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Iraq: Oil-For-Food Program

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Summary

The “oil-for-food” program represents a longstanding U.N. Security Council effort to alleviate human suffering in Iraq while maintaining pressure on the Iraqi government to comply with all relevant U.N. Security Council resolutions. In order to ensure that only humanitarian needs are served by the program, U.N. Security Council resolutions have mandated substantial controls on Iraqi oil exports and humanitarian imports. However, in response to complaints by humanitarian officials and groups working in Iraq that insufficient supplies are reaching the Iraqi people, the Security Council has agreed to ease some of the program’s restraints. A major Security Council resolution adopted in December 1999, Resolution 1284, lifts the cap on the amount of oil Iraq can export and eliminated U.N. controls on the importation by Iraq of several categories of humanitarian items.

There is a consensus among observers that the program has eased, but not eliminated, human suffering in Iraq. Many different explanations have been offered for the failure of the program to accomplish all of its objectives. The United States blames Iraq for mismanaging the program and for attempting to import equipment that, at best, will not improve the humanitarian situation and, at worst, could be used in any Iraqi attempt to reconstitute weapons of mass destruction (WMD) programs. The United States also accuses Iraq of using its additional currency reserves – as well as the proceeds of illicit exports of petroleum and agricultural products – to build palaces and import liquor and luxury goods rather than to supplement supplies purchased under the program. The United States has sought to persuade Iraq’s neighbors, including Iran, not to help Iraq conduct illicit trade, but the growing regional sympathy for the Iraqi people has resulted in a pronounced relaxation of regional enforcement – or even open defiance – of the Iraq sanctions.

The United Nations places some of the blame for the deficiencies of the program on the United States and Britain. Concerned that purchases of technology could have military applications, the United States and Britain, in their capacity as members of the U.N. Sanctions Committee, have often slowed or held up Iraqi purchases of oil industry spare parts and electricity generation and telecommunications equipment. Iraq and the United Nations claim that these supplies are needed to ensure rapid and effective distribution of humanitarian supplies. In response to the criticism, the United States and Britain are promising to try to complete their scrutiny of contracts for such equipment more quickly, although they say they will not do so at the expense of approving contracts that Iraq could use for prohibited purposes.

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Iraq: Oil-For-Food Program

Background and Structure of the Program

The "oil-for-food" program reflects a longstanding U.N. Security Council effort to alleviate humanitarian suffering in Iraq while pressing Iraq to comply with all relevant U.N. Security Council resolutions.¹ The first version of an oil-for-food plan would have allowed Iraq to export \$1.6 billion in oil every six months. It was adopted by the Council in 1991 in Resolutions 706 and 712, but Iraq rejected it as too limited in scope and an infringement on Iraq's sovereignty. On April 15, 1995, the Council adopted Resolution 986, which took into account one of Iraq's concerns by allowing the export of \$2 billion in oil every six months. Iraq and the United Nations signed a memorandum of understanding on the program on May 20, 1996 and, after several more months of negotiations on details, the first Iraqi oil exports began on December 10, 1996. After the first year of the program, the Secretary General determined that the program was not meeting the humanitarian needs of the Iraqi people, and Resolution 1153 (February 20, 1998) raised the oil export ceiling to a limit of \$5.256 billion every six months. In an effort to provide Iraq an incentive to cooperate with a new program of U.N. weapons of mass destruction (WMD) inspections, the U.N. Security Council, in Resolution 1284 (December 17, 1999), abolished the export limit. This resolution had a number of additional provisions and implications for the oil-for-food program, as discussed below.

In order to ensure that only humanitarian needs are served by the program, the oil-for-food resolutions place substantial controls on Iraqi oil exports and humanitarian imports. Iraq's state-owned oil marketing company (SOMO) negotiates with international oil companies to sell Iraqi oil, but all contracts must be approved by the U.N. Sanctions Committee,² which administers the implementation of sanctions on Iraq. Oil is exported through an Iraq-Turkey pipeline and from Iraq's terminals in the Persian Gulf. According to Resolution 986, "the larger share" of oil exports must run through the Turkish route. The proceeds from these sales are deposited directly, by the oil purchasers, into a U.N.-monitored escrow account held at the New York branch of France's Banque Nationale de Paris (BNP). Iraq's oil exports are monitored at point of exportation by personnel from Saybolt Nederland BV, an energy services firm working under contract to the oil-for-food program.

Iraq negotiates with supplier firms for goods and services purchased under the program. The Sanctions Committee, established after Iraq's August 2, 1990 invasion

¹ For a further discussion of Security Council resolutions and requirements on Iraq, see CRS Issue Brief 92117, *Iraqi Compliance With Ceasefire Agreements*.

² The Sanctions Committee, set up by Resolution 661 of August 6, 1990, consists of representatives of the member states on the U.N. Security Council.

of Kuwait, must approve all contracts. The Committee operates by consensus. Any Sanctions Committee member state may place a "hold" on a contract for goods to be imported by Iraq. In deciding whether or not to place a hold on a contract, the U.S. representative on the Sanctions Committee consults with agencies of the U.S. government to determine whether Iraq could use the requested items for military purposes.

Once a contract is approved, BNP uses the funds deposited in the escrow account to pay letters of credit for the purchased goods. The arriving supplies are monitored at their point of entry into Iraq by about 50 personnel from the Swiss firm Cotecna³ at four approved border crossings — Umm Qasr on the Persian Gulf; Trebil on the Iraqi-Jordanian border; Walid on the Iraqi-Syrian border; and Zakho on the Iraqi-Turkish border. In accordance with Resolution 1051 (March 27, 1996), exports to Iraq of dual use items (items that could have military applications, such as computers and certain chemicals) are supposed to be monitored by U.N. weapons inspectors at their point of end use in Iraq. However, this import monitoring has been suspended since the previous inspection regime (U.N. Special Commission, UNSCOM) left Iraq in December 1998 just prior to the U.S./British airstrike campaign against Iraq (Operation Desert Fox, December 16-19). Resolution 1284 replaced UNSCOM with a new inspection body, the U.N. Monitoring, Verification, and Inspection Commission (UNMOVIC), but Iraq has not allowed UNMOVIC into Iraq. This absence of monitoring has caused the United States and Britain to closely scrutinize, and to place many holds on, exports of dual use items to Iraq. Under regulations written for the program, the U.S. government allows U.S. firms to buy Iraqi oil and sell goods to Iraq, including oil industry spare parts and equipment. (See appendix for an overview of U.S. regulations governing U.S. firms' participation in the program..)

The oil-for-food program attempts to help Iraq meet its international obligations and ensure equitable distribution of imports to the Iraqi people. The revenues from Iraq's oil sales are distributed as follows:

- ! 30% is transferred to a U.N. Compensation Commission (UNCC) to pay compensation to victims of Iraq's invasion of Kuwait. (This deduction falls to 25% as of early December; see below.)
- ! 53% is used to purchase humanitarian items for Baghdad-controlled Iraq.
- ! 13% is used to purchase supplies in the three Kurdish-inhabited provinces of northern Iraq.
- ! 2.2% pays for U.N. costs incurred to administer the oil-for-food program

³ Cotecna replaced Lloyd's Register as point-of-entry monitoring contractor on February 1, 1999.

- ! 0.8% pays for the costs of UNMOVIC's administration and operations.
- ! 1% is used to administer the escrow account that holds the revenue generated under the program.

In Baghdad-controlled Iraq, the Iraqi government distributes imports to the population through a government rationing system, but distribution is monitored by about 150 U.N. humanitarian workers from the World Food Program, the Food and Agriculture Organization, the World Health Organization, and UNICEF. The U.N. personnel visit ration centers, marketplaces, warehouses, and other installations to ensure that distribution is equitable and accords with the required allocation plans submitted by Iraq for each six month phase. In Kurdish-controlled Iraq, about 65 U.N. workers, accompanied by about 130 U.N. security guards, perform the distribution function.

Effectiveness of the Program

There is a consensus among U.N. officials and outside observers that the oil for food program is easing, but has not eliminated, human suffering in Iraq. Some might argue that this result is the best that the international community could have hoped for. The Secretary General has noted in his reports that the program was never intended to meet all the humanitarian needs of the Iraqi people or to "substitute for normal economic activity."

Few observers question that the program has made vast amounts of funds available for the purchase of food, medicine, and essential civilian goods. The table below, supplied by the United Nations' Office of the Iraq Program, shows that higher oil prices, coupled with program modifications, have enabled Iraq to generate substantial revenues to fund imports. Iraq is now generating significantly more oil revenue than it did before the U.N. embargo was imposed in 1990 (about \$12.5 billion in *total* exports was generated in 1988), although, as noted above, substantial deductions are taken to pay the cost of implementing the sanctions. Phase Nine of the program is scheduled to begin on December 5, 2000.

Revenue Generated by Oil-For-Food Program
(Through November 10, 2000)

Phase Number (each phase is six months)	Volume Sold (millions of barrels)	Value of Export (\$billion)	Average Price per Barrel (\$)
One (Begun December 10, 1996 - \$2 billion ceiling) ¹	120	2.15	17.92
Two	127	2.125	16.73
Three	182	2.085	11.46
Four (ceiling raised to \$5.2 billion)	308	3.027	9.83
Five	360.8	3.947	10.94
Six (ceiling temporarily raised an additional \$3 billion)	389.6	7.402	19.00
Seven (ceiling lifted permanently)	343.4	8.285	24.13
Eight	326.6	8.412	25.76
Totals/Averages	2,157.4	37.433	17.35

Source: U.N. Office of the Iraq Programme.
[<http://www.un.org/Depts/oip/latest/basicfigures.html>].

1. Applicable U.N. Security Council resolutions allowed Iraq to generate revenue, over and above the ceilings, to pay the costs of transit fees for exporting oil through Turkey, which explains why some figures might exceed stated ceilings.

Food. In a report on September 8, 2000, Secretary General Kofi Annan notes that the increased financial resources are helping the Iraqi population meet “its daily needs,” but that humanitarian and human rights organizations highlight continued suffering among “children and other vulnerable groups.” A U.N. fact sheet on the program, dated October 8, 2000, states that more than \$5.5 billion worth of food and nearly \$1 billion worth of medical supplies have arrived in Iraq since shipments to Iraq under the program began in early 1997. The September 8, 2000 report indicates that in Baghdad-controlled Iraq, the Iraq government is now importing and distributing enough food to meet, or slightly exceed, the food levels targeted under the program (of 2,472 kilocalories per person per day). On the other hand, the report notes that few families can buy additional food and some sell part of their distributed rations in

order to buy other goods on the open market. The Secretary General's report does not identify any food problems for the three Kurdish provinces, which is consistent with press reports that food has become relatively abundant there, sometimes to the detriment of local agricultural production.

Health and Sanitation. The Secretary General's assessments of health conditions in Iraq are somewhat less optimistic. The Secretary General's September 8, 2000 report indicates some improvements in the health sector but that, in general, "these have tended to be localized in time and place." A report by the International Committee of the Red Cross (ICRC), released February 1, 2000, said the program had not halted the collapse of the health system, or the deterioration of water supplies, which together pose one of the gravest threats to the health and well being of the civilian population.⁴ The U.N. Secretary General's March 10, 2000 report on the oil-for-food program⁵ suggested that erratic and uncoordinated arrival of drugs to treat chronic disease as a contributing factor in the rise in deaths attributable to cardiac, diabetic, renal, and liver disease reported by the Iraqi government. In the related area of water and sanitation, the Secretary General's September 8, 2000 report says that "infrastructural degradation is evident across the subsectors, from water treatment to water distribution," and that "the decay rate of the entire system is accelerating."

In mid-1999, UNICEF released its first country wide survey of infant and maternal mortality in Iraq since 1991. UNICEF, the World Health Organization, and the World Food Program had previously published malnutrition surveys which showed greatly increased malnutrition in children under 5. Because these surveys relied on Iraqi government information, they were dismissed by some as propaganda fostered by the Iraqis to end the economic sanctions. The 1999 UNICEF survey took a number of precautions to ensure that the survey results would not be altered or modified and UNICEF is confident that the survey information is accurate. See chapter 2 of the report, which is available online on the UNICEF Web site at [<http://www.unicef.org/reseval/iraqr.htm>].

The 1999 survey shows that infant mortality in the southern and central sections of Iraq (under the control of the Iraqi government) rose from 47.1 deaths per thousand live births during 1984-1989 to 107.9 deaths per thousand during 1994-1999. The under five-year-old mortality rate rose from 56 to 130.6 per thousand live births in the same time period. In the northern part of Iraq, (currently under the protection of the international community) the mortality rate has declined over the same period: infant mortality dropped from 63.9 per thousand live births in 1984-1989 to 58.7 in 1994-1999 and under five-year-old mortality dropped from 80.2 per thousand live births to 71.8 per thousand.

⁴ *Iraq: A Decade of Sanctions*. ICRC Activities on Behalf of Iraqi Civilians 1999-2000. International Committee of the Red Cross [<http://www.reliefweb.int/w/rwb/nsf/6686f4>]. Placed on Web site March 14, 2000.

⁵ U.N. Security Council. Report of the Secretary-General pursuant to paragraphs 28 and 30 of resolution 1284 (1999) and paragraph 5 of resolution 1281 (1999) March 10, 2000. S/2000/208.

Education. The Secretary General's September 8, 2000 report identifies the education sector as "one of the most intractable problems facing the country." According to the report, Iraq's literacy rate (53.7% of adults and 70.7% of the youth) "has remained fixed for a number of years." The report adds that school enrollment in Baghdad-controlled Iraq has dropped as families have sent their children to work, while enrollment has risen in the Kurdish-controlled provinces because of improving economic conditions there.

Explanations for Continuing Humanitarian Problems

Many different, and often conflicting, explanations are offered for the program's failure to eliminate human suffering in Iraq. The United States and its key ally, Britain, place a high priority on containing Iraq, and they tend to place the overwhelming majority of the blame on Iraqi misfeasance and alleged disregard for the needs of its people. U.N. administrators of the program criticize Iraq on similar grounds, but they also attribute program deficiencies to U.S. and British policy, which they allege slows or halts the flow of infrastructure equipment that is required to realize the program's benefits.

The issue of contract holds (see above) on infrastructure equipment has been one of the most contentious that the United Nations has tried to address. U.N. reports on the program claim that infrastructure equipment, such as trucks, communications gear, forklifts, electricity, and water treatment equipment, are crucial to the timely distribution and proper storage and functioning of foodstuffs and medical products. According to a November 21, 2000 U.N. report, the total value of contracts still on hold is about \$2.3 billion; of this amount, about \$325 million consists of oil industry spare parts and about \$765 million consists of equipment for the electricity sector. The United States asserts that 90% of all contracts are approved and that the holds have had minimal impact. The United States maintains that all contracts must be scrutinized to ensure that no equipment will be used to rebuild WMD programs, especially because U.N. weapons inspectors are not in Iraq to monitor dual use exports that are shipped there. U.S. officials say they also want to ensure that no contract is being awarded solely to encourage political support for Iraq from parent governments and that all contracts submitted for review must provide required technical specifications.

U.N. reports express the hope that the United States and Britain will release some of their holds, but the reports also criticize Iraq. U.N. reports cite Iraq for often failing to follow U.N. procurement recommendations and for failing to efficiently distribute program imports, particularly medicine and medical equipment. Reports by the Secretary-General in 1999 noted three month delays in Iraq's movement of medicine from the main receiving warehouse to hospitals and clinics.⁶ The September 8, 2000 U.N. report also criticizes Iraq for refusing to issue visas to U.N. experts tasked to make arrangements for the purchase of some program goods and services locally. The report adds that Iraq has refused to allow in U.N. experts to conduct a comprehensive assessment of the humanitarian situation, as stipulated in

⁶ Aita, Judy. "U.N. Concerned About Medicines Distribution in Iraq." *USIS Washington File*, May 21, 1999.

U.N. Security Council Resolution 1302 (June 8, 2000). U.N. reports do not accuse Iraq of purposely diverting imports from the program to the military or regime supporters, although some U.S. reports, such as a February 28, 1998 State Department fact sheet, say Iraq has diverted other food stocks to these elements.

Some of the fault appears to lie with factors outside the control of any particular party. The Secretary General's September 8, 2000 report attributes the decline of the health sector, in part, to the departure from Iraq of foreign and Iraqi health professionals.

Resolution 1284 and Other Initiatives to Improve Program Effectiveness

U.N. Security Council Resolution 1284, adopted December 17, 1999, as well as other recent Security Council and Sanctions Committee decisions, are intended to improve the provision of relief for the Iraqi people. (For full text of Resolution 1284, see [<http://www.un.org/Docs/scres/1999/99sc1284.htm>].) The following highlights key provisions of it and related decisions:

- ! As noted previously, Resolution 1284 eliminates a limit on the amount of oil Iraq can export, in order to enable Iraq to generate more revenues for humanitarian purchases. All proceeds from the oil sales must still be deposited in the U.N.-supervised escrow account.
- ! Resolution 1284 directed the Sanctions Committee to draw up lists of items, in several categories, that would no longer be subject to Sanctions Committee review, and therefore will not be vulnerable to holds. The U.N. oil for food program administrators still need to be notified of the sale of these goods. The accelerated approval procedures for the approved list of foodstuffs and educational goods began on March 1, 2000. The new procedures were implemented for pharmaceuticals, medical supplies, medical equipment, and agricultural equipment and supplies on March 29, 2000. In keeping with a provision of U.N. Security Council Resolution 1302 (June 8, 2000), water treatment and sanitation supplies became eligible for accelerated approval on August 11, 2000. Resolution 1284 also made some oil industry spare parts eligible for a streamlined approval process - contracts for such equipment is scrutinized by the same Sanctions Committee panel of oil overseers that review Iraq's oil sales contracts, without requiring full Sanctions Committee review.
- ! Resolution 1284 lays the groundwork for foreign investment in exploring and producing oil in Iraq, although the Resolution makes this investment contingent on Iraqi cooperation with the new U.N. weapons inspection body, U.N. Monitoring, Verification, and Inspection Commission (UNMOVIC).

- ! Resolution 1284 creates incentives for Iraq to cooperate with UNMOVIC by promising that, if Iraq fully cooperates with the new body, export and import sanctions will be suspended. Iraq would once again be allowed to control its own revenues, although subject to strict but unspecified financial controls, according to the resolution. Arms exports to Iraq would still be banned and exports of dual use items would still be subject to scrutiny by the Sanctions Committee.
- ! U.N. Security Council Resolution 1293 (March 31, 2000) increased to \$600 million, from \$300 million, the value of oil industry spare parts that Iraq could import per oil-for-food phase. This decision was taken in response to recommendations by the U.N. Secretary General that improving the humanitarian situation was contingent on the rehabilitation of Iraq's ability to export its oil.
- ! In late September 2000, the United States reached agreement with Russia and France that, beginning in Phase Nine of the oil-for-food program (commencing December 5, 2000), the amount of revenue that will be deducted for reparations payments will fall from 30% to 25%. This will free additional funds for humanitarian relief.

Transactions With Iraq Outside the Oil-for-Food Program

Numerous international transactions with Iraq — some legitimate, some illicit — fall outside the oil-for-food program. As was the case before the oil-for-food program started, Iraq is permitted to use its own currency reserves to purchase food, medicine, and essential civilian goods. Governments and private relief organizations are permitted to donate humanitarian items to Iraq. However, U.S. officials say Iraq has viewed the oil-for-food program as a replacement for, rather than a supplement to, its pre-existing supply purchase program. On February 29, 2000, the Administration accused Iraq of using its resources to build nine lavish palaces (valued at about \$2 billion) and to import cigarettes and liquor.⁷ Some fear that Iraq could also use its reserves to import militarily useful equipment; U.N. weapons inspectors seized illicitly imported missile guidance systems in 1995.

International Donations

UNICEF, the World Food Program (WFP) the U.N. Development Program (UNDP), the European Community (ECHO), the International Committee of the Red Cross (ICRC), governments, and private relief organizations such as Catholic Relief Services and Save the Children continue to provide funds for programs in Iraq. This is in addition to their activities under the oil-for-food program. UNICEF, ECHO,

⁷ Alcohol is classified as a food, so the imports are technically legal under the international sanctions regime in place since Iraq's August 2, 1990 invasion of Kuwait.

and WFP focus their humanitarian aid on the South and Central part of the country rather than on the economically better off Kurdish north.

It is impossible to determine precisely the total amounts of bilateral and multilateral aid by all donors. However, the U.N. Secretary-General's recent reports and statements have suggested that these aid sources are declining, possibly because donors believe the oil-for-food program is satisfying Iraq's needs. Secretary General Annan has called for increased international assistance to Iraq, and Resolution 1284 "encourages" countries and international organizations to provide supplementary humanitarian aid and educational materials to Iraq. After Baghdad's incursion into the Kurdish north in late August 1996, the United States virtually ended its assistance program for northern Iraq, which had been about \$45 million per year. The incursion caused all American-based humanitarian relief organizations in northern Iraq to leave in fear of Iraqi reprisals against them.

There is no single source for information on humanitarian assistance to Iraq. The most recent report of the Organization for Economic Cooperation and Development (OECD), which provides donor information for the years 1994 through 1998, indicates that Iraq received a total of \$76.36 million in bilateral assistance in 1998.⁸ This does not include any funds provided by U.N. agencies but does include grants by the European Commission (ECHO). The recent experiences in Iraq of a major relief agency, UNICEF, illustrate some of the donation patterns that prevail for Iraq. In its donors' report of August 8, 2000, UNICEF indicates that:

- ! There is "very limited donor support" for its programs in Iraq. For 2000, new donations, coupled with funds carried over from 1999, are expected to cover only 23% of the costs of the programs UNICEF planned in Iraq. Programs planned for 2000 are expected to cost \$12.9 million, of which only \$3.02 million are funded.
- ! The largest governmental donors to UNICEF programs in Iraq for 2000 are Japan and Sweden, with total new pledges of \$543,000 and \$227,000 respectively. The governments of the Netherlands and Luxembourg made pledges as well.
- ! The U.S. Center for Disease Control pledged \$385,000 for an immunization program.
- ! Much of UNICEF's Iraq funding comes from other U.N. sources, such as U.N. Foundation Funds, U.N. Emergency Funds, and the U.N. Department of Humanitarian Affairs.

Since September 2000, Iraq has derived an unknown amount of additional aid from flights, most of which carried some relief aid, intended to challenge the U.S. and British interpretation of U.N. Security Council Resolution 670 (September 25, 1990). The Resolution requires the banning of flights to or from Iraq that are carrying any

⁸ Geographical Distribution of Financial Flows to Aid Recipients. Disbursements, Commitments, Country Indicators. 1994-1998. OECD. 2000.

“cargo to or from Iraq or Kuwait other than food in humanitarian circumstances, subject to authorization by the Council...” or the Sanctions Committee. Prior to September 2000, the U.S. interpretation prevailed that all flights to Iraq require Sanctions Committee authorization prior to takeoff. Since September 2000, several dozen flights carrying officials and humanitarian donations to Iraq have taken place, some of which proceeded before receiving formal approval. The United States criticized those governments that allowed flights to proceed without approval, but no U.S. or U.N. measures were taken against those flights or governments. The United States maintains that the resolution is intended to ensure that any cargo or material destined for Iraq could be inspected to ensure it is not carrying contraband goods. France, Russia, and other governments, although not opposed in principle to inspecting cargo bound for Iraq, argue that passengers are not “cargo” and that the U.S. interpretation that the Resolution restricts all flights to Iraq is not correct.

One donation to Iraq in November 2000 drew strong U.S. criticism and a sanction. A member of the royal family of Qatar presented Iraq with a Boeing 747 jumbo jet as a “gift.” The Qatari, Hamad bin Ali bin Jabr Al Thani, heads the Gulf Falcon air services company, which gave him access to the aircraft. On November 24, 2000, Secretary of State Albright and Commerce Secretary Norman Mineta announced that exports and reexports of many U.S. goods would need specific Commerce Department approval for sale to Mr. Al Thani or his businesses. The U.S. officials said the move was to ensure that U.S. goods would not be improperly diverted to Iraq.

Illicit Trade

Baghdad is using its neighbors, as well as its outlet to the Persian Gulf, as a conduit to conduct illicit trade. Iraq is doing so to earn funds that it can fully control, as well as to import contraband goods, such as luxury consumer items. Iraq’s neighbors are increasingly cooperative in these efforts because of sympathy with the Iraqi people, and out of the apparent belief that Saddam is likely to remain in power. The following are the main routes for illicit trade with Iraq:

- ! Since the Gulf war, Jordan has notified the Security Council that it imports Iraqi oil (about 100,000 barrels per day) at below-market prices in exchange for civilian goods and write-downs of Iraq's debt to Jordan expected to be worth about \$300 million for 2001. The United States supports the Sanctions Committee decision to "take note of" the Jordanian purchases, neither approving them nor deeming them a violation. The Administration has routinely waived unilateral sanctions on Jordan that could be imposed because of this trade.⁹ In October 2000, Jordan cancelled an agreement with Lloyd’s Registry, in force since 1993, for the firm to inspect Iraq-bound cargo in Jordan’s port of Aqaba. This inspection agreement covered goods other than those imported under the oil-for-food

⁹ Every fiscal year since 1994, Congress has included a provision in foreign aid appropriations cutting U.S. aid to countries that violated the Iraq embargo.

program; goods imported under the program are monitored at all points of entry, including the Iraq-Jordanian border.

- ! Iraq conducts much of its illicit trade through the Gulf, apparently with cooperation from Iran. The U.S. Navy estimated in March 2000 that Iraq would export about \$1 billion in oil products through the Gulf in 2000. Of that amount, about one half goes to Iraq, one quarter goes to smugglers and middlemen, and one quarter goes to Iran's Revolutionary Guard for "protection fees" to allow the shipments to hug its coast and avoid capture. In early November 2000, Iraq openly admitted it is using its Gulf ports for contraband imports by announcing it would import 30,000 Toyota automobiles "from Qatar and the United Arab Emirates."¹⁰ Neither of these Gulf states have land borders with Iraq and both of them have called for the easing of Iraq sanctions.

- ! In November 2000, several press reports quoted sources in the region as saying that Iraq had begun sending about 150,000 barrels of oil per day through an Iraq-Syria pipeline, closed since 1982 but now repaired. This exportation is reputedly under a bilateral agreement with Syria under which Syria will refine the Iraqi oil for domestic use, pay Iraq about \$20 per barrel for the oil, and free up extra Syrian oil for export. Resolution 1284 states the Security Council's "intention" to allow new oil export routes, such as this line, and the U.S. and British position is to oppose the reopening of this line unless it is brought under the oil-for-food program and its monitoring and control mechanisms. Syria could face U.N. and additional U.S. sanctions if it refuses to place this export route under the oil-for-food program.

- ! Iraq is estimated to conduct about \$400 million per year in illicit trade with neighboring Turkey, of which about half goes to Kurdish middlemen in the territory through which this trade passes. Most of the trade is in the form of about 1,000 Turkish trucks per day carrying Iraqi oil products into Turkey in spare fuel tanks. Each truck can bring in about 8 tons of product per trip through this method. As in the case of Jordan, the U.S. Administration has routinely waived the imposition of U.S. sanctions on Turkey for permitting this illicit trade.

Implications for U.S. Policy Toward Iraq

The problems in implementing the oil-for-food program appear to be intensifying a debate over U.S. policy toward Iraq. Some governments, including some permanent members of the U.N. Security Council, have become increasingly critical of what they believe is a U.S. effort to use international sanctions to promote the

¹⁰ "Iraq to Import 30,000 Toyota Vehicles." *Dow Jones Newswire*, November 1, 2000.

overthrow of the Iraqi government. These governments appear to believe that no amount of Iraqi cooperation with the United Nations will be sufficient to satisfy the United States that sanctions should be eased further, and some are moving forward unilaterally to skirt or erode the sanctions regime.

The erosion of the sanctions regime has presented the Administration with a policy dilemma. In holding fast to the sanctions regime as currently constituted, as well as a stated policy of the overthrow of Iraq's government, the United States appears to have become increasingly isolated on the Iraq issue. To stem this erosion of consensus, the United States has gone along, as noted above, with progressive liberalization of the oil-for-food program. On the other hand, the Administration insists that significant restrictions remain on Iraq, including the provision of the oil-for-food program that requires all oil revenue proceeds to be supervised by the United Nations. In the Administration's view, further easing of sanctions will remove any remaining incentive Iraq has to allowing the restart of a robust and effective WMD inspections program. Further easings, according to the Administration, could enable Iraq to obtain the technology it needs to restart its WMD programs. In order to build international support for its view, the Administration has stepped up its criticism of Iraq's illicit trade activities and its refusal to take advantage of provisions of Resolution 1284 that would ease sanctions further, especially full Iraqi cooperation with UNMOVIC. The Administration also has rejected direct government-to-government dialogue with Iraq unless and until it complies with the requirements of Resolution 1284 and other relevant resolutions.

Since the 1991 Gulf war, Congress has given strong support to a policy of maintaining comprehensive international sanctions on Iraq, and Congress largely forged the U.S. policy of promoting the overthrow of Saddam Husayn by passing the Iraq Liberation Act (P.L. 105-338, October 31, 1998).¹¹ However, some Members are openly calling for easing some sanctions on Iraq. A January 31, 2000 letter to President Clinton, signed by 70 Members, stated that "Morally, it is wrong to hold the Iraqi people responsible for the actions of a brutal and reckless [Iraqi] government," and that "We simply ask you to do what is right: lift the economic sanctions. At the same time, we support the continued embargo on military equipment and materials." In conjunction, the key sponsor of the letter (Rep. John Conyers), introduced H.R. 3825 on March 2, 2000. The legislation, which was not enacted in the 106th Congress, would ease U.S. civilian sanctions by eliminating the requirement that U.S. exporters of food and medical equipment obtain a license to sell such goods to Iraq. U.S. companies would be required only to notify the Commerce Department of the sales. In April 2000, Rep. Tony Hall visited Iraq to observe and discuss the humanitarian situation.

¹¹ For more information on U.S. aid to Iraq's opposition, see CRS Report 98-179 F, *Iraq's Opposition Movements*.

Appendix: Overview of U.S. Regulations Governing U.S. Participation in the Oil-for-Food Program¹²

The Iraqi Sanctions Regulations implement Executive Orders No. 12722 (August 2, 1990) and 12724 (August 9, 1990). The second amended the first executive order to align U.S. sanctions with U.N. Security Council Resolution 661 (August 6, 1990), in keeping with the United Nations Participation Act (22 U.S.C. 287c). Key provisions of the U.S. sanctions include the following:

U.S. firms may apply to the Office of Foreign Assets Control (OFAC) of the Treasury Department for specific licenses for the following activities under the oil-for-food program:

- ! “the sale and exportation to Iraq of medicines, health supplies, foodstuffs, and materials and supplies for essential civilian needs.”
The goods can be sold, subject to a license, to the government of Iraq or to a U.N. entity distributing aid under the program.
- ! “the purchase and exportation from Iraq of Iraqi-origin petroleum and petroleum products;”
- ! “the trading, importation, exportation or other dealings in or related to Iraq-origin petroleum and petroleum products outside Iraq; and”
- ! “the sale and exportation to Iraq of parts and equipment that are essential for the safe operation of the Kirkuk-Yumurtalik (Iraq-Turkey) pipeline system in Iraq.”

In addition:

- ! The regulations “generally” prohibit “the performance of contracts in support of industrial, commercial, public utility, or governmental projects” in Iraq. U.S. persons may not provide financing or consulting services to a foreign country company where those services would benefit such projects in Iraq. U.S. persons may not provide consulting services or goods, in connection with Iraqi projects, to foreign subsidiaries of U.S. corporations, although foreign subsidiaries themselves are not subject to U.S. regulations.
- ! All transfers of funds by U.S. persons to the government of Iraq or to persons in Iraq, are prohibited, as are “all commitments or transfers of credit, financial transactions, or contracts.”

¹² Source: Iraq: What You Need to Know About the U.S. Embargo. An Overview of the Iraqi Sanctions Regulations – Title 31, Part 575 of the U.S. Code of Federal Regulations. U.S. Department of the Treasury, Office of Foreign Assets Control [<http://www.treas.gov/ofac/>].