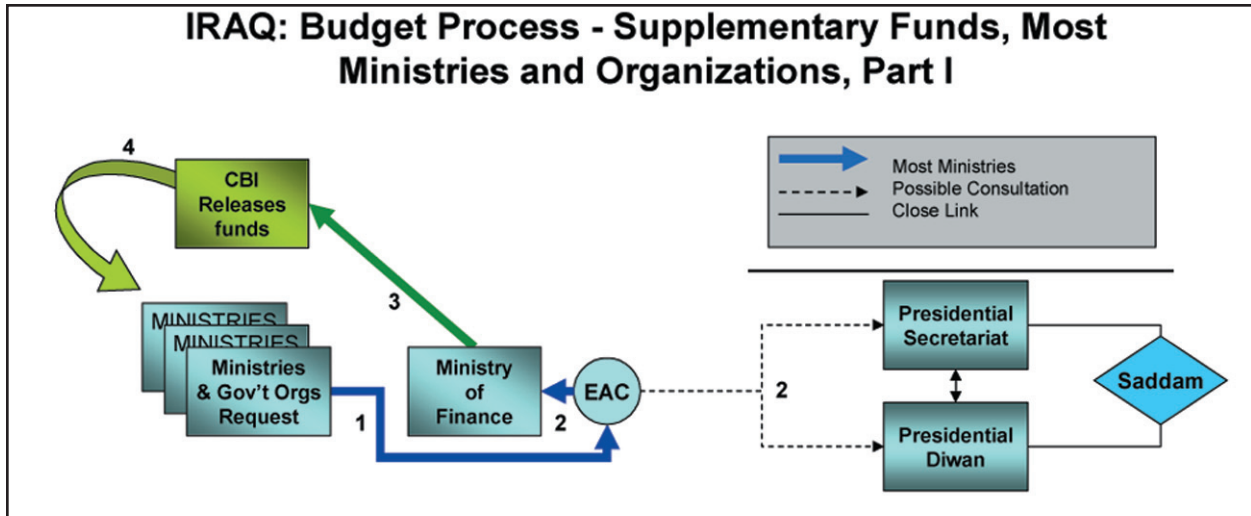


Figure 3. Supplementary budget process: most ministries.

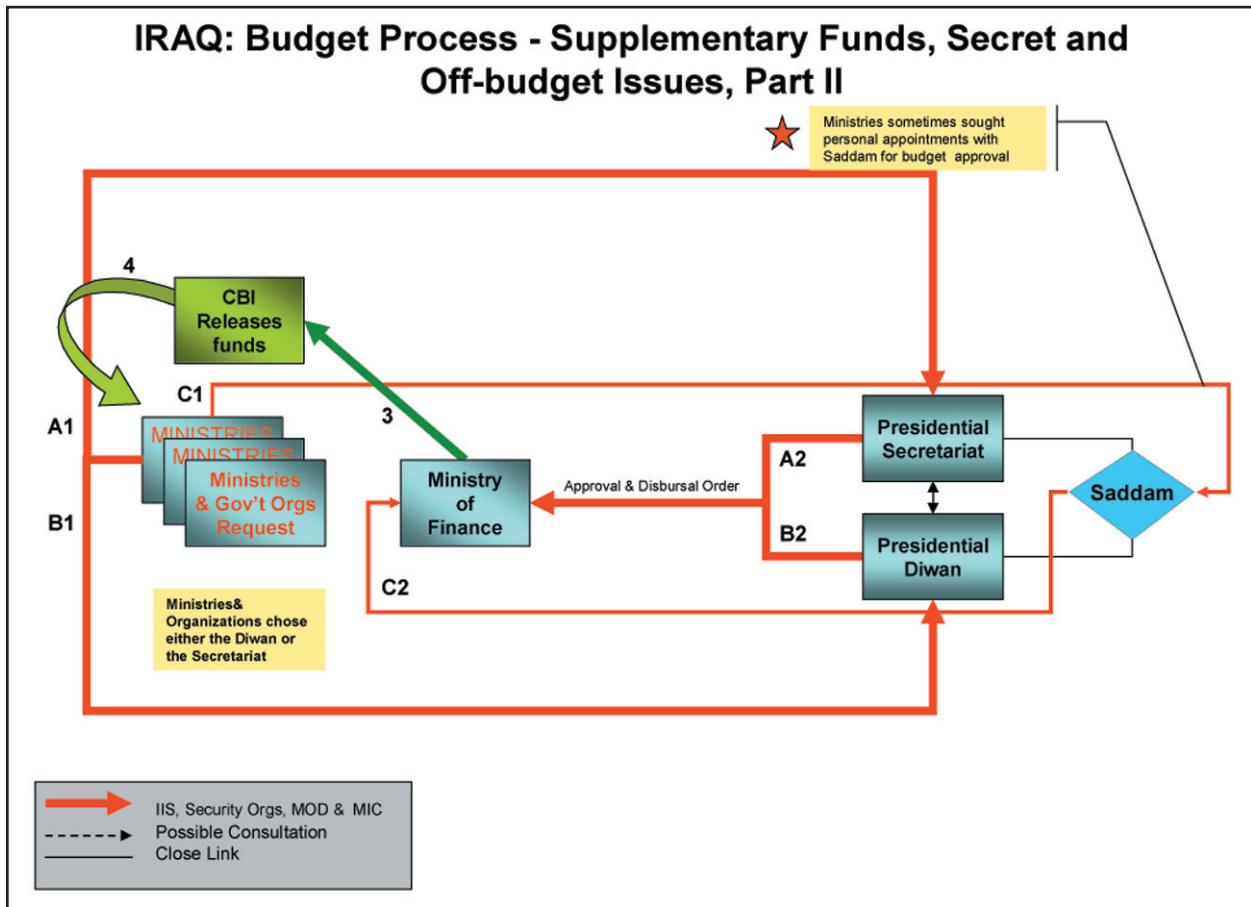


Figure 4. Supplementary budget process: IIS, MIS, and other special organizations.

information or justification, were kept at the Chief of the Presidential Diwan's office or the Presidential Secretary's office, depending on where the request had been submitted.

ISG has collected information concerning the nature of payments sought by the military and security services through the Diwan. However, this information generally lacks detail.

- For example, the IIS successfully sought additional funding of nearly 48.5 million Iraqi dinars (\$2.5 million—a conversion rate of 1,950 ID to the dollar was used to convert 48.5 million ID to \$25,000) to provide weaponry and ammunition for the Jalal Al-Talibani Group in early 2002.

According to MIC Director and Deputy Prime Minister, Abd al-Tawab Mullah Huwaysh, the MIC would approach the Diwan for additional hard currency funds. Examples of such occasions occurring from 2000-2002 included:

- A payment of \$42 million for an unsuccessful deal to purchase the Belarusian S-300 Air Defense System, with payment split evenly between the Ministry of Finance and President Diwan.
- \$25 million for the purchase of 7.62-mm ammunition from the Former Federal Republic of Yugoslavia (FRY) and Syria.
- \$25 million for the purchase of light weapons and ammunition (including RPG-7 and KORNET ATGMs) from Russia via a Syrian company.
- \$20 million for a maintenance facility for helicopters and the purchase of Mi-17 and Mi-25 helicopter engines.
- \$8.5 million for a contract with the FRY company ORAO for a maintenance facility for MiG-21 engines.
- The purchase of 3,000 night-vision goggles from Ukraine.

Disbursal of Supplemental Funds

As stated by the Minister of Finance, the preferred method used to disburse requests for extra-budgetary funds was for the EAC to add the additional funds to the requesting ministry's budget. However in exceptional cases, such as when requests were time sensitive, the funds would be paid directly to the ministry. Most transactions were conducted using accounts at the Rafidian bank. Additional accounts were located at the CBI.

Financing Iraq's Illicit Procurement

Overview

Iraq developed four major mechanisms for raising illicit funds outside the legitimate UN OFF program. These included the sale of Iraqi oil to neighboring and regional states via trade Protocols, the imposition of surcharges on oil sold through the UN OFF program, and the receipt of kickbacks on UN-approved contracts for goods purchased under the UN OFF program, and so-called “cash-sales” or smuggling.

- From 1996 through 2000 a combination of the UN OFF Program, bilateral trade, and illicit oil profiteering allowed the Iraqi economy to recover from the post-1990 depression. This recovery ended the threat of economically induced Regime instability and provided Saddam with sufficient resources to pursue costly procurement programs.
- After the economic recovery waned in 2000, Saddam's revenues continued to amass via increasingly efficient kickback schemes and illicit oil sales. *ISG estimates Saddam generated \$10.9 billion in hard currency through illicit means from 1990 to 2003* (see Figure 5).

The 1996-2003 UN OFF Program opened many opportunities for Saddam's Regime:

- It provided \$31 billion in needed goods for the people of Iraq, relieving the economic pressure on Regime stability.
- *Saddam was able to subvert the UN OFF program to generate an estimated \$1.7 billion in revenue outside of UN control from 1997-2003 (see Figure 6).*
- The UN OFF oil voucher program provided Saddam with a useful method of rewarding countries, organizations and individuals willing to cooperate with Iraq to subvert UN sanctions.

Iraqi Economy's Role in Illicit Procurement

During Saddam's rule, Iraq adopted the Soviet Union's centrally planned economic model. Saddam sought to centrally plan all facets of the state economy and utilized “Five Year Plans” to optimize the use of national resources. *Viewing the Iraqi economy from Saddam's perspective, we assess it underwent distinct phases from 1980 through OIF:* “ambition,” “decline,” “recovery,” “transition,” and “miscalculation.” Readers may find it useful to refer to the Timeline summary chart at the end of the chapter.

Economic Ambition (1980-91)

Given Iraq's large oil revenues of the 1970s and early 1980s, Saddam was able to ambitiously pursue a state-controlled economy without having to choose between solvency and other priorities, such as health and welfare programs, infrastructure development and development of his armed forces (see Annex D: Iraq Economic Data (1989-2003)). *Iraq's oil wealth allowed Saddam to overcome the inefficiencies of the economy until the war with Iran.* Even with the war, his cash reserves and borrowed money from friendly Arab states allowed Saddam to continue his ambitious policies into the mid-1980s.

The Iran-Iraq war, however, exhausted and crippled the Iraqi economy:

- Iraq had been free of foreign debt and accumulated \$35 billion in foreign reserves by 1980. These reserves, however, could not bear more than the opening salvos of the war with Iran, which over 9 years cost an estimated \$54.7 billion in arms purchases alone.
- Following the war, Iraq was under pressure to pay off high-interest, short-term debts to Western creditors estimated between \$35-45 billion. Saddam, however, never paid off this debt [see Annex D: Iraq Economic Data (1989-2003)].

The economic burdens resulting from the Iran-Iraq war led Saddam to abandon Ba'ath-socialist economic policies that dominated in the 1960s and 1970s. In 1987, Saddam attempted to turn the Iraqi economy around with abrupt economic reforms,

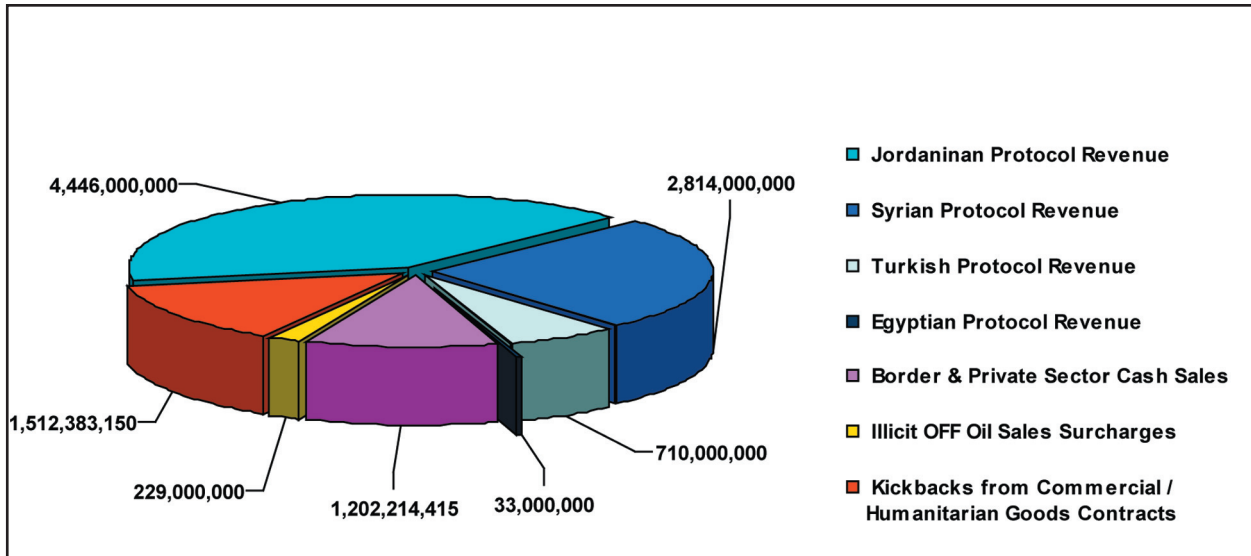


Figure 5. Iraqi illicit revenue sources (US \$), 1991-2003.

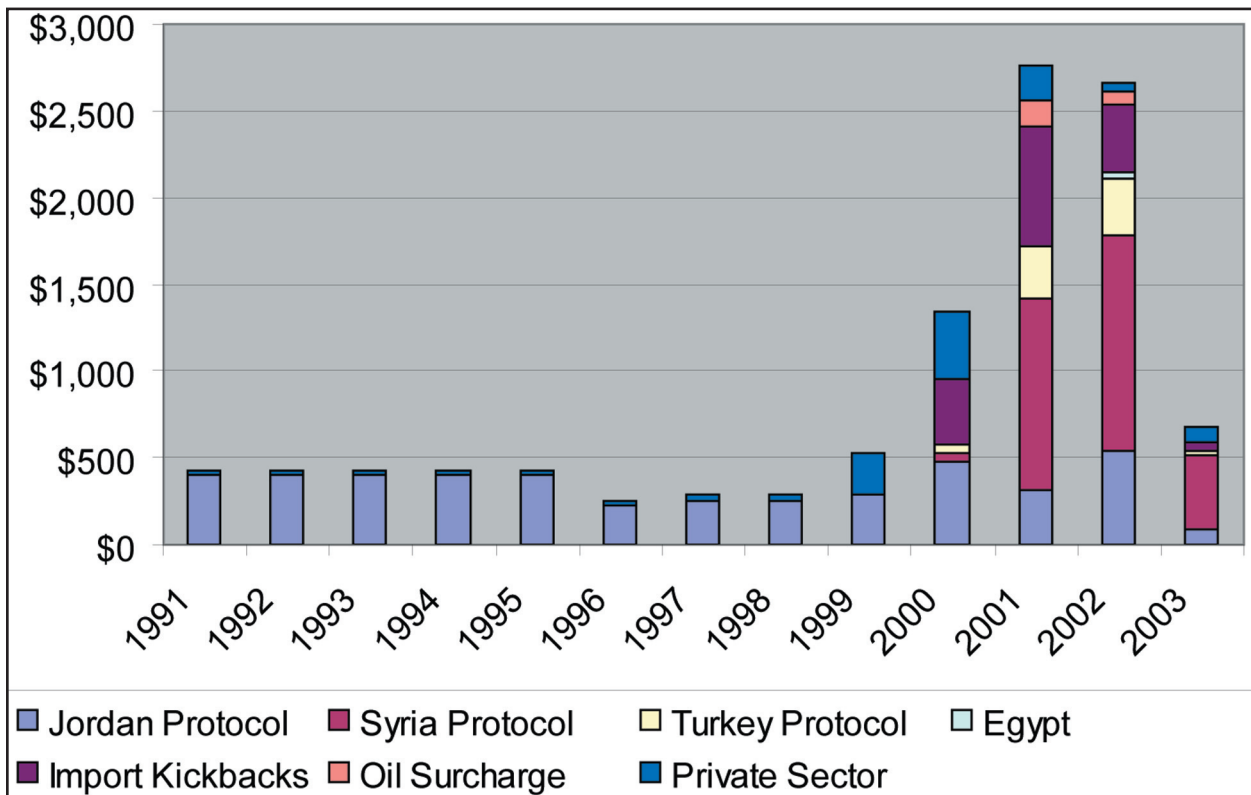


Figure 6. Iraqi illicit earnings by type (million US \$), 1991-2003.

including abolishing universal employment labor laws and privatizing key government industries.

- As a result, thousands of government workers were jobless.
- Bus companies, gas stations, department stores, agricultural businesses, and factories were left outside the responsibility of the government.

Rather than shocking the Iraqi economy into performing, these measures, by 1989, deepened the economic crisis and accelerated the collapse of living standards for most Iraqis. Sensing a threat to the viability of the Regime, Saddam again imposed price controls, renationalized some former state enterprises, and raised industrial and agricultural subsidies. ***The Iraqi economy was pushed to crisis by Saddam's inability to address or resolve a number of economic realities:***

- The rising cost of maintaining the Iraqi welfare state, which was among the more generous and comprehensive systems in the Arab world.
- Low oil prices on the international markets, which Saddam associated with Kuwait and its conducting "economic warfare" against Iraq.
- The lingering debt from the war with Iran.
- The cost of rebuilding his military and expanding his WMD programs.

Saddam chose to fight his way out of economic crisis by invading Kuwait.

Economic Decline (1991-96)

Rather than rescuing the Iraqi economy, ***the invasion of Kuwait resulted in even greater fiscal strains as Saddam found himself in a second costly war, this time facing a US-led Coalition.*** After Saddam's defeat in Kuwait, the UN trade sanctions placed on Iraq following the invasion remained in place. These sanctions, supported by over 150 nations, cut Iraq's ability to export oil, its main revenue generator. After Desert Storm, Saddam also had to contend with compensation claims made for reparations of damage inflicted during the invasion and occupation of Kuwait.

Collecting Compensation for the First Gulf War

The United Nations Compensation Commission (UNCC) was responsible for processing and collecting such claims as authorized by UN Security Council Resolution 692. With the insistence of Moscow, the UN readdressed the revenue allocation of Iraqi oil revenue. In June 2000 it voted for the UNSC-adopted UNSCR 1330 that changed the percentage of oil allocated to the UNCC from 30 percent (UNSCR 705) to 25 percent. The UNCC estimated that the reduction to 25 percent would generate an extra \$275 million in Phase XII of the OFF program for the Iraqi Regime. As of 7 May 2004, claims totaling \$266 billion have been adjudicated, and claims worth \$48 billion have been awarded by the UNCC. Additional claims worth \$83 billion need to be resolved.

As Saddam stubbornly refused to comply with UN Resolutions in the early 1990s, the Iraqi economy crashed to a low point in 1995.

- From 1989 to 1995, Iraq's GDP per capita fell from \$2304 to \$495. Some estimates reveal that the Iraqi per capita GDP never rose above \$507 from 1991 to 1996.
- Inflation between 1989 and 1995 increased from 42 percent to 387 percent.
- Simultaneously, the street dinar exchange rate rose from 10 ID per \$1 in 1991 to 1674 ID per \$1 in 1995.
- During this same period, income inequality became a larger problem because the limited wealth was concentrated in the hands of Regime loyalists and elite traders, while the average Iraqi subsisted on much less income. Equally significant, by 1995 the plummeting dinar consumed the savings of the average Iraqi, causing the Iraqi middle class to virtually cease to exist.

This period of economic decline also resulted in a dramatic increase in corruption, incompetence, and patronage in all facets of government. A good example of the Regime's incompetence in economic

matters was illustrated when the government set up a Directorate in 1992 to combat economic crimes under Ibrahim al-Battawi, who reported directly to Watban Ibrahim Hasan al-Tikriti, the Interior Minister and Saddam's brother. The task of the Directorate was to punish merchants and traders guilty of "profiteering." In July 1992, the Regime summarily executed 42 merchants in front of their shops in Baghdad's market district. Saddam felt that the duty of the private sector was to provide goods and services to the Iraqi people while constraining price increases. These merchants were found to be shirking their "duty."

Economic Recovery (1997-99)

We judge that the harsh economic conditions from 1995 to 1996 were the primary factors in Saddam's decision to reluctantly accept the UNSCR 986 (see United Nations OFF Program section).

- Saddam wanted to perpetuate the image that his people were suffering as "hostages" to the international community under the UN sanctions.

UN-approved oil exports from Iraq began in December 1996. The trade fostered under the UN OFF program opened the door for Iraq to develop numerous kickback and illicit money earning schemes, possibly beginning as early as 1998. These legitimate and illegitimate revenue streams bolstered the Iraqi economy enough to raise it out of depression, at least for the Iraqi leadership and the elite.

- In the 1996 to 2000 period, Iraq's GDP increased from \$10.6 billion to \$33 billion.
- According to the UN International Children's Emergency Fund (UNICEF), Iraq's chronic malnutrition rate dropped from 32 percent in 1996 to just over 20 percent in 1999.
- Iraqi oil production jumped from under 1 million barrels per day (bbl/d) in 1997 to 2.5 million bbl/d in mid-2000.

Economic Transition and Miscalculation (1999-2003)

After 2000, Iraq's economic growth slowed for a number of reasons, most involving the production and sale of oil. As the Iraqi economy improved,

Saddam began to restrict oil production to influence the price of oil in the world market and to leverage political influence. Additionally, Iraq's oil sector could not meet demand because of years of poor reservoir management, corrosion problems at various oil facilities, deterioration of water injection facilities, lack of spare parts, and damage to oil storage and pumping facilities. These petroleum infrastructure problems limited Saddam's ability to export oil and hampered the Regime's ability to sustain the economic growth shown in 1997 to 2000.

- Iraq's GDP slipped from a peak of \$33 billion in 2000 to \$29 billion in 2001.
- Iraqi oil production dropped from 2.5 million bbl/d in mid-2000 to under 2 million bbl/d in 2002.

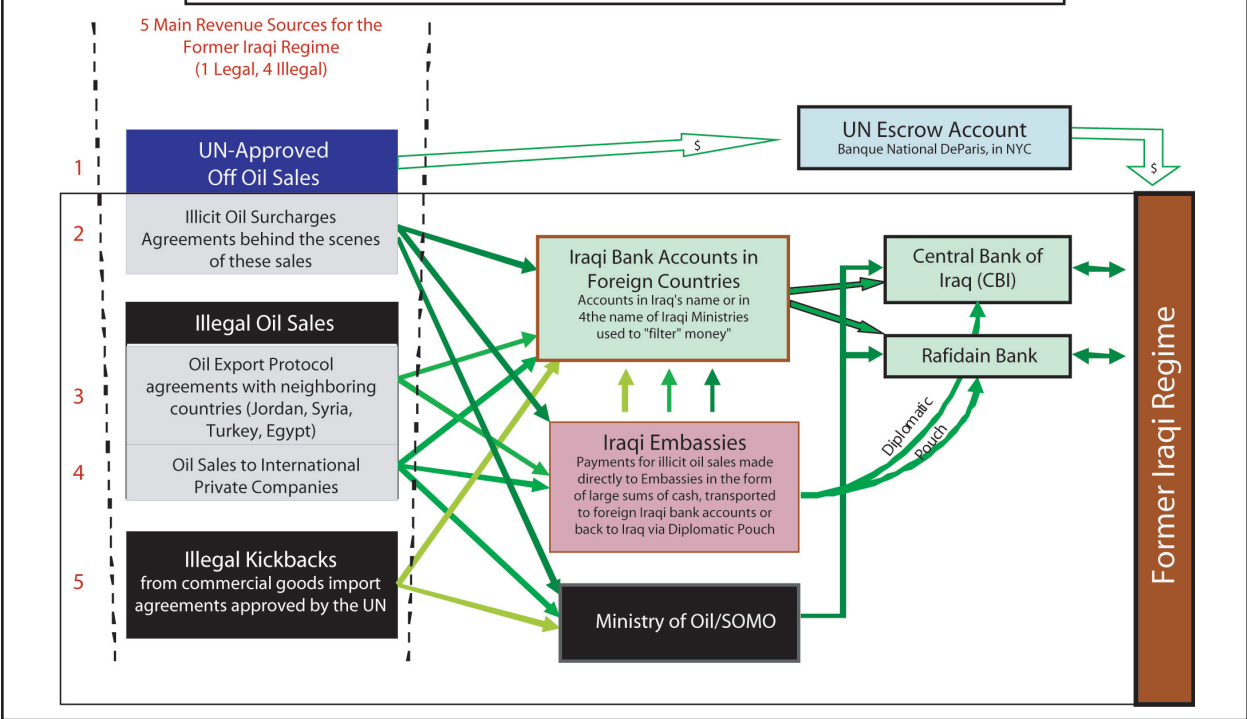
Nevertheless, from the late 1990s until Operation Iraqi Freedom, Saddam steadily strengthened the fiscal position of the Regime while investing, as he wished, in development, technology, industry, and defense. Saddam also had enough revenue at his disposal to keep his loyalists in the Regime well paid. In short, *after 1996 the state of the Iraqi economy no longer threatened Saddam's hold on power in Iraq.*

- The budget for the MIC, a key illicit procurement organization, grew from \$7.8 million in 1996 to \$500 million in 2003.
- Despite Iraq's economic problems, MIC Director Abd al-Tawab Mullah Huwaysh stated that Saddam went on a palace and mosque building spree in the late 1990s that employed 7,000 construction workers.

Iraq's Revenue Sources

During UN sanctions on Iraq, from August 1990 until OIF in March 2003, Saddam's Regime earned an estimated \$10.9 billion utilizing four primary illicit sources of hard currency income. The UN OFF program became Saddam's sole legitimate means to generate revenue outside of Iraq (see Figures 7, 8, and 9):

Behind the scenes, the Iraqi government illegally generated billions of dollars in revenue through illegal surcharges it placed on UN approval oil sales, kickbacks it secretly received on top of UN approved contracts for purchase of commercial goods, and from illegal/secret cash border sales and smuggling of oil.



Regime Finance and Procurement

Figure 7. Saddam's legitimate and illicit oil revenue process.

PROTOCOLS	KICKBACKS	SURCHARGES	BORDER & PRIVATE SECTOR CASH SALES
Credit and cash earnings from oil exports under Protocol agreements made outside of the UN sanctioned oil sales	Under-the-table 10 percent kickbacks from UN approved humanitarian and commercial goods import contracts	Under-the-table, illegal surcharges (30 cents per barrel) placed on top of UN approved OFF oil exports	Illegal earnings
\$8,003,692,074	\$1,512,383,150	\$228,592,128	\$1,202,214,415

Figure 8. Summary of illicit Iraqi revenue, 1991-2003.

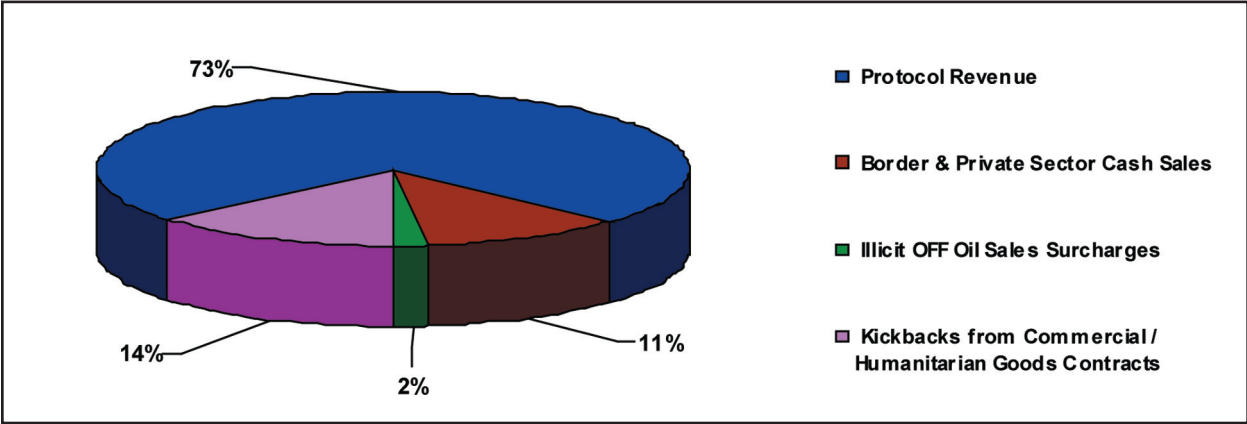


Figure 9. Illicit Iraqi revenue sources by percentage, 1991-2003 table.

- Illicit barrel surcharges on oil sold through the UN OFF program, hereafter referred to as surcharges.
- Ten-percent kickbacks from imports authorized under the UN OFF program, hereafter referred to as kickbacks.
- Exports, primarily petroleum, to private-sector buyers outside the Protocol and UN systems, hereafter referred to as private-sector exports.

The Regime filtered the majority of the illicitly earned monies through foreign bank accounts in the name of Iraqi banks, ministries, or agencies in violation of UN sanctions. According to senior Iraqi officials at SOMO, oil suppliers and traders, who sometimes brought large suitcases full of hard currency to embassies and Iraqi Ministry offices, so that the payments would be untraceable, filled these illegal bank accounts.

During 1997 to 2003, Saddam generated enough revenue to procure sanctioned military goods and equipment, dual-use industrial material, and technology as well as some legitimate uses. These sanctioned goods transactions will be described in detail in later sections. He used those funds to slow the erosion of his conventional military capability in contravention of UN SC resolutions. Available information also indicates Iraq used trade Protocols with various countries to facilitate the delivery of some dual-use items that could be used in the development and production of WMD.

Bilateral Trade Protocols

Iraq's bilateral trade Protocols with neighboring states provided Saddam with his largest source of illicit income during UN sanctions. The Protocol with Jordan ensured the Regime's financial survival until the UN OFF program began in December 1996. Total income from the Protocols is estimated at \$8 billion.

- Baghdad coordinated Protocols with Syria, Turkey, Jordan, and Egypt. These governments were full parties to all aspects of Iraq's unauthorized oil exports and imports (see Annex A: Translations of Iraq's Bilateral Trade Protocols).

Analysis of Iraqi Financial Data

The following revenue analysis is based on government documents and financial databases, spreadsheets, and other records obtained from SOMO, the Iraqi Ministry of Oil, and the Central Bank of Iraq (CBI), among others. These sources appear to be genuine, of good quality, and consistent with other pre- and post-Operation Iraqi Freedom information. This hard data are augmented, put into context, and explained by statements from former and current Iraqi government officials, particularly from SOMO, the Ministry of Oil, the Ministry of Trade, and the CBI (for more details, see Annex E: Illicit Earnings Sources and Estimation Methodology).

- According to SOMO records, Iraq earned approximately \$3.5 billion from illicit oil sales to Syria, Turkey, and Egypt under the Protocols from 2000 until the recent war, exclusive of trade with Jordan. We estimate Protocol trade with Jordan added an additional \$1.4 billion since 2000 and \$3 billion from 1991 through 1999.

Jordan Trade Protocol. Jordan was the key to Iraq's financial survival from the imposition of UN sanctions in August 1990 until the implementation of the UN's OFF program. Jordan was Iraq's largest single source for income during the sanctions period. Oil sales to Jordan under Protocols began as early as 1983. Terms were negotiated annually, including 1991 and every year thereafter during sanctions. The UN Sanctions Committee "took note" in May 1991 of Jordan's oil imports from Iraq. Essentially, the Committee neither approved nor condemned Jordan because of its dependence on Iraqi oil at the time (see Annex A: Translations of Iraq's Bilateral Trade Protocols).

- Iraq trucked both crude oil and oil products—fuel oil, gas oil, LPG, base oil, and gasoline—to Jordan under the agreement, according to SOMO records. Crude shipments rose from about 45,000 barrels per day (bbl/d) in 1990 to 79,000 bbl/d by 2002. Oil product shipments rose from 13,000 bbl/d to 20,000 bbl/d over the same period.
- Jordan was to receive up to 90,000 bbl/d of crude oil that year. The difference between this number and the 79,000 bbl/d figure announced in 1993

for what they imported in 1992, probably was the roughly 20,000 bbl/d that Iraq shipped to Egypt through Jordan during the first half of 1992.

- Jordanian officials also agreed to import nonpetroleum Iraqi products in 2001, including sulfur, urea, and barley, but we do not know if these goods were actually imported or what Iraq's earnings were from them.

We do not have complete Iraqi data for Iraq's effective earnings from the Jordan Protocol during the sanctions period but estimate them at \$4.4 billion (see Annex E, Illicit Earnings Sources and Estimation Methodology).

- We judge Iraq's earnings amounted to about \$400 million annually from 1991 through 1995 for a total of \$2 billion. This estimate includes trade approved under the Protocol averaging about \$200 million annually and Iraq's debt to Jordan increasing by \$1 billion, which accounts for additional Iraqi imports averaging another \$200 million a year (see Figure 10).
- We used announced trade Protocol levels to estimate earnings in 1996 to 1998 amounting to \$730 million.
- A combination of SOMO invoice and collections data was used to estimate earnings from 1999 to 2003 totaling \$1.7 billion.
- Iraq's earnings under the Protocol primarily were deposited in an Iraqi Ministry of Trade (MoT) account in the Central Bank of Jordan (CBJ) (see Figure 10).

Jordan deposited its credit payments for Iraqi oil, into an account at the CBJ on behalf of the CBI. Funds were then disbursed to suppliers by the CBJ by order of the CBI.

- In March 2003, prior to Operation Iraqi Freedom, Iraq had an estimated \$444 million dollars in its trade account in Jordan. With total deposits to the trade account during the sanctions Regime estimated at about \$4.4 billion and \$444 million remaining at the end of the war, Iraq would have spent almost \$4 billion on Jordanian origin goods and reexports under the Protocol agreement.

The Jordan Protocol is generally referred to (by Jordanian and Iraqi officials) as a 100 percent credit account, with no cash being provided to Iraq. SOMO information and a senior MoT official, however, indicated a small portion of the trade was 60 percent credit and 40 percent cash.

- SOMO Documents list oil sales to the Jordanian Ministry of Energy and Minerals on a 60-percent credit, 40-percent cash basis. Contracts of this type are listed only for 2002 and are valued at only \$6.2 million.
- A high-level Iraqi Trade Ministry official stated that Jordan's payments to Iraq for the cash portion of the trade Protocol was negotiated between the CBI and Jordan and provided specific written instructions about how to transfer the funds to Iraq. We have no further information on this aspect of the Jordan-Iraq trade Protocol.
- A MoO official stated his ministry had two accounts in Jordan funded by the Protocol. This could refer, in part, to the 40-percent cash portion of the trade, although the accounts held almost \$80 million while this trade only earned \$6.2 million.
- According to SOMO's database, the 60-percent earnings were deposited in the Jordan National Bank. The 40-percent cash earnings were deposited in the Ahli Bank, where much of Iraq's cash earnings from other Protocols were deposited. These, along with cash earnings from other sources, could account for the funds in the Ministry's accounts.
- It is possible, maybe even likely, that Iraqi oil sales under the 60/40 arrangement, sales to the Jordanian military, and purchases that resulted in \$1 billion in debt owed to Jordan are not technically part of the trade Protocol. Nevertheless, given the government to government nature of these transactions, they were accounted for here instead of as private-sector exports.

Syria Trade Protocol. Iraq's trade Protocol with Syria was Iraq's primary illicit income source from 2000 until OIF in March 2003. With Syria facing increased political pressure from the US, opening relations with Iraq seemed attractive for both political and financial reasons. Negotiations began, and the Protocol was signed before Hafiz al-Assad died on

10 June 2000. The relationship probably accelerated when al-Assad's son, Bashar al-Assad, became President on 17 July 2000. For Baghdad, the relationship was attractive because Syria could buy significantly more oil at better financial terms than Iraq's other available illicit markets and Damascus was more willing than any other neighboring state to allow military goods to be shipped to Iraq through its territory.

- SOMO and the Syrian Oil Marketing Office negotiated the bilateral trade Protocol in Baghdad from 27 to 29 May 2000. Contracts were written under the Protocol from June 2000 through March 2003 (see Annex A: Translations of Iraq's Bilateral Trade Protocols).
- Under the agreement, Iraq exported crude, gas oil, fuel oil, gasoline, base oil, LPG and asphalt to Syria by pipeline and/or tanker truck.

Iraq's total earnings over the life of the Protocol were about \$2.8 billion (see Figure 11).

- Iraq charged Syria roughly \$6 less than the authorized price for crude under the UN OFF program. Gas oil was sold for \$75 per metric ton and fuel oil was sold for \$20 per metric ton, both significantly discounted from world prices. These shipments allowed Syria to export its own crude oil at market prices instead of having to use it for domestic consumption.
- Under the Syrian Protocol, 60 percent of Iraq's earnings were deposited in a SOMO account in the Commercial Bank of Syria for use in buying Syrian goods or foreign-made items purchased through Syria.
- Iraqi sources' statements concerning the disposition of the remaining 40 percent cash payment are not clear. The best information, however, seems to indicate the cash was first deposited in a Commercial Bank of Syria cash account. Once this account reached \$1 million, the funds were transferred to an account at the Syrian Lebanese Commercial Bank in Beirut, Lebanon. One source states this account was in Lebanon, another in Damascus. SOMO eventually transferred the money to CBI accounts in Baghdad, possibly by courier.

- According to SOMO records, \$1.18 billion in contracts were written drawing on the SOMO (presumably credit) account with Syria. If 60 percent (\$1.68 billion) of Iraq's total earnings of \$2.8 billion were deposited in that account during the existence of the Protocol, there would be \$500 million remaining in unspent funds at the end of the war. All of these contracts probably had not been completed before OIF. This, and the possibility of other small accounts, probably explains the \$842 million in total Iraqi funds remaining in Syria at the outbreak of OIF.

Turkey Trade Protocol. Trade under the Turkey-Iraq Protocol was a significant source of illicit income for Iraq from 2000 until OIF in March 2003. The Protocol was a rationalization and expansion of pre-existing Iraqi-private-sector contracts. Iraq was able to increase the volume of its exports and earnings.

- The main details of the Turkish Protocol were agreed to at meetings between Iraqi and Turkish delegations in early 2000. Minutes of meetings were signed on 16 January 2000, 29 February 2000, and 16 May 2000. The 16 January document was signed by Amir Rashid Muhammad al-Ubaydi, MoO, Republic of Iraq, and by a Turkish trade official, Republic of Turkey. It was decided a joint team of experts from the two sides would meet every three months to review the progress of the implementation of the Protocol (see Annex A: Translations of Iraq's Bilateral Trade Protocols).
- For 2000, Iraq agreed to export 2.75 million tons (54,247 bbl/d) of crude oil to four Turkish buyers: Oz Ortadobgu, Ram Dis, Tekfen, and the Turkish Petroleum International Company (TPIC) during 2000. TPIC was the trading arm of the Turkish National Oil Company and was granted the right to contract for additional oil above the 2.75 million metric tons.
- Contracts were written under the Protocol from July 2000 to February 2003.

Iraq's total earnings over the life of the Protocol were \$710 million (see Figure 12).

1991 to 1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
\$400 in each year	\$220	\$255	\$255	\$294	\$481	\$319	\$537	\$85	\$4,446

Figure 10. Iraq's estimated earnings from the Jordan Protocol (million US \$).

2000	2001	2002	2003	Total
\$45	\$1,102	\$1,242	\$425	\$2,814

Figure 11. Iraq's estimated earnings from the Syria Protocol (million US \$).

2000	2001	2002	2003	Total
\$51	\$300	\$329	\$30	\$710

Figure 12. Iraq's estimated earnings from the Turkey Protocol (million US \$).

- Iraq charged Turkey roughly \$6 less than the authorized price for crude under the UN OFF program. The low price served as an incentive for Turkey to participate in the scheme.
- Under the Turkish agreement, 70 percent (\$497 million) of Iraq's earnings were to be deposited into an account at the Turkey Halk Bankasi A.S. The account was under the name of TPIC, but the control of SOMO. This account was to be used by SOMO to pay Turkish companies for goods and services delivered and rendered to Iraqi organizations.
- According to a senior SOMO official, some of these funds were transferred to interest bearing accounts. As of January 2004, SOMO held \$157 million in these accounts and had earned almost \$7.7 million in interest since October 2000.
- Iraqi statements about the amount of cash deposited are inconsistent, but the best information indicates the remaining 30 percent in cash (\$213 million) was deposited in a SOMO account at the Saradar Bank in Lebanon. Some of these funds may eventually have been transferred to a CBI account at the Syrian Lebanese Commercial Bank. SOMO eventually transferred the money to CBI accounts in Baghdad, possibly by courier.
- Iraqi statements about cash deposits are again inconsistent, but a SOMO foreign account balance sheet showed the TPIC (70 percent) account containing over \$195 million just prior to OIF. Another report states Turkish entities owes Iraq \$265 million but also mentions an account balance in January 2004 of \$234 million. At least in the case of the \$234 million, the accounting included both the Protocol credit account (\$52 million) and some savings accounts (\$182 million). If 70 percent (\$497 million) of Iraq's total earnings of \$710 million were deposited in this account, and \$195 million (assuming the lower figure) was remaining at the end of the war, Iraq would have spent about \$302 million on Turkish goods and reexports under the Protocol agreement. The value of contracts signed using SOMO accounts amounted to \$303.5 million according to SOMO records. Some of these contracts almost certainly were not completed prior to OIF.

Egypt Trade Protocol. Iraq and Egypt participated in a relatively short-lived Protocol from late 2001 to early 2002. We do not have access to documents outlining this agreement, but, according to a senior Iraqi official, the deal involved the MIC-related company, Al-Husan.

- The first contract under the Protocol was signed in August 2001 and the last contract in June 2002.
- The trade involved primarily crude oil, but the last two contracts were for fuel oil.
- The trade reached an estimated peak of 33,000 bbl/d in May 2002. The cargo was shipped by truck from Iraq to Aqaba, Jordan, where it was loaded on ships for transport to Egypt or Yemen.

Iraq's total earnings over the life of the Protocol were \$33 million according to SOMO records. All but \$1 million was earned in 2002.

- Iraq generally charged Egypt about \$7 per metric ton less than the authorized price for crude under the UN OFF program. The first two contracts were \$15 per metric ton off the UN price.
- The Protocol was 60-percent credit and 40-percent cash. The credit account was under SOMO's name at the National Bank of Egypt and the cash proceeds were deposited in the Ahli Bank (Jordan National Bank) in Jordan.

United Nations OFF Program

The UN OFF program saved the Iraqi Regime from financial collapse and humanitarian disaster. When Iraq began exporting oil under UN OFF in December 1996, the Regime averted economic conditions that threatened its survival. The program also provided Iraq with unprecedented opportunities to earn significant amounts of hard currency outside the control of the UN.

Phases of the UN OFF Program

The UN OFF Program was run in phases. Each phase was approved by a UNSCR and was designed to last for 180 days, although the length was adjusted at times as deemed necessary. Phase 1 ran from 10 December 1996 to 7 June 1997. The first oil was exported on 15 December 1996, and the first contracts financed from the sale of oil were approved in January 1997. The first shipments of food arrived in Iraq in March 1997 and the first medicines arrived in May 1997. The final oil exporting period (phase 13), authorized by UNSCR 1447 (2002), was in effect from 5 December 2002 through 3 June 2003 (see Figure 13).

Disposition of UN OFF Funds

As of 19 November 2003, Iraq's oil exports under the program had earned over \$64 billion. After deducting the costs of the UN's administering the OFF program and WMD monitoring mission, as well as, the Compensation Fund, \$46 billion was available for Iraqi humanitarian imports. Of this amount:

- \$31 billion worth of humanitarian supplies and equipment were delivered to Iraq including \$1.6 billion of oil industry spare parts and equipment.
- \$3.6 billion was approved for projects to be implemented by UN agencies.
- \$8.1 billion had been transferred to the Development Fund for Iraq as of 19 April 2004.
- The remainder of this revenue was uncommitted and in the UN-Iraq accounts awaiting further distribution.
- In addition to the \$46 billion, an additional \$8.2 billion in approved and funded humanitarian goods were in the production and delivery pipeline and under review by the UN and Iraqi authorities.

Oil Vouchers and Allocations

Throughout the UN OFF Program, Iraq used a clandestine oil allocation voucher program that involved the granting of oil certificates to certain individuals or organizations to compensate them for their services or efforts in undermining the resolve of the international community to enforce UNSC resolutions. Saddam also used the voucher program as a means of influencing people and organizations that might help the Regime. By the end of the final phase (13) of the UN OFF Program, Iraq had allocated 4.4 billion barrels of oil to approved recipients. However, only 3.4 billion barrels were actually lifted (loaded and exported)—the same figure reported by the UN.

- The oil allocation program was implemented through an opaque voucher program overseen and approved by Saddam and managed at the most senior levels of the Iraqi Regime.
- Starting in Phase 3 of the UN OFF program, until OIF, the Iraqi Regime began to politicize the allocations process by giving quantities of oil to individuals and political parties it favored.

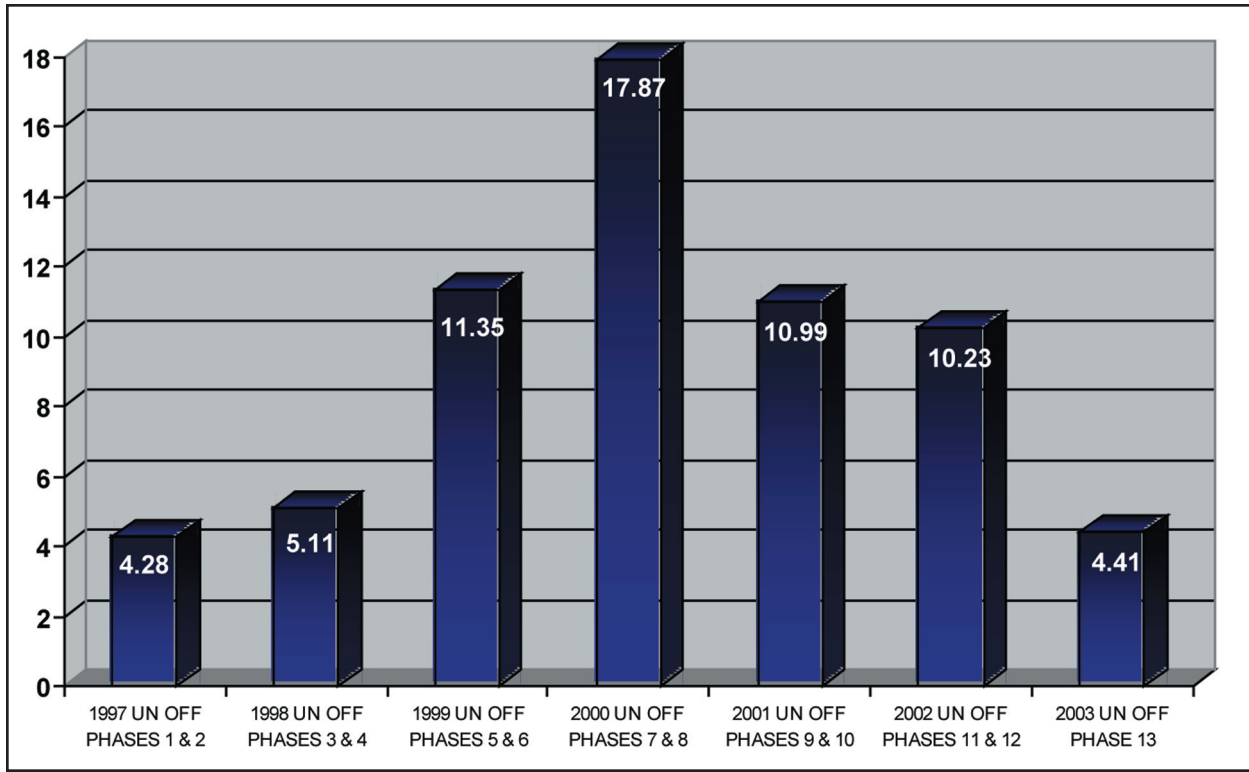


Figure 13. Oil earnings for each calendar year (13 phases of the UN OFF Program), 1997-2003.

- According to Tariq Aziz, Taha Yasin Ramadan al-Jizrawi, and Hikmat Mizban Ibrahim al-Azzawi, the oil voucher program was managed on an ad hoc basis by the Regime officials listed in Figure 14.
- The Iraqi Intelligence Service, Ambassadors, and other senior Iraqi officials also commonly made nominations for oil allocations.

Oil Voucher Process

The MoO normally distributed the secret oil allocations in six-month cycles, which occurred in synchronization with the UN OFF phases (see Figure 15). Senior Iraqi leaders could nominate or recommend an individual or organization to be added or subtracted from the voucher list and an ad hoc allocation committee met to review and update the allocations (see Annex B: Known Oil Voucher Recipients). However, **Saddam personally approved and removed all names on the voucher recipient lists.**

This voucher program was documented in detail in a complete listing maintained by Vice President Taha Yasin Ramadan al-Jizrawi and the Minister for Oil, Amir Muhammed Rashid Tikriti Al Ubaydi. If a change was requested by telephone by Saddam or any other top official, either the MoO or SOMO rendered a detailed memo for the record of the conversation. A senior Iraqi official, ambassador, the IIS, or Saddam himself would recommend a specific recipient (i.e. company, individual, or organization) and the recommended amount of the allocation. That recommendation was then considered by the ad hoc committee and balanced against the total amount of oil available for export under the UN program disbursement. When former Vice President Ramadan finalized the recipient list, it was sent to Al Ubaydi. The official at SOMO in charge of issuing the final allocation vouchers (making the disbursements) stated that Tariq Aziz would give the final list to him. He believed that it was Aziz that finalized the list upon the direction of Saddam.








	Tariq Aziz	Former Deputy Prime Minister. He was personally involved in the handling of Western expatriates and companies.
	Taha Yasin Ramadan Al-Jizrawi	Former Vice President, Ba'ath party head, and Director of the Iraqi Oil for Food Program Committee.
	Amir Muhammad Rashid Tikriti Al Ubaydi	Former Minister of Oil. He ensured that the Ministry and its marketing arm, SOMO, kept detailed records on the oil allocation program.
	Muhammed Mahdi Al-Salih	Former Minister of Trade.
	Hikmat Mizban Ibrahim Al-Azzawi	Former Minister of Finance.
	Muhammad Sa'id Kazim Al-Sahhaf	Former Minister of Information.
	Abd Al-Tawab Mullah Huwaysh	Former Director of the Military Industrialization Commission (MIC).

Figure 14. Senior Iraqi leaders who managed the Oil Voucher Program and were authorized to offer vouchers.

Secret Voucher Recipients

In general, secret oil allocations were awarded to:

- Traditional oil companies that owned refineries.
- Different personalities and parties, which were labeled “special allocations” or “gifts.” This group included Benon Sevan, the former UN Chief of the Office of Iraq Program (OIP), numerous individuals including Russian, Yugoslav, Ukrainian, and French citizens.

- “The Russian State” with specific recipients identified (see Annex B: Known Oil Voucher Recipients).

Recipients could collect their allocation vouchers in person at SOMO or designate someone to collect them on their behalf. The oil voucher was a negotiable instrument. Recipients, especially those not in the petroleum business, could sell or trade the allocations at a discount to international oil buyers or companies at a 10 to 35 cent per barrel profit. Frequent buyers

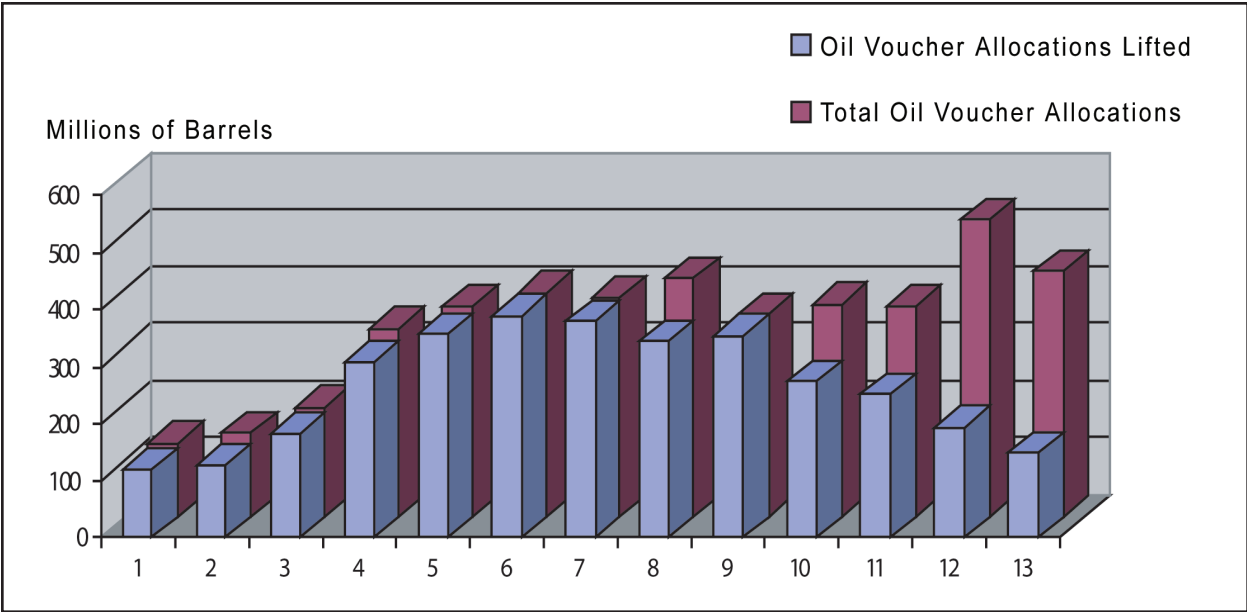


Figure 15. Large differences in the later phases between the amount allocated under the voucher system and the amount actually lifted was due to disruptions in Iraq's oil exports.

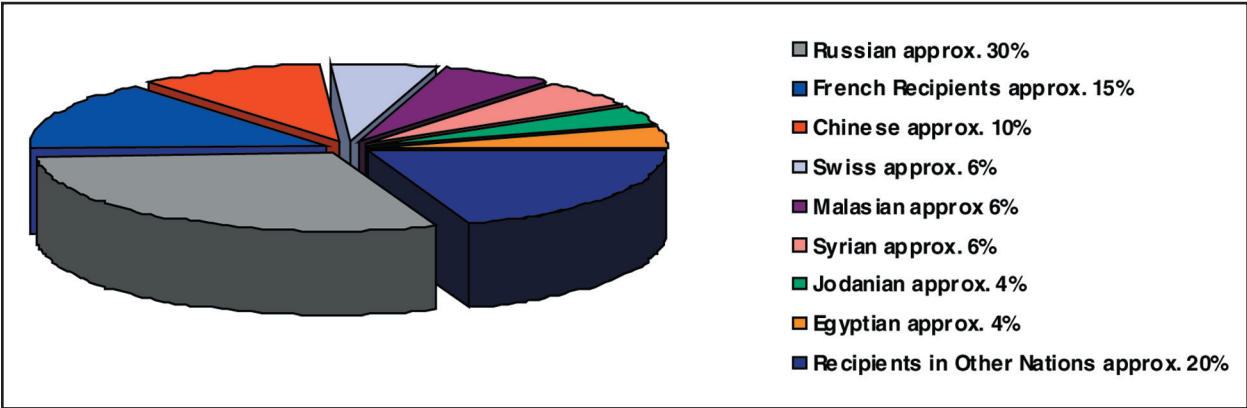


Figure 16. The nationality of secret oil voucher recipients by volume of oil allocated.

of these large allocations included companies in the UAE as well as Elf Total, Royal Dutch Shell and others.

Figure 16 reflects the general proportion of the nationalities targeted to receive Iraq's oil allocations by volume of oil allocated, according to a former government official with direct access to the information. The top three countries with companies or entities receiving vouchers were Russia (30%), France (15%), and China (10%)—three of the five permanent members of the UNSC, other than the US and UK.

Iraqi Oil Vouchers Provided to International Leaders

The following select individuals (see Figure 17) include world leaders, senior politicians and corporate officials, were approved by the ad hoc committee as recipients of oil vouchers under this program (see Annex B: Known Oil Voucher Recipients for a more complete listing).

The voucher list provided by SOMO includes Russian members of government, politicians, and businessmen. The former Iraqi Vice President Ramadan

		Millions of Barrels Allocated	Millions of Barrels Lifted
Mr. Zierbek	Russian Communist Party	110.10	87.391
Mr. Azakov and Mr. Velloshia	Rus Naft Ambix and the Russian Presidential Office	84.278	72.516
Vladimir Zhirinovsky and LDPR Companies	A former senior official in the Iraqi government stated that Zhirionvsky visited Iraq on a regular basis	53.0	79.8
“Russian Foreign Ministry”		55.0	42.722
Patrick Maugein	Iraq considered Maugein a conduit to French President Chirac, according to a former Iraqi official in a claim we have not confirmed.	14.0	13.199
“Raomin”	Allocations were made to an individual listed as Raomin who is further described in the voucher allocation list as the son of the former Russian ambassador in Baghdad.	13.5	13.071
Mr. Nikolayi Ryzhkov and Mr. Gotzariv	Members of the Russian Parliament (Duma)	12.0	11.88
Charles Pasqua	Businessman and former French Interior Minister	11.0	10.751
Benon Sevan, UN Chief of the Oil for Food Program	Former Iraqi officials say he received his illicit oil allocations through various companies that he recommended to the Iraqi government including the African Middle East Company.	13.0	7.291
Government of Namibia		7.0	7.123
Government of Yemen		5.0	4.713
Sukarnoputri Megawati, President of Indonesia	Iraqi documents list President Megawati as a recipient of oil allocations.	6.0	3.779

Figure 17. Selected secret oil voucher recipients.

stated that he believed the Russian Government was sympathetic to the plight of Iraq and strongly against the sanctions imposed upon it and that most of the parties of the Russian Parliament (Duma) supported Iraq's position. He stated that many Russian companies were dealing with the Iraqi ministries in charge of exports, and that this was no secret because many of the Russian Ministers visited Iraq regularly to aid this activity.

American and British Oil Voucher Recipients

According to a former high-ranking Iraqi official with direct access to the information, there are two Americans and one UK citizen listed as recipients on the list of Iraq's illicit oil allocation program (although at least three names are annotated "American" on the Iraqi lists). *Deputy Prime Minister Tariq Aziz was the principal point of contact for handling all high profile foreign recipients, all American recipients and most other non-Arab voucher recipients, called "internationals", who lived in countries outside of the Arab world.*

Benon Sevan's Use of Iraqi Oil Vouchers

At the center of the day-to-day operations of the UN's \$64 billion OFF program, Sevan who spent his entire career at the UN, received oil allocations through various companies that he recommended to the Iraqi government. This arrangement reportedly began soon after the OFF program started in December 1996. An investigation by the Iraqi Governing Council has uncovered a letter linking Sevan to a Panamanian-registered company called African Middle East Petroleum Company. The letter, dated 10 August 1998, from Saddam Zayn Hasan, the executive manager of SOMO, and addressed to Amir Muhammad Rashid Tikriti Al Ubaydi, then the Iraqi Oil Minister implicates Muwafiq Ayyub in playing a role in setting up the deal. The letter says: "Muwafiq Ayyub of the Iraqi mission in New York informed us by telephone that the above-mentioned company has been recommended by his Excellency Mr. Sevan, director of the Iraqi program at the UN, during his recent trip to Baghdad." A second page detailed the "Quantity of Oil Allocated and given to Mr. Benon

Sevan," listing a total of 7.3 million barrels of oil as the "quantity executed."

A Source at SOMO confirmed that Sevan received allocations by way of a Cypriot company or the Panamanian registered, The African Middle East Petroleum Company. According to the source, when the Chairman of the Iraqi UN OFF Committee, Vice President Taha Yasin Ramadan al-Jizrawi, saw any company with Sevan's name in parenthesis next to it (and there were a lot of them, according to the source) on the proposed voucher recipient list, Ramadan automatically gave approval to issue the vouchers associated with that account.

- SOMO voucher documents only list Sevan in relation to the African Middle East Petroleum Company. We have no further information on the role of a Cypriot company or any other company.

According to a high-level source at SOMO, Sevan never received his oil allocations in person. Sevan's vouchers were always picked up by Fakhir Abdul Noor, an Egyptian now residing in Switzerland and connected to the African Middle East Petroleum Company, who would sign documents on Sevan's behalf and pick up his allocations at SOMO. Noor conducted this business for Sevan for each phase of the UN OFF MOI starting in the fourth phase and ending in the ninth phase. Sevan's allocations ended after the ninth phase when SOMO representatives informed Noor that the African Middle East Petroleum Company owed money under the oil surcharge program and the payments were in arrears.

Iraqi Intelligence Service Nominations for Oil Vouchers

Those who were nominated by the IIS and placed on the master voucher list were most likely placed there for their service in an intelligence capacity for the former Regime. The following two individuals were nominated by the IIS and approved for inclusion on the list (see Figure 18).

Oil Export Surcharges

In addition to income from the trade Protocols and the UN OFF program *Iraq demanded a surcharge*

Iraq's Oil Allocation Voucher Process

The UN allowed Iraq to sell a certain amount of oil under the Oil For Food Program and the proceeds would go to Iraq through an UN approved bank, the BNP. The UN did not monitor Iraq's oil voucher system and, according to senior Iraqi officials at SOMO, Baghdad made every effort to keep the details of the system hidden from the UN. During Iraq's negotiations with the UN concerning the OFF program Baghdad fought hard for the right to determine to whom it could sell its oil and Baghdad considered the UN's concession on this point an important victory. The UN approved the final contract between Iraq and the lifting company, ensured the company was on the register of approved lifting companies, and monitored the actual lifting of the oil to make sure the amount lifted fit within the approved contract amount. The UN also made sure that the total amount lifted matched the OFF allocation.

fee for each barrel of oil it exported under the UN OFF program because of the relatively large built-in profit margin allowed by the UN Oil Overseers.

Buyers were willing to pay Iraq a surcharge, usually 25 to 30 cents per barrel of oil, because they made sufficient profit to do so. Iraq reduced the amount it charged in 2002 as the Sanctions Committee gradually eliminated the profit margin; the last SOMO invoice for a surcharge was dated September 2002.

- The surcharge system began in the 8th phase of the UN OFF program. According to SOMO records, the surcharge was charged on 1,117 million barrels of oil between phases 8-12. The total contract value for the surcharges was \$265.3 million.
- ***Iraq actually collected only \$228.6 million in surcharge payments from September 2000 until March 2003*** (see Figure 19). Iraq was unable to collect \$36.7 million in surcharges. (see Annex E: Illicit Earnings Sources and Estimation Methodology)
- Payments were usually made to SOMO bank accounts in Jordan and Lebanon, but \$61 million was delivered in cash to Iraqi embassies, usually Moscow by Russian entities, according to SOMO

The Legality of Oil Voucher Allocations

The Oil Voucher Allocation system was set up by the former Regime of Iraq in order to allocate their exports under the UN Oil-For-Food (OFF) Program to entities that would gain Iraq the greatest benefit.

Using the voucher program as a method of rewarding and/or influencing entities or countries really did not begin until about Phase 3 of the OFF Program. Phase 3 ran from 5 December 1997 to 29 May 1998. At the time, this internal Iraqi process was unknown to the UN and was not addressed in any UN resolutions.

*The UN approved all companies lifting oil under the OFF program and accounted for all the Iraqi oil lifted by authorized oil lifting firms. However, some entities and individuals may have abused this system by using an intermediary to lift and sell the oil allocated to them by Iraq under the voucher system. For example, according to oil voucher registers recovered from SOMO and statements by Iraqi authorities, several private individuals and political organizations were listed as a voucher recipient. However, an intermediary (a UN registered oil lifter) was used to pick these vouchers and actually lifted the oil under a UN approved contract. In this example, the UN was not aware that an individual or political organization was involved in, and was profiting from, the transaction. Consequently, if individuals or organizations knowingly received profits from these oil sales they were taking part in actions which were not sanctioned by the UN OFF program. ISG has no direct evidence linking these individuals or political organization to actually receiving the proceeds from these oil allocations. However, individuals and organizations are named as being on the list for oil allocations, statements from Iraqi officials support the fact that these entities received oil allocations, and evidence that Iraq entered into contracts with the intermediaries that actually lifted these allocations exist. In conclusion, the **Oil Voucher Allocation program is another example of how Saddam's Regime strove to undermine UN sanctions and the OFF process while garnering favor with well placed individuals and entities that would be able to favorably act on Iraq's behalf on the political scene.***

documents. Ten other Iraqi embassies were used in this way including: Hanoi, Vietnam, Ankara, Turkey and Geneva, Switzerland.

- Some companies preferred to pay Iraqi embassies directly out of fear for public disclosure of the illegal arrangements. This may explain the preference to conduct such business with cash.
- Payments were mostly made in US dollars, but a few times they were made in Euros. The cash was later moved to Baghdad from the embassies via diplomatic pouch and deposited in the SOMO accounts at the CBI or Rafidian banks.

A former senior Iraqi official with direct access to the information stated that Saddam first ordered companies be charged a flat rate of 15 percent of their profits as the surcharge, but the companies refused to pay. Saddam then pursued a 50-cent per barrel surcharge that his advisors warned him was not workable. When Saddam realized they were right, he allowed the surcharge to be dropped to 30 cents and then finally to 10 cents. Ten cents was the amount first charged by SOMO in September 2000.

- Some companies, particularly the French, refused to pay the surcharge.
- However, some companies used a ‘middleman’ to hide the link between the originating company and Iraq.

Iraq tolerated the refusal of some companies to pay the 10-cent per barrel surcharge until the end of the 8th phase (5 December 2000) in order to avoid their refusal to ship the oil and reduce Iraq’s projected exports.

- The 10-cent surcharge was increased in January 2001 during the 9th phase to 35 cents a barrel for sales to the US and 25 cents per barrel for sales to other countries. The surcharges continued into phase 12 at 15 cents per barrel to all customers (see Figure 20).

The surcharge system was an open secret. The subject was discussed by the media and by worldwide oil market. It was known the former Regime received income from its sales that were deposited in special accounts outside of Iraq.

- The system continued until October 2001 when the UK and US took unilateral action to eliminate the excess profit that allowed surcharges to be paid.

How Surcharges Were Collected

The buyers agreeing to the surcharges did so with a written personal pledge to pay. Iraq’s main leverage to enforce payment was to deny the buyer future contracts until he made good on his debt. Iraq exercised this option in the case of the African Middle East Petroleum Company, according to SOMO documents. By the 12th phase, there were 42 entities receiving oil export allocations that were not allowed to sign contracts because they had not fully paid their surcharges.

Kickbacks on Commercial Goods Import Contracts

The fourth revenue source for Saddam’s Regime was kickbacks from UN OFF program commercial goods contracts being imported into Iraq. According to a former senior MoT official, beginning with the 8th phase in June 2000, Iraq began to demand a kickback on all UN OFF program import contracts to generate illicit income. The amount of the kickback could vary, but generally was around 10 percent. ISG suspects, however, that Iraq had been receiving similar types of kickbacks since the beginning of the UN OFF program to varying degrees.

Contracts were written for 10 percent above the actual price and the supplier company would deposit this amount into Iraqi accounts. The fee was often included for spare parts or after sales service. The fee was often applied, particularly in Jordan, through the mechanism of the supplier providing a 10 percent performance bond in advance, which was then automatically transferred to an Iraqi account when the supplier was paid for the goods.

- A source described how it often worked for one front company. For instance, the Al-Eman Group (a Jordanian Company) would sign a contract with Iraq and deposit the 10 percent performance bond in an escrow holding account. When the goods were delivered to Iraq, the UN Iraq account would pay the full contract price to Al-Eman. At that point, the Jordan National Bank would automatically kick back the performance bond to an Iraqi account instead of returning it to Al-Eman, as would normally be the case.

	Millions of Barrels Allocated	Millions of Barrels Lifted	
Fa'iq Ahmad Sharif And Mastek	60.756	43.614	A former senior Iraqi official with direct access to the information believed Sharif to be a Malaysian resident and an owner or high level executive of the company Mastek.
Hamad Bin Ali Al Thani	27.359	19.215	A Qatari national and owner of the private airline Gulf Eagle (not a regular commercial enterprise) Al Thani was responsible for opening an air link between Baghdad and Damascus.

Figure 18. IIS oil voucher recipients.

2000	2001	2002	2003	Total
\$4	\$150	\$74	\$0	\$229

Figure 19. Iraq's estimated earnings from OFF oil surcharges (million US \$).

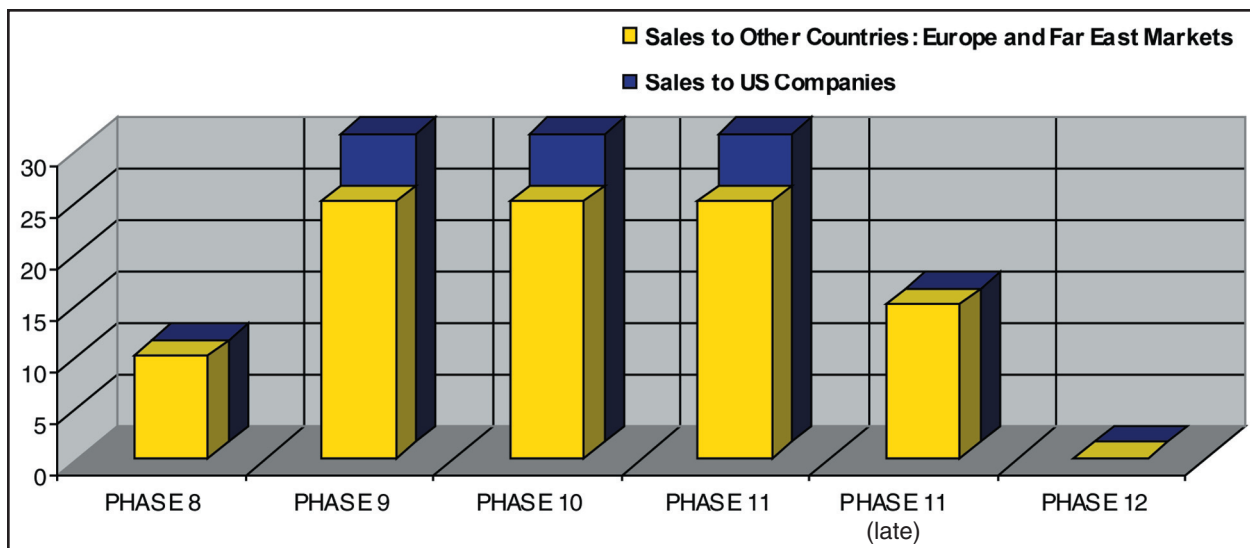


Figure 20. Surcharge amounts charged in US cents per barrel for each OFF phase.

- ISG does not have information from Iraqi sources regarding the revenue earned from these kickbacks; but we estimate, using a 10 percent average, that these kickbacks totaled approximately \$1.512 billion from late 2000 until OIF (see Figure 21). For more information on the methodology used to generate this estimate, see Annex E: Illicit Earnings Sources and Estimation Methodology.

According to senior MoT and official sources, kickback payments were deposited into temporary accounts controlled by the Iraqi ministry involved with the contract at banks in Jordan and Lebanon. These “bridge” accounts were not in the name of the ministry, but used false names to disassociate the Iraqi government from the transaction. Within 24 hours, the funds were transferred to a CBI account at the same bank. At the end of each day, the ministry bridge accounts had a zero balance. Kickback payments also

were made to at least two Iraqi front companies: Alia in Jordan and Al-Wasel & Babel in the UAE. Ultimately, the kickback funds were couriered back to the CBI in Iraq.

Each individual ministry that engaged in the import kickback contract scheme had copies of their respective contracts or deals. The MoT was responsible for monitoring these contracts but was not involved in negotiating the terms. Each of the following ministries (see Figure 22) engaged in the 10 percent fee scheme:

Although the kickback was paid to the particular ministry that entered into the contract, those ministries were not able to use the funds—they usually were transferred to the CBI as mentioned above.

- In order to encourage kickback collections by the ministry, and in order to compensate the ministry for the difficulties involved with the scheme, the CBI returned 5 percent of the 10 percent kickback to the ministry collecting the kickback.
- These funds were distributed to the employees of the particular ministry as an incentive to collect the kickbacks.

Another method of generating kickbacks from UN OFF import contracts emerged in the later years of the UN OFF program. This method was based on deceiving the UN over the quality of the items being imported to Iraq. For this illicit revenue scheme, Iraq arranged for a co-operative supplier to obtain a legitimate UN OFF contract specifying “first-quality” humanitarian goods. Iraq would then be authorized under UN OFF to pay top quality prices for the items via the UN OFF-controlled accounts. In reality, however, the co-operative supplier substituted cheap, poor-quality goods for the contract. This generated very high profits for the co-operative supplier. Saddam then arranged for the excess profits to be returned to Iraq via diplomatic channels, after the co-operative supplier took its “fee.” This revenue scheme was particularly nefarious since it left the people of Iraq with second-quality, sometime useless, humanitarian goods. (see the Use of Foreign Banks sections.)

Private-Sector Oil Sales

Iraq’s trade with private-sector businessmen during the sanctions period provided a \$1.2 billion supplement to illicit money earned from kickbacks and surcharges related to the UN OFF program and

Protocols with neighbor states (see Figure 23). Iraqis also refer to this trade as “border trade” or “smuggling.” (see Annex F: Iraqi Oil Smuggling for a case study on this topic.)

- These sales began almost immediately after sanctions were implemented, with examples dating back to at least 1993.
- Iraq exported crude oil, petroleum products, and dry goods such as dates and barley. ISG has very little information about the volume or earnings from the dry goods portion of the trade.

ISG estimates Iraq earned about \$30 million annually from 1991 through 1997 for a total of \$210 million during the period.

Private-sector sales were made by SOMO, but outside the UN OFF oil export program and the trade Protocols with Jordan, Syria, Turkey, and Egypt. SOMO information on these sales covers from 1998 until OIF. Payment for these sales amounted to \$992 million, and was made in three ways:

- Some contracts were listed as “cash.” According to the SOMO Invoice and Contract Data Base, these contracts were signed from June 1997 through March 2003 and were for all types of petroleum products (gas oil, fuel oil, asphalt, etc.) as well as small amounts of crude oil. These cargoes were shipped through the Arabian Gulf, Turkey, Jordan, Syria, and possibly Lebanon. The contracts were valued at \$560 million and \$523 million was actually collected.
- Another category of contracts was “goods/barter.” These contracts were signed from January 1998 through March 2003 and were primarily for fuel oil and gas oil. Like the cash contracts above, these cargoes were shipped through the Arabian Gulf, Turkey, Jordan, Syria, and possibly Lebanon. The contracts were valued at \$469 million. Because these were barter contracts as payment for goods to be received by specific Iraqi ministries, SOMO received no cash in payment.
- The final category of contracts was “Iraqi Dinars.” These contracts were signed from May 1999 through December 2002. They were all for fuel oil and all were sold to the “North,” probably the Kurds. The income was in dinars and when translated into dollars at prevailing exchange rates only

amounted to about \$2 million. Because this was not hard currency income, it is not counted in the total hard currency income mentioned elsewhere in this section.

SOMO lists its cash, barter, and dinar contracts as being destined for the “North,” “West,” or “South.”

- Based on the buyer’s names, shipments to the North almost certainly were mostly destined for Turkey. One of the major purchasers paying with cash was the Asia Company, which bought almost 11 million barrels for \$174 million from May 1999 through January 2003. According to Amir Muhammad Rashid Tikriti Al Ubaydi, Iraq’s Oil Minister, Barzani, the leader of the Kurdish Democratic Party, controlled this company. The dinar contracts probably were destined for the Kurds in the three Northern Governorates. Some of the shipments to the North could have found their way to Iran. The total value of private-sector trade with the North was \$538 million.
- Based on the buyers listed, shipments for the West were destined at least for Jordan and Syria. Some of these shipments probably also found their way to Lebanon. The total value of private-sector trade with the West was \$95 million.
- Based on the buyers listed, shipments for the South were destined for export by small vessels through the Arabian Gulf, with most probably destined for the UAE and other nearby bunkering markets. Some probably wound up in India and perhaps other destinations. The total value of private-sector trade with the South was \$359 million (see inset).

According to a number of Iraqi officials, the money earned from private sector border trade was primarily deposited into accounts in Lebanon and Jordan controlled by the CBI (see Figure 24).

- The accounts were kept in US dollars, except for one account in Euros that was closed after one month.
- One account was maintained in the Rafidian Bank, Mosul, Iraq branch. This account handled earnings from the private-sector trade through the North.

- The “SOMO Office” in Basrah handled earnings from private sales through the South. ISG does not know if this means there was a corresponding Rafidian Bank account to handle these earnings in the South.

Role of the SOMO

Iraq’s SOMO is the state-run monopoly that controls all of Iraq’s crude oil exports. It is overseen by the Iraqi MoO and functions as the Ministry’s marketing arm. ***SOMO maintained all records for sales under the UN OFF program; cash border sales, sales through the Protocol agreements, and oil allocation (vouchers) arrangements.***

- According to the procedures agenda approved by the UNSCR 986, SOMO was responsible for the marketing process of Iraqi oil and was eventually permitted to sell as much oil as it could. However, these sales contracts were only allowed to companies registered with the UN as approved buyers of Iraq’s crude oil. These companies were only to make payments to Iraq into the UN supervised escrow account in the Banque Nationale de Paris in New York.

According to SOMO officials, Saddam demanded that Iraq keep the price of its oil as low as possible in order to leave room for oil traders to pay Iraq the illegal surcharges. A sales director at SOMO stated that they were instructed by the government to get the lowest price. Under normal circumstances, SOMO would have sought the highest price for Iraq’s oil, its only legal source of real revenue.

Among the companies listed in SOMO’s records as having paid illegal surcharges are some of the world’s largest refineries and oil trading companies. SOMO maintained detailed financial records listing invoices and collections for each contract. These companies, when questioned about surcharge payments, deny they were the parties that made them.

- For example, according to SOMO records, one of the most active purchasers of Iraqi crude was a Swiss-based company named Glencore. It paid \$3,222,780 in illegal surcharges during the period of the program. The company denies any inappropriate dealings with the Iraqi government outside of the UN OFF program.

Determining who paid surcharges, and for what

2000	2001	2002	2003	Total
\$375	\$687	\$399	\$50	\$1,512

Figure 21. Iraq's estimated earnings from OFF import kickbacks (million US \$).

Ministry of Oil (MoO)	Ministry of Housing	Ministry of Education
Ministry of Water & Sanitation	The Electricity Board	Ministry of Telecommunications
Ministry of Health	Ministry of Trade	Ministry of Agriculture

Figure 22. Iraqi ministries involved in OFF kickbacks.

1991 to 1997	1998	1999	2000	2001	2002	2003	Total
\$30 each year	\$28	\$234	\$391	\$203	\$50	\$85	\$1,202

Figure 23. Iraq's estimated earnings from private-sector oil sales (million US \$).

Bank	Currency	Amount
Ahli Bank-Jordan	US\$	\$287,120,131.61
Rafidian "Filfel" (Mosul)	US\$	\$146,648,012.00
Jordan Bank-Jordan	Euros converted to US\$	\$47,026,041.80
Ahli Bank-Jordan	US\$	\$42,035,812.95
Iraqi Embassies	US\$	\$930,000.00
Fransa Bank-Lebanon	US\$	\$48,000.00
Total US\$		\$523,807,998.36

Figure 24. Total amounts received in Iraqi bank accounts under private sector "cash sales".^a

^aThis SOMO information is different by less than \$1 million from the SOMO data base information cited above. The reason for the discrepancy is unknown.

amounts for each oil transaction will take some time. Iraqi oil shipments passed through many parties before being delivered to end recipients, the large oil refineries and companies outside Iraq. *The parties or oil agents that first bought the oil only to turn around and resell it for profits could have been anyone from small-inexperienced oil dealers and companies, or even businessmen and companies being bribed or rewarded for various reasons by the Iraqi government.*

- According to SOMO records and senior MoO officials, oil surcharges were deposited into Iraq's bank accounts. Only designated, trusted Oil Minis-

try employees withdrew the cash and brought it to Baghdad on a regular basis.

- An estimated \$2 billion is believed to be left from the illicit funds deposited in foreign Iraqi bank accounts.
- As of February 2004, over \$750 million had been recovered from these accounts and returned to Iraq, according to the US Treasury Department.

Saddam directed SOMO to set up accounts at the National Bank of Jordan, also known as the Ahli

Bank of Jordan. SOMO created separate accounts both for surcharge payments and for Protocol-generated revenue. Three surcharge accounts were created, one each for the deposits of US dollars, Francs, and eventually Euros. The two required signatories on these accounts were SOMO employees.

Funds from SOMO accounts had to be released by a SOMO order. Payments from accounts holding the credit portion of earnings from the Protocol with Syria (at Syrian Commercial Bank) and the credit portion of earnings from the Protocol with Turkey (the TPIC account on behalf of SOMO at the Halk Bank) required authorizations from various ministries and the Presidential Office (Diwan). When SOMO received the appropriate approvals, it generated a letter directing the banks to make payments.

- SOMO had at least thirteen accounts that were used to receive and/or hold the 10 percent fee amounts received from the various ministries.
- The MoO had no authority over these accounts and they were located in Jordan, Syria, Lebanon, and the UAE.

SOMO's Relationship to the MoO

While SOMO's role was to sell Iraq's oil and handle some of the funds derived from those sales, the MoO's role was primarily to procure goods and services needed by the oil sector. As part of this effort the MoO would collect the 10 percent fee on import contracts.

- A former Oil Ministry official in charge of contracting for maintenance equipment and spare parts stated they would accept a low bid and require another 10 percent be added to the contract. Iraqi officials believed 10 percent could be easily hidden from the UN. For example, if the bid were for \$1 million, the supplier would be told to make it \$1.1 million. This scheme was quite effective for generating illicit revenue.
- The MoO has bank accounts at several different locations and in several different countries. SOMO's 13 accounts were separate from the MoO. According to a high-level source at the MoO, the Ministry had only basic information relative to the SOMO accounts, such as the name of the financial

institution, the account holder's name, and the name of the person who had signatory authority on the account.

- The source stated that the MoO had this information so that they could transfer funds to the accounts when oil was sold. *According to a source at the Ministry, the MoO is currently trying to recover funds from some of these accounts, particularly in Jordan, and return the money to Baghdad.*

Iraq's MoO currently has two active bank accounts at the Jordan National Bank, Queen Nor Branch, Amman, Jordan. These are the same accounts that the MoO has used for the last several years. The first account is a joint account held in the name of the MoO and Jordan Petroleum Refinery Co., Ltd. Its balance on 30 November 2003 was approximately \$78.4 million. The second account is called the Ministry personal current account. Its balance on the same date was \$3.9 million.

- The source of these funds was from the sale of crude oil and oil products to Jordan under the Trade Protocols.
- The Oil Ministry claims that the funds in these accounts were to be used to purchase engineering and chemical materials necessary to keep Iraq's oil industry operating at a minimum production level.

Official Oil Accounts

SOMO held a variety of bank accounts to manage and control Iraq's legal and illegal oil revenues. These accounts have been categorized as non-surcharge accounts (including Protocol revenues), oil surcharge accounts, and cash sales accounts. Figure 25 shows the bank accounts that SOMO opened for non-surcharge purposes.

- The first five SOMO accounts are individually named accounts at the Ahli Bank in Jordan. For more detail on those names, see Figure 26.
- The fifth account listed at the Ahli Bank in the name of Ali Rijab & Yakdhan was a Protocol trade account set up to receive payments related to the Iraq-Jordanian Protocol and was opened just a few months before the start of OIF. This trade account allowed 60 percent of oil proceeds to remain in the trade account and 40 percent of the proceeds to be

SOMO Account Balances Outside of Iraq				
Country	Account Name	Bank Name	Account Type	Balance in US \$
Jordan	Saddam Zibin, Ali Rijab & Yakdhan Hassan Abrihim	Ahli Bank, Jordan	Cash Account	5,247,427
Jordan	Saddam Zibin, Ali Rijab & Yakdhan Hassan Abrihim	Ahli Bank, Jordan	Cash Account	33,190
Jordan	Saddam Zibin, Ali Rijab & Yakdhan Hassan Abrihim	Ahli Bank, Jordan	Cash Account	5,138
Jordan	Saddam Zibin, Ali Rijab & Yakdhan Hassan Abrihim	Ahli Bank, Jordan	Cash Account	991,544
Jordan	Ali Rijab & Yakdhan	Ahli Bank, Jordan	Trade Account	2,987,054
Lebanon	SOMO	Fransabank, Lebanon	Cash Account	241,052
Lebanon	SOMO	Fransabank, Lebanon	Cash Account	46,583
Lebanon	SOMO	Fransabank, Lebanon	Cash Account	41,010,787
Egypt	SOMO	National Bank of Egypt	Trade Account	19,710,881
Syria	SOMO	Commercial Bank of Syria	Trade Account	790,361,517
Syria	SOMO	Iraqi Embassy in Syria	Cash Account	1,223,401
unknown	SOMO	Syrian Lebanon Commercial Bank	Cash Account	251,949,039
Turkey	TPIC	Halk Bank, Ankara	Trade Account	195,697,846
Russia	SOMO	Iraqi Embassy, Moscow	Cash Account	1,342,975
Vietnam	SOMO	Iraqi Embassy, Hanoi	Cash Account	406,805
Malaysia	SOMO	Iraqi Embassy, Kuala Lumpur	Cash Account	250,000
Switzerland	SOMO	Iraqi Embassy, Geneva	Cash Account	710,000
TOTAL				1,312,182,052

Figure 25. SOMO accounts balances outside of Iraq (data provided by SOMO in January 2004).

Saddam Zibin	A cousin of Saddam Husayn and the head of SOMO from 1995 or 1996 until the start of the war. According to one source, Zibin recently fled to Jordan and is believed to still be there.
Yakdan Hasan Ibrahim al-Karkhi	The former SOMO finance Manager. He was most recently employed at the CPA in the Ministry of Oil around June of 2003. He left Baghdad for Germany in September of 2003 for medical reasons and did not return to Baghdad. He is reportedly now residing in Jordan
Ali Rajab Hassan	Employed, as of January 2004, at the MoO and resided at the SOMO compound.

Figure 26. Key individuals involved in Iraqi oil accounts in Jordan.

utilized elsewhere. The signature authority on this account was Ali Rijab and Yakdhan Hassan Abrihim.

- There are two different cash accounts listed at the Sardar Bank in Lebanon, both with the name “Rodolphe” listed as the bank point of contact.
- SOMO established another account at the National Bank of Egypt that was used as a Protocol trade account, similar to the one set up for Syria. Again, a 60/40 split allowed 60 percent of oil proceeds to remain in the trade account and 40 percent of the proceeds to be deposited into Ahli Bank account in Jordan.
- The Commercial Bank of Syria cash account received the 40 percent of the oil proceeds. The bank was instructed that when the account balance exceeded \$1 million, it was to instantly transfer the extra amount to the Syrian Lebanon Commercial Bank account.
- The Turkish Petroleum International Company (TIPC) is a trading arm of the Turkish National Oil Company and the SOMO equivalent in Turkey. SOMO funds were deposited at the Halk Bank located in Ankara Turkey.
- The account was actually in the name of TPIC “in the favor” of SOMO. Currently SOMO is requesting to have funds still held at the Halk Bank released.
- The SOMO amounts listed at the Iraqi Embassies were received directly from oil contract holders. These payments were sometimes delivered directly to the Embassies and other times deposited first into an Ahli Bank account.

As noted in Figure 25, the accounts at the Ahli Bank in Jordan are in the names of Saddam Zibin, Yakdan Hasan Abrihim al-Karkhi, and Ali Rijab Hassan. The accounts all have the same prefix of 501333 and suffix range from 02 to 12. Senior sources at SOMO were not sure of the reason for this.

Figure 27 shows the SOMO non-surcharge accounts through TPIC maintained at the Halk Bank in Turkey. The cumulated interest earned for these accounts, according to SOMO, was \$7,678,946.70. Seven of

these accounts (shown in green) remain open. The current Iraqi Embassy in Turkey has been in contact with the TPIC representatives about the current account balance of SOMO with TPIC. The embassy was informed that TPIC believes that the amount due to SOMO is only \$100 million. A source at SOMO stated that TPIC must have allowed unauthorized withdrawals from these accounts.

In the eighth phase of the UN OFF program, Iraq began to impose a 10-cent per barrel illicit surcharge on all oil sales contracts to foreign entities with the exception of Syria (see the Oil Surcharge section). A summary of the surcharge amounts due collected, and left outstanding for phases eight through twelve are displayed in the chart below (see Figure 28).

These oil surcharge payments were deposited into several accounts at banks located in Jordan and Lebanon. Names of these banks included the Jordanian National Bank (Ahli Bank), the Sardar Bank, and the Fransabank in Lebanon (see Figure 29). Escrow accounts were opened in the name of SOMO however these other numbered accounts were opened by Director General of SOMO, Rafid Abd al-Halim or his Deputy and the Director of Finance or his Deputy for the deposit of surcharges.

- The various accounts at the Ahli Bank were created to receive cash, which flowed in from surcharges, the Protocol accounts, and from payments received through border trade cash sales.
- The amounts listed for the CBI and the Rafidian Bank are accounts that were still open in early 2004.
- The two al-Wasel & Babel accounts were for US Dollars and Euros. They were only open for one or two months before being closed out. Al-Wasel & Babel is a partially state owned oil and banking enterprise in the UAE 51 percent of which is state owned while UAE investors own the other 49 percent. This business was used to move goods outside of the UN MOU and is still in operation.
- Three accounts are shown at the Fransabank in Lebanon. They were Euro accounts, however, the balances have been converted to US Dollars for this chart.
- Two of these accounts were set up to receive oil surcharge amounts while the third account (marked

Date Opened	Amount Deposited on Opening Date	Amounts in SOMO Accounts Still Open at the Halk Bank
10/11/2000	7,276,493	
11/14/2000	6,000,000	6,573,267
11/30/2000	7,000,000	
01/02/2001	10,000,000	
01/18/2001	10,000,000	
02/06/2001	5,000,000	5,394,637
02/27/2001	10,000,000	
02/26/2001	15,000,000	
03/30/2001	16,000,000	18,286,958
04/18/2001	10,000,000	
04/26/2001	13,000,000	
05/18/2001	15,000,000	15,815,025
11/22/2001	30,000,000	30,656,975
07/15/2002	50,000,000	50,386,807
12/13/2002	30,000,000	30,000,000
Total Remaining (according to SOMO)		157,113,671

Figure 27. SOMO bank accounts at the Halk Bank in Turkey.

Phase #	Quantity Exported in Thousands of Barrels	Amount Due in Thousands of Dollars US	Amount Collected in Thousands of Dollars US	Uncollected Amount in Thousands of Dollars US
8	185,618	18,562	11,197	7,365
9	291,996	81,588	72,187	9,401
10	301,188	85,699	82,712	3,528
11	288,943	64,059	53,959	10,100
12	89,331	13,400	8,515	4,885
Total	1,097,076	263,308	228,028	35,279

Figure 28. Summary of amounts collected/received under surcharge accounts.

Bank	Account Name	Amount in \$US
Ahli Bank – Jordan	Saddam Zibin & Yakdhan	65,537
Ahli Bank – Jordan	Saddam Zibin & Yakdhan	88,562,718
Ahli Bank – Jordan	Saddam Zibin & Yakdhan	726,389
Ahli Bank – Jordan	Saddam Zibin & Yakdhan	684,887
Ahli Bank – Jordan	Saddam Zibin & Yakdhan	25,260,332
Ahli Bank – Jordan	Saddam Zibin & Yakdhan	17,786,725
Fransabank - Lebanon	SOMO	26,441,309
Fransabank - Lebanon	SOMO	3,983,518
Sardar Bank – Lebanon	SOMO	520,778
Central Bank of Iraq (CBI)	SOMO	260,000
Rafidian Bank – Baghdad	SOMO	60,000
Iraqi Embassies	SOMO	60,963,548
Iraqi Embassies	SOMO	110,323
Al-Wasel & Babel - UAE	SOMO	1,092,345
Al-Wasel & Babel - UAE	SOMO	6,872,870
Fransabank – Lebanon ^a		10,098,394
TOTAL		243,489,676

^aRepresents additional crude sales outside of the OFF Program.

Figure 29. Total amounts received under surcharge accounts, September 2000-March 2003.

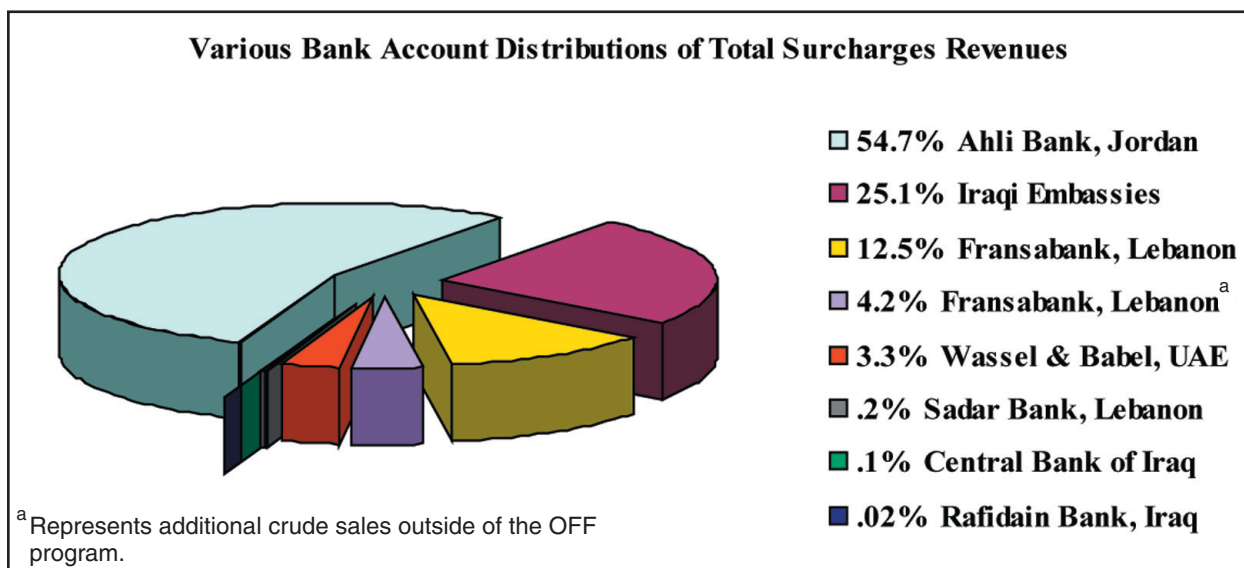


Figure 30. Bank account distributions of surcharge revenues.

with an *) shows the total proceeds received by Iraq for the sale of crude oil outside of the UN MOU and not just for the surcharge amounts.

Figure 30 is a graphic representation of the data in the chart above. It illustrates how the surcharge revenues were distributed among the associated SOMO bank accounts.

Figure 31 lists the Iraqi bank accounts, which were established to receive cash payments from illegal border sales of crude oil.

- Sources at SOMO explained that the account at the Jordan bank was set up for Euros and was closed after just one month. The balance of this account was shifted over to the Ahli Bank accounts.
- The Rafidian “Filfel”/Iraq account represents a SOMO account at the Rafidian Bank branch office located in Mosul which collected surcharge amounts from the border sales of oil to the areas to the north. The SOMO office in Basra handled the areas to the south.

Figure 32 depicts the allocation of the cash sales revenue in the various banks.

Banking and the Transfer of Financial Assets for Procurement

Iraq manipulated its national banking structure to finance the illicit procurement of dual-use goods and WMD-related goods, as well as other military goods and services prohibited by the UN. Through its national banking system, Iraq established international accounts to finance its illegal procurement network. Iraq’s international accounts, mainly located in Jordan, Lebanon and Syria, were instrumental in Iraq’s ability to successfully transfer billions of dollars of its illicitly earned oil revenues from its various global accounts to international suppliers, front companies, domestic government and business entities, and foreign governments (see Annex G: Iraq’s Banking System for more details on the origins of the Iraqi banking system).

CBI

The CBI was responsible for issuing and storing currency of the government, protecting against counterfeit currency and disbursing funds based on directives

Statements by ‘Isam Rashid al-Huwaysh, Former Director of the CBI

Custodial debriefings revealed that:

- *The CBI funded government departments through payments to the Ministry of Finance. The Presidential Diwan was the only department that received money directly from the CBI.*
 - *The CBI distributed cash only on the instruction of the Minister of Finance to the Rafidian and Rashid Banks. The Diwan transferred money to their accounts. On instruction from the Minister of Finance, Treasury Bonds were issued to cover cash taken from the CBI.*
-

from the Minister of Finance. Individuals and companies doing business with the government of Iraq would have to go through the CBI, which handled all official government transactions and funds. The CBI is composed of three domestic branches, including its headquarters in Baghdad as well as one office in Basra and one office in Mosul. The Governor of the CBI before OIF was Isam Rashid al-Huwaysh.

According to a senior Iraqi financial official, the CBI established overseas accounts in 24 Lebanese banks, seven Jordanian banks, and one Belarusian bank to deposit cash from the ten percent system of kickbacks from foreign suppliers of goods and foodstuffs. CBI did not maintain overseas accounts in other countries because senior bank officers feared that such accounts would be frozen by the United States. The financial official said that other Iraqi government ministries also maintained overseas accounts of funds provided from the CBI overseas accounts. CBI did not maintain any overseas holdings in real estate, stocks, bonds, or diamonds.

CBI’s Role in Licensing Money Exchangers

Prior to OIF, the Exchange Department of the CBI was responsible for licensing the approximately 250 licensed money exchangers in the business of converting currency of one country into the currency of another country. Money exchangers were required to obtain a license from the MoT, and present it to the CBI in order to register as a money exchanger. Some money exchangers mark their currency for identification purposes and to assist in the prevention of counterfeiting.

Total amounts received in Iraqi bank accounts from Border Trade "cash sales"			
Country	Account Name	Bank Name	Balance \$US
Jordan	Saddam Zibin, Ali Rijab & Yakdhan Hassan Abrihim	Ahli Bank, Jordan	287,120,131
Jordan	Saddam Zibin, Ali Rijab & Yakdhan Hassan Abrihim	Ahli Bank, Jordan	42,035,812
Jordan	SOMO	Jordan Bank	60,992,256
Lebanon	SOMO	Fransa Bank, Lebanon	48,000
Iraqi Embassies	SOMO	Iraqi Embassies	930,000
Iraq	SOMO	Rafidian "Filfel" /Iraq	146,648,012
TOTAL			537,774,212

Figure 31. Total amounts received in Iraqi bank accounts from border trade "cash sales" as of January 2004.

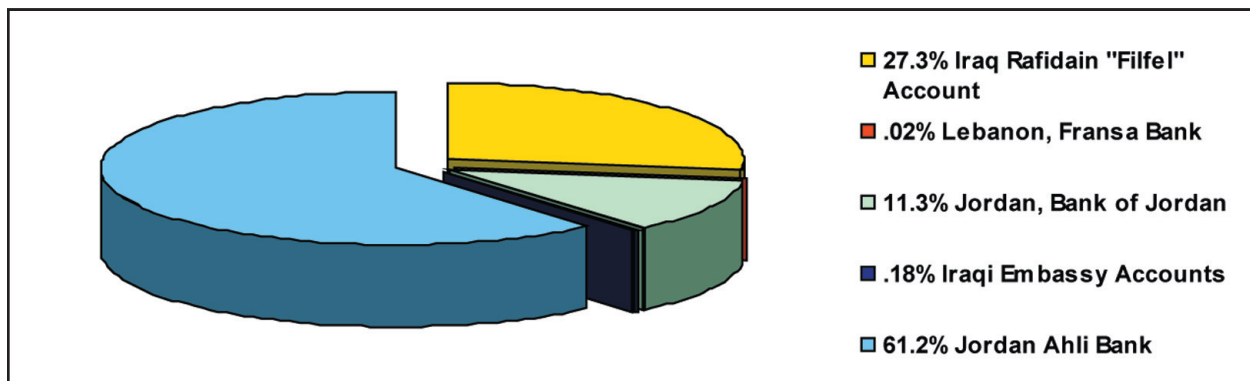


Figure 32. Total amounts received in Iraqi bank accounts from border trade "cash sales."

CBI's Role in Tracking Foreign Accounts for Iraq

The CBI Investment Department maintained a book that contained all foreign accounts opened by the bank, including the numbered or bridge accounts opened in Lebanon and Jordan. *The bridge accounts concealed the fact that foreign companies were making payments to Iraq.* Under this system, illicit foreign payments appeared to be going to an account opened in a personal or numbered account. Then the foreign banks immediately transferred proceeds from the bridge account to a CBI account.

CBI maintained accounts in foreign countries specifically for the transfer and distribution of funds to third parties. The Investment Department of the CBI did not conduct normal banking activity after the United Nations imposed sanctions on Iraq in 1990 because

its access to overseas accounts, and investment opportunities in particular were tightly limited and controlled. However, the Foreign Accounts section of the Investment Department still maintained vigilance over the CBI accounts that had been frozen around the world in order to track the accrual of interest in these accounts.

- This section also maintained the hidden overseas accounts in Lebanon and Jordan, which the former Regime used for earnings from the ten percent contract kickback scheme and oil surcharges payments. An Investment Department officer of the CBI was directly responsible for transferring foreign currency funds from the CBI's hidden over-

seas accounts in Lebanon and Jordan to separate accounts held by the former Regime leadership and the IIS in overseas banks.

In late 1999, the state-owned Rafidian Bank took over the CBI's role in managing Iraqi government funds abroad, mostly through Rafidian's Amman branch.

The Central Bank of Iraq did not possess any authority for auditing the foreign currency account activities of overseas assets of the Rasheed Bank, the Rafidian Bank, or the Iraqi government ministries. In 1994, the Cabinet of Ministers decided to give the Rasheed and Rafidian Banks as well as Iraqi government ministries the authority to open their own overseas accounts independent of CBI controls or authority. As a result, the CBI was no longer able to determine the foreign currency holdings of these institutions.

When directed by the EAC, CBI would transfer foreign currency funds from its overseas accounts in Jordanian and Lebanese banks into ministries' accounts, often those held at the Rafidian Bank in Amman, Jordan or Beirut, Lebanon. In theory, the EAC would only direct CBI to transfer funds into another government bank or ministry overseas account to fund an import purchase. The EAC transfer of funds' request, however, only indicated the recipient Iraqi organization, the amount, and the bank account number to which the funds were sent. CBI officials had no means for establishing the end use or final destination of the transferred funds.

- CBI did not transfer any funds into personal accounts from its overseas accounts. Any transfer of government funds into personal accounts would have been possible only if conducted through the overseas branches of the Rafidian and Rasheed banks or other government ministries' accounts.

CBI Governor al-Huwaysh wrote several letters to the cabinet ministers requesting increased controls, or at least auditing capability, over foreign currency transactions conducted by the Rafidian and Rasheed banks and government ministries. In early March 2003, with the imminent threat of war, the cabinet ordered government ministries with overseas accounts to transfer all their foreign currency funds to CBI accounts in overseas banks. This was done in order to provide greater security for government funds that had been

dispersed in these various overseas accounts, but not yet utilized.

- In early 2003, Saddam convened a meeting during which he ordered the removal of \$1 billion from the CBI in order to avoid the risk of all the money being destroyed in one location in the event of an allied attack. Present at the meeting were the Minister of Finance, the Minister of Trade, the Director of the MIC, the Presidential Secretary, the Chief of the Presidential Diwan, and the Governor of the CBI.
- Two weeks before the outbreak of the war in March 2003, Saddam formed a committee that was responsible for the distribution of funds. The committee consisted of the Minister of Finance, the Chief of the Presidential Diwan, the Presidential Secretary and Saddam's son, Qusay Saddam Husayn al-Tikriti. The group visited the CBI and inspected the boxes that contained the \$1 billion. The money was stored in 50-kilogram boxes that contained either \$100 notes or 500 notes.
- According to multiple Iraqi officials, including CBI Director Huwaysh, Qusay, along with SSO Director Hani 'Abd al-Latif Tilfa al-Tikriti, and approximately 50 other people, appeared at the CBI on 19 March 2003 and removed the boxes of money. The money was then distributed to different ministries, including the MoT, which received eight boxes of money. After the war, the MoT boxes were turned in to the proper authorities through 'Adnan al-Adhamiya, head of the MoT Legal Department. Overall, all the money was recovered except for about \$130 million.

Iraqi Bank Holdings

The following chart (see Figure 33) summarizes the total assets accumulated by Iraqi's banks before OIF (for more details, see Annex G: Iraq's Banking System).

Funding of the Ministries

Prior to the sanctions resulting from the August 1990 invasion of Kuwait, the Iraqi government would finance its international trade and operations using letters of credit, secured or non-secured and recoverable or non-recoverable, in accordance with international

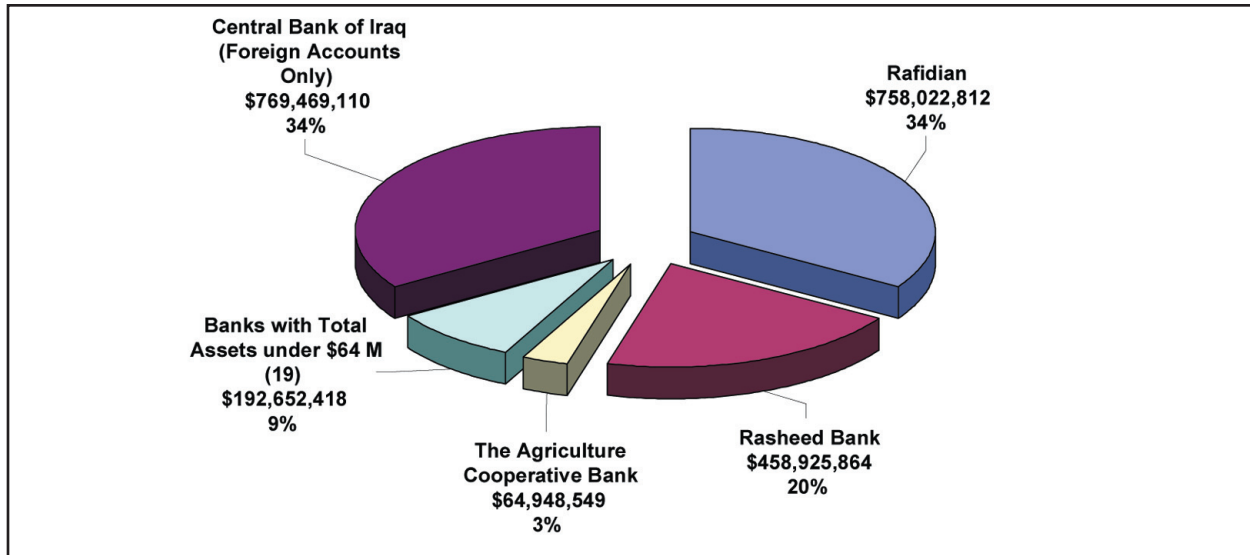


Figure 33. Total assets in Iraq's banks for 2003.

banking laws and regulations. The imposition of the sanctions forced the Iraqis to seek alternative methods to avoid having their assets frozen in accounts in the name of their government or ministries. The two primary methods used to circumvent the sanctions were to pay cash to intermediaries and the use of nominee named letters of credit.

The Finance Minister authorized individuals to take currency out of Iraq. This was against the law for both Iraqi citizens and non-citizens without the consent of the Finance Minister. The Finance Ministry would receive an order from Saddam, authorizing an individual to take a certain amount of currency outside of Iraq. The Finance Minister would then arrange with Iraqi customs for that individual to be allowed safe passage through the border, with the currency. Typically, the funds authorized were not very large. Funds ranged between \$2,000 and \$3,000, occasionally as high as \$5,000. Those authorized to take the currency abroad were friends of Saddam and supporters of the Iraqi cause.

At the beginning of 2000, each ministry and governmental agency established accounts with banks in Syria, Jordan and Lebanon, in the names of selected employees within each of their respective organizations. The Iraqi government used its Rafidian and Rasheed banks in these countries because of their direct links to Baghdad. After MIC contracted for the

procurement of goods or materials they would send instructions to the bank to transfer the amount of the contract value into an account for the supplier or middleman. The recipient would be credited with the funds, but the funds would not actually be released until after delivery of the products.

The Use of Foreign Banks

Before the 1991 Gulf War, the Regime had funds in accounts in the US, Europe, Turkey and Japan. After 1991, the Regime shifted its assets into accounts in Jordan, Lebanon, Belarus, Egypt and Syria. An agreement was drafted with Sudan but never completed. Accounts appeared in the names of the CBI and the SOMO.

The CBI's Investment Department Director General, Asrar 'Abd al-Husayn was responsible for management of these overseas accounts and maintained signatory power of the accounts, up to a limit of \$1 million. CBI Governor Isam Rashid al-Huwaysh had final responsibility and supervisory authority over these accounts. There were no restrictions on the amounts al-Huwaysh could transfer or withdraw from the accounts. The CBI Investment Department retained information on account numbers and account activities at its office in Baghdad on computer discs,

and the overseas banks forwarded account statement to the Investment Department on a monthly basis. CBI's paper records of these accounts were burned, either during OIF or afterwards when the bank offices were looted. CBI did not maintain records of other ministries' overseas accounts or records of Regime leaders' personal overseas accounts.

Since 1993, as a result of the financial obligations and economic strains of two consecutive wars and the freezing of its accounts in Western Europe and the United States, CBI had virtually no foreign currency in overseas accounts or its own vault in Baghdad. CBI then began increasing the number of its overseas accounts in Jordan and Lebanon after Iraq accepted and implemented the UN OFF Program and oil exports started to flow in December 1996. CBI only began accumulating large amounts of foreign currency in these accounts in 2001 after the introduction of a formal system of illegal kickbacks from foreign suppliers in 2000, according to a senior Iraqi financial officer.

Prior to 2001, the amount in these accounts was minimal. CBI selected Jordanian and Lebanese Banks for the establishment of overseas accounts based upon prior relations with the bank or based upon competitive bids tendered by various banks that sent representatives to Baghdad seeking the Regime's banking business. When selecting a new bank, CBI would consult international banking records and consider the additional level of interest the foreign bank would offer above the international bank interest rate. Usually, this interest rate would be between 0.5 and 0.8 percent above the international bank rate, usually the London rate.

According to a senior Iraqi finance officer, when CBI planned to open a new account, the bank would send two investment department officials to either Jordan or Lebanon with an official letter. When the Regime requested CBI draw upon the accounts to transfer foreign currency cash to Baghdad, CBI would send a delegation of three CBI officials, one with account signatory power, to the foreign bank with an official letter from the CBI. It usually took a week to ten days for the banks to prepare the cash, since the banks usually did not maintain large amounts of foreign currency cash on the premises. Then, the cash, the amounts of which usually ranged between \$5-10 million, was delivered to the Iraqi Embassy and put in diplomatic pouches for transport back to Baghdad by vehicle. CBI governor al-Huwaysh himself once car-

ried \$10 million in his vehicle on his return trip from Beirut to Baghdad.

Use of Banks in Lebanon

16 Lebanese banks were used to hide Iraqi cash, which was physically trucked to Baghdad by the IIS when accounts reached a predetermined level, according to a high-ranking Iraqi official. A committee consisting of the Ministers of Trade, Treasury, Commerce, the governor of the CBI and the Diwan secretary sent CBI officials abroad to collect this cash, according to the former head of the Diwan.

Use of Banks in Jordan

Much of Iraq's money in Jordan was held in private accounts operated by the Iraqi Embassy in Amman or the Iraqi Trading Office. It was standard practice to have two signatories for the accounts as a security measure to prevent theft. Double-signatory Iraqi accounts in Jordan could only be government accounts. Of particular interest was the Jordanian Branch of the Rafidian Bank, which was established purely for use of the Iraqi government; the United Bank for Investment was also important, because of its establishment for use by Saddam's family. Transactions were never made by telex or electronic transfer, because it was feared these would be detected by the US or UK. Instead, those wishing to buy oil, or other commodities such as sheep, outside of the OFF program would pay cash to an account at Rafidian Bank in Amman. Further cash transfers would then be made to other banks, including the Hong Kong and Shanghai Banking Corporation (HSBC) in Amman, where Regime money remained. Transfers of cash to other countries would be hand-carried using the diplomatic bag to avoid the need to send money electronically. Money was sent to Europe in order to procure goods for Iraq, but was never sent there for secrecy, as the controls over the financial system made it too difficult.

According to a former high-ranking Iraqi government official, when Jordanian officials approved a transaction, the Jordanian Ministry of Industry and Trade notified the Central Bank of Jordan to verify the availability of funds. Jordanian suppliers were then required to post a performance bond and the Iraqi importers were required to obtain a letter of credit from the Rafidian Bank. The Letter of Credit required specification of payment terms according to the Iraqi-Jordanian Protocol. After the receipt of goods, the

Iraqi importer would verify acceptance so payment could be released.

In order to make payments to Iraq for the cash, an arrangement was negotiated annually between the Central Banks of Iraq and Jordan. There were written instructions concerning the process for transferring funds to Iraq. In order to transfer funds, the Rafidian Bank served as an intermediary between the Central Bank of Jordan and the CBI. Jordan was a unique case; trading with Iraq was ongoing since the early 1980s so the trade credits Iraq earned from this Protocol were controlled by the Central Bank. Funds were dispersed by the Central Bank of Jordan by order of the CBI or by specific Protocol designed for payment for goods and services. This Protocol included automatic payments to Jordan for Iraqi air travel and Iraqi telephone calls as well as salaries for the employees of the Iraqi embassy in Jordan.

According to a high-ranking Jordanian banking official, the CBI had no accounts with the Central Bank of Jordan and the only relationship between the two was through the implementation of the bilateral oil for goods barter Protocol. The CBI worked diligently with the MoT and Industry and the Customs Directorate to ensure proper valuation of Protocol shipments, because over-valuation had been a problem.

Use of Banks in Syria

The Syrian connection became much more widely used after the February 1999 ascension of King Abdullah Bin Hussein in Jordan and the June 2000 ascension of Syrian President Bashar Assad. King Abdullah's government began to create more problems for the Iraqi Regime with regard to importing products from Jordan. Consequently, Iraq turned to Damascus who offered a much friendlier atmosphere for goods not sanctioned by the UN.

The Commercial Bank of Syria was the repository of funds used by the Iraqi government to purchase goods and materials both prohibited and allowed under UN sanctions. The fair market value of oil and oil products would be deposited by Syrian buyers into an account in the Commercial Bank of Syria. Each ministry in the Iraqi government had use of these funds; however, there were quotas set for the amounts they would be able to use. The top four ministries with access to these funds in descending order included the MoO, the MoT, the Ministry of Industry (MoI) and the MIC. The orders to disburse funds through this account would come from the Iraqi Minister of Oil. It is estimated that there could be \$500 million held in

this account.

Use of Banks in Turkey

SOMO and the Turkish Petroleum International Company (TIPC) had an agreement to maintain a 70 percent account in the Halk Bank in Turkey and interest bearing accounts.

Use of Banks in Egypt

A high-ranking official in Iraqi Banking stated that this trade agreement began around 2001 and continued through 2002. SOMO set up bank accounts at the Al Ahli Bank in Egypt through which payment was made for the purchase of oil from Iraq. SOMO officials had signatory authority over the accounts. This trade agreement was set up by the MoT and Oil and was not within the guidelines of the UN OFF program.

Some Egyptian government officials helped the government of Iraq to obtain hard currency illegally via the UN OFF program. It is unclear whom in the Egyptian Government was providing the assistance and who was aware of this activity. Under this illicit system, the Egyptian government officials would sign a contract with the Government of Iraq to purchase a certain amount of approved humanitarian goods for a set price under the UN OFF Program. The contract would specify that the goods shipped would be first-quality merchandise. In actuality, the goods shipped would be second-quality goods. When the UN paid the Egyptian Government officials for the first-quality goods, the Egyptian Government officials would distribute the funds for the second-quality products, take a small margin of profit for them, and convert the remaining money into US dollars or gold bullion and deposit the money into the Rafidian Bank or directly into the CBI. When this hard currency was received in Baghdad, the Iraqi government would pack bundles of US one hundred dollar bills into bags and boxes and distribute them to the Iraqi embassies abroad. However, after the arrest of the Iraqi IIS Chief of Station in Amman, the Iraqi government moved their primary transit point to Damascus out of fear that the couriers would be arrested while crossing the Jordanian border.

Use of Banks in Belarus

The CBI used Infobank in Belarus to hide Regime

assets in employee-named accounts. These accounts held funds accumulated through the kickback of funds from import contracts under the UN OFF program. Huwaysh, former Director of the MIC, estimated that there was \$1 million in this account and the Iraqi MIC had \$1.5 million for procurement of Belarusian goods in this account. However, that actual total was \$7.5 million (see Iraq's Illicit Revenue section).

Regime Attempts To Recover Funds Prior to OIF

A high-ranking government official stated that Saddam ordered all funds located in foreign banks brought back to Iraq in 2001. *ISG judges that Saddam took this action to prevent his assets from being frozen or seized by the international community.* This order indicates that Saddam knew he might come under international pressure in 2001, possibly as a reaction to the Al-Samud missile project or the illicit profiteering from the OFF program.

- A committee was formed to accomplish the transfer of these Iraqi funds. The committee consisted of the Finance and Trade Ministers, the Chief of the Presidential Diwan, and the Governor of the CBI.
- The role of the Diwan Chief was mainly to provide funds to those individuals, known as "couriers", selected by the Finance and Trade Ministers and CBI Governor to travel to retrieve the funds. Most couriers were trusted employees of their respective government entities.
- At the committee's second meeting, the Governor of the CBI stated that Iraq had already brought back to Iraq up to \$200 million worth of gold. The gold was purchased through an unidentified bank in Beirut and secured in CBI vaults.

The Role of Cash Transactions

The CBI provided foreign currency in cash to Saddam through an official funding mechanism established to release cash from CBI reserves to the Presidential Office. The Presidential Office did not have a fixed budget, and CBI often received messages requesting foreign currency for release to the Presidential Office. The amounts ranged from thousands of US dollars up to \$1 million, which were always paid in cash in foreign currency. The Presidential Office was the only entity that would ever request money in cash from the CBI, but the requests never exceeded \$1 million. The

Presidential Office stated that the cash was used for overseas travel, for government business, and medical reasons. The CBI Credit Department accounted for the cash sent to the Presidential Office in the same way that it accounted for funds used by Iraqi ministries. The ministries, however, never received foreign currency cash. If the ministries needed Iraqi dinars for domestic purposes, they would obtain it from their respective Rafidian bank accounts.

Saddam seldom interfered in the affairs or business of the CBI. As a standard practice, CBI intra-governmental relations focused on the Cabinet of Ministers, the Ministry of Finance, and the Presidential Office Staff. The authorization for CBI to release cash to the Presidential Office usually came from either the Presidential Office Chief of Staff or the Vice Chairman of the Cabinet of Ministers. Some notable exceptions were Saddam's post-1993 annual special requests for cash and his last request for cash on 19 March 2003, when he authorized Qusay to withdraw \$1 billion from the CBI.

Iraq's Gold Reserves

The CBI vaults contained four tons of gold reserves as of early June 2003. The value of these gold reserves was insignificant in comparison to the bank's level of cash reserves. CBI began accumulating these gold reserves in 2001 by purchasing gold in relatively small quantities on a frequent basis from Lebanese banks in which the former Iraqi Regime had large foreign currency deposits. As a standard purchase procedure, the respective Lebanese banks supplying the gold would deliver it to the Iraqi Embassy in Beirut for shipment to CBI vaults in Baghdad via diplomatic pouch. The CBI bought gold in amounts ranging from 100 to 500 kilograms per purchase. This amount of gold could be shipped easily by diplomatic pouch. Also, CBI bought gold in small quantities in order to avoid raising the market level of gold in Lebanon and to avoid scrutiny by the US. The Regime did not remove any of the gold from CBI vaults during the war with coalition forces.

- The CBI Investment Department Director General Asrar 'Abd al-Husayn was directly responsible for management of the gold purchases using cash from the overseas accounts in Lebanon. CBI Governor Dr. Isam Rashid al-Huwaysh, however, retained final responsibility for supervision of the gold purchase program.

- The Regime implemented the gold purchase in 2001 upon the recommendation of al-Huwaysh and against the opposition of Minister of Finance Hikmat Mizban Ibrahim al-Azzawi. Al-Huwaysh was concerned that Saddam and his sons could easily remove cash reserves whenever they wanted or could easily use the cash reserves in purchasing weapons from foreign suppliers.
- Gold, on the other hand, was heavy and could not be easily removed, ensuring that the CBI would retain these reserves, even if the Regime decided to remove the cash reserves. Al-Huwaysh, however, could not use this argument to convince Saddam to begin a gold purchase program, and he instead argued that the gold reserves could not be destroyed in the event of bombing and fire at the bank during a war.
- Saddam accepted this latter argument and authorized the gold purchase beginning in 2001. Prior to the outbreak war with coalition forces, the Regime did not have any plan for dispersing the gold upon commencement of hostilities.

The Rafidian Bank central office in Baghdad had an unknown but relatively small quantity of gold in its vault as of 19 March 2003. Under the former Regime, Iraqis were not allowed to sell their gold overseas, but many people attempted to smuggle their personal gold out of Iraq to take advantage of the higher prices in overseas markets and to secure foreign currency. When these smugglers were caught, the government confiscated the gold and put it in the vault of the Rafidian Bank. Iraqi ministries did not retain any gold.

Executing Illicit Procurement in Iraq: Ministries, Commissions, and Front Companies

Overview

Saddam used his complete control over the Iraqi Government to facilitate his illicit procurement programs. Almost every Ministry in the Regime assisted with procurement in some way. Directed by Saddam, the Ministries of Foreign Affairs, Oil, and Trade helped the former Regime orchestrate its primary foreign objective of ending UN sanctions (see Annex H: UN Security Council Resolutions Applicable to Iraq).

- The MFA curried favors at the UN. Among other techniques and tactics used by the MFA, it bestowed oil allocations to nationals of the UNSC permanent members to influence and divide the council in order to erode sanctions. For additional details on the MFA role in influencing the UNSC, see the RSI chapter.
- The MoT established bilateral trade Protocols that were used to hide prohibited trade. The ministry used commercial attaches to pay for illicit procurement.
- The MoD developed requirements, hosted and conducted foreign visits, and procured conventional military goods, the export of which breached UN sanctions.
- The banking system established foreign accounts to hold illicit hard currency until it could be used for procurement or smuggled into Baghdad.
- The Ministry of Higher Education and Scientific Research (MHESR) conducted dual-use research; procured and developed technical expertise in WMD-related fields and procured key technologies through university systems.

Saddam, however, relied on three organizations in particular for the procurement of prohibited materials

to include potentially-WMD related or dual-use items (see Annex I: Suspected Iraqi Dual-Use Procurement Transactions):

- The MIC, headed by Huwaysh since 1997, and its associated front companies led Iraqi efforts to obtain prohibited military hardware and dual-use goods.
- The IIS was directed by Saddam to assist the MIC with procurement in 1998.
- The Iraqi Atomic Energy Commission (IEAC) pursued its own illicit procurement goals, occasionally with MIC assistance.

Ministry of Foreign Affairs

Directed by Saddam, the Ministries of Foreign Affairs, Oil, and Trade helped the former Regime orchestrate its primary foreign objective of ending UN sanctions. To pursue those objectives, the MFA implemented a foreign economic strategy first aimed at ending UN sanctions (established since 1990) and subsequently eliminating the UN's OFF program. Another important MFA mission focused on supporting the Regime's illicit procurement mechanism. In particular, *the MFA played a critical supporting role in facilitating Iraq's procurement of military goods, prohibited dual-use items, transporting cash and other valuable goods earned by illicit oil revenue, and forming and implementing a diplomatic strategy to end UN sanctions and the subsequent UN OFF program by nefarious means.* The MFA facilitated, established, and maintained foreign government and business contacts and provided Iraqi officials involved in illegal international trade with financial and political sanctuaries.

The MFA also assisted the implementation of financial transactions and provided physical sanctuaries and political/diplomatic/commercial covers for other Iraqi intelligence officials involved in procurement activities across Iraq's borders. According to a former Charge d'affaires at the Iraqi interests section in Syria, it was common practice for embassies to forward foreign cash from the CBI overseas accounts in

Lebanon, to its vault in Baghdad via diplomatic pouch and courier system.

- He specifically mentions the Iraqi embassy in Beirut, Lebanon and the Iraqi interests section at the Algerian embassy in Damascus, Syria, undertaking such activity.
- The Iraqi embassy in Beirut would transfer cash to Damascus by diplomatic-plated vehicles.
- The Iraqi Embassy in Moscow assisted, among other deals, a Russian company called Alfa Echo in signing contracts for importing oil from Iraq.

Moreover, the MFA possessed an indigenous intelligence capability, its Research and News Analyzing Office (RNA) that kept senior Iraqi leadership, such as the President, Deputy Prime Minister and Foreign Minister informed about global events. The MFA managed this office and had branches in many of its key embassies. It is not certain whether personnel in the MFA's Research and News Analyzing Office were IIS agents or actual MFA officials. Nonetheless, the RNA focused primarily on collecting information of economic and political consequence to Iraq by means of open sources and other news reporting. MFA's RNA paid special attention to political, military and economic developments in the Middle East (special attention to Israel), global oil production and market developments, Eastern Europe, and the United States.

Acting as Iraq's plenipotentiary, Tariq Aziz (see Figure 34) often facilitated business meetings between foreigners and Iraqi officials. Foreign business representatives and government officials would contact him in order to gain access to key Iraqi officials that were in charge of approving oil and arms contracts.

- On 27 December 2002, the president of the Russian company Russneft, Michail Gutserviev, informed Aziz and the former Oil Minister Amir Rashid that he planned to travel with a five-man delegation to Iraq via private plane to negotiate with the Iraqi Oil Minister for oil and gas contracts. The Russian business delegation was supposed to fly into Iraq in a Tupolev 134 (flight number AKT 135/136) and expected to stay in Iraq on January 13-15, 2003.
- In 2002, Baghdad sent a scientific delegation to Belarus and China in order to stay current on all aspects of nuclear physics and to procure a Chinese fiber optics communication system.



Figure 34. Tariq Aziz—*Iraq's plenipotentiary.*

MFA-IIS Connections

The MFA also supported IIS operations by offering its agents political and economic cover to conduct economic and political espionage. Besides providing traditional covers for IIS agents, the MFA cooperated closely with the IIS on other functions. A former IIS officer also stated that all MFA diplomatic couriers were IIS officers and were controlled by the IIS's Internal Security (M6) Directorate. Moreover, at Iraqi consulates and embassies where IIS officer presence was absent, MFA personnel filled in as their representatives. While we do not know the full extent of MFA's role in assisting the IIS in conducting illicit activity, we have found other indicators of the breadth and nature of the IIS' activities from captured documents.

- According to one document on MFA letterhead, the MFA transferred two known IIS agents to its embassy in Belarus under pseudonyms in June 2002. Another document in the same file, an IIS "Ministerial" Order, acknowledged the transfer, the agents' job descriptions, their salaries, as well as sent copies of IIS order to other directorates.
- One month prior to OIF, at least seven IIS officers were reassigned to the MFA to cover up their true positions in the government. They were given new identities and positions. This activity was similar to giving agents cover stories operating outside of Iraq, according to one former IIS agent.
- Outside of Iraq, Iraqi embassies provided the IIS with the only means of secure communications outside of the diplomatic courier services. Iraqi embassies transmitted ciphered faxes to foreign posts. However, the majority of posts had manual codebooks while major posts like Washington, Paris, Moscow and South African were given machines

necessary to accommodate the large amount of incoming faxes. The IIS personnel deciphered all faxes, according to a former IIS officer.

MFA's UN Sanctions Counter-Strategy

The MFA formulated and implemented a strategy aimed at ending the UN sanctions and breaching its subsequent UN OFF program by diplomatic and economic means. Iraq pursued its related goals of ending UN sanctions and the UN OFF program by enlisting the help of three permanent UNSC members: Russia, France and China. Iraq believed it managed to varying degrees of success to influence these permanent UNSC members from strictly enforcing previously agreed UN resolutions and from initiating additional resolutions that further debilitated the Iraqi economy. By offering permanent and non-permanent Security Council members economic “carrots and sticks,” Iraq believed it managed to partially influence voting at the UNSC. Iraq’s economic “carrots” included offering companies from those countries lucrative oil, reconstruction, agricultural and commercial goods, and weapon systems contracts. In contrast, the Iraqi “sticks” included not only redirecting those contracts to other more “pro-Iraqi” companies, but held the threat of forfeiture of foreign debts – totaling between approximately \$116-250 billion. Saddam expressed confidence that France and Russia would support Iraq’s efforts to further erode the UN sanctions Regime.

- According to one source, using “semi-diplomatic cover,” the IIS attempted to recruit agents from the UN headquarters in New York to provide information or influence public opinion and their national policy toward Iraq.
- Besides attempting to co-opt certain permanent UNSC members, under cover of MFA sponsored international conferences, Iraq tried to recruit sympathetic eastern European politicians by publicly lauding their pro-Iraqi sentiments and support in the UN.

Iraqi-Russian Relations. Saddam’s Regime needed both Moscow’s political clout in the UN and its economic expertise and resources to sustain his Regime from the 1990s until OIF Numerous trips taken by then Iraqi Deputy Prime Minister Tariq Aziz to Moscow served as a good indicator of the Russians’ opinion of Iraq’s dependence on Russia.

Smart Sanctions

In early July 2001, the US and the UK withdrew their joint-proposal to revamp the UN existing sanctions Regime, called “Smart Sanctions,” because of Russian, Chinese, and French opposition. The US/UK proposal attempted to restructure two key elements of the existing sanctions Regime: illicit procurement of weapons and dual-use goods and illicit generation of revenue from Iraqi oil sales outside the UN’s OFF program. In contrast, the Russian draft resolution proposed to reduce the current percentage to the Compensation fund another 5 percent to 20 percent of total value of Iraqi oil exports – and increase the total amount in Iraq’s escrow account to \$600 million to pay other expenses in accordance with UNSCR 1175(1998) and 1284 (1999) (see Annex H: UNSCR Applicable to Iraq). The UN estimated that each 5 percent reduction in payments to the United Nations Compensation Commission (UNCC) added about \$275 million in Iraq’s coffers per each UN OFF six-month phase.

- According to news reports, in July 2001, Tariq Aziz expressed gratitude to Russia for its efforts to pass UNSCR 1360 which continued the UN’s OFF program for a tenth phase. Moreover, Iraq promised to economically reward Russia’s support by placing it at the head of the list for receiving UN contracts under the UN OFF program.

Iraqi-Chinese Relations. ISG judges throughout the 1990s, the PRC consistently advocated lifting Iraqi sanctions while privately advising Baghdad to strengthen cooperation with the UN. In October 2000, Baghdad continued to seek Chinese support for the removal of UN imposed economic sanctions. By November 2000, Chinese Vice Premiere Qian Qichen stated that China would support Iraq’s efforts to end the sanctions, and work for an early resolution to the Iraqi issue according to press reporting.

- According to diplomatic reporting, Chinese Premier Zhu Rongji and Vice Premier Qian Qichen met with Iraqi Deputy Prime Minister Tariq Aziz on 27-28 January 2002. Softening Beijing’s earlier stance for ending sanctions, Premier Zhu Rongji reportedly told Aziz that China was willing to continue its efforts toward an early solution to the Iraqi issue and that it had been advocating that the sanctions issue be settled at an early date. China also hoped

that Iraq would strengthen its cooperation with the UN and improve relations with its neighbors.

- Iraq indirectly threatened to end trade relations with China if Beijing agreed to the goods review list (see Annex H: UN Security Council Resolutions Applicable to Iraq).

Iraqi-France Relations. Unlike the relatively predictable relationships with China and Russia, the Iraqi-French relationship was more tumultuous. Saddam recognized the important role that France played on the international stage, and in particular in the UNSC. Consequently, Saddam ordered the MFA and other ministries to improve relations with France, according to recovered documents. The documents revealed that the IIS developed a strategy to improve Iraqi-Franco relations that encompassed inviting French delegations to Baghdad; giving economic favors to key French diplomats or individuals that have access to key French leaders; increasing Iraqi embassy staff in Paris; and assessing possibilities for financially supporting one of the candidates in an upcoming French presidential election.

Moreover, the IIS paper targeted a number of French individuals that the Iraqi's thought had close relations to French President Chirac, including, according to the Iraqi assessment, the official spokesperson of President Chirac's re-election campaign, two reported "counselors" of President Chirac, and two well-known French businessmen. In May 2002, IIS correspondence addressed to Saddam stated that a MFA (quite possibly an IIS officer under diplomatic cover) met with French parliamentarian to discuss Iraq-Franco relations. The French politician assured the Iraqi that France would use its veto in the UNSC against any American decision to attack Iraq, according to the IIS memo.

From Baghdad's perspective, the MFA concluded that the primary motive for French continued support and cooperation with Iraq in the UN was economic. According to Tariq Aziz, French oil companies wanted to secure two large oil contracts; Russian companies not only wanted to secure (or lock in) oil contracts, but also sought other commercial contracts covering agricultural, electricity, machinery, food, and automobiles and trucks products.

- France competed with Russian agricultural products for Iraqi contracts.

- In May 2002, a representative from a French water purification company requested projects for his company in Iraq.

MFA and Iraq's Bilateral Protocols

Concurrent with Iraq's overarching strategy to break UN sanctions, the MFA, with the approval of Saddam, attempted to mitigate the economic effects of UN sanctions and at the same time to by-pass the scrutiny of the UN's OFF program by arranging various types of economic bilateral agreements. These countries, in particular, Syria, Turkey, and Jordan (see Figure 35), were willing to enter into such agreements.

Geographic proximity, cultural affinity, and a historical and interdependent economic relationship with Iraq explain why Turkey, Jordan, and Syria reached formal Protocols with Iraq outside the UN OFF program and in contravention of UN resolutions. Iraq would sell oil and oil products to these countries in exchange for cash and goods. Kuwait, Saudi Arabia, and Iran did not enter into any economic arrangements with Iraq, but Iran had reportedly assisted Iraq's oil smuggling operations in the Arabian Gulf region throughout the 1990s and up to OIF.

Ministry of Trade

The MoT coordinated economic activities between other Iraqi government ministries as well as foreign companies and foreign ministries. The MoT accomplished these tasks by consolidating the import requirements from all ministries, obtaining approval expenditures by the MoF, and negotiating overseas trade agreements. The MoT generally accomplished trade for Iraq through:

- Legitimate channels under the auspices of the UN sanctions Regime and the UN OFF.
- Cooperative preferential trade protocol agreements with Syria, Jordan, Turkey, and Egypt.
- Common trade agreements, albeit in contravention of UN sanctions, with other partners.

In addition to these traditional procurement roles, the *MoT provided a limited role in the procurement of illicit goods such as military weaponry or WMD*



Figure 35. Iraq and surrounding countries.

technologies for the Regime. To supplement this procurement activity, the MIC and MoD used their own methods to procure communications systems, ammunition, security equipment, and computers. Abd al-Tawab Mullah Huwaysh, Director of the MIC, however, stated that the MIC was able to import the raw materials it needed and did not need to use any other ministry’s funds to purchase goods and services abroad.

Nevertheless, the importance of the MoT in illicit procurement should not be dismissed. The MoT’s trade deals with willing countries and foreign companies provided Iraqi military and security entities, such as the MoD, SRG, IIS, and the Diwan, with the access and connections needed to ultimately procure dual-use and sanctioned goods and services. In contravention of UN sanctions and resolutions, the MoT provided “cover” contracts for ammunition, communication systems, and other military materiel for the MoD, SRG, IIS, and the Diwan.

MoT’s Role in Procurement

For the most part, the MoT procured legitimate civilian goods both legally under UN OFF, as well as illicitly through bilateral trade protocols and other unregulated trade agreements. The MoT played one of its most important roles in the execution of the UN OFF Program, including:

- Coordinating other ministries’ import requirements into a “Distribution Plan.” After UN approval, this consolidated plan served as the basic import schedule for goods and services imported under each six month UN OFF phase.
- A few non-ministerial organizations, including the MIC and Iraqi Atomic Energy Commission (IAEC), were not permitted to purchase items under UN OFF. These Ministries or departments relied on the MoT to procure common goods for them via UN OFF.

Muhammad Mahdi Al Salih, the former Minister of Trade, claimed the MoT supported the Iraqi military through the OFF program only with legitimate civilian items. Typical goods procured by the MoT for the MIC and MoD via OFF included: stationery, office computers, generators, civilian trucks, water tankers, fuel tankers, and building materials. For example, Al Salih recalled that the MoT had purchased 100,000 uniforms for the Iraqi police and vehicles for the SSO. Al Salih, however, later admitted to importing ammunition, communication systems, and other military items for MoD, IIS, SRG, and the Diwan outside the UN framework.

The MoT also played an important role in executing the Jordanian trade protocol. Under this agreement, the MoT gathered and forwarded all Iraqi contracts to Jordan for approval. These records were, however, inadvertently destroyed with the rest of the MoT building in the opening hours of OIF. Both the MoT and MoO shared responsibility for negotiating the bilateral Protocol agreements with Syria, Turkey, and Jordan. The MoO, however, was the prime negotiator in the case of Syria and Turkey, and controlled the trade under these Protocols.

- The MoT purchased goods under the Syria and Turkey trade Protocols, particularly for military and security services that did not have their own allocation of funds under the agreement.
- Captured documents reveal the MoT paid for “goods and services” through these protocols for the Directorate of General Security, General Police Directorate, Military Intelligence Division, MoD and SSO.
- There are no indications of the nature of the items procured by the MoT for these organizations other than a reference to MoD contracts with the General Company for Grain Manufacturing, which suggest that the MoT was procuring for food.

According to Al Salih, in addition to the UN OFF and the trade protocols, *the MoT coordinated trade outside of UN sanctions with a number of other countries, including UAE, Qatar, Oman, Algeria, Tunisia, Yemen, and Sudan.* These were essentially frameworks for cooperation and free trade that allowed for the import and export of domestically produced products without license or tax.

Facilitating Illicit Procurement With Cover Contracts

There is some debate among Iraqi sources regarding the MoT’s role in providing false cover contracts for sensitive imports. *According to one former official, the MoT provided “cover” contracts for military-related goods, such as communications equipment, computers, and military clothing* obtained via the Jordan, Syrian, and Turkish trade Protocols. Considering the political sensitivity surrounding these agreements, none of Iraq’s neighbors wanted to be scrutinized by the international community for doing business with the Iraqi military, either for civilian (dual-use) or overtly military goods. False cover contracts would have been easier to hide in the flow of trade occurring over Iraq’s borders with Syria, Jordan, and Turkey.

- This source is corroborated by annotations on captured tables of Syrian and Turkish trade contracts, which reveal that every entry listing the MoT as the sponsoring government agency was concealing the MIC and MoD as the true end users for the goods.
- Captured records also show that MoT contracted with the Syrian firm SES International (a known provider of military and dual-use goods to Iraq) for \$11.3 million of goods from December 2000, over 80 percent of which was for goods and services for two MIC manufacturing companies.
- Muhammad Mahdi Al Salih, the former Minister of Trade, recalled that the MoT had conducted business with SES, but only for civilian goods, including deformed bars and timber under UN OFF, and for Mitsubishi pickups under the Syrian trade Protocol. He denied that the MoT ever procured goods for MIC manufacturing companies.
- The former head of the MIC, Huwaysh, who did not believe that the MoT had ever procured goods for these two companies, later corroborated Al Salih’s denial.

Facilitating Illicit Trade Through Commercial Attaches

According to Al Salih, the MoT’s commercial attache (CA) program began in 1983. CA’s were eventually posted in Jordan, Syria, Turkey, Egypt, Sudan, Algeria, Moscow, Belarus, and China. In many of these

offices, there was only a single employee, but the office in Jordan ultimately employed four individuals, headed by a Commercial Counselor and included a CA and a dedicated accountant. According to a former high-ranking Iraqi Government official, these individuals were managed and paid for by the MoT, but reportedly acted independently and were not required to report back to the MoT.

CAs worked from Iraq's embassies abroad and served as special trade ambassadors working in Iraq's interest. Common roles for CAs included:

- Working in the Iraqi Embassy to register foreign companies for trade with Iraq.
- Checking to see whether foreign companies should be blacklisted for dealings with Israel.
- Facilitating trade with foreign suppliers.
- According to reporting, some IIS officers worked under cover as CA. ISG assesses that it is possible the MoT was not aware of this IIS presence in its ranks.
- According to Al Salih, CA in the trade protocol states (Jordan, Syria, and Turkey) were aware of the bank accounts used to transfer protocol cash profits (30 to 40 percent of all contracts) into Iraq.
- CAs in Jordan, and to a lesser extent, Syria and Turkey, also followed up on all Iraqi Government financial transactions from the trade Protocols.

In the mid-1990s, the Jordan desk was the most important CA for Iraq. The Amman Commercial Counselor and his deputy were responsible for facilitating all UN OFF contracts, the trade protocol business (the Syria and Turkey protocols did not exist until after 1999), and any additional private trade from the military and security service entities. Facilitating these contracts focused on opening letters of credit in Jordanian banks and following up with payment when receipt of the goods was confirmed in Baghdad. The CA accountant followed contract implementation, tax collection, and tracked any fees.

- As an example, captured documentation details that individuals at the CA's office in Amman opened letters of credit for the payment of \$2.275 million to a Lebanese company in 2000.

- Supporting documentation shows that this was for BMP-2 IFV 30-mm cannon barrel-manufacturing technology from the Former Federal Republic of Yugoslavia (FRY).
- There is no indication, however, from the documentation that the CA staff was aware of the exact nature of the contract.
- In the late 1990s the importance of the CA's office in Jordan declined. A year before OIF, the MIC removed cash from the CA's office in Jordan because of weak activity, and appointed a military representative to represent its interests.

According to the former Minister of Trade, the MIC, and SOMO arranged contracts with Syria directly through the CA in Syria and the Commercial Bank in Syria. It is more likely, however, that the CA in Syria had a less active role with MIC and SOMO, particularly in the payments process, because business in Syria was conducted through payment on supply rather than letters of credit.

- Supporting intelligence shows in one case that SOMO authorized the 5th Syrian Commercial Bank in Damascus to transfer funds directly to a Syrian middleman working for the Syrian-based SES with no mention of the CA.
- In May 2002 Iraq's Al-Basha'ir Trading Company instructed the Syrian firm where and how to distribute funds received from Iraq's Oil Ministry (probably on behalf of Iraqi military).

As with the Syrian Protocol, the January 2000 Turkish Protocol operated on a payment on supply basis, and therefore probably did not involve the CA in Turkey.

Jordanian Case Study

Commercial attaches worked on behalf of the MIC to make purchases and transfer money for payment in foreign countries. The timeline in Figure 36 shows the events related to a purchase of and payment transfer for materials from Jordan, according to translated documents.

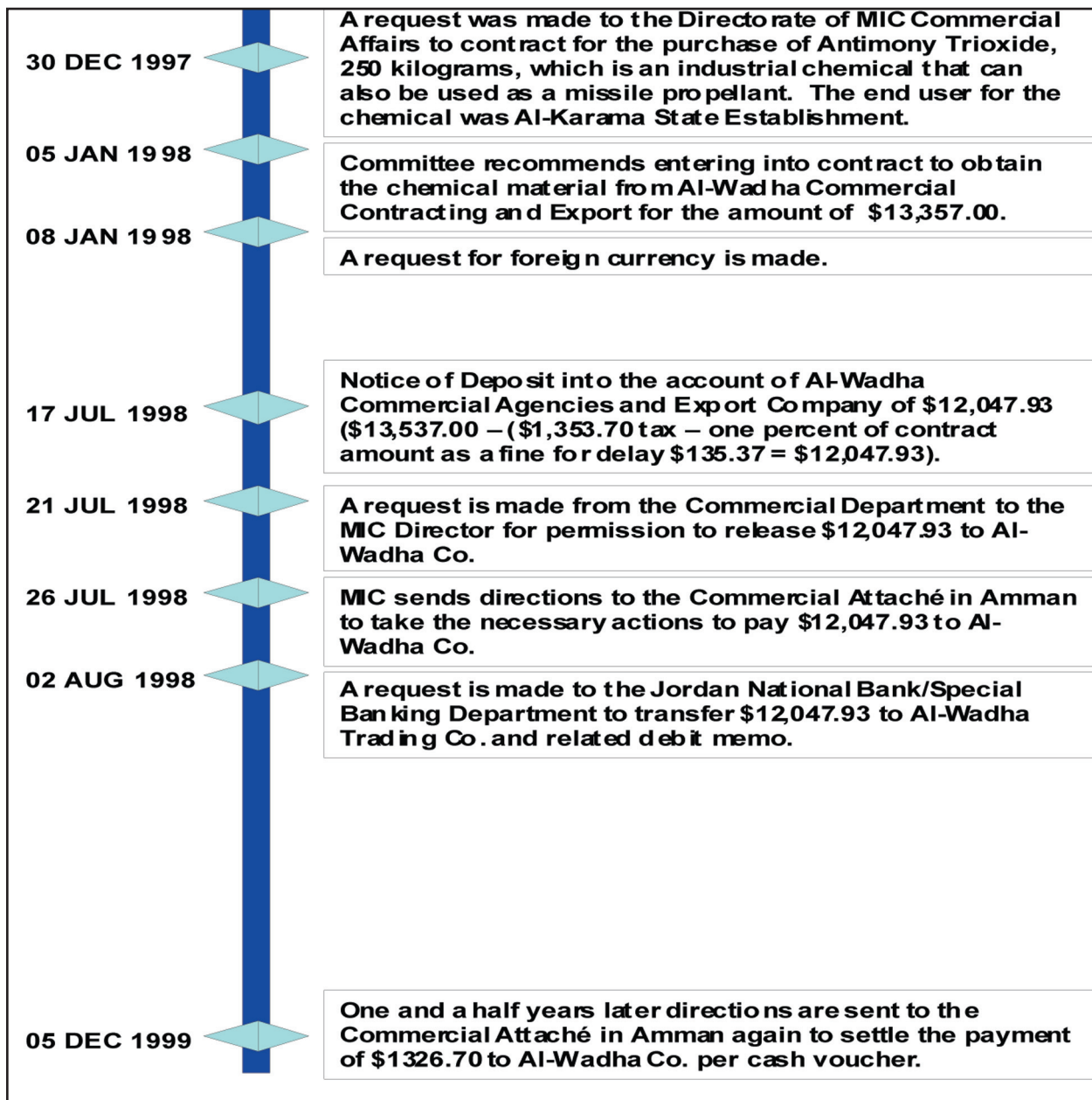


Figure 36. Timeline to support Jordan CA case study.

MoD's Procurement Leadership at the Onset of Operation Iraqi Freedom

Minister of Defense: Staff Gen. Sultan Hashim Ahmad Al Ta'i. As the Minister of Defense, he approved all MoD procurement proposals submitted by the Chief of Staff. Sultan was also a member of the "Committee of Three" which had oversight and control over the Iraqi defense budget.

Chief of Staff: Staff. Gen. Ibrahim Ahmad 'Abd-al-Sattar Muhammad. Ibrahim was directly responsible for MoD procurement activities. He could reject, but not grant final approval on MoD procurement decisions.

Director of Weapons and Supplies: Staff Maj. Gen. Taleb 'Uwayn al-Juma'a Al Tikriti. Taleb was responsible for coordinating MoD weapons procurement via the MIC from 1999 to 2003.

Director of Armaments and Supplies: Brig. Nabil Rahman. Nabil was responsible for the procurement of products such as military uniforms, supplies, and other consumable items used to support military operations.

Ministry of Defense

UN sanctions after Operation Desert Storm severely hindered the MoD's overt procurement of weapons, ammunition, and other military goods. *The Regime, however, did not abandon conventional military procurement, developing instead an illicit procurement program based on supplemental budgeting, the MIC, and the use of other ministries to conceal the procurement of dual-use goods.*

- The Presidential Diwan, Presidential Secretary, and Saddam Husayn developed a supplemental process to fund numerous programs outside of the state budget, including the MoD's illicit conventional procurement.
- Saddam empowered the MIC to pursue his continuing illicit procurement, using front companies and trade intermediaries to avoid international scrutiny.
- As the UN OFF program opened additional trade opportunities, non-security ministries would purchase dual-use items and redirect them to the MoD.

- This mutually supporting relationship between the MoD, MIC, and Saddam's illicit funding mechanism also supported the procurement needs of the RG and SRG.

MoD Procurement Leadership

The Minister of Defense reviewed all MoD procurement and, in coordination with the Presidential Diwan, could approve MoD procurement requirements up to \$2 million. The MoD Chief of Staff (CoS) and subordinate supply directors processed and coordinated procurement requirements for approval at higher levels, but could not approve MoD procurement. For procurement requirements greater than \$2 million, the Minister of Defense was required to participate in a more deliberative process involving the MIC, Presidential Secretary, and the President. The MoD did not have final approval authority for these high cost procurement programs.

MoD Procurement Directorates

According to Sultan Hashim Ahmad Al-Ta'i, the former MoD, the Ministry of Defense was divided into directorates, the two largest being the Directorate of Armament and the Directorate of Weapons and Supplies. These two Directorates were the MoD's primary procurement organizations (see Figure 37).

Directorate of Armament and Supplies. *According to Al-Ta'i, the Directorate of Armament and Supplies procured non-weapons related supplies necessary for the military to carry out its missions.* These consumable items included, but were not limited to, office supplies, military rations, and military uniforms.

Directorate of Weapons and Supplies. According to Al-Ta'i and Abid Hamid Mahmud al-Tikriti, the former presidential secretary, *the Directorate of Weapons and Supplies had two key procurement-related roles: acquiring weapons and ammunition and supporting foreign procurement delegations.* Prior to 1990, the Directorate of Weapons and Supplies directly procured weapons and materials for the MoD from both domestic and foreign sources. After the imposition of UN sanctions with UNSCR 661 in 1990, the directorate was no longer able to obtain weapons abroad and depended on the MIC to execute foreign procurement.

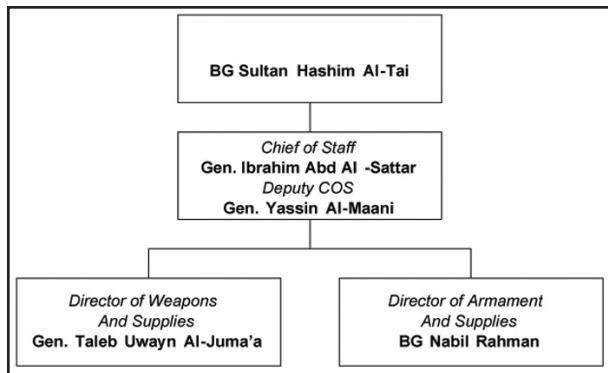


Figure 37. Ministry of Defense leadership hierarchy (from 1997 to 2003).

- According to Al-Ta'i, *the MIC was responsible for 95 to 99 percent of MoD procurement.* Data from the Syrian trade protocols; however, indicate that this percentage was probably closer to 70 percent. In any case, the MIC negotiated contracts, identified foreign and domestic sources for prohibited items (often via its front companies), and arranged the delivery of goods for the MoD.
- After 1997, Al-Ta'i dealt directly with the head of the MIC, Abd al-Tawab Mullah Huwaysh, and his two deputies, Dagher Muhammad Mahmud and Muzahim Sa'ab Al-Hasan, on substantive procurement issues.
- The Directorate of Weapons and Supplies coordinated with the MIC on MoD procurement projects via regular meetings. These meetings addressed a range of day-to-day procurement issues, including the mechanics of requesting and delivering items, financing procurement contracts, addressing complaints over late deliveries, and adjudicating problems related to poor quality equipment.

According to Al-Ta'i, *the Directorate of Weapons and Supplies participated in several MIC-coordinated defense procurement delegations each year, providing expertise in weapons pricing and how foreign systems could best improve Iraq's defense capabilities.*

- When Iraq hosted these delegations, the MIC handled, negotiated, and signed procurement contracts on behalf of the MoD.

- Taleb Uwayn Al-Juma'a, the Chief of the Directorate of Weapons and Supplies, usually served as the MoD delegate for these visits. When accompanying the MIC abroad Uwayn was subordinated to the MIC leadership.
- The only time MoD procurement was not coordinated by the MIC was when the Minister of Defense or his Chief of Staff headed the Iraqi delegations.
- Uwayn developed some overseas procurement contacts from MIC sponsored travel to Yugoslavia and Russia. Uwayn also traveled to Syria two or three times, on one occasion with Huwaysh.

Budgeting and Financing Military Procurement

As with the other Iraqi ministries, the MoD operated two budgetary processes: one deliberate and the other supplemental. The formal MoD budget was small, preplanned, and approved via a deliberative process involving multiple ministries and commissions. The MoD's formal budget was used to purchase non-sanctioned items and fund the basic operation of the force.

- According to data from a captured general government budget document, containing only operating expenditures, Iraqi defense spending was \$124.7 million in 2002. This figure, however, does not represent true Iraqi defense spending, as the former Regime did not list defense spending in its general budget during the 1990-2003 sanctions Regime.

In sharp contrast to the MoD's formal budget, *the supplemental MoD budget was controlled by Saddam and was used for illicit procurement of prohibited items.*

- Typically, Iraqi military units identified requirements and forwarded them up the chain of the command to the directorate head.
- The director reviewed and forward procurement requirements to the Chief or Deputy Chief of Staff who would review the procurement recommendations and forward them to them to the Minister of Defense, Al-Ta'i.

Although other Iraqi ministries were required to work within their formal budgets, Al-Ta'i could request more money from the Presidential Diwan. On some occasions, however, the MoD supplemental budget requests were routed through Saddam's secretary, Abid Hamid Mahmud, who could make decisions more rapidly than the Diwan.

- Although Mahmud has stated that he had no role in MoD procurement, we judge that he played a role in high-priority procurement for the MoD, based on his position and statements by another high-level Iraqi military officer. This officer asserted that a September 2002 supplemental request for Internet satellite communications for the MoD was routed through the Presidential Secretary. The Secretariat subsequently arranged for the purchase through a Syrian company.

Ultimately, Saddam personally approved the funding for classified MoD, MIC, and IIS projects; informed the governmental bodies of his approval via Mahmud, and used Mahmud to distribute supplemental funding for the projects.

MoD Procurement Process

After 1991, MoD procurement depended on the nature of the item required. If the UN prohibited the goods, the illicit procurement process accomplished the procurement. If the items were dual-use goods, they were procured via the channels described elsewhere in the chapter.

Illicit Procurement for the MoD. After the UN imposed sanctions in 1990, member states were prohibited from exporting conventional military goods to Iraq. As a result, Saddam tasked the MIC to obtain prohibited materials and equipment on behalf of the MoD. According to al-Sattar, the former MoD CoS, *the Minister of Defense coordinated all foreign illicit procurement directly with the MIC.*

- The MIC and MoD negotiated specific weapons procurement requirements at a "Coordination Conference" held every three months at the MIC headquarters in Baghdad.

Dual-Use Goods Defined

"Dual-Use Goods" are items that might be of use to the military, but were not specially or originally designed or modified for military use. The term "goods" includes equipment, chemicals, materials, components (including spare parts), technology, and software.

The term "dual-use goods" can be contrasted with "military goods" that were specially or originally designed for use by the military.

UN Sanctions on the Procurement of Conventional Military Goods

All member states of the United Nations were prohibited from exporting conventional military goods to Iraq by UNSCR 661, 670, and 687. Some countries, however, failed to abide by these international agreements and permitted their nationals to participate in the sale of conventional military goods to Iraq. Some nationals involved in this illicit arms trade were associated with, or in some cases directly related to, their national leaders. For more detailed information see and Annex H, UN Security Council Resolutions Applicable to Iraq and Annex J: The Procurement of Conventional Military Goods in Breach of UN Sanctions

According to a former high-ranking MIC official, a Special Committee for Procurement for the MIC, MoD, and SRG was established in mid-2002 (see Figure 38). The Special Committee reviewed and recommended security-related procurement requirements, which were then approved by Huwaysh, and ultimately passed to Qusay for approval.

- The committee's first task was to develop Iraq's air defense system.
- ISG has found very little corroborating evidence of the existence of this committee. Even if it coordinated significant procurement in the nine months before the regime was removed, it is likely Saddam still retained the final approval on expensive or politically sensitive procurement projects.

Name	Parent Organization	Role
Qusay Husayn	Diwan	Oversight/Liaison between committee and Saddam
Abd Al-Tawab Mullah Huwaysh	MIC	Head
MG Taleb Uwayn Al-Juma'a	MoD	Member
Mahmoud Rashid Ismail Al-Ani	SRG	Member
Hadi Tarish Zabun	MIC	Technology/Economics Analyst
Dagher Mohammed Mahmud	MIC	Member

Figure 38. The MIC-MoD Special Committee for Procurement.

Dual-Use Goods Procurement for the MoD.

For routine procurement requirements, the Diwan reviewed the Minister of Defense’s requisitions and identified an appropriate ministry to prepare the contract to purchase the items domestically or through foreign sources.

- **Most Iraqi ministries served as false end-users for MoD dual-use goods procurement.** For example, the Building Ministry purchased engineering equipment and heavy machinery, the Health Ministry procured medical equipment, and the Transportation Ministry obtained trucks for the MoD.
- When possible, the MoD initiated contracts in coordination with the MIC. For example, if the MoD needed vehicles it would go directly to the MIC vehicle supplier.
- Once the items were purchased and the delivery made, the purchasing ministry would notify the MoD that its equipment had arrived. The MoD would then arrange to deliver the shipment to its subordinate units.

The MoD reimbursed these other government ministries, via the Diwan, with money from the general MoD budget—concealing the source of the money. The MoO, through SOMO, also helped the MoD by funding purchases via the UN OFF program or with illicit oil revenue schemes.

Procurement for the Republican Guard and Special Republican Guard

The RG and SRG requested weapons systems and other military goods via the MoD. The MoD and MIC, in turn, used their *associated front companies and trade networks to procure conventional military equipment for the RG and SRG from foreign sources*. Qusay Husayn, as the “Honorable Supervisor” of the RG and SRG, ensured they received the most modern military equipment in the Iraqi Army (see *Iraq’s Security Services Annex* for additional information on the RG and SRG).

RG and SRG Procurement Leadership and Budget.

From 1996 until the fall of the Regime, Mahmud Rashid Ismail Al-Ani served as the Director of Electrical and Mechanical Engineering in the RG and the chief procurement adviser to both the RG and SRG. He reported directly to the RG Chief of Staff, General Saif Al-Din Al-Rawi.

- Al-Ani also monitored the manufacture of supplies for the RG. Consequently, he attended a monthly meeting at the MIC with the Commander and Directors of the RG.
- Qusay reportedly respected Al-Ani’s technical expertise as evidenced by choosing him to represent the RG in overseas delegations.
- Al-Ani also enjoyed a close relationship with Abd al-Tawab Mullah Huwaysh, the head of the MIC, most likely because they were related.

From 2000 onwards, the RG's annual budget was derived from the national military budget. Although the mandated budget at the MoD-level fluctuated yearly, the RG budget never exceeded 40 percent of the overall Iraqi Armed Forces budget. The SRG budget never exceeded 10 percent of the overall RG budget. The RG budget was Qusay's responsibility, but the Office of the Secretariat submitted requisitions to the Chief of Staff's office to obtain funds for the RG.

RG and SRG Procurement Process. According to Kamal Mustafa, the former RG Secretary, RG commanders met with the RG Headquarters staff twice per fiscal year to prepare a requisition list for equipment shortages and spare parts. This list was then forwarded to the Office of the Secretariat, via the Office of the RG Chief of Staff for action. The SRG sent its shortage list directly to the Secretariat for inclusion in the overall RG requirements list. The Director of the Office of the Secretariat managed the flow of resources for the RG and SRG. He also coordinated budgetary matters between the RG and the rest of the Iraqi military community. After the Office of the Secretariat approved the procurement requirements, the MoD Directorate of Weapons and Supplies, led by Staff Major General Taleb Uwayn Juma'h, obtained the items in accordance with standard MoD procedures.

- *According to a former high-ranking MIC official, the RG and SRG had their own additional procurement channels after 1999 and had wide authority to procure items on their own.* Qusay's prominent role in the RG organizations gave them a predisposition for obtaining illicit goods via Syria, according to one source.
- *Between 2000 and 2002, the Iraqi Government purchased thousands of supply and personnel transport vehicles for the RG and SRG by the Ministry of Transportation and Communication (MoTC).* Turkey, Russia, France, Germany, and South Korea supplied these vehicles, according to a former senior Iraqi cabinet minister.

According to captured documents and other evidence the MoD, MIC, and its associated front companies obtained conventional goods for the RG and

SRG from Russia, Syria, and Belarus. (For more details on these breaches of UN sanctions see Annex J: The Procurement of Conventional Military Goods in Breach of United Nations Sanctions). The RG and SRG most likely used their operational budgets to purchase common military supplies and consumable materials. As with the rest of the MoD, the RG and SRG also benefited from other ministries purchasing dual-use goods on their behalf.

After the requested equipment was delivered to Iraq, the MoD Directorate of Weapons and Supplies sent the Office of the Secretariat an official letter notifying that the equipment was available. Once the goods were delivered to the RG and deemed acceptable, the Secretariat authorized the MoO to pay the appropriate ministry or commission.

Military Industrialization Commission

By the late 1990s, Iraq was eagerly trying to acquire foreign military by goods and technical expertise for its conventional military and missile programs using a network of Iraqi front companies, some with close relationships to high-ranking foreign government officials. The billions of dollars of revenue generated by the various protocols, illicit surcharges, and oil smuggling schemes drove the explosive growth in military imports. This allowed MIC to smuggle millions of dollars worth of military equipment into Iraq in contravention of UN sanctions.

Procurement Leadership in the MIC

From its founding in 1987, the MIC was directly subordinate to the office of the presidency. It eventually consisted of 10 research companies, 36 manufacturing companies, eight training centers, two stand-alone units; three front companies and the headquarters office (see Figure 39). The headquarters, located in Baghdad had two deputies and nine directorates: administrative and financial, commerce, research and development, projects, technical, internal monitoring, legal, training and procurement, and the National Monitoring Directorate. The Minister's office consisted of the secretary's office, the secret correspondence office, the special correspondence

office handling mail between MIC and the ministries and between the headquarters' directorates and the individual companies.

MIC: Beneficiary of Illicit Funds

Revenues from oil protocols with Jordan, Syria, and Turkey increased the MIC budget by approximately 6,400 percent between 1996 and 2003. During this period, MIC Director and Deputy Prime Minister, Abd al-Tawab Mullah Huwaysh (see Figure 40), transformed the MIC into a more efficient and profitable bureaucracy.

- According to a high-level MIC official, the MIC budget grew from \$7.8 million in 1996 to \$350 million in 2002 to \$500 million in 2003. The MIC covered its operating costs through internal ministry-to-ministry sales of goods and services, including a 3 percent surcharge on items imported for the MoD by Al-Basha'ir—a MIC front company.
- According to the same official, the MIC also had a hard currency budget of approximately \$365 million, of which \$300 million came from illicit oil trade with Syria, Jordan and Turkey. The remainder of the hard currency budget came from the Presidency, sales to foreign companies in Iraq, profits from the Arab Company for Detergent Chemicals (ARADET), and foreign investment (see Figure 41 below for more detail).

The MIC budgeting process started at the company level every June and continued through September. Companies gathered their plans for production, procurement, and salaries for the upcoming year and submitted them to the Directorate of Administration and Finance in the MIC headquarters. The Directorate of Administration and Finance compared the figure with the historical figures and tried to reduce the size of the budget. Then the Technical, Project, Trade, and Research Directorates were asked to review and comment on the company figures.

When the Directorate of Administration and Finance had processed the companies' budgets, the 21 directors-general of MIC discussed them during budget meetings. These budget meetings were conducted much like court proceedings, and the group made decisions on each proposed budget. The budget figures were adjusted accordingly, and a final budget for each company was issued.

The company budgets for the 51 subordinate MIC companies, for MIC headquarters, and for the eight MIC training centers were consolidated into one budget. *Unlike other ministries, the MIC did not have to submit its budget to the Finance Ministry, but it did send a summary report to the Secretary of the CoM.* The summary report did not contain detailed figures or descriptions. Abd al-Tawab Mullah Huwaysh had the discretionary authority to reallocate funds within the budget, as he felt necessary.

MIC Banking and Financing

The MIC had its own bank accounts—two each in Jordan, Lebanon and Baghdad—that it used to store hard currency. *Rather than having the purse strings controlled by many people in the organization, there were actually only three men most responsible for the transfer of funds from the Iraqi Government to the supplying companies: Jasim Ahmad Hasan, Muhammad Salih Abd al-Rahim, and Hashim Karim 'Abbas, of whom were all members of the MIC's Commercial Directorate.* The Commercial Directorate was concerned mainly with payment and payment methods, and with delivery of the contracted items after MIC and the supplier signed contracts. The MIC could authorize payments for small contract amounts, but for larger amounts Huwaysh sought permission from Presidential secretary Abid Hamid or through the Presidential Diwan.

- According to captured documents, Hasan and 'Abbas are listed on hundreds of bank accounts throughout Jordan.
- Captured documents also include bank statements and correspondence directing MIC to release funds to suppliers.
- According to two sources in the Commercial Directorate, their department was funded with a monthly budget of approximately \$2 million.

Funds originated at the Presidential Palace and were authorized to be transferred by Saddam. On behalf of Saddam Husayn, Ahmad Husayn Khudayir al-Samarra'i, President of the Diwan, authorized the funds to be sent to the CBI. The Governor of CBI, Isam Rashid al-Huwaysh (no relation to Abd al-Tawab Mullah Huwaysh), forwarded the funds to the MIC accounts at the Rafidian Bank in Baghdad. Abd

Research Companies	
Al-Milad Company	Al-Quds Company
Al-Bit'tani Company	Al-Khawarizmi Company
Ibn Sina	Al-Raya
Al-Kindi Company	Al-Basel Company
Al-Fatih Company	Al-Razi Company
Manufacturing Companies	
Jaber Bin Hayyan Company	Al-Hadhr Company
Salah Al-Deen	Al-Zahf Al-Kabeer
Al-Karama	Al-Iz Company
Ibn Firnas	Al-Salam Company
Al-Mansour	Al-Nida
Al-Numan	7 th April Company
Al-Yarmouk	Al-Sumoud
Al-Majid	Al-Faw
Al-Waleed	Al-Radhwan
Al-Ubur	The Tareq Company
The Saddam Company	Al-Shaheed
The Hitteen Company	Um Al-Ma'arek
Al-Rashid	Al-Qa'Qa
The Badr Company	Sinharib Company
Al-Nida	The Sa'd Company
Hamorabi Company	The Tabuk Company
Abu Al-Rushd	Al-Nasr Al-Atheem
Bin Majed	Al-Hareth
Stand Alone Centers	
28 Nissan Unit	404 Unit
Front Companies	
Al-Basha'ir	Al-Mafakher
ARMOS	

Figure 39. Structure of the MIC.

Name	Time Frame	Title
Husayn Kamil	1987-1995	Director
Abd al-Tawab Mullah Huwaysh	1997-2003	Director
Muzahim Sa'ab al-Hasan al-Nasiri	1997	First Deputy Minister
Daghir Muhammad Mahmud	2001-2003	Second Deputy Minister
Hazim 'Abd al-Razzaq al-Ayyubi	1997-2000	Second Deputy Minister
Muyassar Shallah	2000-2001	Second Deputy Minister
Dr. Hadi Tarish Zabun	1997-2003	General Director of Research and Development Directorate
Sa'dun al-Dulami		Chief of Staff
Jasim Ahmad Hasan	2001-2003	General Director of the Commercial Directorate
Raja Hasan al-Khazraji		Manager, Commercial Directorate
Hashim Karim 'Abbas		Accountant & Signatory
Muhammad Salih Abd al-Rahim		Commercial Director & Signatory

Figure 40. MIC leadership.

al-Tawab Mullah Huwaysh controlled the Rafidian accounts. He determined how much was to be sent to each foreign bank account based on project funding, and ordered transfers of exact amounts to specific banks and account numbers. Huwaysh was responsible for authorizing each transfer to each account in Jordan and Lebanon. Following the transfers, al-Rahim, 'Abbas, and Hasan then controlled the funds in the Jordan and Lebanon bank accounts.

All of these accounts were related to Iraqi trade contracts, for the payment of foreign suppliers to the Iraqi government. When a contract was signed with a supplier, a bank letter-of-credit was opened on behalf of the supplier. The goods were delivered to a company owned by MIC or working for the MIC. The goods were inspected, and then Huwaysh was notified. Huwaysh then notified the Commercial Department at MIC, and then the Commercial Department sent a memo to 'Abbas, al-Rahim, and Hasan. The three of them then sent a memo to the Jordan or Lebanon bank to release the funds in the form of a letter of credit to the supplier.

The MIC used accounts in the Al-Itihad and Al-Ahay banks in Beirut. According to a high-level official with the MIC, approximately one month prior to OIF, Huwaysh dispatched Hasan and Munir Mamduh Awad al-Qubaysi, Director of Al-Basha'ir, to Beirut

on a mission to recover MIC funds still held in Beirut banks. Their instructions were to travel to Beirut, secure the funds, transfer them to the Iraqi embassy in Damascus and then return to Baghdad. Huwaysh had ordered a review of outstanding contracts more than a year old and as a result was able to identify \$100 to \$150 million in these banks that had not been disbursed.

- According to two sources in the Commercial Directorate, prior to the war there was a meeting in Baghdad with members of the Commercial Section and the Legal Section of the MIC. They claim that Hasan and al-Rahim were ordered to remove \$47 million from the banks in Lebanon and Jordan.
- They attempted to withdraw funds from the Jordan National Bank but were informed that they did not have that amount of funds available because of unauthorized withdrawals from suppliers.
- One of the two sources in the Commercial Directorate stated that Hasan and Ali Jum'a Husayn Khalaf canceled approximately 60 lines of credit and were able to withdraw \$6 million in currency from the Jordan National Bank, which they then took to the Iraqi Embassy in Syria.

The information provided by these two sources contradicts Huwaysh's statement that in early April 2003, he traveled to Syria to determine why Hasan and al-Qubaysi had not returned to Baghdad. According to Huwaysh, he had not been able to determine what had happened to the two gentlemen or the funds.

Items Procured by the MIC via Front Companies

Iraq's MIC had two primary avenues for procuring materials and manufacturing equipment outside of UN OFF channels. *One avenue involved the use of import committees and the other a straightforward contracting process to purchase items from foreign suppliers.* The MIC obtained large amounts of imported materials and production equipment through a process described by a senior Iraqi:

- During the annual budget formulation process, managers of MIC facilities identified imported products that their enterprises needed to support their production plans for the following year. After the MIC approved the annual budget at the beginning of each calendar year, the managers prepared tenders for the required imports. The MIC then distributed the tenders at the annual Baghdad Trade Fair and advertised them in Iraqi trade papers.
- The MIC received bids on the tenders from potential suppliers indicating price, terms; for example, 'X' offered to provide some equipment for \$1 million. Bids on the tenders from potential suppliers were submitted to a MIC import committee. Originally there was just one import committee, but the volume of imports grew in later years to the point where a second import committee was established to handle the volume. The import committees met every night at the Baghdad International Trade Fair site.
- The import committees would then take the original tenders and subject them to a rebidding process. For example, company 'Y' could offer to supply the same equipment as company 'X,' but for \$500,000 less than its competitor's bid, a large saving compared to the original price. Through this process, the import committees saved the MIC millions of dollars. The committees issued quarterly reports on the amounts of money saved. Huwaysh was very proud of this bidding process and often gave the committee members bonuses based on the amount of money saved.

- The MIC issued a contract when the import committee accepted a bid on the goods. We speculate that the contracted companies were then responsible for obtaining the goods—importing them from Jordan, Syria, Turkey, or elsewhere as necessary—and delivering them to the MIC customer.
- Engineers from the MIC Technical Directorate always headed the import committees. Other members of the committees included representatives from the MIC Commercial, Administration and Finance, and Legal Directorates, along with an IIS representative from MIC security.

Items Procured via the MIC's Link to Iraqi Intelligence

The other procurement avenue operated through the MIC "Special Office" and enlisted the IIS to locate suppliers of particularly sensitive or obviously military items, such as weapons and ammunition (for more details see the IIS procurement section of this chapter and the RSI IIS annex). Items purchased through the Special Office were then shipped to Iraq via third countries using front companies as buyers. MIC procurement companies played a key role in these import activities, as did several front companies with ties to top Syrian leaders. During the annual budget formulation process, managers of MIC facilities identified imported products that their enterprises needed to support their production plans for the following year.

The MIC and the IIS formed a special channel for importing sensitive goods and services—dual-use or related to weapons and munitions manufacturing—particularly those that required the assistance of foreign government officials. A source within the MIC Commercial Directorate of stated that the IIS was "involved in everything." The IIS was the final authority on MIC contracts due to its direct relationship with Saddam.

In November 1997, Saddam approved a MIC proposal to enlist the IIS to develop new procurement, technology transfer, and technical assistance channels to supplement the existing MIC Commercial Directorate channels, according to a source with direct access.

- Huwaysh formed the MIC-IIS relationship to support Iraq's missile program after Saddam instructed him to improve Iraq's missile capabilities.

- Ties flourished after the death of IIS Director Rafi’ Dahham al-Tikriti in October 1999 and the subsequent appointment of Tahir Jalil Habbush al-Tikriti as IIS Director. A Joint MIC—IIS nomination group initially directed the joint effort.

Dr. Hadi Tarish Zabun, the head of the MIC Research and Development Office, led the MIC end of this second procurement channel. **Senior MIC officials have described Dr. Zabun as very capable and powerful. Dr. Zabun is clearly one of the key figures in the Iraqi clandestine procurement story.**

- Dr. Zabun’s office handled all of the secret, special contracts with Russia, Belarus, Yugoslavia, Ukraine, and Bulgaria.
- Dr. Zabun attended all meetings related to these contracts, and managing these contracts became a huge task for the Special Office.

According to an Iraqi official, the IIS’s procurement activities operated through the IIS Scientific and Technical Information Office, designated M4/4/5. . The Research and Development Office cooperated closely with M4/4/5 to find sellers of the sensitive materials and equipment sought by the MIC.

- Dr. Zabun coordinated MIC—IIS business dealings, with much of the coordination occurring directly between the Director of M4/4/5 and Dr. Zabun.
- M4/4/5 desk officers worked closely with IIS officers in overseas stations to find the suppliers. Desk officers had specific country responsibilities.
- Directives and other communications with the IIS stations in embassies abroad were transported via diplomatic pouch.

An Iraqi official described the coordination process (see Figure 42).

- MIC requirements—for information, materials, technology, or technical assistance—were sent upward from MIC manufacturing establishments to Huwaysh.

Dr. Hadi Tarish Zabun: The MIC’s Procurement Expert

MIC Director Huwaysh considered Dr. Hadi Tarish Zabun as his right-hand man for conducting foreign procurement deals. Dr. Zabun was the acting Director General of the Al Milad Company (MIC’s largest domestic research and development company) prior to taking over the MIC Directorate of Research and Development and the MIC Special Office. He also served as Huwaysh’s expert on the missile industry.

- Huwaysh then sent an official “Secret, Confidential, and Immediate” communication through Zabun to IIS Director al-Tikriti. Dr. Zabun strictly controlled all communications on MIC-IIS dealings. A special IIS courier element actually carried the correspondence back and forth.
 - The request then descended through the IIS M4 Directorate chain-of-command to the director, who sent it to the appropriate desk officer for action.
 - The desk officer then made arrangements with the field stations, issued tenders, and so on.
- When the field officer located potential sellers or received bids, the Director of M4/4/5 would work with Dr. Zabun to broker a meeting between principles in MIC and the desk officer and others involved in the procurement effort.
- Typical participants in these meeting included Dr. Zabun, the M4/4/5 director, their deputies, the M4/4/5 desk officer who was involved in setting up the transaction, personnel from the MIC establishment seeking the procurement, the heads of the MIC Commercial and Finance Directorates, and often Munir Mamduh Awad al-Qubaysi, head of the MIC procurement company Al-Basha’ir.

- This group probably considered the terms of the proposed deal and discussed methods of transport and payment for the goods.
- Huwaysh probably made the final decision on most major procurement actions.

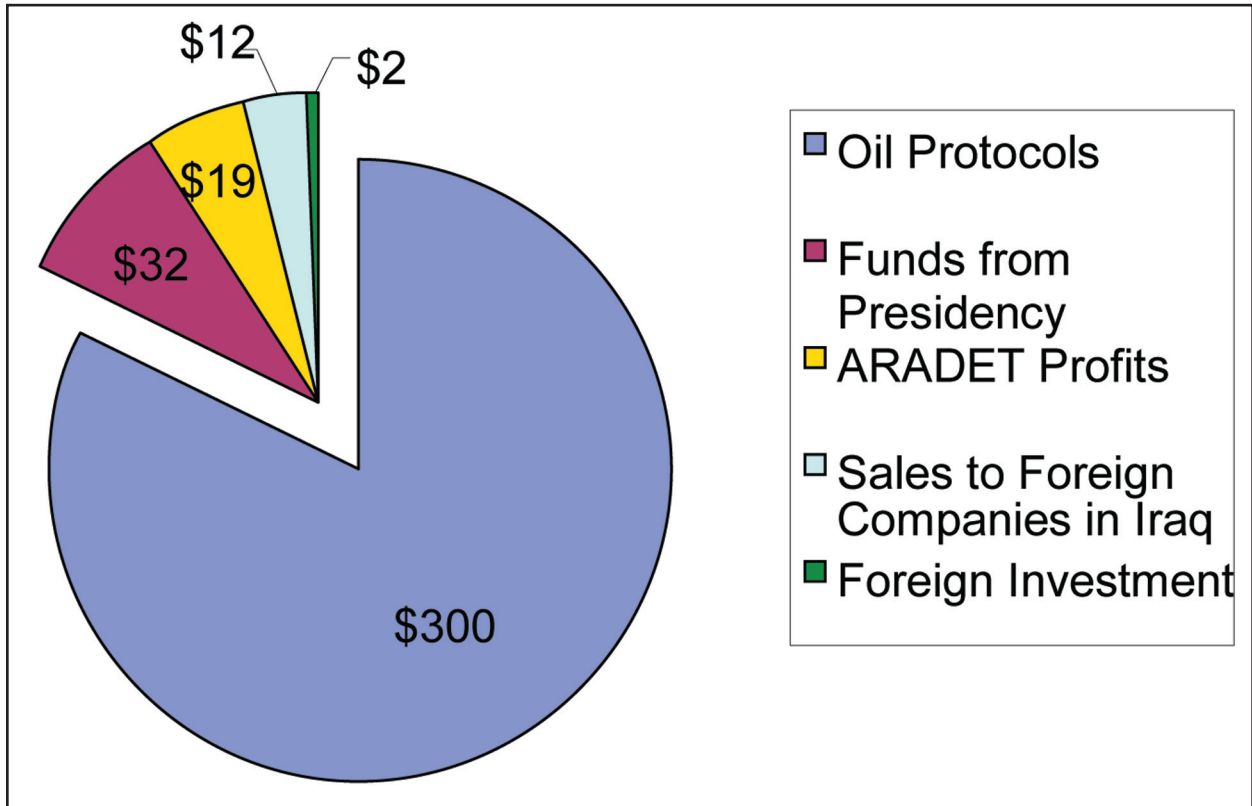


Figure 41. MIC hard currency budget (million US \$) in 2002.

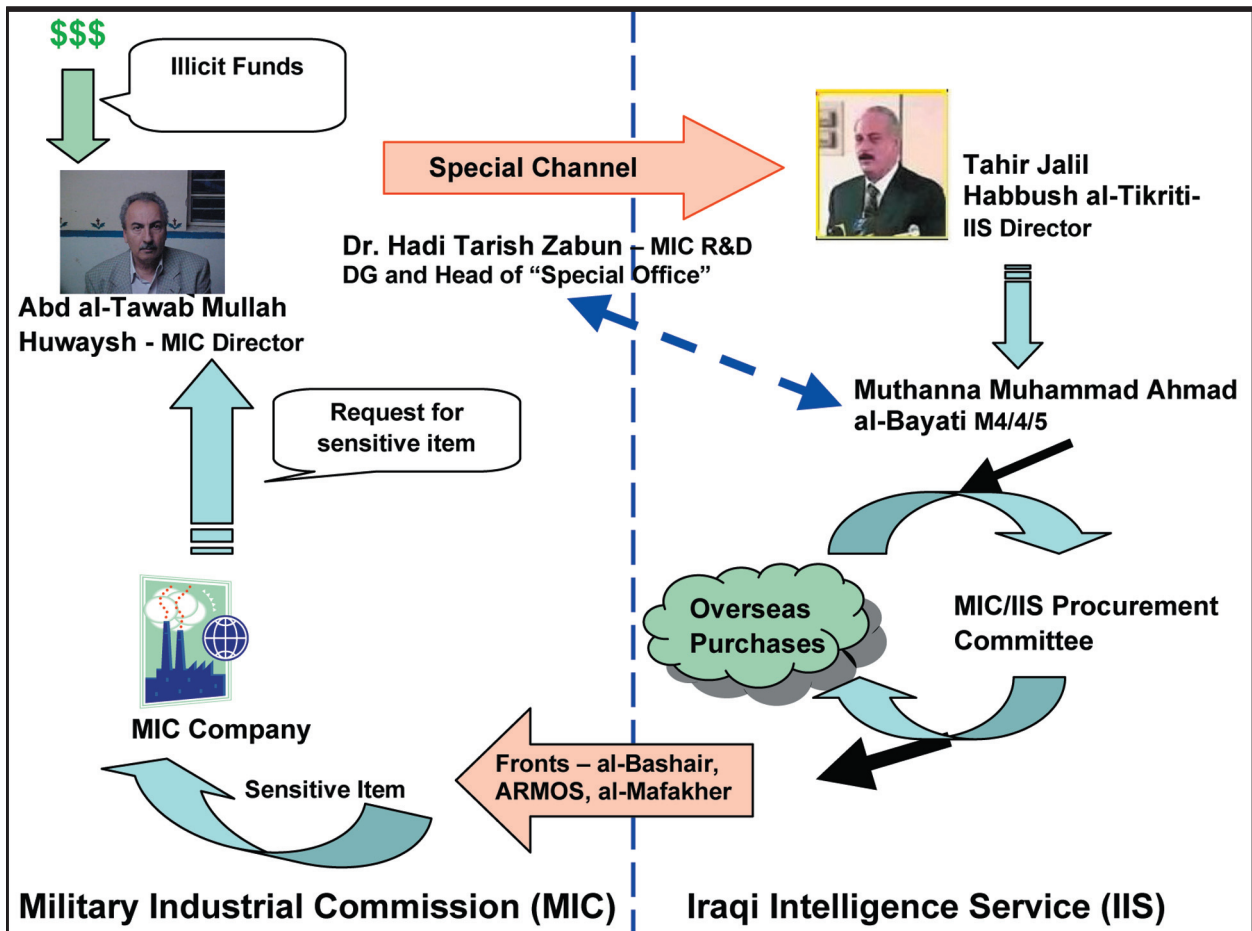


Figure 42. MIC-IIS special procurement cycle.