The Oil-for-Food Scandal

The program was corrupt. The U.N. owes the Iraqis--and Congress--an explanation.

BY THERESE RAPHAEL
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"If there is evidence, we would investigate it very seriously," Kofi Annan insisted last month when presented with allegations that U.N. officials knew about and may have benefited from Saddam Hussein's corruption of the U.N.'s Oil-for-Food Program. Fortunately, Saddam appears to have been a stickler for record-keeping.

A letter has come to The Wall Street Journal supporting allegations that among those favored by Saddam with gifts of oil was Benon Sevan, director of the U.N.'s Oil-for-Food Program. As detailed on this page on Feb. 9, Mr. Sevan's name appears on a list of individuals, companies and organizations that allegedly received oil allocations or vouchers from Saddam that could then be sold via middlemen for a significant markup. The list, compiled in Arabic from documents uncovered in Iraq's oil ministry, included many of Saddam's nearest and dearest from some 50 countries, including the PLO, pro-Saddam British MP George Galloway, and French politician Charles Pasqua. (Messrs. Galloway and Pasqua have denied receiving anything from Saddam.) According to the list, first published by the Iraqi daily Al Mada in January, Mr. Sevan was another beneficiary, via a company in Panama known as Africa Middle East Petroleum, Co. Ltd. (AMEP), about which we have learned quite a bit.

Mr. Sevan, through a U.N. spokesperson, has also denied the allegation. But the letter, which two separate sources familiar with its origins say was recovered from Iraqi Oil Ministry files, raises new questions about Mr. Sevan's relationship with Iraqi authorities.

The letter is dated Aug. 10, 1998, and addressed to Iraq's oil minister. It states: "Mr. Muwafaq Ayoub of the Iraqi mission in New York informed us by telephone that the above-mentioned company has been recommended by his excellency Mr. Sevan, director
of the Iraqi program at the U.N., during his recent trip to Baghdad." The matter is then recommended "for your consideration and proportioning" and the letter is signed Saddam Zain Hassan, executive manager of the State Oil Marketing Organization (SOMO), the Iraqi state-owned company responsible for negotiating oil sales with foreign buyers. A handwritten note below the signature confirms the request was granted "by his excellency the Vice President of the Republic [presumably Taha Yassin Ramadan, now in U.S. custody] in a meeting of the Command Council on the morning of Aug. 15, 1998." Scrawled below that to one side is another note stating that 1.8 million barrels were allocated to the company two days later, on Aug. 17.

A second document shown to the Journal is a chart in Arabic with the heading "Quantity of Oil Allocated and Given to Mr. Benon Sevan." The Oil-for-Food program was divided into 13 phases in all, representing roughly six-month periods from December 1996 through June 2003. Under phase four (during which the letter was written), the chart shows 1.8 million barrels as having been allocated to Mr. Sevan and 1,826 million barrels "executed." In some phases the chart indicates that an oil allocation was approved but no contract was executed for some reason, so that the total allocation awarded to Mr. Sevan in phases four through 13 is 14.2 million barrels, of which 7.291 million were actually disbursed, according to the document.

Mr. Sevan could not be reached for comment on the letter, but did issue a denial in response to our Feb. 9 article. "There is absolutely no substance to the allegations . . . that I had received oil or oil monies from the former Iraqi regime," he said through a spokesman. "Those making the allegations should come forward and provide the necessary documentary evidence." The denial notwithstanding, the documents raise enough questions to warrant an investigation by the U.N., as well as by outside investigators, including the U.S. Congress. (A U.N. spokesman said yesterday that Mr. Sevan is on extended vacation until late April, after which he retires at the month's end.)

Africa Middle East Petroleum Co. Ltd., which is cited in the letter, is registered in Panama and was also approved by the U.N. to buy Iraqi oil under Oil-for-Food. While Panama registration documents list only Panamanian nominees as directors, the Journal has established that AMEP is owned and managed by Fakhry Abdelnour, a Geneva-based oil trader with superb connections in Egypt. The company was registered in the U.K. in the '80s and dissolved in 1992. Mr. Abdelnour's name does not appear on British registration
documents, but his brother's and mother's, Munir Abdelnour and Ehtedal Amin Ghali, do.

In a phone conversation, Munir Abdelnour, leader of the Wafd opposition party in Egypt's parliament and a prominent businessman, said he has nothing to do with the company, despite his name appearing as a director of the now-defunct U.K.-registered company. "Africa Middle East Petroleum is a company owned and managed by my brother. He might have used my name, but I have absolutely no clue."

Fakhry Abelnour (whose wife is Panamanian and related to Panama's president) has close ties to Egypt's oil minister. He comes from a prominent Coptic family that is related to that of Boutros Boutros-Ghali, Mr. Annan's immediate predecessor, and Mr. Sevan's former boss when the latter was U.N. envoy in Afghanistan.

Mr. Abdelnour played a key role in the early '90s in helping South Africa circumvent U.N. sanctions to buy Egyptian crude, through AMEP and a subsidiary, now dissolved, called Interstate Petroleum Company. In 1999, South Africa conducted an investigation into allegations of impropriety surrounding margins paid by South Africa's state-run purchaser, the Strategic Fuel Fund Association (whose job was to find suppliers willing to sell crude oil to South Africa) to Mr. Abdelnour's company for his services in sanctions-busting. The 255-page report submitted to parliament in December 1999 by an independent official appointed to investigate the complaint details Mr. Abdelnour's high-level connections in Egypt and the meetings arranged by him between SFF officials and Egyptian oil ministers and officials from the Egyptian General Petroleum Corporation (EGPC), responsible for negotiating sales of Egyptian oil. "Mr Fakhry Abdelnour and his companies' involvement directly or indirectly in the South African oil procurement scenario is a fact that need not be debated. . . . I have already accepted earlier on that AMEP, Interstate and Mr. Abdelnour refer to one and the same person," states the report.

Mr. Abdelnour confirmed he owns the Panama-registered AMEP. "We have been very active in the Middle East for 25 years. We were almost the extended arm of the Egyptian General Petroleum Corporation; we were controlling most of the exports in Egypt," he says. He confirmed that AMEP purchased oil from Iraq through Oil-for-Food, beginning around 1998, and said he made semi-annual trips to Baghdad to meet SOMO officials to keep contracts coming. Asked about his relations with Mr. Sevan, he says he met him only once, at an OPEC conference in Vienna, where a relative of Mr. Abdelnour who was also a friend of Mr. Sevan introduced them. They had dinner together at the InterContinental. "It was interesting to know Benon Sevan as he ran the oil-for-food program," says Mr. Abdelnour. But he insists there was no further contact and says he has no idea why a letter showing Mr. Sevan recommended his company to SOMO would be in the files.

Mr. Abdelnour confirms the many reports now in the public domain that SOMO demanded that surcharges on Iraqi oil be paid into Iraqi accounts. "I paid once," he acknowledges. "I was given an account in Jordan and the name of the lady who was in charge of this account." He says the surcharge amounted to 25 cents a barrel. Was it possible that all this happened unbeknownst to the U.N.? "Impossible," he says. "Everybody knew it. The
U.N. knew about it. They [SOMO] contacted you over the phone. . . . The call was over a satellite phone, which was tapped, and the head of SOMO talked to me very openly, not through a disguised language."

AMEP still exists on registry documents in Monaco, but Mr. Abdelnour confirmed that the office there on Boulevard Princesse Charlotte closed two years ago. Intriguingly, the same building in Monaco houses another oil company, Toro Energy SAM, whose owner and a key business partner both figure prominently on the Al Mada list: oil industry specialist Cabecadas Rui de Sousa and Frenchman Patrick Maugein. (Mr. Abdelnour says he does not know either man).

Mr. Maugein, a billionaire with close ties to Jacques Chirac, is a longtime associate of the trader and former fugitive Marc Rich, who fled to Europe in 1983 to avoid answering charges of racketeering, illegal trading and dodging a tax-bill of $48 million. (Mr. Rich was pardoned by Bill Clinton in his final hours in the White House). Mr. Maugein was also a close contact of Tariq Aziz, with whom he met regularly. He is the non-executive chairman of Soco International PLC, a publicly listed London-based petroleum exploration/production company, which goes into markets the majors tend to skip--Mongolia, Vietnam, North Korea, Libya and Yemen.

Messrs. Maugein and Rui de Sousa acquired their interest in Soco through an entity called Torobex, whose shares were held by Tobex Holdings Ltd. According to Al Mada, Mr. Maugein allegedly received 25 million barrels of Iraqi crude allocations. Mr. de Sousa is also on the allocation list, down for 11 million barrels.

In a statement provided to the Journal, Mr. Maugein says "there is no truth whatever" to any allegation of impropriety and that his dealings in Iraq "were conducted in a perfectly legal manner and in strict accordance" with U.N. rules. His dealings in Iraq, he suggests, were through his 10% stake in Italiana Energia e Servizi, a Mantua-based oil refinery, which is majority-owned by Mario Contini and purchased crude from Iraq under Oil-for-Food.

On the Al Mada list, Mr. Maugein's name appears next to the name of Dutch-based oil trading company Trafigura (Beheer BV), which has the bulk of its operations in London. In his statement, Mr. Maugein says that "Trafigura's activities in Iraq are completely independent of that of Mr. Maugein and there is no connection at all between Mr. Maugein and the incident in 2001 involving Trafigura." The incident is the Essex oil smuggling scandal, on which the Journal carried an investigative story in May 2002. In a smuggling practice known as top-loading, 1.8 million barrels approved for sale under a U.N. contract was topped off with an additional 272,000 barrels in the summer of 2001, according to the captain of the Essex oil-tanker, who blew the whistle on the smuggling by advising U.S. and U.N. authorities. It was the second time in less than four months that the Essex had been chartered to carry top-loaded crude.
Trafigura purchased the oil from oil equipment supplier Ibex Energy France, which in turn bought it from SOMO in Iraq. Ibex said the scheme had been cooked up by Trafigura; Trafigura claimed Ibex fooled it into believing that it had U.N. permission to purchase all of the oil. A French government investigation into Ibex's involvement in the Essex incident appears to have been dropped in late 2002. Ibex was struck from the U.N.'s list of approved companies to deal in Iraq after the Essex incident and the Security Council's 661 Sanctions Committee, responsible for overseeing oil-for-food, asked eight governments (including the U.S., France, the U.K. and the Netherlands) to investigate, but had not heard back by the time oil-for-food was shut down last November.

Ibex's rise from modest beginnings as a regional company with non-oil commercial dealings to a major petroleum broker is something of a mystery. Its office is at 77 boulevard Champs Elysee in Paris. The building's concierge told us that Ibex and Toro occupy the same penthouse office. A receptionist readily fielded inquiries about both companies, though referred questions on Toro to Mr. de Sousa in Monaco.

"I don't share an office with Ibex. I have nothing to do with them and neither does Mr. Maugein," said Mr. de Sousa in a phone interview. "We know Ibex as we know Shell [Oil]. So they gave you my number. Don't you have the number of the Daily Mail?"

José Antonio Jiménez, a former friend and business partner who has known Mr. Maugein since 1972, sees it differently. "Ibex is a microscopic company used as a screen by Mr. Maugein. He uses Ibex and Toro Energy as screen companies to manage his oil traffic," says Mr. Jimenez. Mr. Jimenez was a minority partner in Compagnie Francaise Internationale de Distribution, which was controlled by Mr. Maugein, but the two had a falling out in the mid '90s over money. "Maugein specialized in outlaw countries--Libya, Algeria, Iraq--using his political contacts," says Mr. Jimenez. "Chirac used to call Patrick Maugein 'my cousin' and recommended him to Saddam Hussein... Maugein used to go every year to Baghdad to see Tariq Aziz, but after a while he would just send his brother Philippe [now a consultant for Trafigura] and de Sousa." Mr. Jimenez believes that Ibex's contracts in Iraq came via Mr. Maugein.

Mr. de Sousa says he and Mr. Maugein know Jean-Paul Cayre, the former Rich trader who is Ibex's managing director, but that they have nothing to do with his business in Iraq or elsewhere. Asked if he has any relationship with AMEP, which once shared a building in Monaco, Mr. de Sousa said "I probably did some business with them buying Egyptian crude at the end of the '80s and early '90s. I don't know [Fakhry Abdelnour], but I talked with him on the phone."

Mr. de Sousa believes the Al Mada list "has something to do with the competition between different groups sharing power in Iraq. People are now adjusting accounts between former people linked to the oil business, people who went there. I went [to Iraq] to discuss potential investments. Who didn't go?" The complaints about Saddam's
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corruption of Oil-for-Food "is a big hypocrisy," he says. If corruption occurred, "in my opinion it was because whoever was sitting at the U.N. Security Council was not doing their job . . . In my view, the whole thing was accepted, admitted by major countries."

As further details of Oil-for-Food unfold, it becomes clearer than ever that the inspectors employed by the U.N. were, at best, lax in monitoring Saddam's get-rich-quick scheme. This is another area begging for investigation.

Inspections under Oil-for-Food, as former U.N. program-officer Michael Soussan indicated in The Wall Street Journal on Monday, amounted to little more than rubber-stamping whatever contract Saddam's regime initialed. On the export side, top-loading of the Essex and other vessels happened on the watch of inspectors from Dutch-based company Saybolt International BV, though no one has alleged publicly that Saybolt's inspectors knew what was going on. Saybolt's name appears on the Al Mada list too. Saybolt has denied it received anything from Saddam.

The import side too was rife with corruption, including kickbacks demanded by Iraq on imported goods, and shameful lack of quality controls on much of the food and medicine entering Iraq. The job of inspecting those goods fell mostly to a Geneva-based company called Cotecna Inspection, SA. In February 1999, the U.N. terminated a five-year contract with Lloyd's Register, which had set up an innovative system in Jordan for inspecting shipments of goods going into Iraq to ensure against sanctions-busting. The contract was put to tender and Cotecna won with the lowest bid. It has had the contract ever since and it was renewed by the Coalition Provisional Authority in November.

And yet the choice of Cotecna should have raised a few eyebrows. The firm's founder and president is the octogenarian Elie Georges Massey, a Coptic emigré who transformed his company from salt-extraction in Iran in the early '70s into one of a handful of players in the rough-and-tumble business of pre-shipment inspection (or PSI). PSI work mostly involves winning contracts in the developing world, where customs authorities are too corrupt or inept to be trusted, to monitor the flow of exports and imports.

Cotecna, known in the industry for the Massey family's superb contacts in the countries in which it does business, has won PSI deals in Iran, Nigeria, Colombia, Ghana, Kenya, Peru and other places. One prominent former employee of Cotecna is Kojo Annan, Kofi Annan's son by his first marriage. The young Mr. Annan was employed by Cotecna in the mid-1990s. He reportedly continued a consultancy relationship with Cotecna through his Nigerian-based company.

Philip Henebry, Cotecna's CFO, confirmed that Kojo Annan had been employed there, but would not confirm any dates. Asked how Cotecna was able to underbid competitors on the Iraq contract by as much as half, he replied that "We felt that the margins with competitors were very, very high. Originally the contract was for short periods and we
worked on the assumption it would be renewed."

At the time of the U.N. inspection tender, Cotecna's reputation wasn't exactly stellar. Its CEO, Robert Massey, was indicted by a Swiss magistrate in a bribery and money laundering scandal involving Pakistan's former prime minister, Benazir Bhutto, that rocked the PSI industry. Also indicted were a former employee of Swiss giant and the global PSI leader, Société Générale de Surveillance (SGS)--which at the time owned a majority stake in Cotecna--and a Geneva-based Bhutto lawyer. Cotecna claimed it was a victim of Pakistani politics. SGS, which was suffering its own management and financial troubles, subsequently sold Cotecna back to the Massey family and itself came under new management which diversified the company away from its reliance on PSI contracts. Cotecna, meanwhile, dusted itself off and went on to win a lucrative U.N. deal. According to Yves Genier, a Swiss journalist from the newspaper l'Agefi who has been looking into Cotecna's role here, the prosecutor's case was dropped for lack of compelling public interest.

There is no doubt that the U.N. relief effort in Iraq has been a global scandal. A monstrous dictator was able to turn the Oil-for-Food program into a cash cow for himself and his inner circle, leaving Iraqis further deprived as he bought influence abroad and acquired the arms and munitions that coalition forces discovered when they invaded Iraq last spring.

A U.N. culture of unaccountability is certainly also to blame. And Security Council members share responsibility for lax oversight, no doubt one reason there is so little appetite for an investigation.

But Saddam's ability to reap billions for himself, his cronies and those who proved useful to him abroad depended on individuals who were his counterparties. These deserve a full investigation if the U.N.'s credibility is to be restored and its role in Iraq and elsewhere trusted. Especially now, with the U.N. taking a more active role in Iraq, it's time we knew more about how the oil-for-food scandal was allowed to happen.

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