

Annex D Iraq Economic Data (1989-2003)

Under the rule of Saddam, economic data were considered state secrets; thus, reliable data for the era was limited. According to the Economist Intelligence Unit data (see Figure 6), Iraq's GDP stood at roughly \$38 billion in 1989, measured in constant 2003 dollars. From 1990 until Saddam accepted the terms and conditions of UN Resolution 986 in 1996 the GDP in Iraq remained at less than 30 percent of the 1989 value. In the 1996 to 2002 period, the data shows a gradual recovery as GDP increased from \$10.6 billion in 1996 to \$33 billion in 2000 before dropping back to \$29 billion in 2001.

Per capita GDP during the period followed the downward trend seen in overall GDP. GDP per capita went from approximately \$2304 in 1989 to \$938 in 1990. From 1991 until 1996 per capita GDP never rose above \$507. During this period income inequality was a problem as the wealth was concentrated in the hands of Regime loyalists and traders while most Iraqis subsisted on much less income.

In comparison to the estimates in Figure 6, the CBI published a statistical bulletin with GDP data in current prices (Figure 7). The data used in figure 7 were acquired in 2004 at the CBI. It should be noted that the validity or reliability of the data is unknown.

Because of the lack of specific economic data, it is difficult to disaggregate the Iraq GDP into sectors. It is estimated that in 1989 (Figure 8) oil comprised approximately 61 percent of the economy. However, following the invasion of Kuwait and sanctions on the oil exports, this steadily declined until 1996 when the UN OFF program allowed Iraq to resume controlled export of oil using UN approved contracts. The Agricultural sector of the GDP, although larger than some neighboring states, was quite small when compared to oil and services. Iraq's fertile agricultural land covers about one-fifth of its territory and has allowed Iraq to sustain a noteworthy agricultural system that is based mostly on barley and dates.

Sources of Revenue

Iraq's oil development began in 1901. The Iraq National Oil Company (INOC) was formed in 1964, and with Iraqi oil nationalization between 1972 and 1975, INOC took over from the international oil companies previously running the country's oil industry. In 1987, INOC was dissolved and merged with the MoO. *Before the Gulf War, oil accounted for more than 60 percent of the country's GDP and 95 percent of foreign currency earnings. Following Iraq's invasion of Kuwait in 1990 and the embargo on Iraqi oil exports, Iraqi oil production fell to 10 percent of its prewar level from 3.5 million barrels per day in July 1990 (Figure 9) to around 350,000 barrels per day in July 1991.* UN-approved oil exports began in December 1996 after Iraq finally accepted UNSCR 986 (passed in April 1995). However, Iraq's oil sector continued to suffer from years of poor oil reservoir management; corrosion problems at various oil facilities; deterioration of water injection facilities; lack of spare parts, materials, equipment, and damage to oil storage and pumping facilities.

Unlike most Gulf States, Iraq has considerable agricultural potential. About 12 percent of its land is arable, of which 4 percent is irrigated. Another 9 percent is suitable for grazing and 3 percent is forested. However, during Saddam's reign, Iraq did not effectively use its agricultural potential. Under the Ba'ath party, activity in the food and agriculture sectors of the economy continued to decline. Government expenditures on agriculture dropped from 18 percent of total government expenditures in 1976 to less than 10 percent in 1980 and continued to decline during the Iran-Iraq war. Under Saddam, as a result of drought, lack of inputs, poor methods and weak administration, Iraq was unable to achieve agricultural production levels near its potential. Following the first Gulf war, the irrigation systems fell into disrepair and much of the irrigated cropland in central and southern Iraq was badly damaged by salinization. Rapid population growth during the past three decades, coupled with limited arable land and an overall stagnation in agricultural production has steadily increased Iraq's dependence on imports to meet domestic food needs. By 2002, under the UN OFF program, between 80 percent and 100 percent of Iraq's food staples were imported. However, Iraq remained self-sufficient in fruits and vegetables.



Figure 6. Estimated GDP/real GDP in 2003 USD.

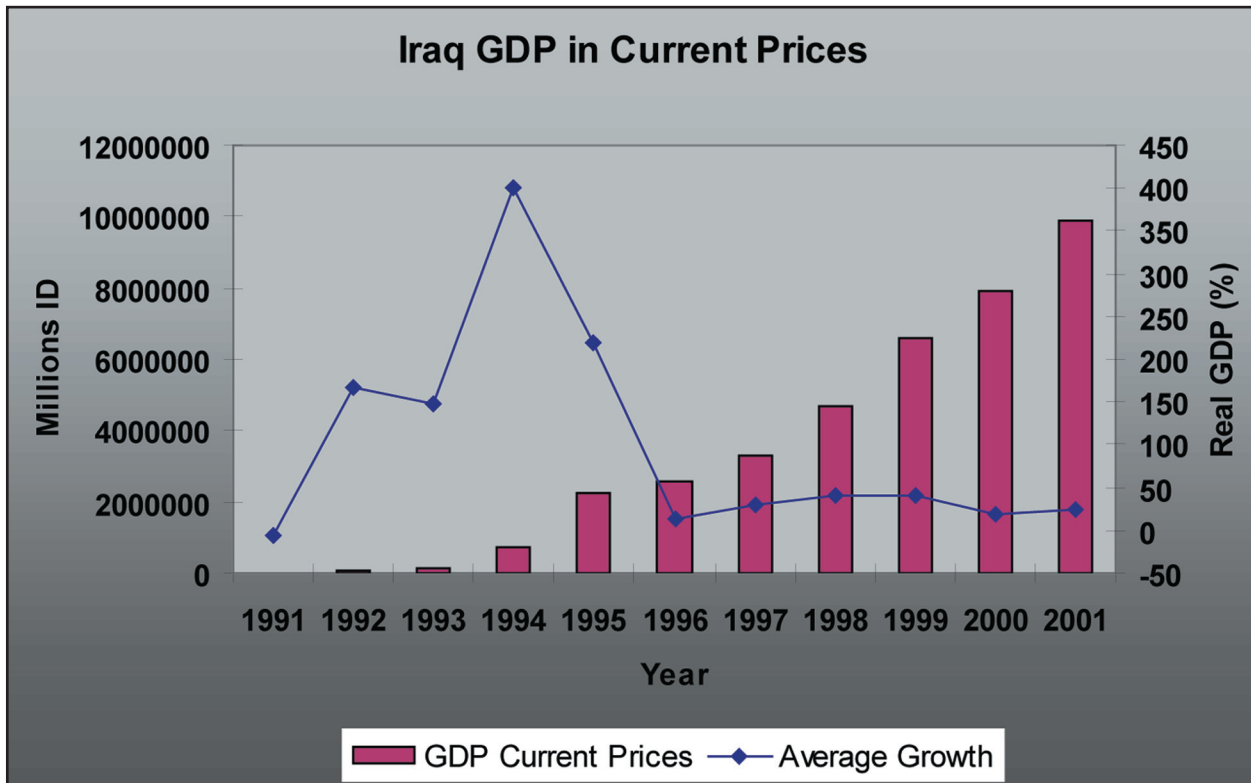


Figure 7. GDP in current prices.

Figure 8. Sectoral composition of Iraq's GDP, 1989.

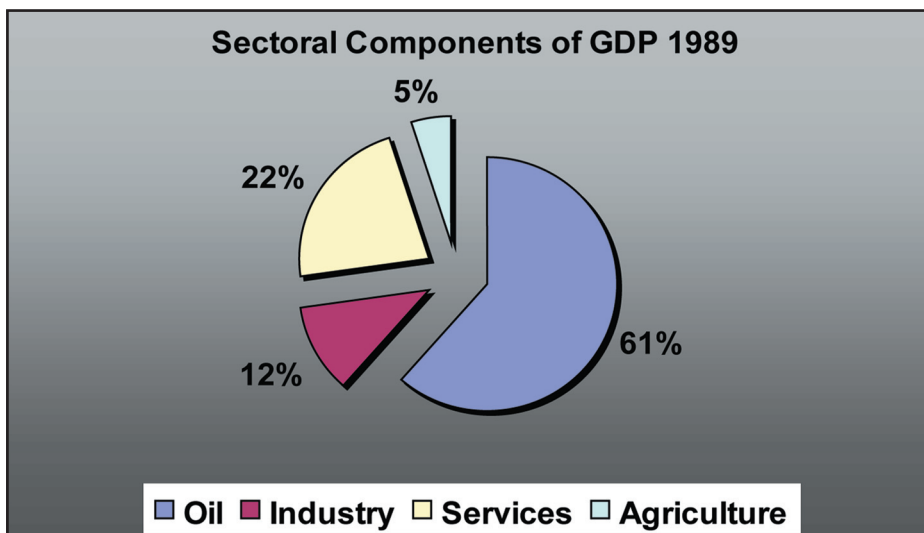
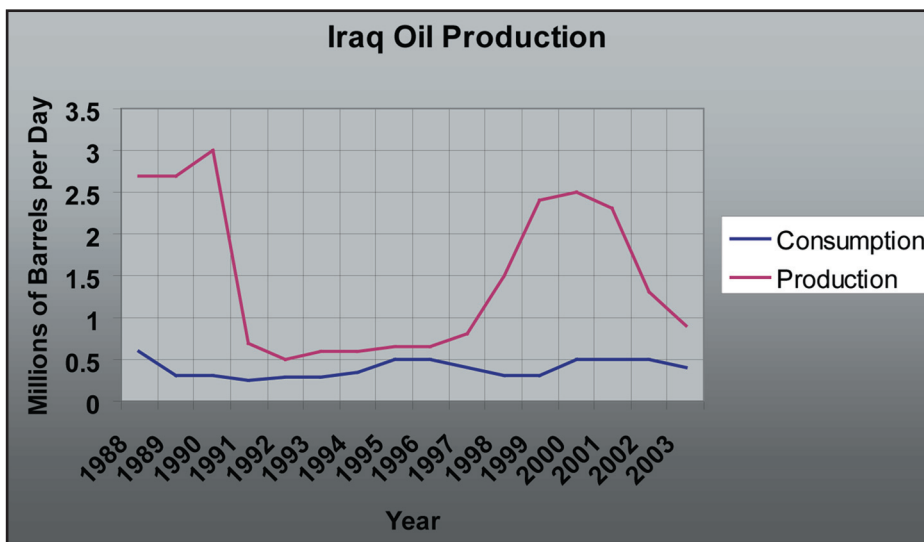


Figure 9. Iraq oil production, 1988-2003.



Industrial Diversification and Manufacturing

Industrial development, diversification and manufacturing have gone through numerous phases in Iraq. In the mid-1970s a strong emphasis was placed on import substitution and the government established food-processing industries in smaller towns throughout the country. However, the main focus of development was on the petroleum sector, and refining, natural gas processing and some part of supplies for the industry developed in Basra and Kirkuk. The cement and building supplies industry also expanded rapidly. By the late 1970s the emphasis in development planning shifted toward heavy industry and diversification away from oil. Iron and steel production was set up with French assistance at Khor al-Zubair and the defense industrial sector received a high priority. However, objectives were ill defined and the economy's concentration on oil was never challenged. Inevitably, as with all other segments of the economy, manufacturing and industrial diversification was scaled down when the Iran-Iraq war began and never recovered.

Foreign Debt

Iraq's indebtedness has been the result primarily of the war with Iran. Iraq traditionally had been free of foreign debt and had accumulated foreign reserves that reached \$35 billion by 1980. These reserves were exhausted in the early stages of the war with Iran. It is estimated that from 1980 to 1989 Iraq's arms purchases alone totaled \$54.7 billion. Following the war, Iraq was faced with the dilemma of paying off short-term debts to western creditors estimated between \$35 to 45 billion at high interest rates. However, the Regime resisted western attempts through the International Monetary Fund (IMF) and World Bank to reschedule the debt primarily because Baghdad believed it could negotiate more favorable terms dealing with countries bilaterally.

Iraq's foreign debt was comprised of western credit provided for military assistance, development finance and export guarantees. This assistance has been

estimated at \$35 billion in principal. The former Soviet Union and Russia also provided loans to Iraq via the Paris Club during the 1980s and 1990s for the development and production of military programs (Figure 10). Gulf States such as Saudi Arabia, Kuwait and the United Arab Emirates provided an additional \$30 to 40 billion in financing to fight Iran (Figure 11). Although the Gulf States considered the financial support provided to Iraq to be a loan, Iraq believed that the Gulf States were required to provide help to Iraq in its fight to prevent the spread of radical Iranian fundamentalism.

In addition to the money borrowed by Iraq during the 1980s, Iraq has had compensation claims made for reparations of damage inflicted during the invasion and occupation of Kuwait during 1990 and 1991. The United Nations Compensation Commission (UNCC) was responsible for processing and collecting such claims as authorized by UNSCR 692. The OFF program provided that 30 percent of Iraq's oil sales would be used to settle compensation claims authorized by the UNCC. This figure was reduced to 25 percent in December 2000 and was set at 5 percent when oil exports resumed after OIF. 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.

Another source of potential financial obligations accrued by Iraq since 1990 were contracts signed with countries such as Russia, UAE, Egypt, China, France, and the Netherlands mainly in the energy and telecommunications sectors. Because of UN Sanctions during the period, the contracts were not executed. It is uncertain if these contracts will be honored in the future.

Iraq's total foreign debt compared to GDP from 1989 until 2003 was not sustainable (Figure 12). Iraq was borrowing much faster than it was producing for over a decade (see Figure 13).

Figure 10. Iraq's Paris Club creditors.

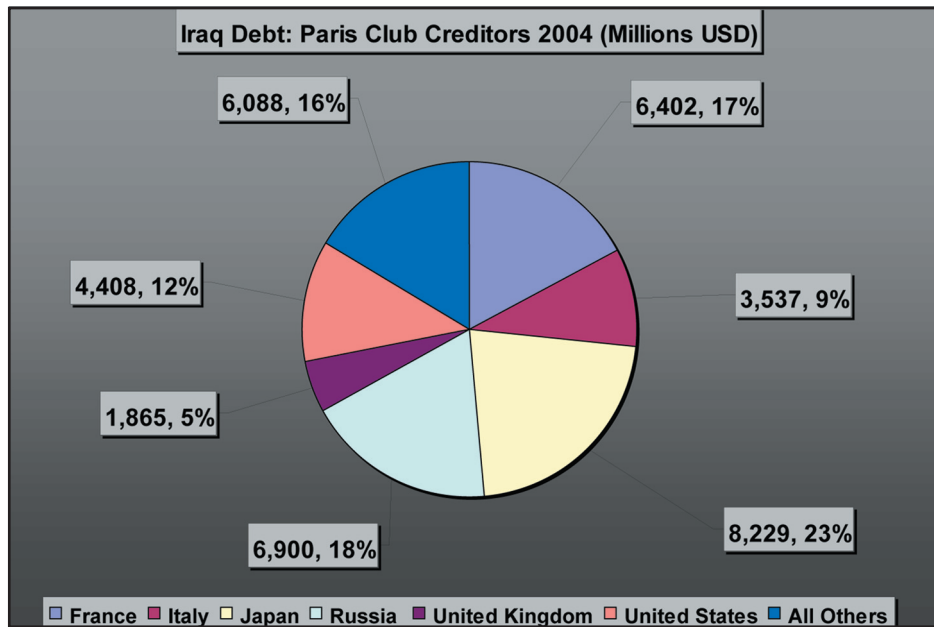


Figure 11. Iraq's major creditors (non-Paris Club).

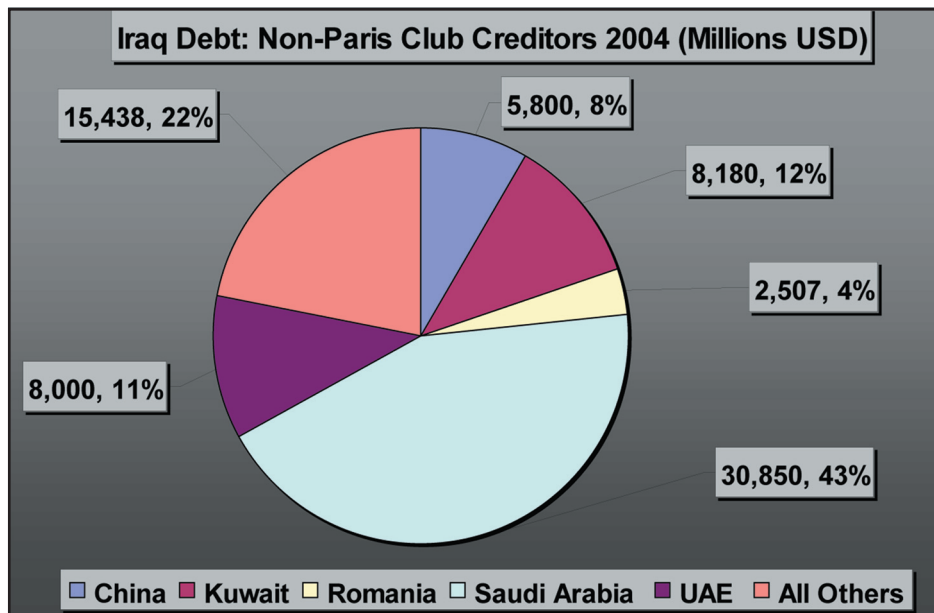


Figure 12. Foreign debt, 1989-2003.

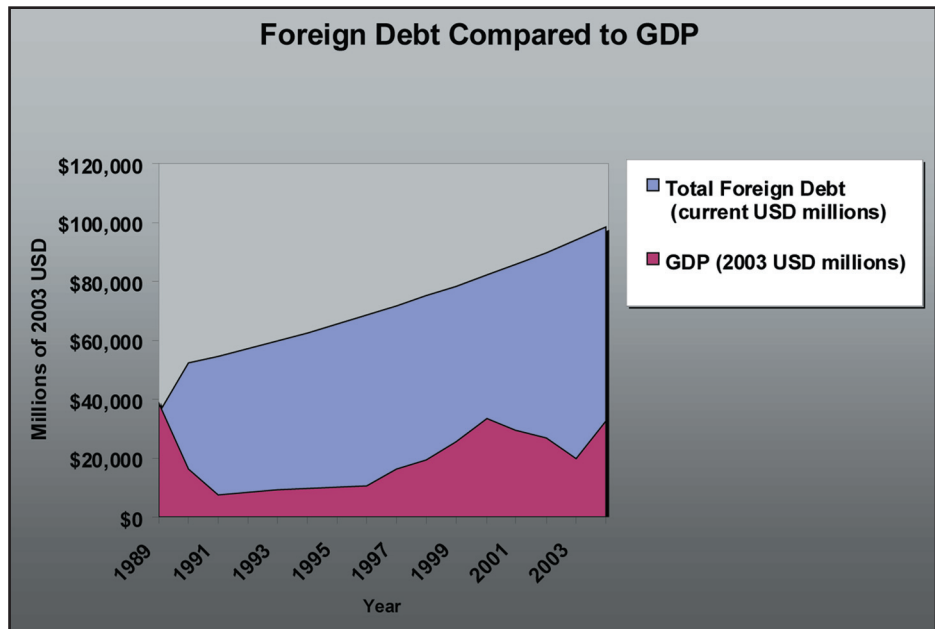
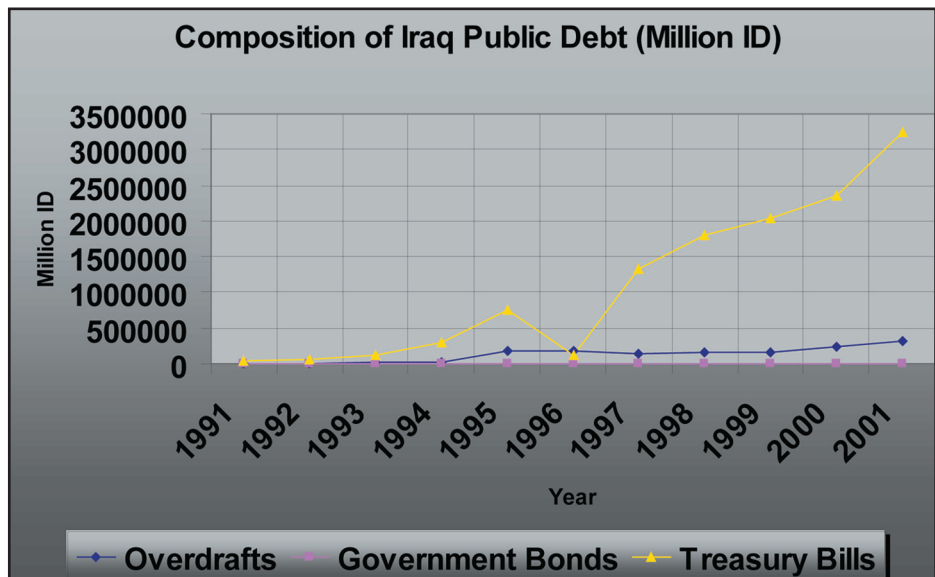


Figure 13. Iraq public debt (Central Bank of Iraq 2004).



Balance of Payments/Exchange Rates

The Balance of Payments (BoP) is an account of all transactions between one country and all other countries—transactions that are measured in terms of receipts and payments. From the US perspective, a receipt represents any dollars flowing into the country or any transaction that require the exchange of foreign currency into dollars. A payment represents dollars flowing out of the country or any transaction that requires the conversion of dollars into some other currency. The CBI Department of Research and Statistics provided statistics on Iraq's Balance of Payments, which are summarized (Figures 14 and 15).

Exchange rates are important during these transactions because they represent the linkage between one country and its partners in the global economy. Exchange rates affect the relative price of goods being traded (exports and imports), the valuation of assets, and the yield on those assets. The CBI pegged its official rate between \$3 to 3.38 per dinar in the 1970s. The last official exchange rate of \$3.11 per dinar was set in 1982. During the 1970s the official and market rates generally corresponded and by 1980 the country had \$35 billion in foreign exchange reserves. Because of the war with Iran that figure had fallen to \$2 billion by 1987. The currency depreciated rapidly in the unofficial market during the Iraq-Iran war and after the first Gulf War the pace of depreciation increased further. During 1997 to 2003, the exchange rate fluctuated between 1500 -2000ID per \$1 and was fairly steady at about 1950 ID to \$1 in recent years. *Although the Regime did not alter the official exchange rate after 1983, it acknowledged the rate differential in 1999 by allowing state run banks to exchange hard currency at the rate of 2000 ID to \$1. According to the statistical bulletin published by CBI (Figure 16) the numbers projected by sources in the US are consistent, with numbers reported internally. It is important to note that the validity and reliability of the data provided by CBI has not yet been evaluated.*

Employment

Iraq's economy suffered from under-employment, an economic affliction that was typical of oil-based economies. Iraq's oil sector historically generated about 60 percent of Iraq's GDP, but only employed two to three percent of Iraq's labor force. Unemployment has risen significantly during the period of 1988-2003. Unemployment in Iraq during 2003 was estimated to be around 28 percent of the labor force. Some 40 percent of the employed are estimated to work in the public sector, many in marginalized economic activities, in difficult conditions, and for minimal pay. Women represent about 52 percent of Iraq's population, but constitute only 23 percent of the formal workforce, mostly as middle level professionals in the public and service sectors and in rural areas as seasonal agricultural workers.

Over the long run, labor markets are affected by demographics, changes in productivity and the rate of growth in potential output. In the short run, these markets will reflect volatility in the level of economic activity. The unemployment rate in Iraq represents the ratio of those actively seeking work and the total number of people in the labor force. Iraq's economy was powered mainly by state run centrally controlled government entities. Although Saddam did encourage privatization during the 1980s, this was not successful because of the continuing conflicts and lack of financing and support for private business owners in Iraq.

Social Conditions and Indicators

Following the war with Iran in 1988, Iraq was ranked 50th out of 130 countries on the 1990 UNDP Human Development Index (HDI). This index measures national achievements in health, education, and per capita GDP. Iraq was close to the top of the "medium human development" category, a reflection of the Government's continued investment in basic social services. By 1995, Iraq had declined to 106th out of 174 countries and by 2000 it had plummeted to 126th, falling behind Bolivia, Egypt, Mongolia and Gabon and close to the bottom of the "medium human development" category.

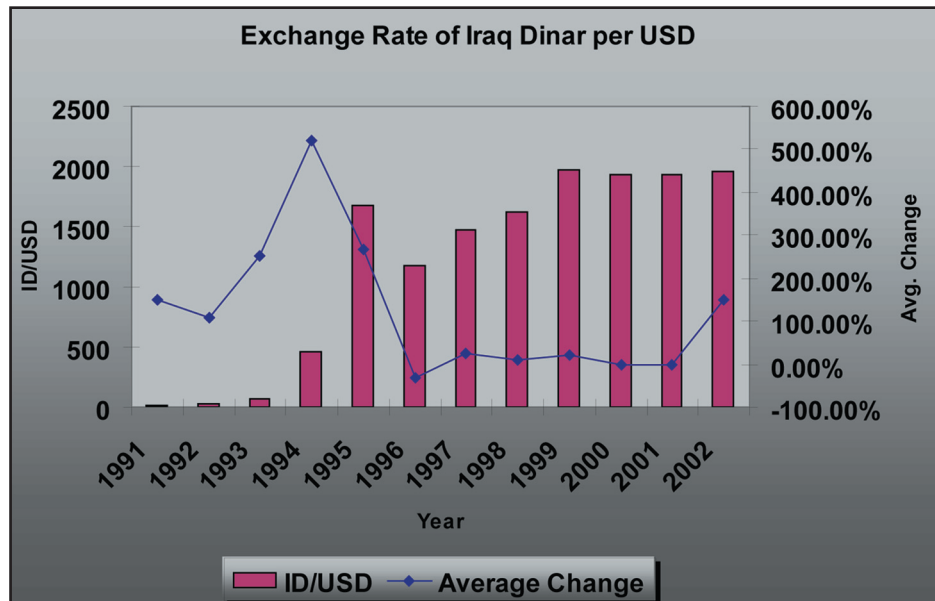
Figure 14. Balance of payments: overall balance.



Iraq Balance of Payments															
Items	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Current Account (net)															
TB+Services+Unrequited Xfers	-3713.4	-2672	-2418.1	-3407	-7076.2	-8451.1	-9128	-10547.3	-10046.1	-10129.7	-12045	-14527.8	-8169	-15410.2	-15762
Trade Balance	2193.9	3231.7	3801.1	-1303.8	-2146	-1623.9	-961.5	-928.4	-178.2	2702.5	2441.6	3969.7	7734.1	1720.1	2493.7
Exports	12387.6	15017.1	13710.1	1730.45	2108	1794.4	1720.4	1963	2764.9	6385.2	7427.8	13067	18742.6	12872.1	10236.2
Imports	10193.7	11785.4	9909	3034.2	4254	3418.3	2681.9	2891.3	2943.1	3682.7	4986.2	9097.4	11008.6	11152	7742.4
Services	-5518.6	5623.5	-5900.8	-2498.2	-5079.5	-6988.1	-8378.1	-9784.8	-10023.5	-11302.9	-12597.7	-14403	-9919	-13633.2	-15760.9
Services Exports (receipts)	646.6	599.6	586.4	221.6	291.5	347.4	197.5	265.4	241.3	371.6	391.8	229.7	229.4	428.8	536.9
Services Imports (payments)	6165.2	6223.1	6487.2	2719.9	5370.9	7335.5	8575.6	10050.2	10264.8	11674.5	12989.5	14632.7	10148.4	14062	16297.8
Unrequited Transfers	-392.8	-480.3	-318.5	395	149.3	160.8	211.7	166	155.7	-1529.3	-1889	-4094.5	-5984.1	-3497.1	-2495.3
Net Capital Account	1870.3	2295.3	3813	2841.2	5903	7274.7	7764.6	7716.7	10147.7	11431.3	12293.7	12161.5	12161.5	12161.5	12906.2
Net Errors and Omissions	616	1272.9	-1551.5	-686.5	610.2	460	559.1	2026.3	-905.9	-2105.8	-1052.9	1562.1	-4796.7	2444.5	2052.1
Overall Balance	-1231.1	696.1	-156.7	-1232.4	-563	-719.6	-804.2	-804.2	-804.2	-804.2	-804.2	-804.2	-804.2	-804.2	-804.2
Change in Net Foreign Accounts	1231.1	-696.1	156.7	1232.4	563	719.6	804.2	804.2	804.2	804.2	804.2	804.2	804.2	804.2	804.2

Figure 15. Balance of payments.

Figure 16. Exchange rate ID/USD.



According to the HDI, an Iraqi born in 1987 could expect to live 65 years while citizens in bordering Jordan had a life expectancy of 67 years. By 1998 an Iraqi was expected to live only 63.8 years while a Jordanian saw an increase in life expectancy 70.4 years in 1998. Compared to Jordan, where the literacy rate rose from 75 percent in 1985 to 88.6 percent in 1998, Iraq's had dropped from 89 percent to 73.5 percent. In 1990, Iraq ranked three places above Jordan on the HDI. In 2000, Iraq placed 34 below Jordan.

This page intentionally left blank.

Annex E Illicit Earnings Sources and Estimation Methodology

Figure 17 and the subsequent notes describe how ISG derived its estimates for Iraq's various illicit revenue streams.

- The UN was aware of the Jordanian Protocol; consequently, it was not considered illicit. However, it is included in this section in order to document all the revenue streams Iraq possessed through its trade Protocols and oil sales programs.

Jordan Protocol

Iraq has provided little data on the earnings from the Jordanian Protocol.

- **Data for 1991-95** is an ISG estimate based on accumulated Iraqi debt owed to Jordan over this period of \$1 billion—averaging \$200 million in “income” for each of the five years. To this was added an estimate for the amount of trade to be financed by Jordan under the trade Protocol of \$200 million per year. This provides a total of \$400 million per year.
- **Data for 1996-98** is the Protocol trade figure cited in press and other reporting.
- **Data for 1999-2001** is based on SOMO data for the value of invoices with Jordan under the general trade Protocol as well as a 60 percent credit, 40th percent cash arrangement with Jordan's Ministry of Energy and Mineral Resources. SOMO did not provide actual collections for this period so the invoice figure was adjusted downward based on the average difference (70 percent) between invoices and actual collections in 2002 and 2003. Seventy percent of the SOMO invoice figure is used to estimate Iraq's actual collections.
- **Data for 2002-2003** is based on SOMO actual collections under the trade Protocol and 60/40 arrangements.

Syria Protocol

Data is based on SOMO actual collections. The program did not exist prior to 2000. Any exports to Syria prior to 2000 would be accounted for as private sector trade.

Turkey Protocol

Data is based on SOMO actual collections. The program did not exist prior to 2000. Any exports to Turkey prior to 2000 would be accounted for as private sector trade.

Egypt Protocol

Data is based on SOMO actual collections. The program existed only in 2001 and 2002. There is no evidence that oil exports to Egypt occurred except in these years.

Import Kickbacks

This program did not exist prior to 2000. Iraq has provided little data on earnings from the UN OFF import kickback scheme. Data for 2000-2003 is based on:

- UN data for Iraq's oil earnings per phase.
- The amount of money actually spent on imports by the UN OFF program during its existence after deducting for UN purchases for the Kurdish North (contracts Iraq would not get kickbacks from).
- UN data that over \$16 billion in funds remained unspent when OIF started—more than the \$10 billion in earnings from phases 12 and 13 and indicating those earnings did not result in actual kickbacks received by Iraq.
- An assessment that lags between earnings and contract signings in the UN OFF procurement program resulted in the money earned in phase 7 of the program (prior to the implementation of the kickback scheme) actually being used to sign contracts and obtain kickbacks in phase 8 and later—when the kickback program was in effect.

account for half a year each, were then allocated to years to obtain the estimate for kickback earnings per year, as follows:

- Phase 7 for 2000.
- Phases 8-9 for 2001.
- Phases 10-11 (minus \$50 million) for 2002.
- The \$50 million from phases 10-11 for 2003.

Oil Surcharges

Data is based on SOMO actual collections. The program did not exist prior to 2000.

Private Sector

Data for 1991-97 is based on an ISG estimate for the value of cash and barter trade conducted by the Iraqi government with private sector entities outside any Protocol or UN OFF program arrangements during the period. The estimate is based on observed oil export trends in 1997-1998 and an assessment of the development of Iraq's illicit trade capabilities. *Data for 1998-2003* is based on SOMO actual collections for cash transactions and the invoice value for barter trade (no cash or credit "collections" were realized from the barter trade).

This page intentionally left blank.

Annex F Iraqi Oil Smuggling

Captured documents recovered shortly after OIF indicate that between 1992 and 2003 Iraq exported crude oil and other oil products to many countries or their nationals, who wittingly breached United Nations sanctions. UNSCR 661 restricted all member states from importing any goods, including oil and its derivatives, originating from Iraq.

Case Study

The captured documents listed below indicate how Iraq arranged the illicit transshipment of oil with buyers by reference to signed contracts, letters, check payments and telex messages. This study includes summaries of contracts and letters exchanged between companies, banks and individuals in various countries including Iraq, Iran, Cyprus, France, Slovakia and the UAE. Additionally, these documents list some of the foreign companies and agents who were involved in the smuggling activities.

- Some of the Iraqi refineries were still operational after Desert Storm, and in spite of UN sanctions, continued to produce for export tons of gas oil that was primarily used for firing electrical power plants.

Smugglers, using small oil transporters similar to the one in the picture in Figure 19, bribed RG naval units on a regular basis in order to gain free passage through Iranian waters. To avoid Maritime Interdiction Force (MIF) patrols, these vessels would sail to the southern end of the Gulf and dart across the narrow straights from Iranian waters to UAE territory. In the majority of these cases, the vessels would then transfer their cargos of gas oil or fuel oil onto larger tankers; it would then be transported to market. This money making scheme benefited the smugglers, Iraqis, Iranians, and oil recipients alike.

The Al-Basha'ir Company was the largest front company created by the MIC in 1991. The company's name has been discovered on hundreds of contracts

for weapons and dual-use materials, as well as many legitimate day-to-day goods and supplies. In addition to dealing with oil, this company traded in items such as construction materials, foodstuffs, and power generators to cover its real activity, which was coordinating with neighboring countries to facilitate the purchase of illicit military equipment.

- A former employee of more than 15 years of the IIS, Munir Al-Qubaysi, headed Al-Basha'ir. Because of the IIS connections, relations between Al-Basha'ir and the IIS were especially close. In addition to those ties with the IIS, the operation of the company was handled closely by the MIC.

The last chairman of Al-Bashair's board of Directors was the head of the MIC's Administration and Finance Directorate, Raja Hasan Ali Al-Khazraji.

Information from contracts found and data derived from the records of the SOMO indicate that the Al-Basha'ir Company, in addition to being the largest front company, was also a major broker in Iraqi oil smuggling.

The Jordanian Al-Basha'ir Company, the Jordanian branch of Iraq's most important military procurement front company, signed contracts for the export of oil products from Iraq, according to SOMO records (see Figure 20). These records indicate that Al-Basha'ir signed 198 contracts from November 1999 through March 2003. We do not know if contracts were signed before this date. The contracts were for fuel oil, usually sold at \$30 per ton, and gas oil, usually priced at \$80 per ton. Almost all were for export by ship through the Arabian Gulf, although the destination of two contracts was listed as "North," which usually means Turkey.

- The value of the contracts totaled \$15.4 million. This is the amount to be paid to SOMO. We do not have information about the amount of money Al-Basha'ir earned from the trade.

The following inset is a translation of a contract, signed 2 June 1992, between Al-Basha'ir Trading Company and Al Walid Company for Export and Import. The contract states that Al Bashir agrees to sell oil to Al Walid, who was to transport the oil by



Smuggler 'Volgoneft-147'
 Figure 19. A smuggling tanker.

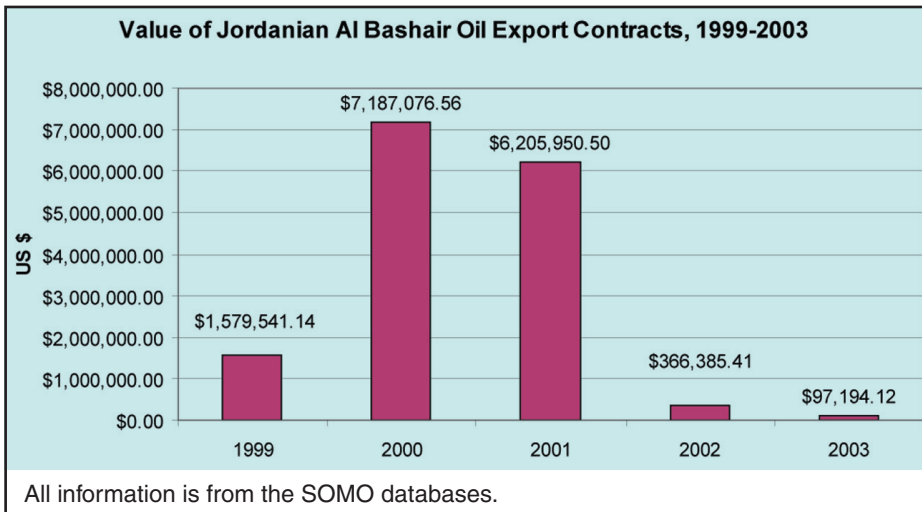


Figure 20. Value of Jordanian Al Bashair oil export contracts (1999-2003).

ISG Translation of an Oil Sale Contract signed June 1992

First Party: Al-Bashair Trading Company Limited
Address / Baghdad / Al-'Adl District / Area 645 / Lane 8 / House 39
Telephone #: 8852379

Second Party: Al-Walid Importing & Exporting Company Limited
Address / Baghdad / Jamilah District / Al-Talibiyah / Safi-al-Din Street
P. O. Box 5223

In accordance with the second party offer and approved by the first party, it was agreed that the second party would buy the Iraqi gas oil products in order to export it out of Iraq by land through Turkey, according to the following conditions:

1. Name of the Product: Iraqi gas oil
2. Quantity:
 - A) Approximately 132,000 US gallons per day plus or minus 10 percent. This quantity increased according to the availability of the product to 198,000 US gallons per day.
 - B) The total agreed quantity was over 14.5 million US gallons plus or minus 10 percent.
3. Quality: The guaranteed specifications of the product are in accordance with the local marketing specifications in Iraq.
4. Contract time period & implementation date: The contract is valid for 90 days starting on 15 June 1992, which is considered the starting date for carrying out the contract. On the condition of legalizing the contract one week from the contract's signing date, the contract can be renewed to an extra time period according to the approval of the two parties.
5. Freight:
 - A) Freight will be by the foreign tank trucks that enter Iraq from the northern zone and are specified by the purchaser who has to inform the seller about them as soon as they enter Iraq.
 - B) Freight site is Hamam Al-'Alil store in Ninawa governorate or any other suitable site agreed by both parties.
 - C) Freight should be for the full capacity of the tank truck (tanker).
Also safety & security conditions are in store for the capacity of the other tankers in case of emergency, except for the main fuel tanker truck.
6. Final destination:

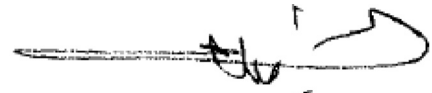
Turkey, through Iraqi borders.
7. Price:
 - A) 4 American Cents per liter freighted on the tank truck in the freight store.
 - B) The aforementioned price is fixed for freight all the mentioned quantity in clause 2 of the contract, in accordance with the mentioned freight procedures in above-mentioned clause 5.
8. Payment:
 - A) Purchaser has to pay for the freighted product every ten days in cash in US dollars to the bank account of the company (first party) in the Central Bank of Iraq or any other bank account the first party chooses, in accordance with the commercial list issued by the first party.

- B) Second party committed to pay the commercial list for the freighted quantities every ten days, within four days from date of issue, unlike the first party which has authority to stop freighting and/or apply delay interests on the second party in accordance to the ruling bank rate.
9. Contract implementation guarantee: The second party has to offer bank guarantee of the sum of 300,000 Iraqi Dinars for the benefit of the first party in order to guarantee the payments and implementation.
10. Implementation conditions:
- A) The contract valid only during the economic siege of Iraq only, hence the contract's clauses will be reviewed when the economic siege circumstances end.
- B) The first party will not bear any liabilities or responsibilities or expenses for the sake of transporting the product out of Iraq by the second party.
11. The first party has the right to cancel the contract in case of breaking any condition by the second party without requiring notice or court judgment.
12. Other conditions: Freighting executed in accordance to the general freighting conditions, operational instructions attached to the contract which are considered as an integral part of the contract.
13. All communications & correspondence between the two parties should be in accordance to the official addresses that are mentioned in the contract.
14. This contract must be legalized by the administrative board of the company within (7) days from the date of signing the contract.

Composed in Baghdad on 2 June 1992



First Party
Al-Bashair Trading Company Limited



Second Party
Al-Walid Importing & Exporting Company Limited

truck to the Turkish border. Although a valid contract during the duration of the UN sanctions on Iraq, it was to be reconsidered if the sanctions were lifted. The contract was scheduled to permit the shipment of approximately 132,000 US gallons per day (plus or minus 10 percent) and this figure could increase to around 198,000 US gallons per day, depending upon available supplies. The total quantity to be sold was approximately 14.5 million US gallons (plus or minus 10 percent) within a 90-day period, as from 15 June 1992 and might be renewed dependant upon both parties agreement. Monies were to be paid into an account at the CBI.

Figure 21 is a summary of a letter from the Wadi Hajar Trading Company Baghdad to Scrufys Moro Holdings, Pediment Holdings, Occelus Company, Limassol, Cyprus. This letter refers the signed contract between the Pediment Company and the National Iranian Petroleum Distribution Company. The start date for delivery was specified as 15 December 1993 and the delivery was to the port of Bandar e Mahshahr. The Iraqi side gave guarantees of security.

Figure 22 is a contract between the national Iranian Petroleum Distribution Company Tehran, Iran and Pediment Holdings Tehran (registered in Cyprus) who was represented by a Mrs. Parvin Moeini Jazani. The subject of the contract was the delivery of 100,000 tons of gas oil by pediment Holdings. The place of delivery was given as the Oil Berth Jetty of Bandar e Mahshahr or Siri Island. The contract was signed on 06 December 1993.

The letter shown in Figure 23 is from Max Moini, who coordinated the shipment of oil products. Talks were held with various organizations including the National Iranian Tanker Company, National Iranian Oil Company, the Ministry of Intelligence (Iran) and the Foreign Affairs Ministry.

On 23 November 1993, A. J. Khazamipour, Managing Director of Rashi International, sent a letter (see Figure 24) to Mr. Goran from the Pediment Holding Company. Rashi International, a Dubai-based company and a subsidiary of I.O.S. group of companies, passed on to Goran a "tax" bill from the Iranians for using the "coordinated area" during this operation. The Iranians valued their support at 40 cents per ton plus 10 cents for the "coordination" expenses.

Soon after, A. J. Khazamipour and Rashi International sent another letter dated 29 November 1993 (see Figure 25) to Mr. Goran of Pediment Holding requesting that he pay \$40,000 for a deposit for the project.

A copy of two checks (see Figure 26) made out to Mr. Moini for the "deposit concerning diesel operations." One check is \$40,000 for the deposit and the second for \$6,250 covering the 25-percent commission fees. The signature in the check's signature block resembles the signature of A. J. Khazamipour from the previous letters discovered from a named US company .

Figure 27 is a contract for petroleum products between the seller, Wadi Hajar Trading Company, Ltd., of Baghdad and the buyer, Pediment, Ltd., Limassol, Cyprus. The contract discusses the options of using barges or pipelines. Interestingly, it is specified that the transport of the oil products might be by road tankers. The contract stipulates that the buyer undertakes to issue a letter of guarantee for a value of \$1million.

Figure 28 is a letter addressed to Mr. Muhammad Said Kuba from Pediment Holdings, Ltd., Cyprus. The letter states that Pediment is ready to buy petroleum products via the Iraq-Iran border pass at Zirbatia Mehran by using trucks. Payment for such was to be made by cash to an Amman Bank account.

The recovered contract shown in Figure 29 listed the seller, Al-Basha'ir Trading Company, Ltd., Baghdad, and the buyer, Unipack Paris Company. The contract was signed and dated 27 April 1993. The products mentioned include gas oil, kerosene, gasoline and fuel oil and it is indicated that the transport of the products will be by road tankers and will take place at Basra storages.

Next, Figure 30 shows a letter authorizing the Czech Republic Company, Exim Praha, to procure crude light oil from the Iranian border.

Figure 31 is a telex from a French bank to a bank in Brussels that indicates that Vitol Geneva of Switzerland opened a letter of credit for Unipack of Belgium for an amount of \$12,518,129.

TO : WADI HAJAR TRADING CO
ATTN : MR. M.S. KUBBA
FROM : SCRUPY S MORO HOLDINGS, PEDIMENT HOLDINGS, OCCELUS CO
REF : BARTER

DEAR SIR,

REFERENCE OUR TODAY CONVERSATION WE WOULD LIKE TO INFORM YOU ABOUT OUR PROPOSAL (SUGESTIONS) IN FINALAZATION OF THIS DEAL. AS YOU CAN SEE FROM THE COPIES WHICH IS WITH YOU PEDIMENT CO. SIGNED CONTRACT WITH N.I.O.C. CO. FROM THE CONDITIONS OF CONTRACT WE HAVE TO START WITH DELIVERY 15.12.1993. TO PORT BADDAR MASHAR. THE BEST WAY IS TO USE BARGAS. OUR SUGESTION IS THAT WE USE A BARGAS. FROM THIS CONTRCT YOU CAN SEE THAT IRANIAN SIDE GAVE US THE WHOLE GUARANTEE FOR SECURITY OF YOUR BARGAS, AND ALSO WE ARE PAYED FOR IT AS YOU CAN SEE FROM THE COPIES OF THE CHECKS. WE WILL START WITH ONE BARGA AS TEST-DELIVERY FROM YOUR PORT IN BASRA AREA AND WE ARE READY TO SUPORT VALUE OF THE BARGA WITH BANK GUARANTEE FROM PRIME WORLD BANK.

FROM YOUR SIDE WE NEED INFORMATIONS ABOUT BARGAS , AMOUNT OF BARGAS , CAPACITY OF EACH ONE , CAPACITY OF THE PUMPS PER HOUR IN THE PORT AND ON BARGA, HOW MANY BARGAS IS AVAILABLE , YOUR READINESS FOR STARTING OF THE OPERATION. DURING THE DAY WE WILL LOAD AND ANLOAD THE GOODS (GASOIL) AND DURING THE NIGHT WE WILL NAVIGATE.

FOR THE GOODS WE CAN OFFER YOU A BANK GUARANTEE WHICH YOU HAVE A COPY WITH TRANSFERABLE NOTE TO WADI HAJAR TO JORDANIAN FINANCE AND INVESTMENTS BANK AMMAN.

ALSO WE ARE ORGANIZE ONE VESSEL CAPACITY 3000 MT WHICH WILL ENTERIT TO YOUR TERRITORIAL WATER AND LOAD IN SHAT EL ARAB OR CHANGED CAPACITY " FULL FOR EMPTY ". THAT VESSEL WILL NAVIGATE

FROM PLACE OF LOADING TO DUBAI EVERY 3 TO 5 DAYS.

MR. KUBBA , AS YOU CAN SEE OUR GROUP OF COMPANIES WORKED VERY HARD IN ORDER TO FIND A GOOD AND SAVE WAY AND WE BELEIVE THAT WE ARE DONE IT. IN OUR OPINION IS TAHT THE WAY THROUGH N.I.O.P.D.C. IS THE BEST WAY AT THIS MOMENT AND WE BELEIVE THAT YOU WILL DO YOUR BEST TO HELP TO ALL OF US TO FINALIZE IT SUCCESFULLY.

LOOKING FORWARD TO HEAR FROM YOU PROMPT ANSWER ,
WE REMAINE ,

BRANKO GARIC



Figure 21. Summary of a letter from the Wadi Hajar Trading Company.

Official Translation

In the Name of God . CONTRACT DISTRIBUTION

HEREWITH ,this contract is made and concluded between :

1. National Iranian Petroleum products Distribution Company , with address at :Tehran Bahar Ave.Corner of Somayeh hereinafter will be referred to as "DISTRIBUTION COMPANY" , from one side , and
2. Pediment Holdings, with address at :Tehran ,Kerim Khan.Zand Ave. North Aban st.Bank Tejarat ,Negin Building 1s .semi-floor No.107 reg.No.46997 (Cyprus) with being represented by Mrs.Parvin Moeini-Jazani , hereinafter will be referred to as Pediment Holdings from other side ,:

Art.1. Subject of this contract :
 Delivery of 100,000 Tons of GAS OIL by Pediment Holdings to the Distribution company . and against such delivery (i.e. Gas Oil) - receiving 170,000 Tons of Furnace Oil from the Distribution company .

Note : The above mentioned volumes can be increased according to written agreement and confirmation of both parties on the basis of Ratios (proportions) as stipulated in Art.2

Art.2 Manner for Barter Deal
 Against delivery of each TON of Gas Oil by Pediment Holdings to the Distribution company - equivalent of 1.7M Tons (one point seven)Furnace Oil shall be delivered by the Distribution company to Pediment Holdings company .

Art.3. Place of delivery :
 Delivery Place of Gas Oil is at :Oil Berth(Jetty) of Bandar Mahshahr , OR Siri Island , and place of receiving Furnace Oil shall be the Berth for Export (Export Port) of Mahshahr .

Art.4. Duration of this contract
 Duration of this contract ,from preparation of (execution) of this contract ,for delivery of GAS OIL by Pediment Holdings company will be 45 days ,and about delivery of Furnace Oil the delivery Period shall be Max. 3 Months .which according to both parties confirmation it can be extended .




Figure 22. Contract between the National Iranian Petroleum Distribution Company Tehran, Iran and Pediment Holdings Tehran.

pp2.

- Note 1 : 1st. Gas Oil consignment shall be delivered to Distribution company on 15th. Dec. (Iranian date .24.9.1372) .
- Note 2 ; 1st. furnace Oil consignment should be within 72 hours after receipt of 1st. Gas Oil consignment .
- Note 3 : Delivery dates for subsequent consignments of Gas Oil in capacities of 25,000 MT, after announcement of Distribution company, shall be Max. 45 days , and subsequent delivery of Furnace Oil shall be within Max. 3 months after delivery of 1st. delivery of Gas Oil .

Art. 5. Particulars of the products
Specifications of products shall be according to the Standards of Distribution company , and on the basis of attached Technical specifications which shall be considered as an integral parts of this contract . In case either one of the products does Not conform with technical specifications as stated , BOTH parties are entitled by announcing the matter and mentioning the reasons avoid and decline from taking delivery of the products , in which case neither one of the parties will have the right to protest or raise loss claims, and if either one would Institute any such claims to any authorities, it shall be considered as VOID and Invalid .

Note : Specification of Gas Oil , shall be checked by taking sample from vessel carrying gas oil , prior to its receipt - and Specifications of Furnace Oil shall be checked, and determined at Tanks of the Distribution company prior to be delivered to the vessel of Pediment Holdings company .

Note: According to the requisition of Pediment Holdings company , if needed , it is possible to use representative of SGS Inspection company for sample taking and testings, in which case cost incurred and sustained by this services shall be paid by Pediment Holdings company .



Gholamhossein Karmani English Official Translator to the Ministry Of Justice Of Islamic

Figure 22. Contract between the National Iranian Petroleum Distribution Company Tehran, Iran and Pediment Holdings Tehran (continued).

P. 5.

Art. 6. Responsibilities resulted from any problems resulted from stoppage of unloading operations from vessel containing Gas Oil caused by non Iranian factors shall be borne by Pediment Holdings, and in this connection Distribution company shall have no responsibilities .

Note : Distribution Company is responsible ,after announcement of the pediment company (Pediment Holdings)take on time actions for unloading vessel carrying as oil , and in case of having un-necessary delays more tha common period (on the basis of International tariff and standards) the pay the respective demurrage costs .

Art. 7. In case of occurrence of any disputes in connection to above mentioned products ,both parties agreed that by introducing representative from both parties take action to resolve the possible disputes and problems (rectify them),and if they failed to reach the agreement (i.e. agents from both sides) the case shall be assigned to the Department for supervision on Export of Oil materials and Technical Inspection division of OIL Ministry .

Art. 8 This contract constitutes 8 arts. and 7 notes ., and it is signed on 6th. Dec. 1993 in two copies which both copies having identical validity and authentication , and it is effective and binding as of 6th. Dec. 93. for BOTH parties concerned .

signed and sealed : 1.-National Iranian Petroleum products Distribution company NI O P D C - by its representatives :
 Mr. Mohammad Ali Yazdan Bakhsh /Mr. Ali Agha-babaei
 Mr. Firouz Sohrabi /
 Positions respectively :Supply Distribution director /Transport Director /Commercial director

2.-Pediment Holdings company .
 Mrs. Parvin Moeini Jazani

Seal of OIL Ministry - above mentioned Distribution co. as affiliate
 co. of this Ministry . seal of Pediment Holdings co.

Attest: H. ... English Official Translator to the Ministry Of Justice




Figure 22. Contract between the National Iranian Petroleum Distribution Company Tehran, Iran and Pediment Holdings Tehran (continued).

DEAR A.J.,
IEN SUR TELEPHON LAST NIGHT AND YOUR FAX TODAY 23.11.93 7 AM. PLEASED
TO BRING YOUR KIND ATTENTION TO THE FOLLOWINGS:
1. AS ALREADY EXPLAINED TO COORDINATE THE SHIPS PROJECT WE HAD TO
TALK WITH OUR PEOPLE IN DIFFERENT ORGANIZATIONS SUCH
AS: NATIONAL IRANIAN TANKER CO.,
NATIONAL IRANIAN OIL CO.,
MINISTRY OF INTELLIGENCE,
FORIGN AFFAIRS MINISTRY.
THESE CO-ORDINATIONS IS ESSENTIAL BECAUSE OF THE POLITICAL ASPECTS
THE PROJECT AND ALSO TO SECURE THE SHIPS OPERATIONS.
WE ARE ALREADY GIVING GRANTEE FOR 70,000 USD WHICH SHUOLD BE PAIED
FORE THE SHIPS LOADING, ALSO 30,000 USD IS PAIED TO THE IN ADVANCE.
S A.M. CHARGES ARE FOR THEIR INFORMATION AND THEIR TRY TO GET THE
IMPORTANCE OF THE FIRST RANK MANAGERS.
ALSO FOR THE SECURITY BACK UP DURING THE LOADING THEY ARE LOOKING
AT LEAST 0.30 USD/MT IN EACH CARGO WHICH WILL BE PAIED AFTER LO-
NG BUT WE MUST GIVE THEM A RELIABLE GRANTEE BEFORE LOADING.
AT THE TIME BEING THEY ARE PUSHING ME FOR THEIR GRANTIES: A FEW
TE AGO I HAD A TELECON WITH THEM AND THEY EMPHESIZED THAT "IF WE
OT RECIEVE OUR CASH AND GRANTEE WE WILL NOT PRINITE THE SHIPS TO
HE JOB".
BE NOTE THAT NOW THEY ARE SENSITIVE AND THEY MAY MAKE MANY TRUB-
OR ME AND THE PROJECT.
SURE THAT YOU UNDERSTAND MY SITUATION YOU WILL TRY YOUR BEST TO

Figure 23. Personal letter
from Mr. Max Moini.



رشي العالمية
RASHI INTERNATIONAL
 SUBSIDIARY OF I.O.S. GROUP OF COMPANIES



DATE : OUR REF. NO. : YOUR REF. NO. :

TOP URGENT

DATE : NOVEMBER 29, 1993
 OUR REF NO. : F05280/1193/AJK
 TO : PEDIMENT HOLDING LTD.
 ATTN : MR. GORAN
 FAX NO. : 00 3575 340 190
 SUBJECT : SHIPMENT PROGRAM

DEAR MR. GORAN,

I HAVE A FAX ON MY DESK FROM TEHRAN, IT IS IN FARSI, BUT FOLLOWING YOU WILL FIND TRANSLATION OF THE FAX.

"QUOTE":

MR. KHAZAMIPOUR

WE HAD A MEETING WITH ALL MEMBERS INVOLVED IN THE OPERATION OF LIFTING PETROLEUM PRODUCTS SHIP TO SHIP AND ALL AGREED ON FOLLOWING.

- 1 - IF MR. GORAN WANT US TO START THIS PROJECT YOU SHOULD FIRST SEND US A CHECK FOR US\$ 40,000 AS AGREED. THE CHECK SHOULD BE AS DEPOSIT WITH US "KEPT IN PETRO BET CO." THE CHECK SHOULD BE DATED FOR ONE DAY AFTER SHIPMENT THE MOTHER VESSEL STARTED.
- 2 - REGARDING 25 CENTS/MT COMMISSION, YOU SHOULD GIVE US A GUARANTEE FOR EACH SHIPMENT BEFORE STARTING SHIP TO SHIP LOADING.

FOR EXAMPLE FOR THE 25,000 MT SHIPMENT WHICH YOU WANTED CORDINATION, YOU SHOULD SEND US A GUARANTEE CHECK FOR \$ 0.25 X 25,000 = \$ 6,250 BEFORE STARTING SHIPMENT FROM YOUR SHIP TO MOTHER VESSEL.

BANKER:
 BANK MELLIRAN
 DUBAI MAIN BRANCH
 TEL. 9714-288207
 FAX. 9714-217096
 ACCOUNT NO.

NOV 29 '93 11:27

RASHI

Figure 25 . Second letter from A.J. Khazamipour, Rashi International.

I.O.S. COMPANY, INCORPORATED 1027

10 017

PAY TO THE ORDER OF MR. MEHRDAD MOINI \$ 40,000/-

U.S. DOLLARS FORTY THOUSAND ONLY. DOLLARS

Bi. G. J.

FOR DEPOSIT OF DEIRAL OPERATION.

⑆001027⑆ ⑆063100277⑆ 3601528827⑆

I.O.S. COMPANY, INCORPORATED 1026

10 017

PAY TO THE ORDER OF MR. MEHRDAD MOINI \$ 6,250/-

U.S. DOLLARS SIX THOUSAND TWO HUNDRED AND FIFTY ONLY. DOLLARS

Bi. G. J.

FOR DEPOSIT FOR DEIRAL LISTING OPERATION

⑆001026⑆ ⑆063100277⑆ 3601528827⑆

Figure 26. Two checks to Max Moini.

Petroleum Products Contract

This contract is made between WADI HAJAR TRADING COMPANY LTD. hereinafter referred to as "SELLER" and PEDIMENT HOLDINGS hereinafter referred to as "BUYER" where by it is agreed that SELLER shall sell F.O.T. and /or by Barges and /or by pipeline and Buyer shall buy F.O.T. and /or by Barges and /or by pipeline and pay for the following terms and conditions:

1-Products: GASOIL
KEROSENE
GASOLINE
FUELOIL

2-Quality :The guaranteed specification of the petroleum products to be delivered by SELLER to the BUYER shall be as per annexes A,B,C AND D . any change of specs. shall agreed upon by both parties.

3-Quantity:SELLER undertakes to deliver ,and BUYER undertakes to receive a quantity of petroleum products as follows:

GASOIL: about 200000 M/TONS
KEROSENE: about 100000 M/TONS
GASOLINE: about 50000 M/TONS
FUELOIL : about 120000 M/TONS

The Buyer will nominate the quantity to be delivered as atrial Qty. Further deliveries will be nominated by the Buyer with the specified products, quality and quantity.

4-Validity: A-This contract shall be valid from the date of signature and shall continue until the quantities specified above is delivered and in any case upto (90) days from the date of signature. in case that more than 50 pcte from the contractual quantity is lifted by the Buyer within the ninety days then the validity of the contract will be automatically extended for 45 days.

B-Buyer should commence lifting within one month from the date of signature. Failing to do so, the seller has the right to cancel this contract with no prior notice.

5-Delivery: A-Lifting of the products shall be by road tankers and /or by Barges and/or bu pipeline. and shall take place at Border (Muhran point) and/or any other delivery site that may be agreed upon.

Figure 27. Contract for petroleum products.

Figure 27. Contract for petroleum products (continued).

C-Should there be at any time during the period of the contract an alternative route or mean to deliver the product which is more suitable and economical for both parties other than the route or mean specified above, The two parties agree to consider it with a view to amend the provisions of the contract accordingly.

6-PRICE: The price of the products delivered FOT EX-Iraqi Border and or FOB on barges or and or by pipeline (last pumping station in Iraqi Border) shall be as follows:

GASOIL : (112) U.S.DOLLAR /ONE HUNDRED TWELVE/
KEROSENE : (118) U.S.DOLLAR /ONE HUNDRED EIGHTEEN/
GASOLINE: (128) U.S.DOLLAR /ONE HUNDRED TWENTY EIGHT/
FUEL OIL : (25) U.S.DOLLAR /TWENTY FIVE/

Payment
=====

The Buyer undertakes to issue a letter of guarantee for a value of (1000 000) one million U.S.Dollar in favour of the Seller at a Jordanian Bank acceptable to the Seller. This letter of guarantee should be valid and effective through out the period and validity of the contract.

The Buyer will pay to the Seller within 3 days, after presentation of the Seller's commercial invoices together with weekly certificate of Qty issued by the Seller, the value of the quantity loaded for the prior week by telegraphic transfer to the Seller's account. Failing to do so the Seller shall have the right to present the commercial invoices and the bill of lading or truck vouchers signed by the Buyer representative at delivery site to the Bank and deduct the value of the products delivered from the established Bank guarantee without referring to the Buyer.

All charges related to issuing this letter of guarantee shall be borne by the Buyer.

8- Assignment :neither party shall have the right to assign part or all the contract Obligations and rights to a third party without the prior written consent of the other party.

9- Force majeure:
A-Neither party shall be held responsible for any failur, shortcomings or delays regarding the fulfilment of the contact terms and conditions if that was due to force majeure.
B-If by reason of force majeure the fulfilment by either party of any terms and conditions of this contract is delayed for a period not exceeding one menth the period of such delay shall be added to the duration of this contract. If however, the period of delay exceeds one month either party shall have the right to terminate this contract by giving a written notice.

10-Arbitration: Any claims or disputes that may aries during the period of this contract shall be settled by mutual agreement between the parties concerned .In case of disagreement matters will be settled by arbitration institution approved by both parties.

11-Addresses:The addresses of the contracting parties are as follows:-
A-WADI HAJAR TRADING COMPANY LTD.
Baghdad Hay Alwahda
M 904 S 50 H 3
B-PEDIMENT HOLDINGS -CYPRUS LIMASSOL
3 KATSONG DOU STR
TEL:3575-340 523 FAX 3575-340 190
3575-340 383 TLX 9605-4851 SCMCY

ONE AND SIGNED IN BAGHDAD ON /7/1993

for/ WADI HAJAR TRADING COMPANY LTD FOR PEDIMENT HOLDINGS.

Figure 27. Contract for petroleum products (continued).

Baghdad 14th July 1993.

Attn. : Mr MUHAMAD SAID KUBA

Dear Sirs,

Subject: REQUESTS FOR CHEM. MATERIALS

Company PEDIMENT HOLDING LTD., Cyprus-Limaso. is ready to buy from your side the next types and quantities of chemical products:

1. HEXAN	2.200	MT /USD	1,000.-	per ton
2. L.A.B.	7.400	MT /USD	650.-	per ton
3. PARAFIN/WAX	6.000	MT /USD	500.-	per ton
	TOTAL PRICE		USD	10,010,000.-

4. PARITY: Iraq-Iran border /pass ZIRBATHA-MEHRAN
5. TRANSPORT BY TRAKS-
6. PAYMENT: CASH / Amman Bank ACCOUNT.

B. Mijatovic

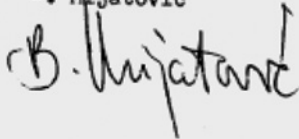


Figure 28. Letter addressed to Muhammad Said Kuba.

Petroleum Products Contract

This contract is made between AL-BASHAIR TRADING COMPANY LTD. (BTC) hereinafter referred to as "SELLER" and UNIPACK PARIS (UP) hereinafter referred to as "BUYER" where by it is agreed that SELLER shall sell F.O.T. and BUYER shall buy F.O.T. and pay for the under-mentioned quantity of petroleum products according to the following terms and conditions :

1-Products: GASOIL
 KEROSENE
 GASOLINE
 FUELOIL

2-Quality : The guaranteed specification of the petroleum products to be delivered by SELLER to BUYER shall be as per annexes A,B,C AND D . any change of specs. shall agreed upon by both parties.

3-Quantity: SELLER undertakes to deliver and BUYER undertakes to receive a quantity of petroleum products as follows:

GASOIL:	about 200000 M/TONS
KEROSENE:	about 100000 M/TONS
GASOLINE:	about 50000 M/TONS
FUELOIL :	about 120000 M/TONS

4-Validity: A- This contract shall be valid from the date of signature and shall continue until the quantities specified above is delivered and in any case upto (90) days from the date of signature.

B- Buyer should commence lifting within one month from the date of signature. Failure to do so, the seller has the right to cancel this contract with no prior notice.

C- This contract is valid during the present U.N. embargo imposed on Iraq. If this embargo is lifted totally or partially, then the two parties will meet to review and discuss anew terms and conditions for the current contract.

5-Delivery: A- Lifting of the products shall be by road tankers and shall take place at BASRAH storages and/or any other delivery site that may be agreed upon.

B- Lifting shall be carried out in accordance with the operating "procedure supplement" attach herewith which will be considered as an integral part of this contract.

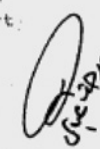
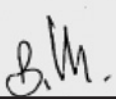



Figure 29. Contract between al Bashair Trading Company and Unipack Paris.

C-Should there be at any time during the period of the contract an alternative route or mean to deliver the product which is more suitable and economical for both parties other than the route or mean specified above, The two parties agree to consider it with a view to amend the provisions of the contract accordingly.

6-PRICE: The price of the products delivered FOB Ex-warehouse at BASRAH shall be as follows:

GAS OIL : (112)	U.S Dollar per M/TONS FOB	ONE HUNDRED TWELVE /
KEROSENE: (118)	U.S Dollar per M/TONS FOB	ONE HUNDRED EIGHTEEN /
GASOLINE: (128)	U.S Dollar per M/TONS FOB	ONE HUNDRED TWENTY EIGHT /
FUEL OIL: (25)	U.S Dollar per M/TONS FOB	TWENTY FIVE /

7-PAYMENT: A-(U.P) will pay in advance to (BTC) an amount in U.S.D equivalent to the estimated quantity of ten days loading ex any depot in Iraq accepted by both parties or by cash transfer to (BTC) account covering the shipments above, or by cash transfer to BTC account in AMMAN.

B-(U.P) will pay within seven days the value of the quantities loaded for the prior week and according to the presentation of the Seller's commercial invoices together with weekly certificate of Qty. issued by the Seller.

C-Any goods and commodities delivered as per contract no. 1/MPA/U/93 2/MPA-U/93 should be signed and confirmed by (U.P) representative immediately after the quantity is received and checked by (BTC). (U.P) should send the invoices to (BTC) in which the total value of these invoices will be accepted by (BTC) as a deposit in favour of (UP), and to be deducted from the value of petroleum products received by (UP) during the final settlement.

D-Letter of Guarantee
 Seller shall issue a letter of guarantee for a value of 500,000 U.S Dollars in favour of the buyer at Rafidian Bank to cover part of the advance payment made by the buyer. This letter of guarantee should be valid and remain effective throughout the period and validity of the contract.

B.M.

Figure 29. Contract between al Bashair Trading Company and Unipack Paris (continued).

assignment: neither party shall have the right to assign part or all the contract obligations and rights to third party without the prior written consent of the other party.

9- Force majeure:
 A- Neither party shall be held responsible for any failure, shortcomings or delays regarding the fulfilment of the contract terms and conditions if that was due to force majeure.
 B- If by reason of force majeure the fulfilment by either party of any terms and conditions of this contract is delayed for a period not exceeding one month the period of such delay shall be added to the duration of this contract. If however, the period of delay exceeds one month shall have the right to terminate this contract by giving a written notice.

10- Arbitration: Any claims or disputes that may arise during the period of this contract shall be settled by mutual agreement between the parties concerned. In case of disagreement matters will be settled by arbitration in accordance with the regulations of Baghdad chamber of commerce and the Iraqi Laws.

11- Addresses: The addresses of the contracting parties are as follows:-
 A- AL-BASHAIR TRADING CO. LTD
 SADOON St, ANI BUILDING
 Tel : 7170768 - BAGHDAD - IRAQ
 B- UNIPACK PARIS COMPANY
 PARIS A2-A6 rue amelot 75011
 TELEX : 211237 - Tel (1) 48 --6-70-99
 done and signed on 27 1993 APRIL - BAGHDAD

for : AL BASHAIR TRADING CO. LTD
 27-4-1993

B. Hijatovic
 FOR UNIPACK PARIS S.A
 B. HIJATOVIC
 TECHN. MANAGER

Figure 29. Contract between al Bashair Trading Company and Unipack Paris (continued).

TO WHOM IT MAY BE CONCERN

THIS IS TO AUTHORIZE
(IN FURTHER TEXT MANDATE)

AS A MANDATE OF THE COMPANY EXIM-PRAHA . CZECHREPUBLIC , PO BOX
76, 10000 PRAHA 10 CZ REPRESENTED BY MR. M. REJFEK MANAGING DIRECTOR
(IN FURTHER TEXT THE OWNER TO SELL QUANTITY OF THE FOLLOWING
COMMODITIES

CRUDE OIL LIGHT WITH THE FOLLOWING SPECIFICATION

API - 34.0
S 1.95% MAX
POUR POINT - 15 DEGREES

DELIVERED FOB IRAN BORDER IN EQUAL DAILY LOTS

2 . PRICE OF THE GOODS

PRICE TO BY CALCULATED BASED ON DUBAI PLATT LESS DISCOUNT AVERAGE
ONE DAY OFF THE LOADING AND DAY AFTER LOADING

DISCOUNT NET LESS THAN DUBAI PLATT NET TO THE BUYER

MANDATE WILL HAVE THE RIGHT TO NEGOTIATE SELLING CONDIFIONS OF THE ABOVE
MENTIONED GOODS MANDATE WILL INFORM THE OWNER ABOUT ANY ACTION .

THE FIANEL DECISION OF SALE BASED ON THE AGREED PROCEDURE WITH THE
CUSTOMER WILL BE MADE ONLY BY THE OWNER OF THE GOODS .

CONDITIONS OF THE RELATION BETWEEN OWNER OF THE GOODS AND THE
MANDATE WILL BE AGREED IN A SEPARATE AGREEMENT .

THIS MANDATE IS EXCLUSIVE AND WILL BE IN FORCE TWO YEARS AFTER THE
DATE BELOW FOR THE SALE OF ABOVE MENTIONED GOODS .

Figure 30. Letter authorizing the Czech Republic Company, Exim Praha, to procure crude light oil.

* T E L E X * HADDADAIRE 1 * T E L E X *
R90 : C.C.V 211237F 168 1902 CRETRAF 680720F PARIS JUNE 17TH 1/5

*
C.C.V 211237F
168 1902
CRETRAF 680720F
PARIS JUNE 17TH 1993 MSG NR 150708/D

FROM BANQUE TRAD CREDIT LYONNAIS (FRANCE) SA PARIS

TO ASLK-CGER BANK U R G E N T
RUE DU FOSSE-AUX-LOUPS
1000 BRUXELLES
ATTN DOCUMENTARY CREDIT DEPT
TELEX 26860 CGER SKB

WE BANQUE TRAD-CREDIT LYONNAIS (FRANCE) SA , PARIS HEREBY OPEN OUR
IRREVOCABLE DOCUMENTARY LETTER OF CREDIT NO. 14 508

BY ORDER OF:

VITOL S.A.
ROUTE DE MALAGNOU 40 A
CH-1211 GENEVA 17

IN FAVOUR OF:

UNIPACK *Belgium S.A.*
62-66 RUE AMELOT
75011 PARIS - FRANCE

FOR AN AMOUNT OF : APPROX. USD 12 518 129,-
(USDOLLARS TWELVE MILLION FIVE HUNDRED EIGHTEEN
THOUSAND ONE HUNDRED TWENTY NINE APPROXIMATELY)

VALID UNTIL : SEPTEMBER 15TH 1993 AT OUR COUNTERS IN PARIS

AND AVAILABLE BY DEFERRED PAYMENT ⁽²⁾ TO CALENDAR DAYS AFTER BILL OF
LADING DATE AGAINST PRESENTATION OF THE FOLLOWING DOCUMENTS ISSUED IN
ONE ORIGINAL AND 5 COPIES UNLESS OTHERWISE STATED:

(2) ✓
SIGNED COMMERCIAL INVOICE STATING WEIGHT IN METRIC TONS AND BARRELS

(2) ✓ *à l'ordre de l'expéditeur*
FULL SET 3/3 ORIGINAL CLEAN ON BOARD OCEAN BILLS OF LADING
ISSUED OR ENDORSED TO THE ORDER OF VITOL S.A. - GENEVA MARKED:
"FREIGHT PAYABLE AS PER CHARTER PARTY" OR "FREIGHT PREPAID",
EACH ORIGINAL BILL OF LADING TO BE ORIGINALLY SIGNED BY THE MASTER
AND SHOWING DESTINATION: ROTTERDAM

(3) ✓
CERTIFICATE OF QUALITY ISSUED OR COUNTERSIGNED BY INDEPENDENT
SURVEYOR (SGS OR SAYBOLT OR INSPECTORATE) SHOWING THAT THE PRODUCT IS

..!..

Figure 31. Telex from a French bank to a bank in Brussels.

Figure 32 shows a contract between Unipack of Paris and a Turkish company called Gonen Tasimacilik Gemi. The contract stipulates that Unipack pay an advance of \$150,000 and in return Gonen would supply 60 standard road tankers with a capacity of between 20,000 to 35,000 liters. The Gonen Company is to transport kerosene, mazul, super benzene, crude oil and fuel oil, from Basra in Iraq to Bandar Humayni, Iran. A roundtrip of 250 km.

Next, figure 33 is another Telex from Vitol Geneva, to a French Bank and copied to Unipack of Paris. It details shipments of oil for August and September 1993. Banks in Slovakia and the Union Bank Swiss Geneva are also mentioned.

On 15 October 1993, First Yu Swiss Bank Belgrade sent a letter of guarantee (see Figure 34) to Wadi Hajar Trading Company Baghdad. The letter refers to a contact between Ocellus Company Limited and Wadi Hajar Trading Company concerning the delivery of spare parts for agricultural machines worth \$50,000,000.

Figure 35 is a letter dated 30 December 1993 to a Mr. Jamal Fariz, Manager of the Foreign Exchange Department at the Jordanian Investment and Finance Bank, who speaks of a contract that was concluded between Ocellus Company and a Mr. Hadi Talub Ibraheem, concerning the delivery of spare parts for agricultural machines for the amount of \$50,000,000.

CONTRACT

Concluded between ;

COMPANY : UNIPACK
62-66 RUE AMELOT , PARIS
COMPANY : GONEN TASIMACILIK GEMİ AÇT. VE TİC. LTD.
URAY CAD. TURAN İSH. KAT. 1/101 MERSİN

OBJECT : Both Companies concluded the president contract given subjects on below.

- 1-GONEN CO. Will transport Kerosene, Mazul, Super Benzine, Crude oil, Fuel oil, etc. from Basra/IRAQ to Bander Humayn/IRAN and the roundtrip is approximately 250 km.
For this transaction GONEN CO. will send 60 standart roadtankers of about 20.000 lt-30.000 lt to IRAQ
+ 35.000 Lit.
- 2-The whole transaction term is at least 6 months after signing the contract, but if it is necessary this term can be extended.
- 3-Transport freight is US \$ 9,75 (nine Dollar and seventyfive Pence) for all kinds of goods.
Above mentioned price does not cover;
A- Shipment expenses of roadtankers, +
B- Discharge expenses of roadtankers, +
C- Customs expenses, +
D- Insurance, +
E- All kinds of taxes and the other expenses. +
- 4-The INVARIABLE LOSS or WASTAGE is agreed %8 on total weight.
2
120.000
- 5-Before the beginning of the transaction, UNIPACK CO. will forward to GONEN CO. US \$ 150.000,- in advance. This advance will be paid back by GONEN CO. in equal monthly payments during the 6 months.
monthly
- 6-Payment of this transaction will be invoiced by GONEN CO. in every ~~15~~ days and the payment will be done by UNIPACK CO. to GONEN CO. at sight of the invoice. All the payments will be done by USD.
- 7-Monthly transportation programme will be given by UNIPACK CO.
- 8-UNIPACK CO. will help to organize the accommodation and the communication of GONEN CO.'s employees.
- 9-All the visa problems of the drivers and employees of GONEN CO. in IRAQ will solve by UNIPACK CO.

Figure 32. Unipack of Paris contract.

10-If the road tankers wait more than 48 hours at IRAQ or IRAN customs or because of the problems arising from the both governments or the problems of shipping and discharging of the road tankers, UNIPACK CO. will pay to GONEN CO. US \$ ~~75~~ 50 (seventyfive usd.) for per truck/daily.

11-All the passing easiness of road tankers on the police stations, both customs and check points will be executed by UNIPACK CO.

12-The cleanliness of KEROSENE tankers will be carried out by IRAQ Governments through UNIPACK CO.

13-If the transportation is stopped and road tankers have to return to TURKEY empty because of UNITED NATIONS decisions or any reasons about local situations and political circumstances or the other causes, UNIPACK CO. will pay US \$2,000.- (two thousand USD.) to GONEN CO. for per truck as an indemnities.

14-All the taxes which will be charged by IRAQ Governments from the drivers or GONEN CO. will be belong to UNIPACK CO.

15-The present contract will be enter into force by signing both sides for one year and can be prolonged for more longer. This contract could be unaladed some of this conditions change if a cancellation agreement will be done between companies .

16-Any dispute arising out of or in connection of this contract shall be finally resolved in amiable by both companies. In ultimate case the decision of International Chamber of Paris is final and undisputable.

SIGNATURES :

GONEN CO.
Represented by YASAR GONEN

UNIPACK CO.
Represented by MIRKO SISOVIC

Figure 32. Unipack of Paris contract (continued).

* T E L E X * HADDADAIRE 1 * T E L E X *
R148 : C.C.V 211237F 189 1825 VIT CH T130632.002 FROM 1/2

*
C.C.V 211237F
189 1825
/IT CH
T130632.002

FROM VITOL GENEVA. PLS REPLY TO NR: 423421

18:26 8 JUL 93

FM VITOL S.A. - GENEVA
TO BANQUE TRAD CREDIT LYONNAIS (FRANCE) S.A. - PARIS
ATTN LAURENT HEPNER

CC UNIPACK - PARIS
ATTN MR SISOVIC

DOCUMENTARY CREDIT NBR 14508 FAVOUR OF UNIPACK

- SHIPMENT TILL AUGUST 10TH, 1993.
- VALIDITY TILL SEPTEMBER 3RD 1993. ? 45. *mont.*
- FURTHER FUNDS ALLOCATION TO BE DONE UNDER ABOVE LC:

A. GONEN TASIMACILIK (TRANSPORTEURS TERRESTRES)
GEMI ACENTALIGI TICARET LTD. STI.
BANK:EGEBANK A.S. MERSIN BRANCHE
URAY CADDESI NO.25 MERSIN/TURKEY
TLX: 67288 EGBM
FAX: 74 321 581
TEL: 74 321 580
ACCOUNT NO.: USD 949723
CORRESPONDANT BANK:AMERICAN EXPRESS BANK
LTD.,NEW YORK
ACCOUNT NO: USD -176032
USD 450.000 ✓

B. ECO MONITORING A.S. (FOURNITURE POUR RAFFINERIES)
VISEOBICNA UVEROVA BANKA A.S.
POBOCKA BRATISLAVA SLOVAQUIE ✓
USD 2,392.000

C. UNION BANK SWISS (UBS) (FOURNITURE DIVERSES)
GENEVE ✓
ACCOUNT NUMBER 405 771 60 M USD 3,223.903 ✓

ABOVE FUNDS AT THE DISPOSAL OF ABOVE PARTIES UNDER THE FOLLOWING
CONDITIONS ALREADY APPLIED TO THE OTHER FUNDS MADE AT THE DISPOSAL OF
OTHER THIRD PARTIES:

1. TRANSFER TO THIRD PARTIES SHOULD IN NO CIRCUMSTANCES BE OVER THE
CARGO VALUE CLAIMED DULY DOCUMENTED AT YOUR COUNTERS
2. UNIPACK HAS TO PRODUCE A LETTER OF RELEASE FOR EACH SINGLE PAYMENT
AT THE TIME THEY CLAIM FOR THE CARGO VALUE AND ACCORDINGLY SO LONG
PAYMENT TO THIRD PARTIES ARE NOT OVER CARGO VALUE, UNIPACK IS FREE

Figure 33. Telex from Vitol Geneva to a French bank.

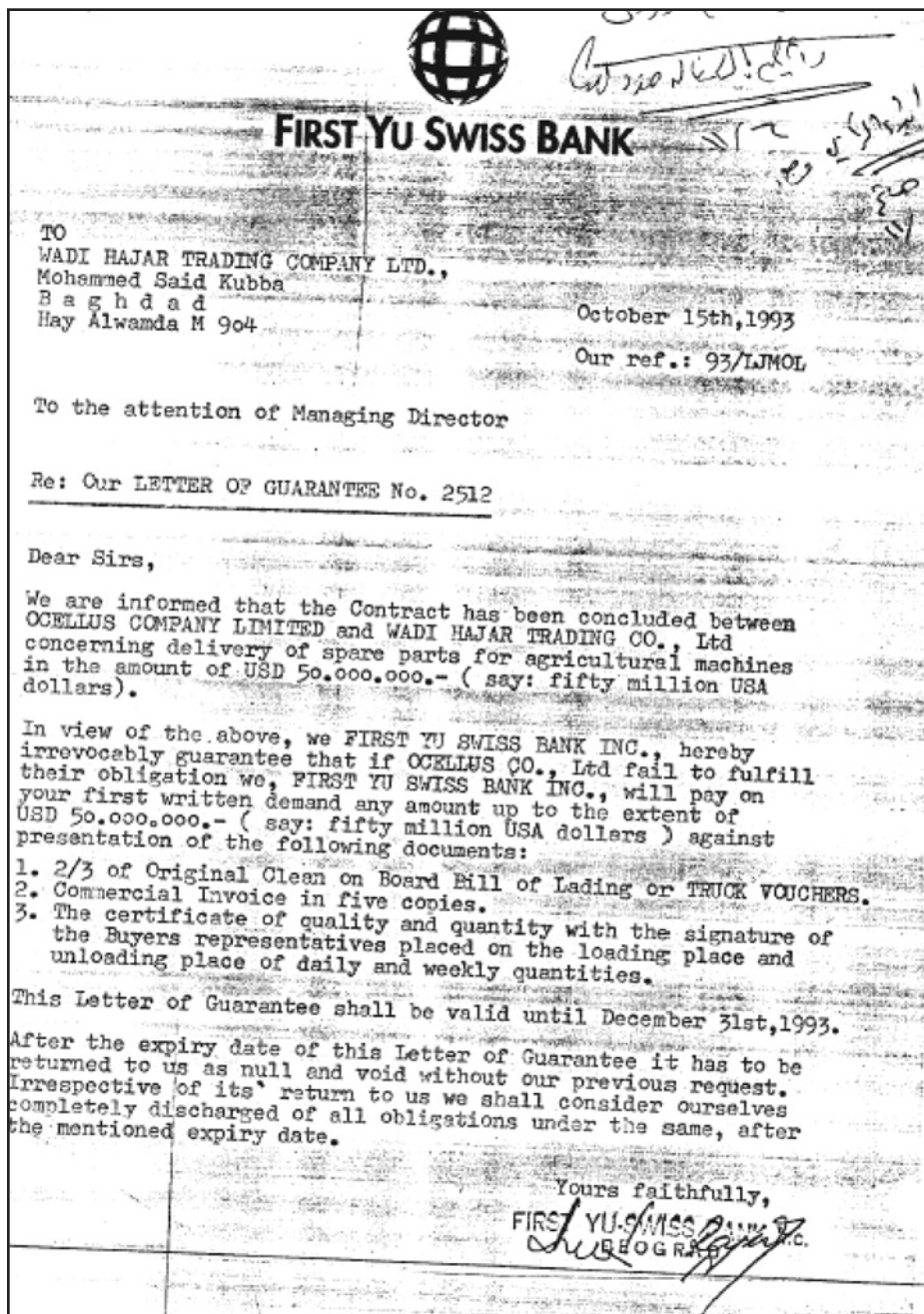


Figure 34. First Yu Swiss Bank Belgrade letter of guarantee.



FIRST YU SWISS BANK

TO
JORDAN INVESTMENT & FINANCE BANK
AMMAN, JORDAN

December 30th, 1993

our ref.: 93/LJMOL

To kind attention of Mr. Jamal Fariz
Treasure & Manager, Foreign Exchange
Department

Re: Our LETTER OF GUARANTEE No. 2514

Dear Sirs,

We are informed that the Contract has been concluded between
OCELLUS COMPANY LIMITED and Mr. Hadi Talub Ibraheem concerning
delivery of spare parts for agricultural machines in the amount
of USD. 50.000.000.- (say: fifty million USA dollars.-).

In view of the above, we FIRST YU SWISS BANK INC., hereby
irrevocably guarantee that if OCELLUS CO. LTD., fail to fulfill
their obligation we, FIRST YU SWISS BANK INC., will pay on your
first written demand any amount up to the extent of USD 50.000.000.-
(say: fifty million USA dollars) against presentation of the
following documents:

1. 2/3 of original Clean on Board Bill of Lading or Truck Vouchers.
2. Commercial Invoice in five copies.
3. The certificate of quality and quantity with the signature of
the Buyers' representatives placed on the loading place and
unloading place of daily and weekly quantities.

This Letter of Guarantee shall be valid until June 01st, 1994.

After the expiry date of this Letter of Guarantee it has to be
returned to us as null and void without our previous request.
Irrespective of its' return to us we shall consider ourselves
completely discharged of all obligation under the same, after
the mentioned expiry date.

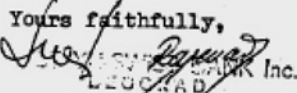
Yours faithfully,

FIRST YU SWISS BANK Inc.
LEONARDO

Figure 35. Letter dated 30
December 1993 to
Mr. Jamal Fariz.

This page intentionally left blank.

Annex G Iraq's Banking System

Origins of the Iraqi Banking System

In imitation of Egyptian leader Abdul Nasser's nationalist/socialist policies, the Iraqi government of Abd al-Salam 'Arif nationalized all private commercial banks in Iraq in 1965, as well as the branches of foreign commercial banks. The government closed the nationalized banks and moved their customer accounts to the state-owned commercial bank, Rafidian Bank, which was owned by the MoF. As a result, Rafidian Bank had to rapidly expand its branch system to service its expanded customer base, but it did not have the human resources to manage a complex network. In addition, nationalization of the private banks caused the best bank managers to leave the industry and created distrust among foreign investors. The combined effect of these factors caused the effectiveness and service quality of the country's banking system to deteriorate.

In response to Rafidian Bank's inability to service the country's banking needs, in the early 1970s the CBI and the MoF proposed to the government that a new state-owned bank be licensed. As a result, in 1988 Rasheed Bank, also owned by the MoF, was licensed. In addition to serving the private sector, Rasheed Bank and Rafidian Bank soon took over much of the banking business of state-owned enterprises, relieving CBI of that function.

The Ministry of Finance was responsible for overseeing budgets of several ministries as well as the state-operated banking system. *Currently, the six state-owned banks (Rafidian, Rasheed, the Agricultural, the Industrial, the Real Estate, and the Socialist) account for about 93 percent of banking system assets.* There are also 18 private banks with capitalization of \$25 million and deposits of \$107 million.

The 18 private banks were established in an effort to handle local depositors' financial needs and reform as well as modernize the banking sector. These banks remained small, in part because most Iraqis

did not think it was safe to put their money in banks. Figure 36 lists both the state and privately owned banks of Iraq, including branches, establishment date and capital assets remaining after OIF.

Organization of the CBI

The CBI was composed of five main departments, plus support elements (see Figure 37).

- **Department of Investment.** This department maintained account information for foreign accounts.
- **Department of Accounting.** This department maintained the employee accounts of the CBI.
- **Department of Exchange.** This department licensed money exchangers.

Iraqi Ministry of Finance's Banking Role

The Iraqi MoF was headed by Hikmat Mizban Ibrahim al-Azzawi from 1995 to 2003. Azawi was responsible for managing the funds for the Iraqi government held in the CBI. All revenue for the government went into accounts in the CBI. Apart from normal budgetary requirements, a major duty for the Finance Minister was to disperse money for Saddam. The Presidential Diwan had special accounts separate from the normal government accounts. Routinely, letters from Saddam would arrive at the MoF ordering the transfer of funds from government accounts to Presidential Diwan accounts located at the CBI.

- The Presidency was also the authorizing authority for transferring money to other ministries. Any order for funds received by the MoF was sent to the Director of the CBI, Isam Rashid al-Huwaysh. Any disputes between al-Huwaysh and al-Azawi were settled by Saddam.
- When hard currency was collected in the CBI, it was allocated to the ministries that needed hard currency to buy things internationally, such as the Ministry of Health. Because hard currency was in such short supply, the ministries that received it had to pay it back in Iraqi Dinars.

BANK'S NAME	BRANCHES	ESTABLISHMENT DATE	PAID UP CAPITAL (THOUSAND \$)
Rafidian Bank	164	1941	2700
Rasheed Bank	170	1988	1300
Industrial Bank	5	1935	300
Agricultural Cooperative Bank	42	1935	400
Estate Bank	16	1948	733
Social Bank	4	1990	667
Total Govt Branches	401		6100
Baghdad Investment Bank	20	1992	1167
Commercial Bank of Iraq	11	1992	1665
Iraqi Islamic Bank	9	1993	365
Iraqi Middle East Investment Bank	11	1993	2160
Basrah Private Bank for Investment	14	1993	667
Investment Bank of Iraq	17	1993	1280
United Bank for Investment	5	1995	1000
Al-Ahli Al-Iraqi Bank	4	1995	500
Credit Bank of Iraq	10	1998	833
Dar Al-Salam Bank Company of Investment	14	1998	800
Babylon Bank	6	1999	833
Economic Investment Bank	14	1999	267
Summer Commercial Bank	6	1999	533
Al-Warka Bank for Investment	3	2000	667
Gulf Commercial Bank	7	2000	880
Al-Baraka Bank for Investment	4	2001	815
Mosul Bank	3	2001	667
Iraqi National Bank	4	1995	500
Total of Private Branches	176		15599
Grand Total	577		21699

Figure 36. Iraqi banking system structure.

DEPARTMENT	INDIVIDUAL
Governor	Isam Rashid al-Huwaysh
Deputy Governors	Abd al-Ahad Butrus
	Isam Ibrahim al-Chalabi
	Abd al-Mun'im Rashid
	Falih Da'ud Salman
Department of Investment	Ahmad Salman
	Asrar 'Abd al-Husayn (Director General)
	Hasan Kazal
	Munir 'Umran
	Muna 'Abd al-Wahid
Department of Credits and Foreign Payment (Letters of Credit)	Talib Mahdi
	* Mahmud 'Abd al-Nun'im (Director General)
	Tariq Admun
	Rashid Hamid
	Fawziya
	Sa'di Farman
	Abd al-Sahib
Department of Agreements and Loans	Muhsin Hagir
	Ahmad Salman (Director General)
	Hasan al-Hadri
	Kamil 'Abdu 'Abbas
	Fakhri 'Abd al-Latif
	Qasim 'Abd al-Rasul
Department of Research and Statistics	Hazim Majim al-Ani
	Samira al-Khazraji (Director General)
	Najla Sabri
Department of Issuing	Hazima Magtuf
	'Abd al-Majid Sagar (Director General)
Department of Administration	Lu'ay Sadiq (Director General)
Department of Foreign Exchange	Sadiq al-Shimari (Director General)
Dar Al-Nahrayn Department for Printing Money	Walid Hamid 'Abd al-Ghani (Director General)
Department of Accounting	Hasib Kadum
Mosul Branch	
Basrah Branch	
Training Institute	Dr. Muhsin Hasan (Director General)
Computer Section	Safwan 'Abd al-Latif
Law Section	In'am Yasin

Figure 37. Department, department directors, and branches within CBI as of 1 July 2002.

The CBI did not make extra payments directly to any ministries or to the Diwan, including the IIS and the MIC. Payments were made to the MoF accounts at the Rasheed and Rafidian Banks, and then distributed. At the end of the month, the CBI would send an account of what was sent to the Rasheed and Rafidian Banks to the MoF. After two or three days the MoF would instruct the CBI to print Iraqi Treasury Bonds as an accounting procedure to balance the books. Iraq did not have a more formal economic or rigorous monetary policy.

State-Owned Banks

Iraqi had two state-owned commercial banks: the Rafidian and the Rasheed. *Both the Rafidian Bank and the Rasheed Bank accounted for about \$1.8 billion in assets, or about 86 percent of the total assets in Iraq's banking system.*

Rafidian Bank

The Rafidian Bank was owned by the Ministry of Finance and was founded in 1941. It was the largest, oldest, and most important commercial bank in Iraq. It handled much of the Regime's foreign assets. The central branch of Rafidian bank was located in Baghdad. The chairman and General Manager was Diya' al-Khayyun. In addition to the Baghdad Headquarters, there was a main branch in Basrah; and over 164 smaller branches located throughout Iraq. There were eight overseas branches in Bahrain, Egypt, Jordan (2), Lebanon, United Arab Emirates, Yemen, and Great Britain.

Rafidian Bank was primarily a conduit for transferring money out of Iraq. Several branches were involved in passing illicit revenue from oil and cigarette smuggling around the Middle East. In the February to April 2002 timeframe, Mufid 'Aziz (Director of Rafidian Bank) and 'Abd al-Huwaysh al-Mukhtar (Regional Director of the Rafidian Bank) withdrew \$50 million from accounts at the Commercial Bank of Syria.

Rasheed Bank

The Rasheed Bank was Iraq's second largest commercial bank with 170 domestic branches. It was government-owned and established in 1988. It operated outside Iraq through correspondents. The Rasheed Bank was established to provide competition for Rafidian, primarily in Iraq.

Specialized Credit Banks

Iraq also used four specialized state-owned banks: the Agricultural Bank, the Industrial Bank, the Real Estate Bank, and the Socialist Bank, all which collectively account for about seven percent of the total assets in the banking system. These four banks were established to increase the flow of financial support to certain sectors of Iraq's economy such as agriculture, industry, business creation, and real estate. They played virtually no role in Iraq's illegal financial transactions during sanctions.

Privately Owned Banks

In the face of decreasing foreign currency reserves held in country and an increasing illiquid domestic banking system, the CBI and MoF in approximately 1992 successfully petitioned the government to allow the licensing of new private commercial banks. By February 2003, there were approximately 18 private commercial banks. These private banks offered superior service, were more computerized, and were faster growing than the state-owned banks. By early 2003, the private banks held the majority of private-sector accounts and deposits, although the government ministries and state-owned enterprises still banked primarily with state-owned banks.

Private banks were set up with capital from individuals. Under Iraqi banking laws, no one individual was allowed to own more than a five-percent share holding in a private bank. The quality of management of the private banks was better than the government-managed banks. The private banks were able to offer better salaries, and attract the best candidates from the banking sector.

According to a senior Iraqi Government official, in order to evade controls under international sanctions, the government of Saddam used private commercial

banks for some transactions in the belief that private banks would not be as closely monitored by the UN as the state owned banks and the CBI.

Middle East Bank

Uday Saddam Husayn al-Tikriti owned shares in the Middle East Bank. The Middle East Bank is one of the largest private banks in Iraq. Uday also controlled the appointees and directors of the bank.

Islamic Bank

The Islamic Bank was unconventionally established. Formed by the Humayim family, the bank was established on a decree from the RCC, which was contrary to Iraqi banking rules and regulations. Money of Ba'ath Party Members and supporters of the Regime was deposited into this bank.

The Role Played by the Hawala System

The hawala system was the most common informal payment system used in Iraq under Saddam. The Iraqi Regime encouraged its citizens in Iraq and abroad to open accounts in foreign currencies at Iraqi banks in order to track funds that were traditionally transferred through informal payments arrangements. The reliability of the ancient hawala system came from trust and the extensive use of personal connections and family-tribal relationships. In its simplest terms, an individual desiring to transfer money exchanged cash for a hawala note, often coded or secretly marked to foil potential counterfeiters. This note would then be transferred to the other party via mail or courier. The party on the other end of the transaction then presented the note to an associated exchanger in their country, who converted the hawala note back into the appropriate cash specified in the note, minus a handling fee. In modern times, the use of e-mail, faxes, and telephones have made these private cash transfers almost instantaneous and nearly impossible to trace or regulate.

Before OIF, there was no regulation of the hawala system in Iraq and the use of them was outlawed. Regardless, illegal hawalas were often used by the average Iraqi individual or company to transfer funds from expatriate communities to the homeland. The

The Hawala

The term “hawala” means “transfer” or “wire” in Arabic banking terms. The word hawala comes from the Arabic root hwl, meaning to “change” or “transform.” In common Arabic usage, hawala are performed in three different ways—two of which are legal:

- *Hawalas through Iraqi banks are synonymous with bank money transfers. Bank hawalas are legal.*
 - *Illegal hawala transfers are based on an ancient informal banking system used throughout South Asia and the Middle East to transfer money across distances past legal and financial barriers. In modern times, unlicensed money exchangers use this process, coupled with modern telecommunications to discreetly transfer money.*
 - *Hawalas made using the old process via licensed money exchangers are considered legal. Not all money exchangers perform hawalas.*
-

illicit system is reliable and efficient and is preferred because it is faster and less expensive than bank hawalas.

- The speed is due to the lack of paperwork and bureaucracy, while the cost effectiveness is due to not having to deal with a bank's artificial, higher exchange rates. However, the anonymity and lack of traceable documentation make this system vulnerable to abuse by individuals and groups transferring funds to finance illegal activities.
- For example, in order to import goods, a letter of credit was normally needed from a bank in Jordan. To get this, the Jordanian bank would need some cash. Because it was illegal to transfer cash out of Iraq through the normal banking system, the illegal hawala system was used to move the money.
- The hawala system was positive for the economy because it reduced the liquid cash within the economy and helped counter the effects of inflation. Hawalas were eventually legalized and regulated by Saddam in an attempt to reduce smuggling and help stimulate the economy.

This page intentionally left blank.

Annex H UN Security Council Resolutions Applicable to Iraq

The following information from the Office of the Spokesman for the United Nations UNSG summarizes the Chapter VII resolutions applicable to Iraq between 1990 and 2003. Emphasis has been added.

UNSCR 661 (1990) of 6 August 1990 imposed economic sanctions on Iraq, including a *full trade embargo barring all imports from and exports to Iraq, excepting only medical supplies, foodstuffs, and other items of humanitarian need*, as determined by the Security Council sanctions committee, which was also established by UNSCR 661. The sanctions committee was chaired at the beginning of 2004 by the Ambassador of Romania, with the delegations of the Philippines and Pakistan providing vice chairmen.

UNSCR 687 (1991) of 3 April 1991, the cease-fire resolution, declared that *the full trade embargo against Iraq would remain in place*, pending periodic reviews every 60 days (para. 21) and every 120 days (para. 28) of Iraqi compliance with the obligations imposed under UNSCR 687.

UNSCR 712 (1991) of 19 September 1991 allowed for a partial lifting of the embargo, which would have enabled Iraq to sell some oil to use the proceeds for humanitarian purposes. In return, Iraq would have been subject to strict UN monitoring of the contracts and distribution of humanitarian goods bought with the oil revenues.

UNSCR 986 (1995) of 14 April 1995 *enables Iraq to sell up to \$1 billion of oil every 90 days and use the proceeds for humanitarian supplies to the country*. On 20 May 1996, the UN and the Government of Iraq concluded the MoU that codified the practical arrangements for the implementation of the UN OFF agreement. The sanctions committee subsequently adopted on 8 August 1996 the Procedures for the implementation of UNSCR 986. On 9 December 1996, the UNSG reported to the Security Council (S/1996/1015) that all the steps necessary to ensure the effective implementation of UNSCR 986 had been concluded. As a result, *UNSCR 986 went into effect at 00.01 hours Eastern Standard Time on 10 December 1996*. The first food shipment arrived in Iraq on 20 March 1997.

UNSCR 1051 (1996) of 27 March 1996 established the export/import monitoring system for Iraq. *Iraq and countries exporting to Iraq must notify UNSCOM and the IAEA regarding the supply of “dual-use” items to Iraq. Such items are subject to inspection upon their arrival in Iraq as well as at the site where the items will be used.*

UNSCR 1111 (1997) of 4 June 1997 decided that the provisions of UNSCR 986, except those contained in paragraphs 4, 11 and 12, shall remain in force for another period of 180 days beginning at 00.01 hours, Eastern Daylight Time, on 8 June 1997. Further decided to conduct a thorough review of all aspects of the implementation of this resolution 90 days after the entry into force of paragraph 1 and again prior to the end of the 180 day period, on receipt of the reports referred to in paragraphs 3 and 4, and expressed its intention, prior to the end of the 180 day period, to consider favorably renewal of the provisions of this resolution, provided that the reports referred to in paragraphs 3 and 4 indicate that those provisions are being satisfactorily implemented.

UNSCR 1115 (1997) of 21 June 1997 decided not to conduct the reviews provided for in paragraphs 21 and 28 of UNSCR 687 (1991) until after the Special Commission submits its next consolidated progress report due on 11 October 1997, after which time those reviews will resume in accordance with UNSCR 687.

UNSCR 1129 (1997) of 12 September 1997 decided that the provisions of UNSCR 1111 should remain in force, except that States are authorized to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of one billion United States dollars within a period of 120 days from 00.01 hours, Eastern Daylight Time, on 8 June 1997 and, thereafter, a sum not exceeding a total of one billion United States dollars within a period of 60 days from 00.01 hours, Eastern Daylight Time, on 4 October 1997; and decided further that the provisions of paragraph 1 shall apply only to the period of implementation of UNSCR 1111.

UNSCR 1134 (1997) dated 23 October 1997 expressed the firm intention, if Iraq does not comply with paragraphs 2 and 3 of UNSCR 1115, to adopt measures which would oblige all States to *prevent*

without delay the entry into or transit through their territories of all Iraqi officials and members of the Iraqi armed forces who are responsible for or participate in the instances of non-compliance of paragraphs 2 and 3 of UNSCR 1115. It decided not to conduct the reviews provided for in paragraphs 21 and 28 of UNSCR 687 until after the next consolidated progress report of the Special Commission, due on 11 April 1998, after which those reviews will resume in accordance with UNSCR 687, beginning on 26 April 1998.

UNSCR 1137 (1997) dated 12 November 1997 *imposed travel restrictions on all Iraqi officials and members of the Iraqi armed forces who were responsible for or participated in the instances of non-compliance* including the denial of entry to Iraq to Special Commission officials on the grounds of their nationality and the denial of entry to sites designated by the Special Commission for inspection to Special Commission inspectors on the grounds of their nationality. The resolution decided that the review provided in paragraphs 21 and 28 of UNSCR 687 shall resume in April 1998 in accordance with paragraph 8 of UNSCR 1134, provided that the Government of Iraq shall have rescinded its decision of 29 October 1997 to impose conditions on cooperation with the Special Commission.

By **UNSCR 1143 (1997)** of 4 December 1997 the Security Council decided that the provisions of UNSCR 986, except those contained in paragraphs 4, 11 and 12, shall remain in force for another period of 180 days beginning at 00.01 hours, Eastern Standard Time, on 5 December 1997.

By **UNSCR 1153 (1998)** of 20 February 1998 the Security Council decided that the provisions of UNSCR 986, except those contained in paragraphs 4, 11 and 12, shall remain in force for a new period of 180 days beginning at 00.01 hours, Eastern Standard Time, on the day after the President of the Council has informed the members of the Council that he has received the report of the UNSG requested in paragraph 5 of UNSCR 1153, on which date the provisions of UNSCR 1143, if still in force, shall terminate, except as regards sums already produced pursuant to that resolution prior to that date.

- Also by **UNSCR 1153**, the Security Council decided that the authorization given to States by paragraph 1 of UNSCR 986 shall permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum, in the 180-day period referred to in paragraph 1 of UNSCR 1153, not exceeding a total of 5.256 billion United States dollars, of which the amounts recommended by the UNSG for the food/nutrition and health sectors should be allocated on a priority basis, and of which between 682 million United States dollars and 788 million United States dollars shall be used for the purpose referred to in paragraph 8 (b) of UNSCR 986, except that if less than 5.256 billion United States dollars worth of petroleum or petroleum products is sold during the 180 days period, particular attention will be paid to meeting the urgent humanitarian needs in the food/nutrition and health sectors and the UNSG may provide a proportionately smaller amount for the purpose referred to in paragraph 8 (b) of UNSCR 986.

By **UNSCR 1158 (1998)** of 25 March 1998 the Security Council decided that the provisions of UNSCR 1143 shall remain in force, subject to the provisions of UNSCR 1153, except that States are authorized to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of 1.4 billion United States dollars within the period of 90 days from 00.01 hours, Eastern Standard Time, on 5 March 1998.

UNSCR 1175 (1998) of 19 June 1998 authorized States, subject to the provisions of paragraph 2 of the resolution, to permit, notwithstanding the provisions of paragraph 3 (c) of UNSCR 661, the export to Iraq of the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of UNSCR 1153.

- By the same resolution, the Committee established by UNSCR 661, or a panel of experts appointed by that Committee may approve contracts for the parts and equipment and up to a total of 300 million United States dollars may be used for that purpose.

- UNSCR 1175 also noted that the distribution plan approved by the UNSG on 29 May 1998, or any new distribution plan agreed by the Government of Iraq and the UNSG, will remain in effect, as required, for each subsequent periodic renewal of the temporary humanitarian arrangements for Iraq and that, for this purpose, the plan will be kept under constant review and amended as necessary through the agreement of the UNSG and the Government of Iraq and in a manner consistent with UNSCR 1153.

UNSCR 1194 (1998) of 9 September 1998 decided not to conduct the review scheduled for October 1998 provided for in paragraphs 21 and 28 of UNSCR 687, and not to conduct any further such reviews until Iraq rescinds its above-mentioned decision of 5 August 1998 and the Special Commission and the IAEA report to the Council that they are satisfied that they have been able to exercise the full range of activities provided for in their mandates, including inspections.

- By UNSCR 1194, the Security Council also reaffirmed its intention to act in accordance with the relevant provisions of UNSCR 687 on the duration of the prohibitions referred to in that resolution and notes that by its failure so far to comply with its relevant obligations Iraq has delayed the moment when the Council can do so.

By **UNSCR 1210 (1998)** of 24 November 1998, the Security Council decided that the provisions of UNSCR 986, except those contained in paragraphs 4, 11 and 12, shall remain in force for a new period of 180 days beginning at 00.01 hours, Eastern Standard Time, on 26 November 1998. The resolution also decided that paragraph 2 of UNSCR 1153 shall remain in force and shall apply to the above-mentioned 180-day period.

In January 1999, the Security Council decided to establish three panels on disarmament, humanitarian issues and prisoners of war and Kuwaiti property to discuss options that would lead to the full implementation of all relevant Security Council resolutions concerning Iraq. Ambassador Amorim (Brazil) chaired all three panels. He submitted the panels' reports in the spring of 1999 (S/1999/356), and the Council considered the recommendations contained therein.

UNSCR 1242 (1999) of 21 May 1999, extended the UN OFF program for a further 180 days starting on 25 May 1999.

UNSCR 1266 (1999) of 4 October 1999 decided that paragraph 2 of UNSCR 1153, as extended by UNSCR 1242, shall be modified to the extent necessary to authorize States to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly related thereto, sufficient to produce an additional sum, beyond that provided for by UNSCR 1242, equivalent to the total shortfall of revenues authorized but not generated under UNSCR 1210 and 1153, 3.04 billion United States dollars, within the period of 180 days from 00.01 hours, eastern standard time, on 25 May 1999.

UNSCR 1281 (1999) of 10 December 1999, extended the UN OFF program for a further 180 days starting on 12 December 1999 (phase VII).

On 17 December 1999, after several months of intensive consultations, the Security Council adopted **UNSCR 1284 (1999)**, stressing the need for a comprehensive approach to the full implementation of all relevant Security Council resolutions and Iraq compliance with these resolutions. The resolution *established the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) to undertake the responsibilities of the former UNSCOM, which was charged with monitoring the elimination of weapons of mass destruction in Iraq.* The resolution also *removed the ceiling on Iraqi oil exports* and provided for additional specific arrangements for facilitating humanitarian supplies to Iraq, including the conditional suspension of the sanctions Regime.

On 8 June 2000, the Security Council unanimously adopted **UNSCR 1302 (2000)** by which it extended the UN OFF program for a further 180-day period beginning 9 June 2000. The Council repeatedly extended the program for 180-day periods over the following years.

Then, on 14 May 2002, the Security Council unanimously adopted **UNSCR 1409 (2002)**, which *adopted a revised Goods Review List of military-related goods* or commodities, which was to enter into effect on 30 May 2002. From that date onward, *States are*

authorized to sell or supply any commodities not included on the Goods Review List, while the Council would regularly conduct thorough reviews of the Goods Review List.

On 28 March 2003, the Security Council unanimously adopted **UNSCR 1472 (2003)**, making technical and temporary adjustments to the UN OFF program on an interim and exceptional basis, so as to ensure the implementation of approved contracts concluded by the Government of Iraq for the relief of the Iraqi people.

- The resolution authorizes the UNSG and representatives designated by him to *establish alternative locations, inside and outside Iraq, for the delivery, inspection and authenticated confirmation of humanitarian supplies* and equipment under the program.
- It also authorizes him, among other things, to review as a matter of urgency the approved funded and non-funded contracts concluded by the Iraqi Government and to *contact suppliers of those contracts and, when necessary, to require them to delay, accelerate or divert shipments*. It also allows him to negotiate and execute new contracts for essential medical items.

On 25 April 2003, the Council unanimously adopted **UNSCR 1476 (2003)**, extending the provisions of UNSCR 1472 until 3 June 2003.

The Security Council *formally ended all sanctions, except those related to the sale or supply to Iraq of arms and related material*, other than those required by the occupying powers to serve the purposes of Security Council resolutions, in **UNSCR 1483 (2003)**, which was adopted on 22 May 2003 by a vote of 14-0 with one country not participating in the vote.

- The resolution states that, with the exception of the arms prohibitions noted above, all other sanctions established by UNSCR 661 and subsequent resolutions *“shall no longer apply.”*
- It also requests that the UNSG will continue the exercise of his responsibilities under UNSCRs 1472 and 1476 for a period of six months, and will *terminate within this time period, in the most cost effective manner, the ongoing operations of the UN OFF Program*.