

INDEPENDENT INQUIRY COMMITTEE
— INTO —
THE UNITED NATIONS OIL-FOR-FOOD PROGRAMME

**MANIPULATION OF THE OIL-FOR-FOOD
PROGRAMME BY THE IRAQI REGIME**

Oil Transactions and Illicit Payments
Humanitarian Goods Transactions and Illicit Payments
The Escrow Bank and the Inspection Companies
Other UN-Related Issues

Paul A. Volcker, Chairman
Richard J. Goldstone, Member
Mark Pieth, Member

October 27, 2005
www.iic-offp.org

REPORT ON PROGRAMME MANIPULATION

TABLE OF CONTENTS

CHAPTER 1 – SUMMARY OF THE REPORT ON MANIPULATION

SUMMARY OF REPORT	1
--------------------------------	----------

CHAPTER 2 – OIL TRANSACTIONS AND ILLICIT PAYMENTS

I. INTRODUCTION AND SUMMARY.....	9
II. IMPLEMENTATION OF THE OIL-FOR-FOOD PROGRAMME.....	15
A. THE INITIAL PHASES	15
B. THE POLITICIZATION OF OIL ALLOCATIONS.....	15
C. IMPOSITION OF SURCHARGES	18
D. THE PHASE IX CRISIS	18
E. THE COLLECTION OF SURCHARGES.....	19
III. RUSSIA.....	22
A. DISTRIBUTION OF OIL ALLOCATIONS.....	23
B. POLITICAL ALLOCATIONS	27
C. SURCHARGE PAYMENTS ON RUSSIAN CONTRACTS	38
IV. FRANCE.....	47
A. PREFERENTIAL OIL ALLOCATIONS	47
B. JEAN-BERNARD MÉRIMÉE	49
C. CHARLES PASQUA/BERNARD GUILLET	53
D. CLAUDE KASPEREIT, E.O.T.C., AND MARC RICH + Co.	61
E. SERGE BOIDEVAIX	67
F. GILLES MUNIER	74
V. OTHER POLITICAL BENEFICIARIES	79
A. GEORGE GALLOWAY	79
B. ROBERTO FORMIGONI/MARCO MAZARINO DE PETRO.....	89
C. FATHER JEAN-MARIE BENJAMIN AND ALAIN BIONDA.....	99
D. SANDI MAJALI	103
VI. OIL TRADERS AND THE PHASE IX CRISIS.....	115
A. INTRODUCTION	115
B. BAYOIL	115
C. TAURUS	125
D. GLENCORE	143
E. VITOL	156
F. COASTAL PETROLEUM COMPANY	171

REPORT ON PROGRAMME MANIPULATION

TABLE OF CONTENTS

VII. TRAFIGURA, IBEX AND THE <i>ESSEX</i> TOP-OFFS	176
A. TRAFIGURA AND IBEX ENERGY–THE OIL TOP-OFF SCHEME.....	176
B. BRIBERY OF SAYBOLT INSPECTOR	179
C. THE FINANCIAL TRAIL OF THE <i>ESSEX</i> TOP-OFF SCHEME.....	182
D. UNITED NATIONS RESPONSE TO THE <i>ESSEX</i> TOP-OFF ALLEGATIONS	186
E. EXPLANATIONS OF SAYBOLT, ARMANDO CARLOS OLIVEIRA, AND TRAFIGURA	188
VIII. RESPONSES OF OIL TRADING COMPANIES	190
A. RESPONSE OF ALCON PETROLEUM LTD.	191
B. RESPONSE OF ALFA-ECO	193
C. RESPONSE OF FENAR PETROLEUM LTD.	194
D. RESPONSE OF GLENCORE	196
E. RESPONSE OF ITALTECH.....	199
F. RESPONSE OF TAURUS PETROLEUM LTD.....	200
G. RESPONSE OF TRAFIGURA	201
H. RESPONSE OF VITOL S.A.	209
I. RESPONSE OF ZARUBEZHNEFT	212
J. RESPONSE OF ARMANDO OLIVEIRA	213
K. RESPONSE OF BERNARD GUILLET	214
L. RESPONSE OF CHARLES PASQUA.....	216
M. RESPONSE OF GEORGE GALLOWAY	218
N. RESPONSE OF HAMIDA NA'ANA	220
O. RESPONSE OF JEAN-MARIE BENJAMIN.....	225
P. RESPONSE BY MARC RICH GROUP	227
Q. RESPONSE BY ROBERTO FORMIGONI.....	229
R. RESPONSE BY SANDI MAJALI-IVUME.....	230
S. RESPONSE BY MARTIN SCHENKER	237
T. RESPONSE BY SERGE BOIDEVAIX.....	238
U. RESPONSE OF SUDHIR JAYA	240
CHAPTER 3 – HUMANITARIAN GOODS TRANSACTIONS AND ILLICIT PAYMENTS	
I. INTRODUCTION AND SUMMARY.....	249
II. IRAQI PURCHASES OF HUMANITARIAN GOODS AND OIL SPARE PARTS UNDER THE PROGRAMME	252
A. THE EVOLUTION OF IRAQ’S PURCHASES	252
B. RULES GOVERNING TRANSACTIONS WITH IRAQ	253
C. COORDINATION OF IRAQ’S PURCHASES	257
D. CONCENTRATION OF GOODS SUPPLIERS	261
E. TRANSPORT OF GOODS AND HANDLING OF CARGOES AT UMM QASR.....	262

REPORT ON PROGRAMME MANIPULATION**TABLE OF CONTENTS**

III. INITIAL IMPOSITION OF FEES ON HUMANITARIAN CONTRACTS: PHASES VI THROUGH VIII	265
A. ASSIGNMENT OF RESPONSIBILITIES FOR INLAND TRANSPORTATION.....	265
B. INTRODUCTION OF MANDATORY TRANSPORTATION CHARGES.....	266
C. PAYMENT MECHANISMS FOR INTERNAL TRANSPORTATION FEES	270
D. DISTRIBUTION AND USE OF INTERNAL TRANSPORTATION FEES.....	273
IV. THE BROADENING OF THE KICKBACK SCHEME.....	276
A. INTRODUCTION OF AFTER-SALES-SERVICE FEES	276
B. EXPANSION OF THE TRANSPORTATION FEE SCHEME.....	280
C. PAYMENT MECHANISMS FOR AFTER-SALES-SERVICE FEES AND THE USE OF BANK GUARANTEES	285
D. OTHER FEES.....	290
E. COLLECTION AND USE OF ILLICIT FUNDS	291
V. OTHER MANIPULATIONS OF THE PROGRAMME	293
A. DIVERSION OF GOODS WITHIN IRAQI MINISTRIES	293
B. RESALE OF PROGRAMME GOODS OUTSIDE IRAQ	294
C. SUBSTANDARD GOODS	295
D. ABOVE-MARKET PRICING OF GOODS.....	297
VI. COMPANY EXAMPLES – OVERVIEW.....	300
VII. IRAQI FRONT COMPANIES.....	302
A. ALIA FOR TRANSPORTATION AND GENERAL TRADE	302
B. AL-HODA INTERNATIONAL TRADING CO.....	306
C. AL WASEL & BABEL GENERAL TRADING LLC.....	308
VIII. MAJOR FOOD COMPANIES.....	311
A. AWB LTD.....	311
B. CHAIYAPORN RICE CO. LTD.	325
C. HOLDING COMPANY FOR FOOD INDUSTRIES	328
D. VIETNAM NORTHERN FOOD CORPORATION AND VIETNAM DAIRY JOINT STOCK COMPANY	329
IX. MAJOR TRADING COMPANIES	334
A. BELHASA GROUP OF COMPANIES.....	334
B. BELMETALENERGO AND INFOBANK	336
C. BUKKEHAVE A/S	340
D. GINZA	344
E. JAWALA CORPORATION SDN. BHD.....	345
F. PHOENIX INVESTMENT INTERNATIONAL	347
G. RUSSIAN ENGINEERING COMPANY	349
H. SES INTERNATIONAL CORP.	354

REPORT ON PROGRAMME MANIPULATION**TABLE OF CONTENTS**

I. SINOCHEM.....	356
X. MAJOR INDUSTRIAL COMPANIES	360
A. ATLAS COPCO AIRPOWER N.V.	360
B. DAIMLERCHRYSLER AG.....	365
C. MALONEY INDUSTRIES INC.....	371
D. SIEMENS COMPANIES	375
E. VOLVO CONSTRUCTION EQUIPMENT	381
F. WEIR GROUP PLC	384
XI. RESPONSES OF HUMANITARIAN GOODS COMPANIES.....	391
A. RESPONSE OF ALIA FOR TRANSPORTATION AND GENERAL TRADE CO.	392
B. RESPONSE OF ATLAS COPCO N.V.	394
C. RESPONSE OF AUSTRALIAN WHEAT BOARD	395
D. RESPONSE OF BELMETALENERGO	400
E. RESPONSE OF BUKKEHAVE	401
F. RESPONSE OF CHAIYAPORN RICE Co, LTD.	404
G. RESPONSE OF DAIMLER CHRYSLER AG	405
H. RESPONSE OF INTERNATIONAL ENGINEERING GROUP.....	408
I. RESPONSE OF JAWALA CORPORATION SDN BHD	412
J. RESPONSE OF MALONEY INDUSTRIES	415
K. RESPONSE OF PHOENIX INVESTMENT INTERNATIONAL	416
L. RESPONSE OF RUSSIAN ENGINEERING COMPANY	419
M. RESPONSE OF SIEMENS AG.....	421
N. RESPONSE OF SINOCHEM INTERNATIONAL CORPORATION	422
O. RESPONSE OF VIETNAM NORTHERN FOOD CORPORATION (VINAFOOD 1).....	425
P. RESPONSE OF VOLVO CONSTRUCTION EQUIPMENT	426
Q. RESPONSE OF THE WEIR GROUP PLC.....	428
R. RESPONSE OF ZARUBEZHNEFT	431

CHAPTER 4 – THE ESCROW BANK AND CONFLICTING INTERESTS

I. INTRODUCTION AND SUMMARY.....	433
II. BACKGROUND	435
A. STRUCTURE OF BNP AND ITS PROGRAMME ACTIVITIES.....	435
B. FEES EARNED FOR PROGRAMME ACTIVITIES	436
C. CONTRACTUAL CONTEXT FOR BNP’S PROGRAMME ACTIVITIES	439
III. LETTERS OF CREDIT AND TRANSPARENCY	441
A. LETTERS OF CREDIT ISSUED IN THE NAME OF PARTIES OTHER THAN THE CONTRACT HOLDER.....	441

REPORT ON PROGRAMME MANIPULATION

TABLE OF CONTENTS

B. CASE STUDY: ACTEC, GLENCORE, AND BNP PARIBAS GENEVA	443
C. CASE STUDY: BULF DRILLING, TEXACO, AND BNP NEW YORK.....	446
IV. SURCHARGE PAYMENTS AND DUE DILIGENCE	450
A. BNP AND SURCHARGES	450
B. REVIEW OF HIGH RISK TRANSACTIONS.....	452
V. THE BANK’S RESPONSE.....	459
A. THE BANK’S CONTENTIONS	459
B. THE UNITED NATIONS’ KNOWLEDGE OF PROGRAMME ABUSES	460
VI. THE COMMITTEE’S EVALUATION.....	461

CHAPTER 5 – THE INSPECTION COMPANIES

I. INTRODUCTION AND SUMMARY.....	463
II. SAYBOLT	465
A. BRIBERY OF ARMANDO CARLOS COSTA OLIVEIRA.....	466
B. REQUEST FOR OIL ALLOCATION BY PETER BOKS	466
III. LLOYD’S.....	472
IV. COTECNA.....	474
A. CONTRACT PERFORMANCE	474
B. REVIEW OF ADDITIONAL ALLEGATIONS	475
V. RESPONSES OF INSPECTION COMPANIES	479
A. RESPONSE OF COTECNA SA	480
B. RESPONSE OF SAYBOLT INTERNATIONAL B.V.	483

CHAPTER 6 – REVIEW OF SECRETARY-GENERAL BOUTROS-GHALI BANK ACCOUNTS

I. INTRODUCTION AND SUMMARY.....	483
II. HANS VON SPONECK	483
III. TUN MYAT.....	483
IV. RESPONSES OF HUMANITARIAN COORDINATORS.....	483
A. RESPONSE OF TUN MYAT.....	483
B. RESPONSE OF H.C. VON SPONECK.....	483

REPORT ON PROGRAMME MANIPULATION

TABLE OF CONTENTS

CHAPTER 7 – ISSUES RELATING TO ACTIVITIES OF HUMANITARIAN COORDINATORS

I. INTRODUCTION AND SUMMARY.....	483
II. ANALYSIS OF BANK ACCOUNTS OF FORMER SECRETARY-GENERAL BOUTROS-GHALI	483
A. CAISOR SERVICES ACCOUNT DISBURSEMENTS TO A LEIA BOUTROS-GHALI ACCOUNT.....	483
B. CAISOR SERVICES ACCOUNT DISBURSEMENTS TO A NADLER FAMILY ACCOUNT	483
III. RESPONSE OF BOUTROS BOUTROS-GHALI	483

APPENDIX A – EXPLANATION OF COMMITTEE TABLES

APPENDIX B – CONSIDERATIONS OF RESPONSE FROM JOSEPH STEPHANIDES

APPENDIX C – RESPONSES TO PRIOR COMMITTEE REPORTS

APPENDIX D - ERRATA

APPENDIX E – GLOSSARY

APPENDIX F – STAFF LIST