



A WISER PEACE: AN ACTION STRATEGY FOR A POST-CONFLICT IRAQ

Supplement II: An Overview of the Oil-for-Food Program*

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A Wiser Peace: An Action Strategy for a Post-Conflict Iraq can be found at <http://www.csis.org/isp/pcr/index.htm>. For further information, please contact Sheba Crocker at scrocker@csis.org or Daniel Werbel-Sanborn at dwsanbor@csis.org. The project directors would like to thank Andrea Armstrong in particular for her assistance in compiling this supplement.

* Every attempt has been made to verify the facts herein. With little information coming out of Iraq and limited public disclosure by the United Nations, however, confirmation of some of the information contained in this supplement has been difficult to obtain.

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Introduction

In 1995, the United Nations Security Council passed Resolution 986 authorizing a system of controlled Iraqi petroleum export as a temporary measure to provide for the humanitarian needs of the Iraqi people – the Oil-for-Food program. Since the imposition of comprehensive multilateral sanctions in August 1990, pursuant to UN Security Council Resolution 661, the flow of goods into Iraq had been strictly limited to humanitarian supplies, although funds to pay for those supplies were severely limited. Trade flow out of the country was likewise restricted, and the Security Council determined that Iraq's humanitarian requirements could only be met through allowing Iraq to earn a certain amount of oil revenue. The Oil-for-Food (OFF) program allows the Iraqi government to sell oil and purchase humanitarian goods, but Iraq continues to be isolated economically, with most exports and imports still blocked. The United Nations has an administrative and oversight role over OFF, but the Government of Iraq has primary responsibility for planning and implementation. Oil and humanitarian supply contracts are negotiated by the Iraqi government and approved by the United Nations; funds are routed through a UN-administered escrow account. Sector allocation and goods distribution follows a distribution plan submitted by the Iraqi government and approved by the United Nations in six-month cycles, or "phases". The Government of Iraq is responsible for the distribution of imported supplies within the country, except in the three northern provinces, Dahuk, Arbil, and Sulaymaniyah.

Over a quarter of OFF revenue pays for compensation costs associated with the Gulf War, UN administrative costs, and the cost of UN weapons inspectors. Of the funds provided to Iraq out of the UN escrow account, only 25 percent is allocated to purchasing food. The remaining 75 percent of OFF funds are allocated across 23 different sectors and involve at least 13 Iraqi government ministries.

Since the program began in December 1996, Iraq has exported 3.3 billion barrels of oil valued at \$62 billion via the OFF program. Iraq's oil exports have averaged 1.47 million barrels per day since 2001 but have increased since December 2002 to an average of 1.6 million barrels per day. The Sanctions Committee established under Resolution 661 and the UN's Office of the Iraq Programme have approved \$42 billion worth of humanitarian supply contracts, including \$3.6 billion worth of spare parts for the oil industry, out of the generated funds. Of these goods, \$26 billion have been delivered and a further \$10.8 billion are currently in the production and delivery pipeline.¹

¹ *Iraqi Oil Exports Generate \$324 Million for Week*, United Nations, Office of the Iraq Programme, Weekly Update, January 18-24, 2003, at <http://www.un.org/Depts/oip/background/latest/wu030128.html>.

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Figure 1: Value and Volume of Oil Exported via OFF since December 1996²

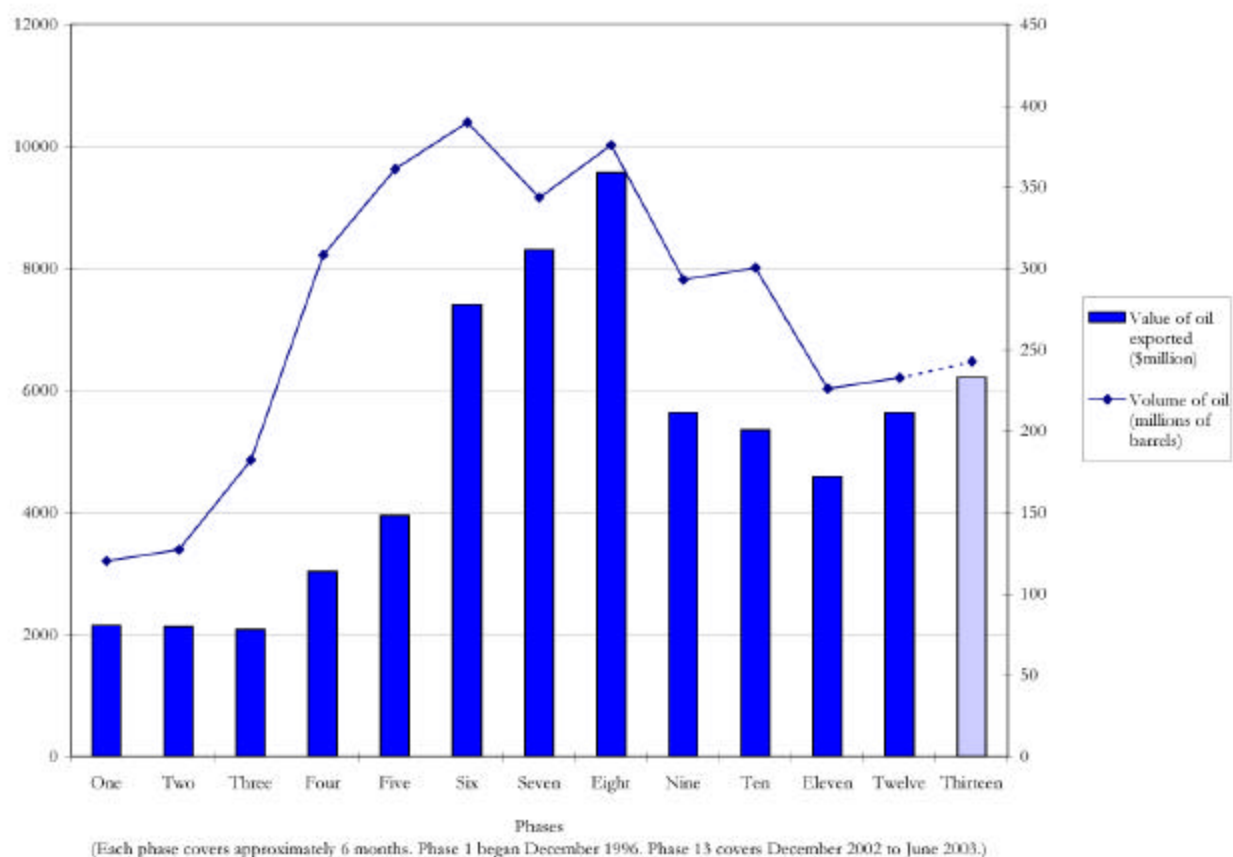


Figure 1 represents the volume of oil exports and total revenue per phase of the Oil-for-Food program. Oil revenue peaked in June through December 2000 (Phase 8) at \$9.5 billion. Beginning in December 2000 (Phase 9), however, the average price per barrel dropped from \$27 to \$20. Export volume also suffered when the Iraqi government ceased all oil exports for 12 days in December 2000 over disputes with the United Nations regarding the oil pricing mechanism. Due to the cumulative oil revenue shortfall dating from December 2000 until May 2002, approximately 2,400 UN-approved humanitarian supply contracts – worth \$4.5 billion – currently lack funds. Almost all sectors have outstanding contracts that have been approved but for which there are no funds: agriculture has \$650 million worth of unfunded contracts; food handling, \$611 million; health, \$518 million; food, \$516 million; housing, \$472 million; electricity, \$470 million; water and sanitation, \$453 million; telecommunications and transportation, \$369 million; and education, \$342 million.

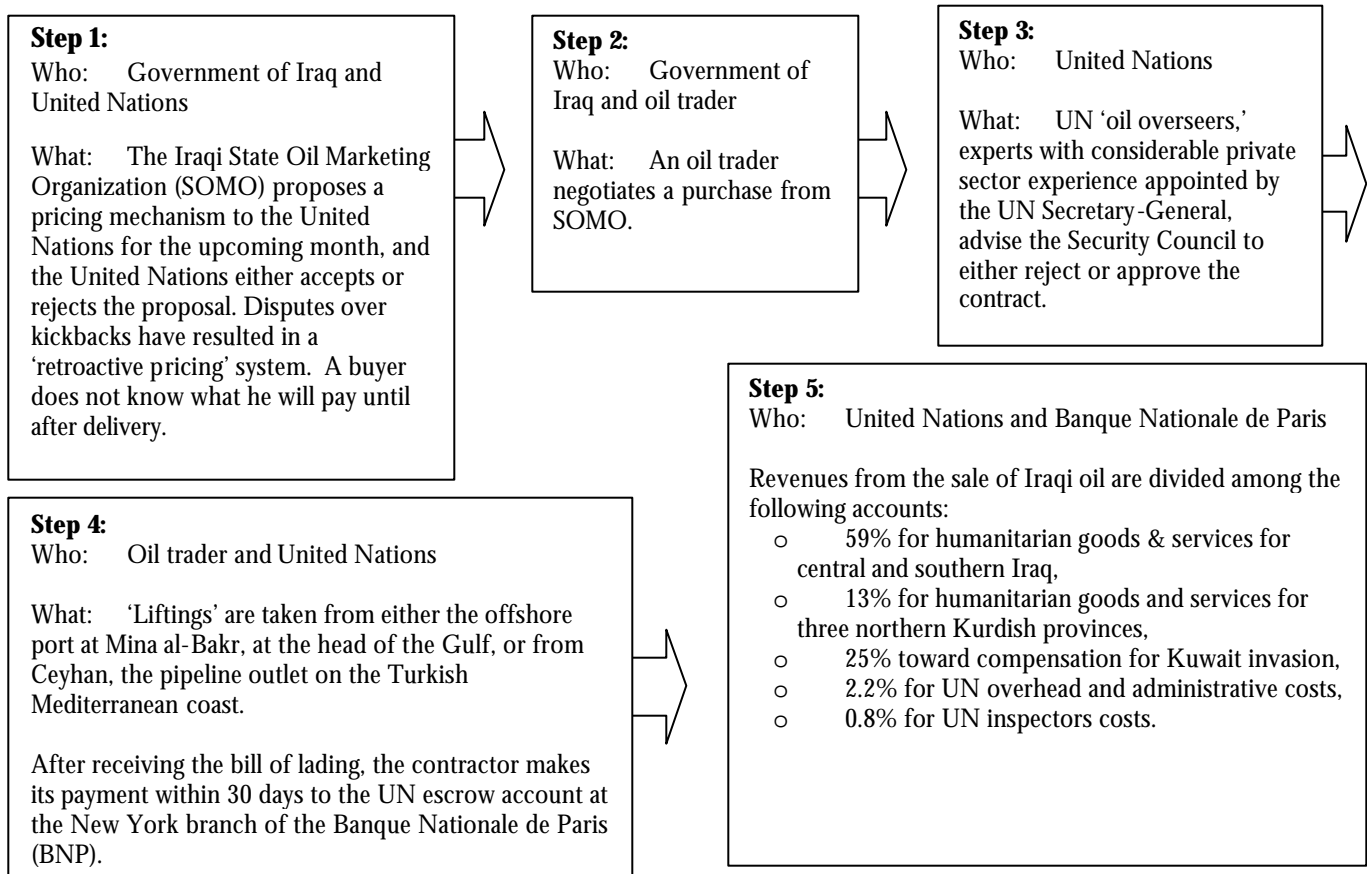
Figure 1 does not show the major consumers of Iraqi oil as neither the United Nations nor the Government of Iraq regularly releases this information. It has been reported, however, that the United States is the single largest consumer of Iraq's oil, usually via contracts with Russian firms.³ Other major importers include France, Spain, Italy, Netherlands, Turkey, and Japan.

² Figure 1 does not account for the total amount of oil exported from Iraq. Both Jordan and Turkey have notified the United Nations of oil purchases outside the OFF mechanism.

³ *Sources of Revenue for Saddam and Sons: A Primer on the Financial Underpinnings of the Regime in Baghdad*, Coalition for International Justice report, September 18, 2002, at <http://www.cij.org>.

Oil Exporting Procedure⁴

Figure 2: Oil Exporting Procedure



Except for the direct handling of funds, the Government of Iraq plays the principle role in arranging oil sales. Iraq proposes the price and negotiates contracts with prospective oil traders. UN 'oil overseers' advise the Security Council on the appropriate price for oil, and the Security Council then accepts or rejects the contract. If a contract is accepted, the trader takes shipments of oil – called "liftings" – often without knowing the final price. The Security Council holds the contract until the trader delivers the oil to the refinery, which takes from two weeks to a month – effectively creating a retroactive pricing mechanism. This mechanism was put in place to eliminate the Iraqi Government's practice of "kickbacks", whereby it discounts the price per barrel of oil but adds an additional fee to be paid by the trader directly to the Iraqi government rather than into the UN-administered OFF fund.

After the oil has been lifted, the contractor makes a payment into the UN escrow account held at the Banque Nationale de Paris.⁵ The revenue is then divided as follows: 59 percent for humanitarian goods and services for central and southern Iraq; 13 percent for humanitarian goods and services in

⁴ *Id.*

⁵ Other banks may soon be involved. At the request of the Government of Iraq, the United Nations is negotiating with other banks to manage parts of the OFF accounts.

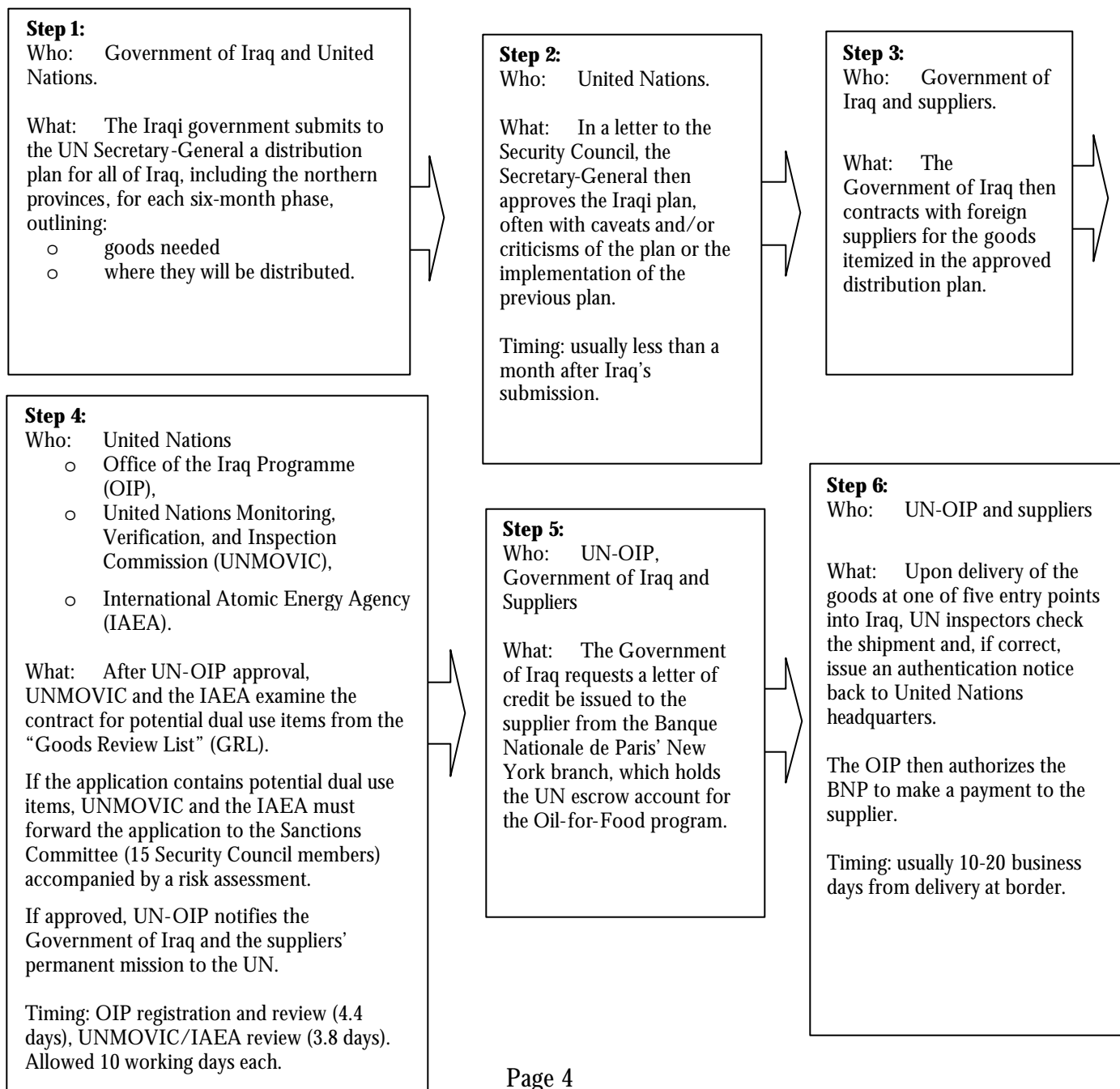
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the three northern provinces; 25 percent toward compensation for the Kuwait invasion; 2.2 percent for United Nations overhead and administrative costs; and 0.8 percent for UN inspections.

There are two additional points of note. First, Iraq is now permitted to sell as much or as little oil as it wishes under OFF, depending on its capacity, as the Security Council has lifted earlier restrictions limiting the amount of oil the government can export. Second, OFF only allows the Government of Iraq to trade oil for supplies; the Government does not receive any hard currency under the program and does not have access to the UN escrow account.

Food/Supplies Importing Procedure

Figure 3: Food/Supplies Importing Procedure



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The food and supplies importing process begins with a distribution plan submitted by Iraq to the United Nations. The plan includes a wish list for goods and a distribution plan for all of the 18 provinces, including the northern Kurdish provinces. Upon United Nations approval of the plan, Iraq negotiates contracts directly with suppliers and then submits them to the United Nations for review. Once a contract is approved, the Banque Nationale issues a letter of credit to the supplier. Goods are delivered to the border where inspectors from Cotecna, a Swiss company contracted by the United Nations, ensure that the goods match the contract authorized in New York. The Banque Nationale pays the supplier upon delivery in Iraq.

Each new distribution plan, including annexes, is thousands of pages long [see Figure 4], breaking down in great detail all requested goods and services, including everything from medicines and air conditioners to fire engines and generators.

Figure 4: Phase 13 Distribution Plan

	Allocations in US\$ Millions	% Share of OFF Allocations	Relevant Government of Iraq Ministry or Implementing Agency	Implementing Agency In 3 Northern Provinces	Activity
Food	1,275.00	25.88%	Ministry of Trade	World Food Programme	Humanitarian supplies distributed to warehouses, then to retail agents based on a ration-card system.
Food handling	282.00	5.72%	Ministry of Trade	World Food Programme	Spare parts and equipment related to storage and transportation of foodstuffs.
Construction	100.00	2.03%	Ministry of Trade, via State Company for Construction Materials and the State Company of Shopping Centers		To import materials, raw materials, machinery and other related requirements for housing and construction for schools, hospitals, streets, mosques, churches, and water and sewerage projects.
Housing	80.00	1.62%			Construction of housing complexes and public utilities.
Health	143.00	2.90%	Ministry of Health	United Nations Inter-Agency Humanitarian Programme	Fifty percent to import equipment to rehabilitate hospitals and health centers, fifty percent to import medicines and medical supplies.
Electricity	272.50	5.53%	Direct to power station	United Nations Development Programme / Electricity Network Reconnection Project (UNDP/ENRP)	Purchase of gas combines, rehabilitate transmission and distribution networks.

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Agriculture	444.33	9.02%	Direct to provincial administration		Purchase of tractors, harvesters, irrigation pumps and sprayers to be distributed by province, then from local officials to individual farmers; purchase of fertilizer, herbicides, etc.
Education	191.85	3.89%	Ministry of Education	UN Education, Scientific, and Cultural Organization (UNESCO)	Construction and rehabilitation of schools, resources for extra-curricular activities, provision of transport to teachers and students.
Transportation and Telecommunications	243.11	4.93%		ITU	Purchase of telecommunications grid equipment and training of local staff by suppliers, maintenance of Iraqi Railways and Iraqi Airways, purchase of trucks to transport humanitarian food supplies, dredging of port.
Water and Sanitation in 3 Northern provinces	115.29	2.34%		UNICEF	
General Establishment of Water and Sanitation in central and southern Iraq, excluding Baghdad	94.25	1.91%	Ministry of the Interior		Purchase of equipment to maintain water & sewerage plants; purchase of civil defense equipment such as firefighting equipment, mine detection equipment; other materials such as GIS equipment, photocopiers, service vehicles, spare parts, etc.
Baghdad Water and Sanitation	150.00	3.04%	Mayorality of Baghdad		
Labour and Social Affairs	3.00	0.06%	Ministry of Labour and Social Affairs		"Supplies and requirements to support its activities."
Youth and Sport	29.98	0.61%	Board of Youth and Sports		Support Olympic sport city construction.
Industry	210.00	4.26%	Ministry of Industry and Mining		Supplies for paper plants, construction materials, construction vehicles, improving capacity of fertilizer plants, supporting sugar industry, etc.
Information	50.00	1.01%	Ministry of Information		Purchase of printing presses, towers, TVs, vehicles, transmission equipment, etc.
Culture	20.00	0.41%	Ministry of Culture		Purchase of equipment for recording studios, press machines, pumps, firefighting equipment, sewing machines, microphones, elevators, air conditioning.

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Religious Affairs	25.00	0.51%	Ministry of Religious Affairs		Purchase of elevators, construction materials, power cables, vacuum cleaners, water coolers, and fans.
Justice	4.00	0.08%	Ministry of Justice		Purchase of air conditioners, minibuses, and cars.
Finance	20.00	0.41%	Ministry of Finance		Purchase of equipment, vehicles, and spare parts.
Central Bank	25.00	0.51%	Central Bank of Iraq		Purchase of secure transport for currency, printing presses, elevators, and air conditioning.
Housing and Settlement Rehabilitation	103.70	2.10%		UNHABITAT	For emergency shelter, relief items, water and sanitation to ensure the availability of minimum accommodation conditions, particularly for IDPs.
Mine-related Activities	25.00	0.51%			Mapping, marking, and clearing mines (3600 in the northern 3 provinces).
Nutrition	20.52	0.42%			
Health Rehabilitation	55.63	1.13%			
Special Allocation	343.72	6.98%	via the Ministry of Labour and Social Affairs		As mandated by Security Council to assist specifically vulnerable populations, including the construction of houses in Baghdad and specialized hospitals, supplying water treatment plants, and equipment for sports facilities.
Oil	600.00	12.18%	Ministry of Oil		Spare parts, material,s and equipment needed for maintenance, rehabilitation, and upgrading of obsolete or semi-obsolete equipment and systems; building new refineries.
Grand Total	4,926.88	100.00%			

For Phase 13 (December 2002 to June 2003), food and food handling combined account for \$1.5 billion over six months, or approximately 31.6 percent of total OFF spending within Iraq, demonstrating that the program encompasses far more than just food. The Ministry of Information will receive \$50 million over this same period, approximately 1 percent of spending, to purchase televisions, printing presses, and transmitters. The Ministry of Oil will receive \$600 million over the six months, 12 percent of the total, to buy spare parts, upgrade obsolete equipment, and build new factories.

Negotiation between Iraq and goods suppliers are complex [see Figure 3, Step 3]. The Government of Iraq cannot purchase goods locally and must therefore negotiate with foreign suppliers for each item listed in the distribution plan. From the beginning of the program until mid-2000, Iraq awarded contracts to potentially sympathetic permanent members of the United Nations Security Council, primarily France, Russia, and China. In 2000, Iraq began to focus on strengthening ties with its neighbors. As public opinion against sanctions grew and OFF revenue increased, Iraq increasingly

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favored Egypt, the United Arab Emirates, and Jordan for supply contracts. Because Iraq primarily awards contracts based on politics rather than the quality of the goods, the Iraqi people have often received inferior goods, including medicines.

**Figure 5: Top 10 Country Suppliers to Iraq March 1997 to January 2001
(Approved Contracts in OFF Program)**

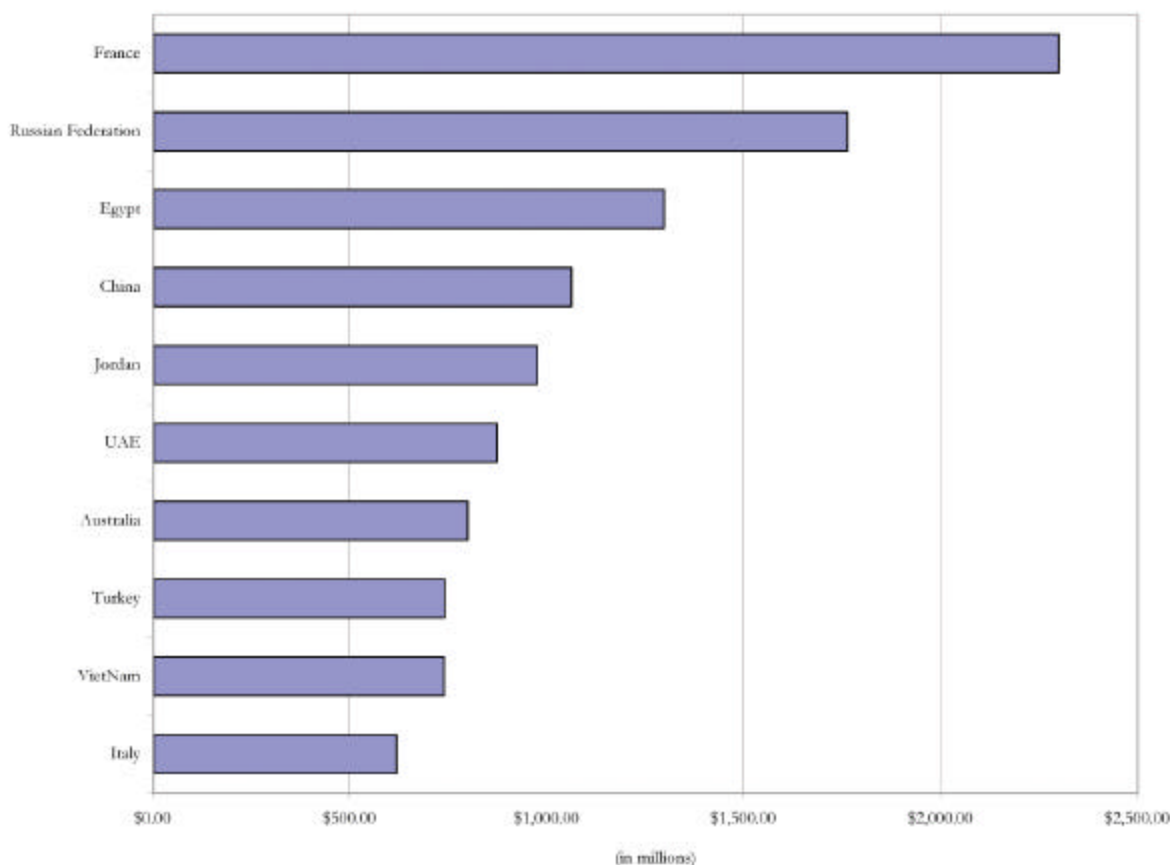
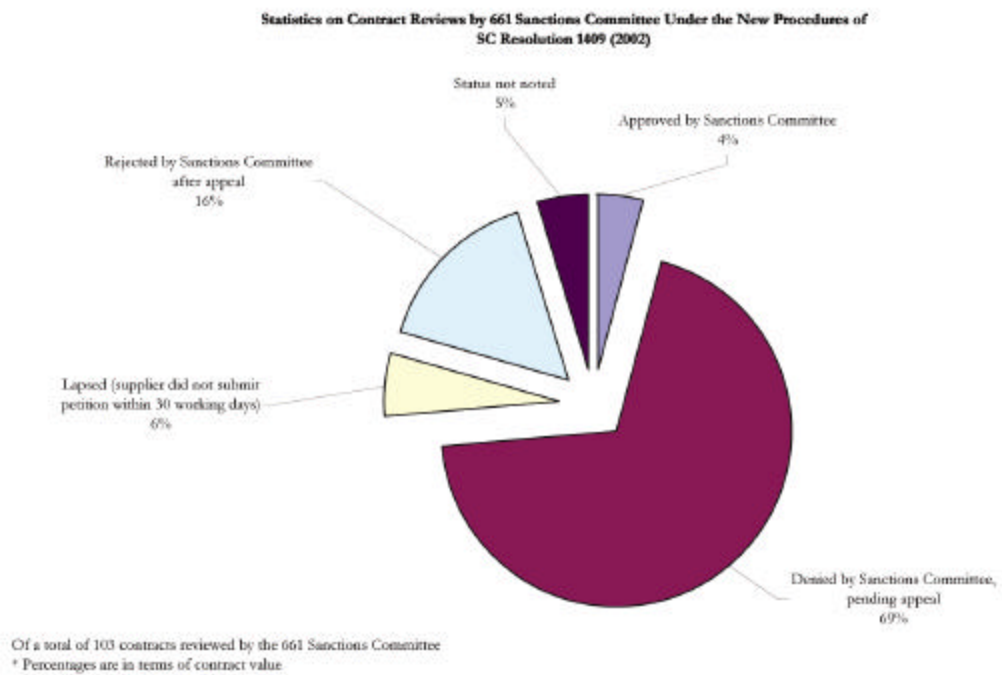
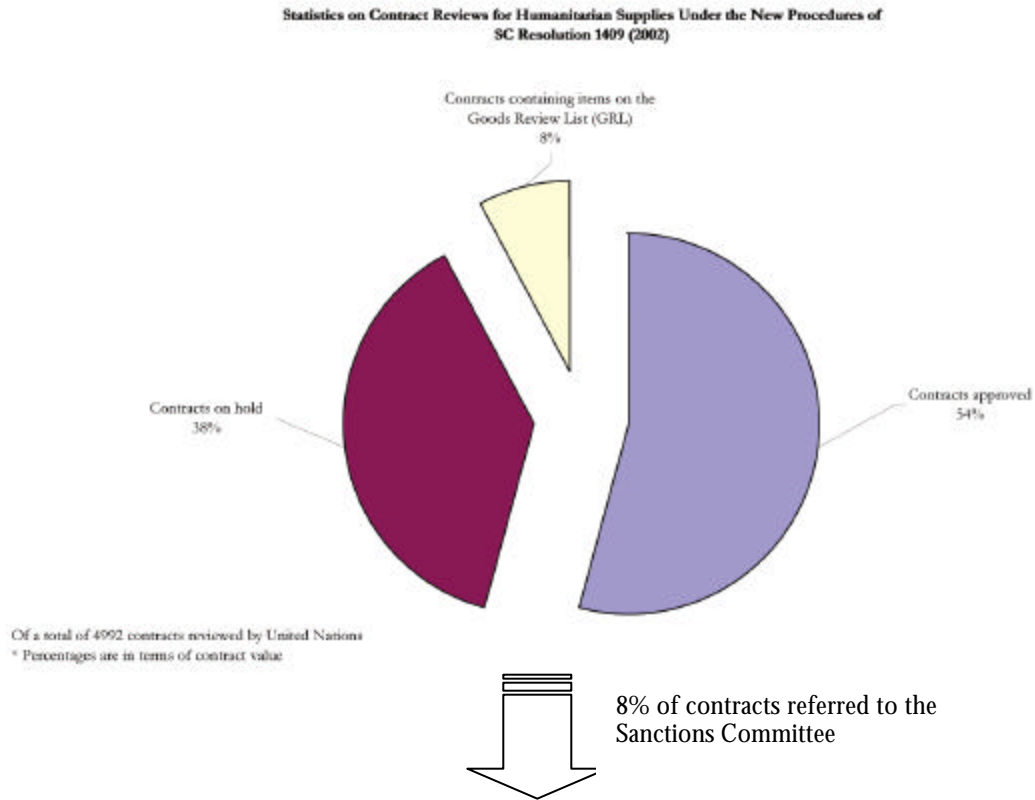


Figure 5 shows the top ten OFF suppliers to Iraq as of January 2001.⁶ The breakdown of known supply contract value is as follows: France had the highest value contracts in agriculture, medicine, oil spares, and food handling. France was also in the top three in supplying the food basket, electricity, telecommunications, and water and sanitation sectors. Russia dominated the electricity sector and was one of the top three for the food basket, medicine, and oil spares sectors. Egypt led the housing and telecommunications sectors. After Australia, Vietnam, and Russia, Egypt was fourth in food basket supplies. China led the water and sanitation sector. Out of these ten countries, China was in the top third of suppliers for the telecommunications, electricity, and agricultural sectors. Jordan led these countries in education contracts, was the second largest supplier of medicine contracts, and the fifth largest supplier of oil spares.

⁶ The United Nations does not publish contract or supplier data. This analysis is based on supplier data from December 1996 through January 2001 inadvertently posted on the United Nations website and subsequently removed.

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Figure 6: Contract Reviews



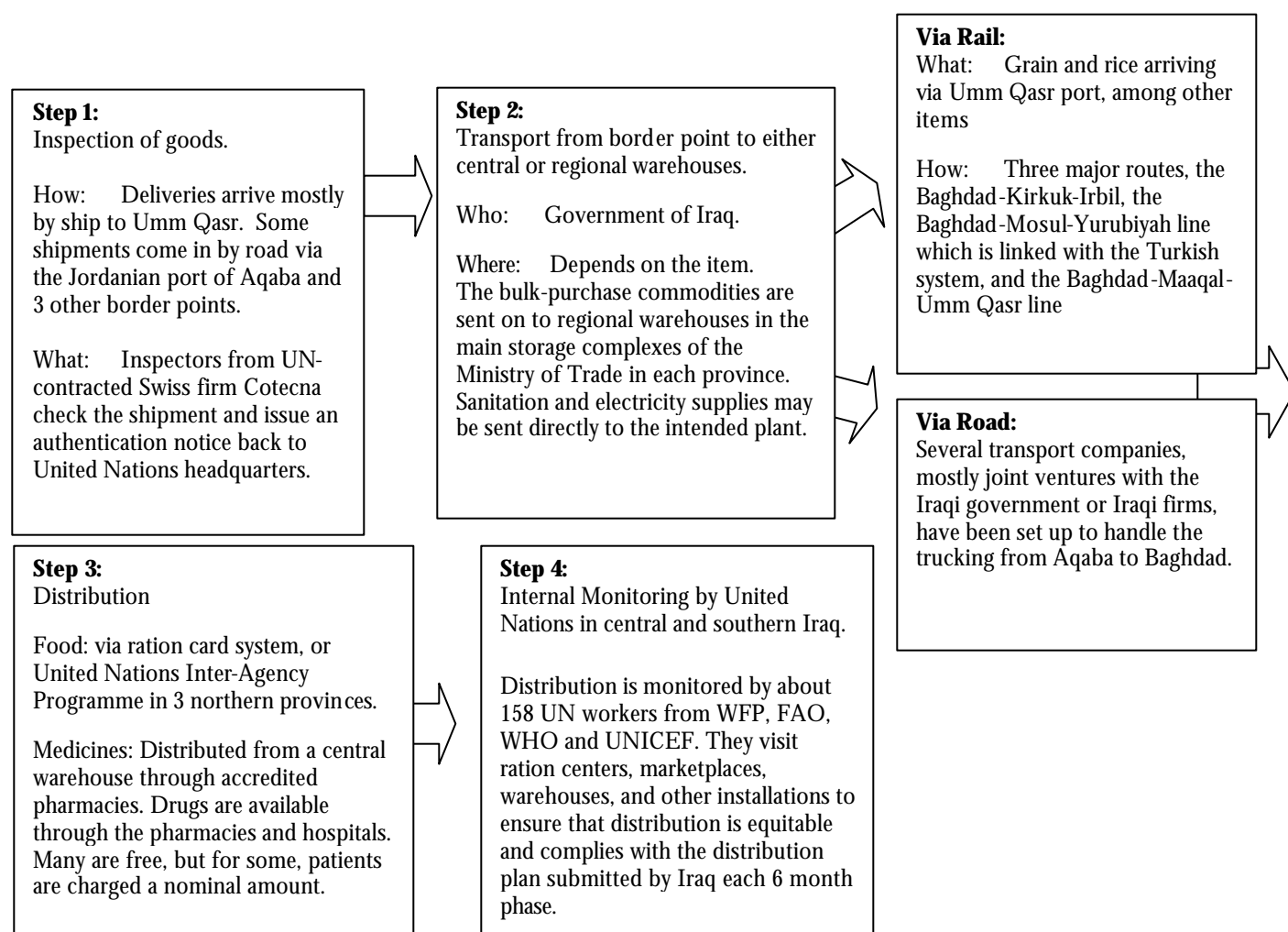
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In May 2002, the Security Council instituted a new procedure to review contracts in order to ensure they do not include items prohibited under the UN sanctions regime [see Figure 3, Step 4]. Under the new procedure, the Office of the Iraq Programme (OIP) reviews the contracts to verify they are complete prior to review by the United Nations Monitoring, Verification, and Inspection Commission (UNMOVIC) and the International Atomic Energy Association (IAEA). Since May 2002, 55 percent of contracts reviewed have been approved – worth \$5.1 billion. Contracts for goods that include items on the Goods Review List (GRL) – a pre-agreed upon list of items that have been flagged for review by the Security Council – may be placed on hold by UNMOVIC and the IAEA, and the supplier asked for additional information. For example, UNMOVIC and IAEA could inquire whether the restricted items are absolutely required to fulfill the contract, or whether other goods not on the GRL could substitute. Since the new procedures were instituted, UNMOVIC and the IAEA have requested additional information for about 38 percent of all contracts – worth \$3.6 billion. If a contract requires supplying items from the GRL into Iraq, the contract is referred to the Sanctions Committee, along with a risk assessment of its potential humanitarian and military impact.

Since May 2002, approximately 8 percent of contracts reviewed – worth \$731 million – have been referred to the Sanctions Committee. Of the 8 percent of contracts referred to the Sanctions Committee, only 4 percent – worth \$9.6 million, have been approved. Sixty-nine percent of contracts referred – worth \$161 million, have been denied but could be appealed by the supplier, while the remaining 16 percent of referred contracts – worth \$36.8 million – have been rejected by the Sanctions Committee after appeal.

Internal Distribution of Oil-for-Food Supplies

Figure 7: Internal Distribution of Oil-for-Food Supplies



Following the arrival and inspection of goods in Iraq, they are transported, warehoused, and distributed. Because the Government of Iraq is fully responsible for distribution in the central and southern areas, much less is known about this stage of the process.

Goods are transported within Iraq by road and rail. Trucking companies that are partly owned by the government move goods by road. Iraqi Railways, owned by the government, operates the three main rail lines on which goods are transported: the Baghdad-Kirkuk-Irbil line, the Baghdad-Mosul-Yurubiyah line that is linked with the Turkish system, and the Baghdad-Maaqal-Umm Qasr line.

Warehousing arrangements depend on the type of goods. Each Iraqi province has at least one central warehouse, in addition to those in Baghdad. All medicines appear to be centrally processed in Baghdad for quality testing, prior to being distributed via pharmacies and hospitals.

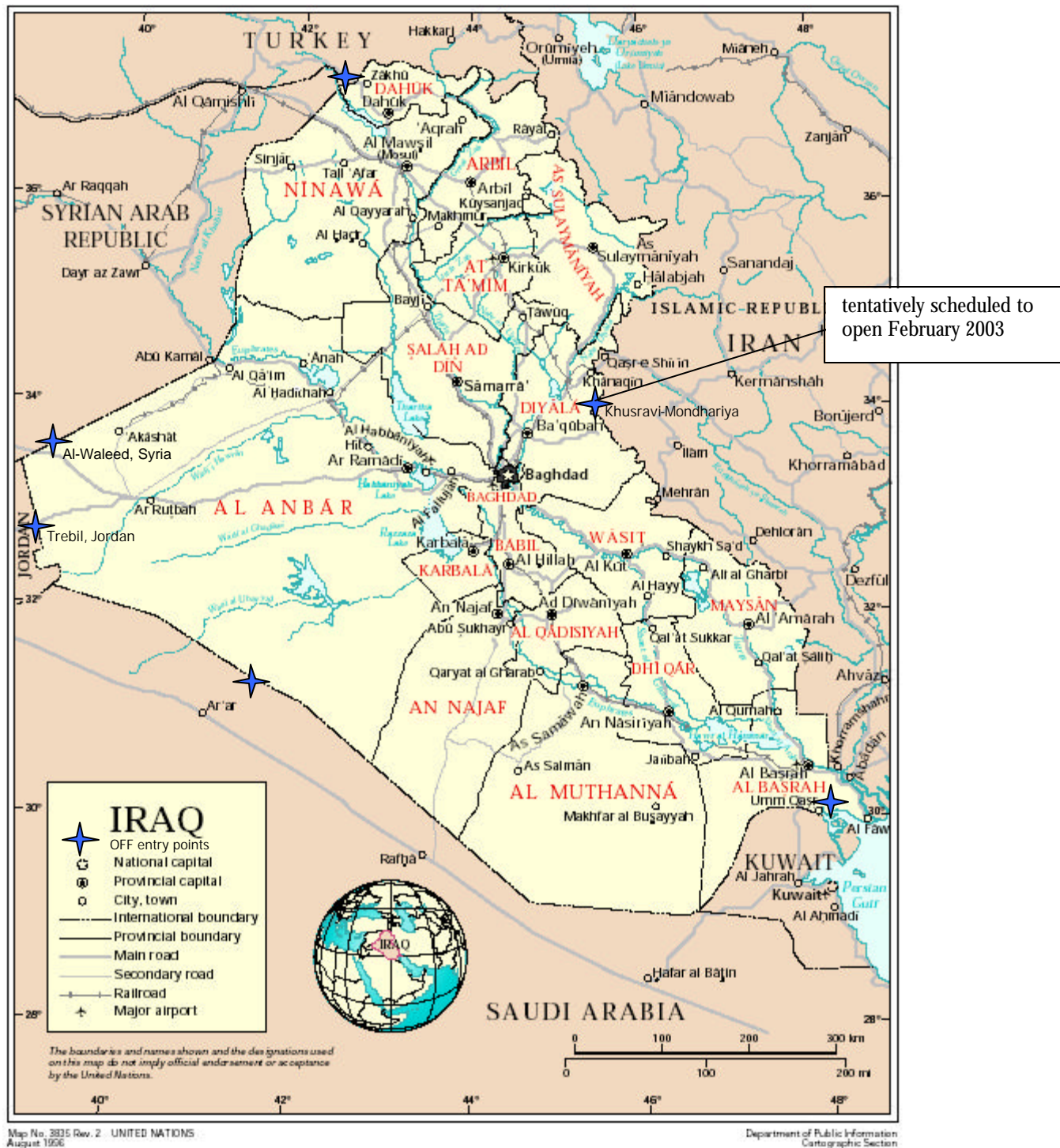
Grain is sent to state companies for processing, milling, and packing before being shipped to the provinces and on to individual retailers. It is unclear whether other items pass through a central

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warehouse or are shipped directly to their destination. For instance, it is unknown if generators go directly to the power plants or are first registered by the central government. The United Nations only plays a supporting role in this process, monitoring implementation and distribution, and assessing whether the government is following its own distribution plan.

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Figure 8: Oil-for-Food Entry Points

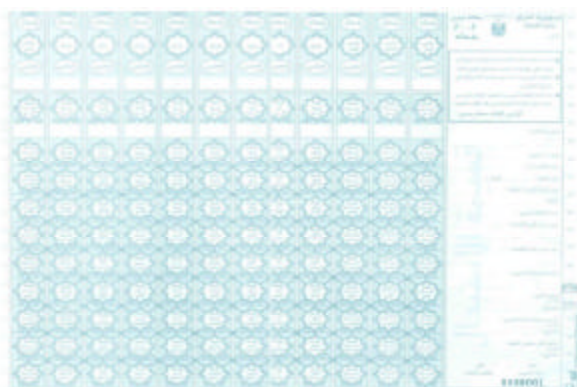


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OFF deliveries are allowed through five – soon to be six – border points.⁷ Most of the grain and rice comes in through Umm Qasr, a port in southeast Iraq, which is the busiest point of entry. United Nations agencies engaged in preparedness planning exercises predict that this port will close in the event of conflict. Trebil, on the Jordanian border, is the second busiest entry point, connecting to a six-lane highway that stretches to Baghdad. Al-Walid, on Syria's border is the third busiest, connecting to this same six-lane highway to Baghdad. Zakho, on the Turkish border, connects to a smaller road, but is convenient to Mosul where one of the World Food Programme's main warehouses is located. Ar'ar, on the Saudi Arabian border is a relatively new point. Khusravi, on the border with Iran is open for traffic and is tentatively scheduled to be approved for OFF deliveries in February 2003.

The Ration System

Figure 9: A Ration Card



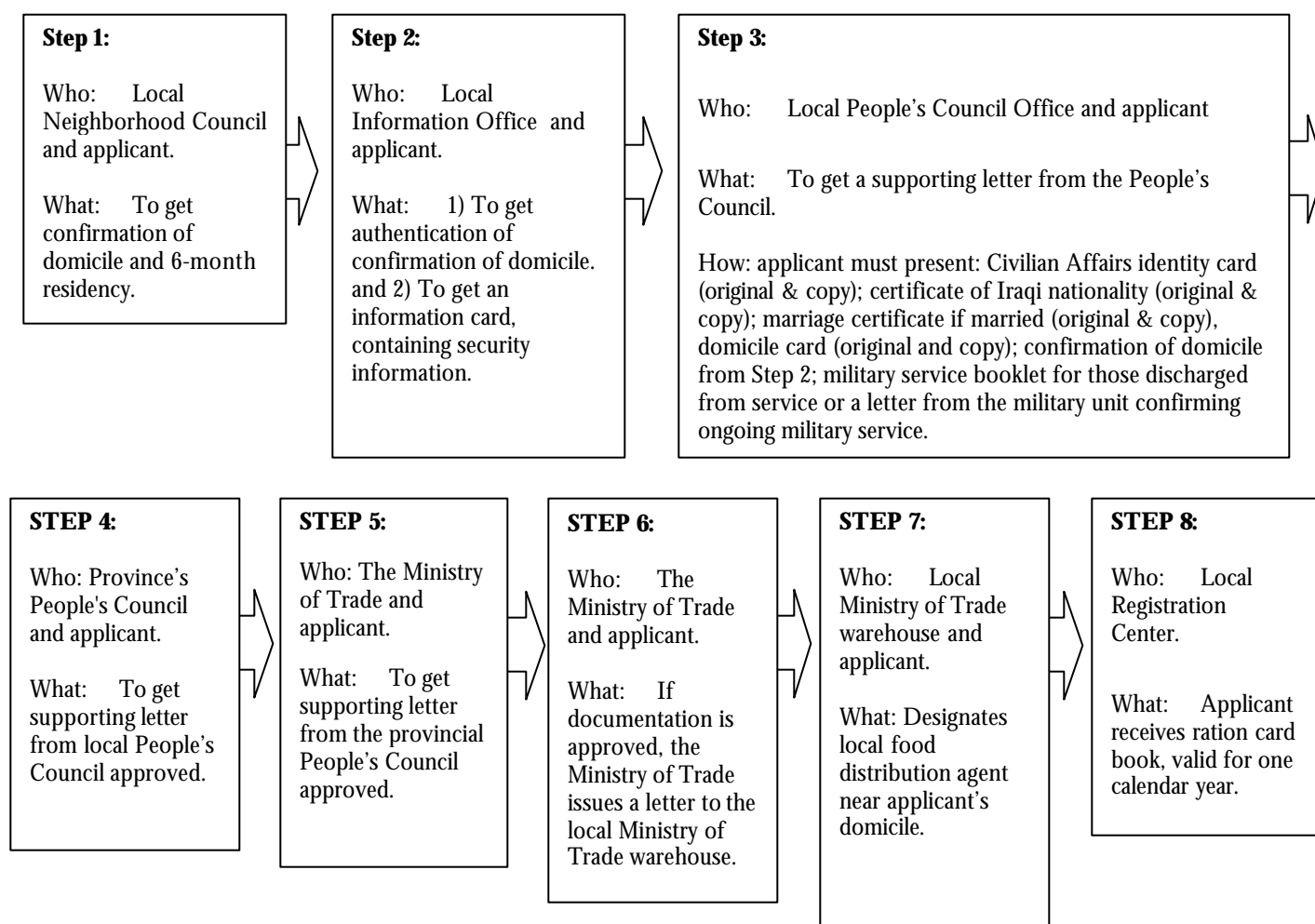
The Government of Iraq has distributed key food supplies to the Iraqi population using a ration card system since 1992. The Government reports that 27 million ration cards have been distributed, though most experts estimate the Iraqi population to be closer to 24 million. All Iraqi citizens are eligible to receive ration cards so long as they have lived in the same place for at least six months, curbing population mobility. Fourteen to sixteen million people – or two thirds of the population – are actually dependent on these rations for survival.⁸ Ration cards are good for one calendar year and are renewed annually; the current cards are valid until December 2003. Ration cardholders pick up their rations once a month, on the same predetermined day each month.

⁷ There have been allegations that the United Nations often misses government manipulation of the Oil-for-Food process. United Nations-contracted border entry monitors are only mandated to search incoming OFF shipments and therefore may be unaware of the quick re-routing of OFF supplies for sale abroad. Moreover Iraq may load additional oil for sale onto tankers after inspectors have certified that the tankers oil volume matched the contract submitted to the United Nations, as is known to have happened in October 2001.

⁸ *On the Brink of War: A Recipe for a Humanitarian Disaster*, CARITAS INTERNATIONALIS, October 31, 2002, at <http://www.caritas.org/jumpNews.asp?idLang=ENG&idChannel=3&idUser=0&idNews=666>. See also *Government of Iraq Distribution Plan for Phase XIII*, UN Doc. S/2003/6, at <http://www.un.org/depts/oip/>.

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Figure 10: Acquiring a Ration Card in Central/Southern Iraq



The ration card application process is extremely bureaucratic, involving three different local councils prior to the application being sent to the central Ministry of Trade for final approval. 45,684 private neighborhood stores in central and southern Iraq, and 10,000 in the north, act as retailers to distribute OFF goods. Each year, the Ministry of Trade sets up 50,000 stands across the country to expedite ration card renewal.⁹ Information on the ration system, including the ration allotment per family, is published in local newspapers.

The ration system is controlled by two key offices in the Ministry of Trade, the Computer Center and the Office of Planning and Follow-Up. The Computer Center manages the ration card computer database and provides computer systems and internet services to the Ministry and its companies. The Office of Planning and Follow-Up is responsible for implementation of, and transactions related to, the ration card distribution system.

Three state companies are closely linked to the ration system: the Grain Board of Iraq imports, stores, and purifies grain purchased through the program; the General Company for Grain Processing

⁹ *Iraq Starts to Distribute New Food Rations Cards*, XINHUA GENERAL NEWS SERVICE, December 15, 2001.

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produces and distributes wheat flour and bread; and the State Company for Food Stuff and Trading is involved in warehousing, insurance, and transportation of sugar, infant formula, beans, and detergent.

United Nations Presence in Iraq

Figure 11: United Nations Agencies Operating in Iraq

UNOHCI	UN Office of Humanitarian Coordinator in Iraq. Supported by the Joint Humanitarian Information Center, which collects data, surveys, and thematic maps of humanitarian activities in Iraq.
UNOPS	United Nations Office for Project Services.
UNDP	United Nations Development Programme. Staff: Approx. 160 international, 230 direct national staff, 3,000-5,000 indirect national staff, and 60-100 international subcontractors in the three northern provinces. ¹⁰
FAO	Food and Agriculture Organization of the United Nations. Staff: Approx. 22 international and 98 nationals in Baghdad and 38 internationals and 375 nationals in three northern provinces. ¹¹
UNHABITAT	UN Human Settlements Programme.
ITU	International Telecommunication Union.
UNESCO	United Nations Educational, Scientific, and Cultural Organization.
UNICEF	United Nations Children's Fund. Staff: 300 staff (including nationals). ¹²
WFP	World Food Programme. Staff: 34 international and 208 national staff in central and southern Iraq and 19 international and 423 national staff in the northern provinces. ¹³
WHO	World Health Organization.

The United Nations international presence in Iraq is limited in scope compared to the personnel and resources mobilized by the Iraqi government to address humanitarian needs. The United Nations' overall presence in Iraq involves roughly 1,100 international staff. At least 2,000 Iraqis work for the United Nations. Three hundred members of the UN international staff monitor distribution and implementation of approved OFF plans.

¹⁰ Interview, UNDP staff, January 29, 2003.

¹¹ FAO Conference: 32nd Session, at <http://www.fao.org/docrep/meeting/005/y7203e/y7203e06.htm>.

¹² Carol Bellamy, Press Release. "Carol Bellamy, Comments on Iraq, Palais press briefing," Geneva, January 28, 2003, at <http://www.unicef.org/newsline/2003/03bn01iraq.htm>.

¹³ *Operations in Iraq*, World Food Programme News Release, February 15, 2000. <http://www.wfp.org/index.asp?section=2>.

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Almost all United Nations activities in Iraq are funded by sales of Iraqi oil through the Oil-for-Food program, although some UN agencies supplement their OFF operations with donor-funded programs. Although all of the nine UN agencies in Iraq work in consultation with local officials in the Kurdish administered areas, the Kurdish authorities are not involved in the budgetary or contracting process for goods and services. The United Nations Inter-Agency Programme is responsible for direct procurement of humanitarian goods and services in the three northern provinces.

The Future of the Oil-for-Food Program

It is clear that the Oil-for-Food system works with some efficiency, but there are allegations of government corruption and manipulation of the program, and certain minority populations may have been excluded from the program's benefits. There are also reports that the Iraqi government circumvents and abuses the program by reselling goods or other means. None of these issues have been fully addressed, nor has the United Nations made public any plans for future reform of the system after potential regime change. Major alterations would be necessary to allow for local procurement, limit dependency on the system, and move Iraq toward more sustainable and durable solutions.

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