

Fraud and corruption

Forget the UN. The US occupation regime helped itself to \$8.8 bn of mostly Iraqi money in just 14 months

The Republican senators who have devoted their careers to mauling the United Nations are seldom accused of shyness. But they went strangely quiet on Thursday. Henry Hyde became Henry Jekyll. Norm Coleman's mustard turned to honey. Convinced that the UN is a conspiracy against the sovereignty of the United States, they had been ready to launch the attack which would have toppled the hated Kofi Annan and destroyed his organisation. A report by Paul Volcker, the former chairman of the US federal reserve, was meant to have proved that, as a result of corruption within the UN's oil-for-food programme, Saddam Hussein was able to sustain his regime by diverting oil revenues into his own hands. But Volcker came up with something else.

"The major source of external financial resources to the Iraqi regime," he reported, "resulted from sanctions violations outside the [oil-for-food] programme's framework." These violations consisted of "illicit sales" of oil by the Iraqi regime to Turkey and Jordan. The members of the UN security council, including the United States, knew about them but did nothing. "United States law requires that assistance programmes to countries in violation of UN sanctions be ended unless continuation is determined to be in the national interest. Such determinations were provided by successive United States administrations."

The government of the US, in other words, though it had been informed about a smuggling operation which brought Saddam Hussein's regime some \$4.6bn, decided to let it continue. It did so because it deemed the smuggling to be in its national interest,

as it helped friendly countries (Turkey and Jordan) evade the sanctions on Iraq. The biggest source of illegal funds to Saddam Hussein was approved not by officials of the UN but by officials in the US. Strange to relate, neither Mr Hyde nor Mr Coleman have yet been bellyaching about it. But this isn't the half of it.

It is true that the UN's auditing should have been better. Some of the oil-for-food money found its way into Saddam Hussein's hands. One of its officials, with the help of a British diplomat, helped to ensure that a contract went to a British firm, rather than a French one. The most serious case involves an official called Benon Sevan, who is alleged to have channelled Iraqi oil into a company he favoured, and who might have received \$160,000 in return. Kofi Annan, the UN secretary general, has taken disciplinary action against both men, and promised to strip them of diplomatic immunity if they are charged. There could scarcely be a starker contrast to the way the US has handled the far graver allegations against its own officials.

Four days before Volcker reported his findings about Saddam Hussein, the US inspector general for Iraq reconstruction published a report about the Coalition Provisional Authority (CPA) - the US agency which governed Iraq between April 2003 and June 2004. The inspector general's job is to make sure that the money the authority spent was properly accounted for. It wasn't. In just 14 months, \$8.8bn went absent without leave. This is more than Mobutu Sese Seko managed to steal in 32 years of looting Zaire. It is 55,000 times as much as Mr Sevan is alleged to have been paid.

The authority, the inspector general found, was "burdened by severe inefficiencies and poor management". This is kind. Other investigations suggest that it was also burdened by false accounting, fraud and corruption.

Last week a British adviser to the Iraqi Governing Council told the BBC's File on Four programme that officials in the CPA were demanding bribes of up to \$300,000 in return for awarding contracts. Iraqi money seized by US forces simply disappeared. Some \$800m was handed out to US commanders without being counted or even weighed. A further \$1.4bn was flown from Baghdad to the Kurdish regional government in the town of Irbil, and has not been seen since.

Contracts to US companies were awarded by the CPA without any financial safeguards. They were issued without competition, in the form of "cost-plus" deals. This means that the companies were paid for the expenses they incurred, plus a percentage of those expenses in the form of profit. They had a powerful incentive, in other words, to spend as much money as possible. As a result, the authority appears to have obtained appalling value for money. Auditors at the Pentagon, for example, allege that, in the course of just one contract, a subsidiary of Halliburton overcharged it for imported fuel by \$61m. This appears to have been officially sanctioned. In November,

the New York Times obtained a letter from an officer in the US Army Corps of Engineers insisting that she would not “succumb to the political pressures from the ... US embassy to go against my integrity and pay a higher price for fuel than necessary”. She was overruled by her superiors, who issued a memo insisting that the prices the company was charging were “fair and reasonable”, and that it wouldn’t be asked to provide the figures required to justify them.

Other companies appear to have charged the authority for work they never did, or to have paid subcontractors to do it for them for a fraction of what they were paid by the CPA. Yet, even when confronted by cast-iron evidence of malfeasance, the authority kept employing them. When the inspector general recommended that the US army withhold payments from companies which appear to have overcharged it, it ignored him. No one has been charged or punished. The US department of justice refuses to assist the whistle-blowers who are taking these companies to court.

What makes all this so serious is that more than half the money the CPA was giving away did not belong to the US government but to the people of Iraq. Most of it was generated by the coalition’s sales of oil. If you think the UN’s oil-for-food programme was leaky, take a look at the CPA’s oil-for-reconstruction scheme. Throughout the entire period of CPA rule, there was no metering of the oil passing through Iraq’s pipelines, which means that there was no way of telling how much of the country’s wealth the authority was extracting, or whether it was paying a fair price for it. The CPA, according to the international monitoring body charged with auditing it, was also “unable to estimate the amount of petroleum ... that was smuggled”.

The authority was plainly breaching UN resolutions. As Christian Aid points out, the CPA’s distribution of Iraq’s money was supposed to have been subject to international oversight from the beginning. But no auditors were appointed until April 2004 - just two months before the CPA’s mandate ran out. Even then, they had no power to hold it to account or even to ask it to cooperate. But enough information leaked out to suggest that \$500m of Iraqi oil money might have been “diverted” (a polite word for nicked) to help pay for the military occupation.

I hope that Messrs Hyde and Coleman won’t stop asking whether Iraqi oil money has been properly spent. But perhaps we shouldn’t be surprised if their agreeable silence persists.