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Report to the Honorable Tom Harkin
U.S. Senate

May 2002

WEAPONS OF MASS DESTRUCTION

U.N. Confronts Significant Challenges in Implementing Sanctions against Iraq

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Highlights

WEAPONS OF MASS DESTRUCTION

U.N. Confronts Significant Challenges in Implementing Sanctions against Iraq

Highlights of GAO-02-625, a report to the Honorable Tom Harkin, United States Senate

Why GAO Did This Study

After 12 years of debate, U.N. sanctions against Iraq remain controversial. The sanctions aim to ensure that Iraq does not acquire or develop biological, chemical, or nuclear weapons, while also providing for Iraq's humanitarian needs. The sanctions are based on three interrelated elements--controlling Iraq's oil revenues, screening and monitoring its imports, and inspecting for weapons. The sanctions attempt to address Iraq's humanitarian needs through a U.N. program allowing Iraq to sell oil to purchase civilian goods and through a new U.N. resolution (due to take effect on May 30, 2002) that facilitates Iraq's purchases. GAO was asked to examine (1) U.N. challenges in implementing the sanctions and (2) the elements of the new resolution that could make sanctions more effective.

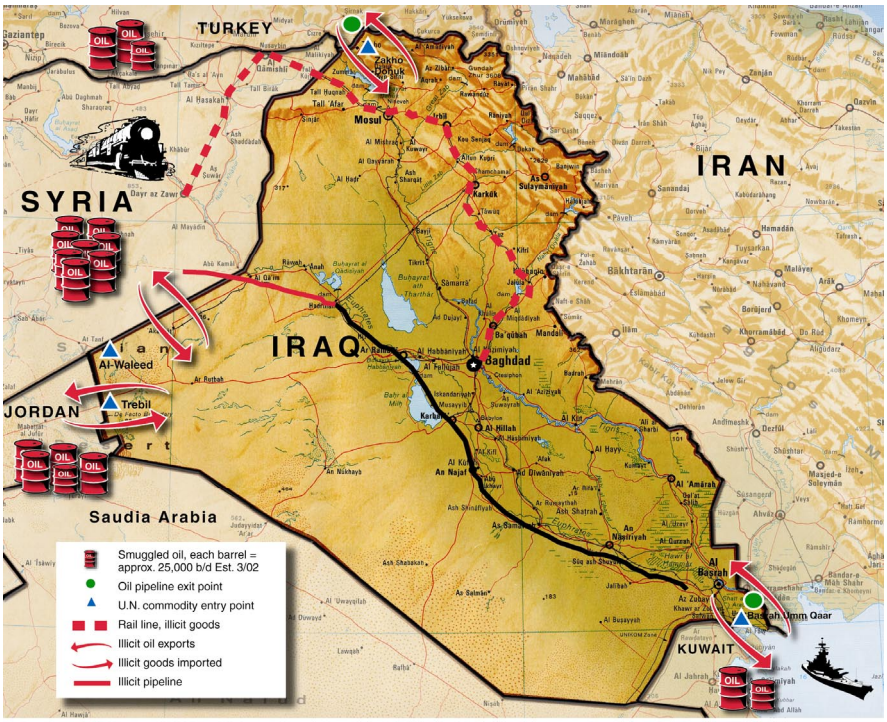
Agency Comments

The United Nations and the Departments of Defense and Treasury generally agreed with the report and provided technical clarifications, which GAO incorporated into the report. The Department of State commented that other U.N. resolutions deal with weapons inspections, which GAO also incorporated into the report.

What GAO Found

According to U.N. data, the United Nations controlled $51 billion of Iraq's oil revenues from 1997 to 2001and channeled it to civilian use. However, based on U.S. government and oil industry data, we estimate Iraq earned more than $6 billion in illegal revenue from oil smuggling and surcharges during the same time. According to U.S. and U.N. officials, Iraq uses the illegal revenue to buy items prohibited by the Security Council and brings them into the country through numerous points (see figure below). Sanctions further require weapons inspections to verify Iraq is not developing weapons of mass destruction, but Iraqi action forced U.N. weapons inspectors to withdraw in 1998. Thus, the United Nations cannot ensure that Iraq has stopped developing weapons of mass destruction, and there are indications from multiple sources that it continues to do so.

Unlike the current sanctions, which allow Security Council members to hold any shipment to Iraq except preapproved humanitarian goods, the new resolution allows members to hold only specific military and related items on a control list. This should expedite and increase imports of humanitarian and civilian goods to Iraq. But the new resolution does not address oil smuggling, illicit trade, or weapons inspectors—the latter of which are covered in other U.N. resolutions. Until these issues are resolved, the sanctions cannot provide assurance that Iraq has stopped developing weapons of mass destruction.



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United States General Accounting Office
Washington, D.C. 20548

May 23, 2002

The Honorable Tom Harkin
United States Senate

Dear Senator Harkin:

After nearly 12 years of debate, U.N. sanctions against Iraq remain controversial. U.N. sanctions were first imposed in August 1990 following Iraq's invasion of Kuwait. In 1991, the Security Council declared Iraq a threat to international security and focused the sanctions on stopping Iraq from acquiring or developing biological, chemical, and nuclear weapons. To achieve this, the Security Council prohibited all nations from buying Iraqi oil or selling the country any commodities, except for food and medicine. It further established a weapons inspection regime to ensure that Iraq destroyed its weapons of mass destruction and stopped its weapons programs. In 1995, concerned about the humanitarian need of the Iraqi people, the Security Council established a U.N. program that controls Iraq's oil sales and allows the purchase of food, medicine, and essential civilian goods (the oil for food program). In 2001, with international support for the sanctions eroding, the Security Council passed a new sanctions resolution intended to address humanitarian concerns while continuing to stop Iraq from rebuilding its weapons systems.

Because of your interest in the sanctions' effectiveness and your role as Chairman of the Senate Agriculture Committee, you asked us to examine (1) the challenges confronting the United Nations in implementing sanctions against Iraq, (2) whether U.S. standards for approving exports to Iraq are more stringent than U.N. requirements, and (3) the elements of the new sanctions agreement that could make it more effective than the current sanctions agreement.

To examine the challenges confronting the United Nations and the potential effectiveness of the new sanctions agreement, we met with U.N. officials responsible for implementing the sanctions and some members of the Security Council. We analyzed U.N. resolutions and reports and obtained information from U.S. databases detailing the screening process for commodities imported into Iraq. We met with officials from the Departments of State and Defense and U.S. intelligence agencies responsible for managing and monitoring the Iraq sanctions. We obtained data on Iraq's oil production from U.S. government and oil industry reports

and developed a model to estimate the revenue Iraq earns from oil smuggling. To determine whether the United States employs a more stringent standard than the United Nations for approving exports to Iraq, we examined all license applications for Iraq processed by the U.S. government in 2000 and 2001. We did not visit Iraq or neighboring countries due to security concerns. (For a more complete description of our scope and methodology, see app. I.)

Results in Brief

The United Nations faces three major challenges in implementing sanctions against Iraq. First, although the United Nations has controlled $51 billion of Iraq's oil revenues from 1997 to 2001, we conservatively estimate that Iraq earned an additional $6.6 billion in illegal revenue from oil smuggling and surcharges during the same time. Second, although the sanctions prohibit Iraq from obtaining goods that are not approved by the Security Council, Iraq is able to buy unapproved goods with its illegal revenue. Iraq brings the illicit goods in through numerous routes, in part because some neighboring states are not fully enforcing the sanctions. Third, the U.N. Security Council requires weapons inspections to verify that Iraq is not rebuilding weapons of mass destruction, but Iraqi actions forced the United Nations to withdraw weapons inspectors in 1998. As a result, the United Nations concludes that it cannot ensure that Iraq has stopped programs to develop chemical, biological, and other weapons. Moreover, there are indications from multiple sources that it continues to develop such weapons.

In design, U.S. licensing standards for exports to Iraq are more restrictive than U.N. requirements. In practice, however, U.S. and U.N. requirements are almost identical because the United States plays a substantial role in the U.N. process for approving exports to Iraq. Consequently, almost all U.S. exporters who get U.N. approval are also granted a U.S. export license. As part of the U.N. screening and approval process, the United States conducts the most thorough review of any Security Council member, firmly applying U.N. resolutions as it scrutinizes all contracts to limit imports that could be diverted for military use. As a result, the United States is the Security Council member that most frequently places holds on proposed sales to Iraq.

A new sanctions agreement, due to take effect at the end of May 2002, changes the contract screening process and could make the sanctions more effective in allowing imports of humanitarian and civilian goods to Iraq. Unlike the current system, which allows Security Council members to hold

any shipment to Iraq except for preapproved humanitarian goods, the new sanctions allow Security Council members to hold only items on a controlled list, which includes dual-use items. Further, the new sanctions have provisions that allow members to single out an objectionable item from a shipment of goods. Currently, Security Council members must hold an entire shipment of goods even if it contains only one offending item. According to State Department and U.N. officials, these expected changes should make it easier for Iraq to import goods to rebuild its civilian economy. However, the new agreement has no provisions to deter oil smuggling and illicit trade or to reintroduce weapons inspectors. Prior Security Council resolutions address weapons inspections but Iraq is not complying with them. Until these problems are addressed, the sanctions cannot provide assurance that Iraq has stopped its efforts to acquire and build weapons of mass destruction.

We received comments on a draft of this report from the United Nations and the Departments of Treasury, Defense, and State. The United Nations provided oral comments, which we incorporated in the report as appropriate. Treasury provided technical notes, which we incorporated into the report. The Department of Defense accepted the report without comment. State provided written comments that are reprinted in appendix IV. State officials commented that the new sanctions agreement signifies a renewed consensus that will be useful in seeking the return of weapons inspectors or other options for dealing with Iraq. However, they said our statement that the new sanctions resolution does not address weapons inspections leaves the false impression that other Security Council resolutions do not adequately address the issue and that the new resolution should. We have revised the report to clearly state that prior Security Council resolutions address weapons inspections and Iraq is failing to comply with them.

Background

Since 1990, the United Nations has passed more than 56 resolutions related to Iraq sanctions and the country's invasion of Kuwait. In August 1990, the U.N. Security Council determined that Iraq's invasion of Kuwait threatened international peace and the region and imposed sanctions on Iraq. (Fig. 1 shows Iraq and the Middle East region.) The sanctions continued after Iraq was expelled from Kuwait to ensure that Iraq would destroy its nuclear, chemical, and biological weapons and ballistic missiles and that it would not use, develop, or acquire new weapons.[1] The Security Council prohibited all nations from buying Iraqi oil or selling the country any commodities except for food and medicine, and also established a weapons inspection regime. However, confrontations began almost as soon as U.N. weapons inspectors started operations in April 1991. At that time there was also growing international concern over the humanitarian situation in Iraq. The Security Council responded by offering Iraq an opportunity to sell oil to meet its people's basic needs. The Iraq government rejected the offer and over the following 5 years, food shortages and a general deterioration of social services were reported. By 1996, the United Nations reported that the average Iraqi's food intake was about 1,275 calories per day compared with the standard requirement of 2,100 calories.

[1]U.N. Security Council Resolution 687 (April 3, 1991) – the Gulf War cease-fire resolution – stipulates that Iraq shall unconditionally accept the destruction of its weapons of mass destruction and provides for U.N. weapons inspection to monitor Iraqi compliance. Since 1991 the U.N. Security Council has passed seven resolutions condemning noncompliance with Security Council resolutions and demanding Iraqi government cooperation with weapons inspectors.

Figure 1: Iraq and the Middle East

Source: National Geographic.

During the mid- through late 1990s, Iraq continued to hinder weapons inspectors from entering suspected weapons sites and the Security Council passed several resolutions demanding Iraqi cooperation. The humanitarian situation continued to deteriorate and, in December 1996, the United Nations and Iraq agreed on the oil for food program, which permitted Iraq to sell a set amount of oil to pay for food, medicine, and infrastructure repairs. In 1999, the Security Council removed all restrictions on the amount of oil Iraq could sell to purchase civilian goods. Under the program, Iraq agreed to put all of its oil revenues into a U.N.-controlled escrow account. The United Nations supervises and monitors all of Iraq's oil sales and the Security Council screens and approves purchases from the account. To ensure that the approved goods are the actual goods brought

into Iraq, the United Nations checks the goods at the border and monitors the use of the purchased goods in Iraq. (App. II describes how the escrow account works and how the United Nations conducts screening and monitoring.)

According to U.N. reports, from 1996 to 1998, Iraq's actions—including endangering weapons inspectors' helicopters, manhandling an inspector, expelling Americans from the inspection teams, and preventing inspectors' access to suspected weapons sites—led to numerous condemnations in Security Council resolutions and the withdrawal of weapons inspectors in December 1998. Sanctions against Iraq are now in their 12th year, though continued international support for them has eroded. In addition to humanitarian concerns, some member states are politically opposed to the sanctions for various reasons, including Arab solidarity and their assessment of Iraq's threat to regional stability. U.N. weapons inspectors have not returned to Iraq since their departure in 1998. (App. III provides a timeline of significant events related to sanctions against Iraq.)

The United Nations Faces Challenges Implementing Sanctions against Iraq

U.N. efforts to control Iraq's oil revenues, screen and monitor its purchases, and inspect for weapons of mass destruction face several challenges. Iraq smuggles oil through neighboring states, and the illicit revenue is outside of U.N. control. Iraq also brings in illicit and unchecked commodities through numerous entry points on its borders. Finally, Iraqi actions led to the withdrawal of weapons inspectors in December 1998 and the United Nations concludes it cannot ensure that Iraq has stopped programs to acquire and build weapons of mass destruction. Several sources have found indications that Iraq has continued such programs. Nevertheless, U.N. sanctions may have deterred Iraq from obtaining most conventional weapons.

Sanctions Do Not Stop Iraq's Illegal Revenue Stream

Although the oil for food program controls most of Iraq's oil revenues in an escrow account (more than $51 billion since the program was established), we conservatively estimate that Iraq has illegally earned at least $6.6 billion since 1997—$4.3 billion from smuggling and $2.3 billion in illegal surcharges on oil and commissions from its commodity contracts.[2] For example, in 2001, we estimate that Iraq earned $1.5 billion by smuggling oil through Jordan, Syria, Turkey, and the Persian Gulf. U.S. government and oil industry sources indicate that the quantity of oil being smuggled varies by destination over time. Oil industry experts estimate that Iraq smuggled out as much as 480,000 barrels of oil per day in March 2002. (See table 1.)

Table 1: Estimates of Smuggled Oil, March 2002

Exit route	Barrels per day
Jordan	75,000 to 110,000
Syria	180,000 to 250,000
Turkey	40,000 to 80,000
Persian Gulf	30,000 to 40,000
Total	**325,000 to 480,000**

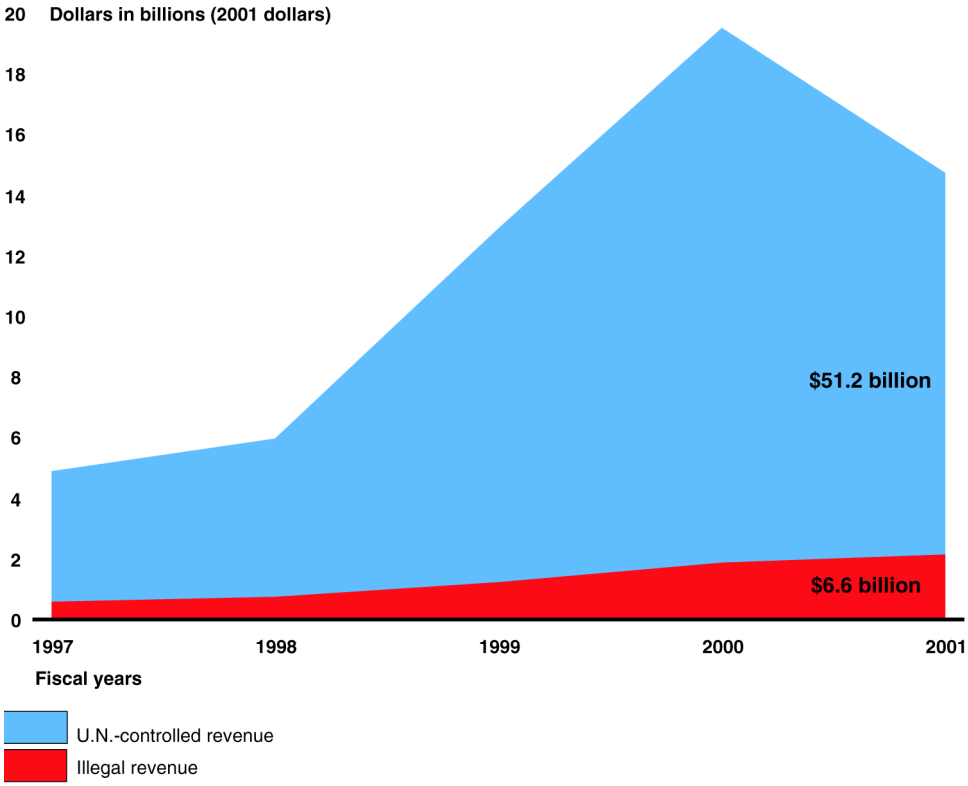
Source: Middle East Economic Survey.

In addition to revenues from oil smuggling, U.N. Security Council and U.S. officials say the Iraqi government has been levying a surcharge against oil purchasers and commissions against commodity suppliers participating in the oil for food program. We estimate Iraq earned more than $700 million in 2001 using these illegal practices. According to some Security Council members, the surcharge is up to 50 cents per barrel of oil and the commission is 5 to 10 percent of the commodity contract, with the funds paid directly to officials connected with the Iraqi government. A State Department official said the United Nations has had some success in stopping these payments from the larger, more established companies but has been less successful with smaller and regionally based companies engaged in purchasing oil or supplying commodities to Iraq. Figure 2 shows our estimate of Iraq's oil revenues that are controlled by the U.N. oil

[2]Our estimate is based on U.S. government reports, U.N. reports, estimates from oil industry publications, and interviews with U.N. Security Council members. Appendix I details how we derived our estimate.

for food program and the illegal revenues earned through smuggling, surcharges, and commissions since 1997.

Figure 2: Iraq Oil-Related Revenues



Source: GAO analysis based on information from the United Nations and oil industry experts.

Despite concerns that sanctions have worsened the humanitarian situation, the oil for food program appears to have helped the Iraqi people. According to the United Nations, the average daily food intake has gradually increased from around 1,275 calories per person per day in 1996 to about 2,229 calories at the end of 2001.[3] In a briefing to the Security Council on his February 2002 trip to Iraq, the director of the Office of the

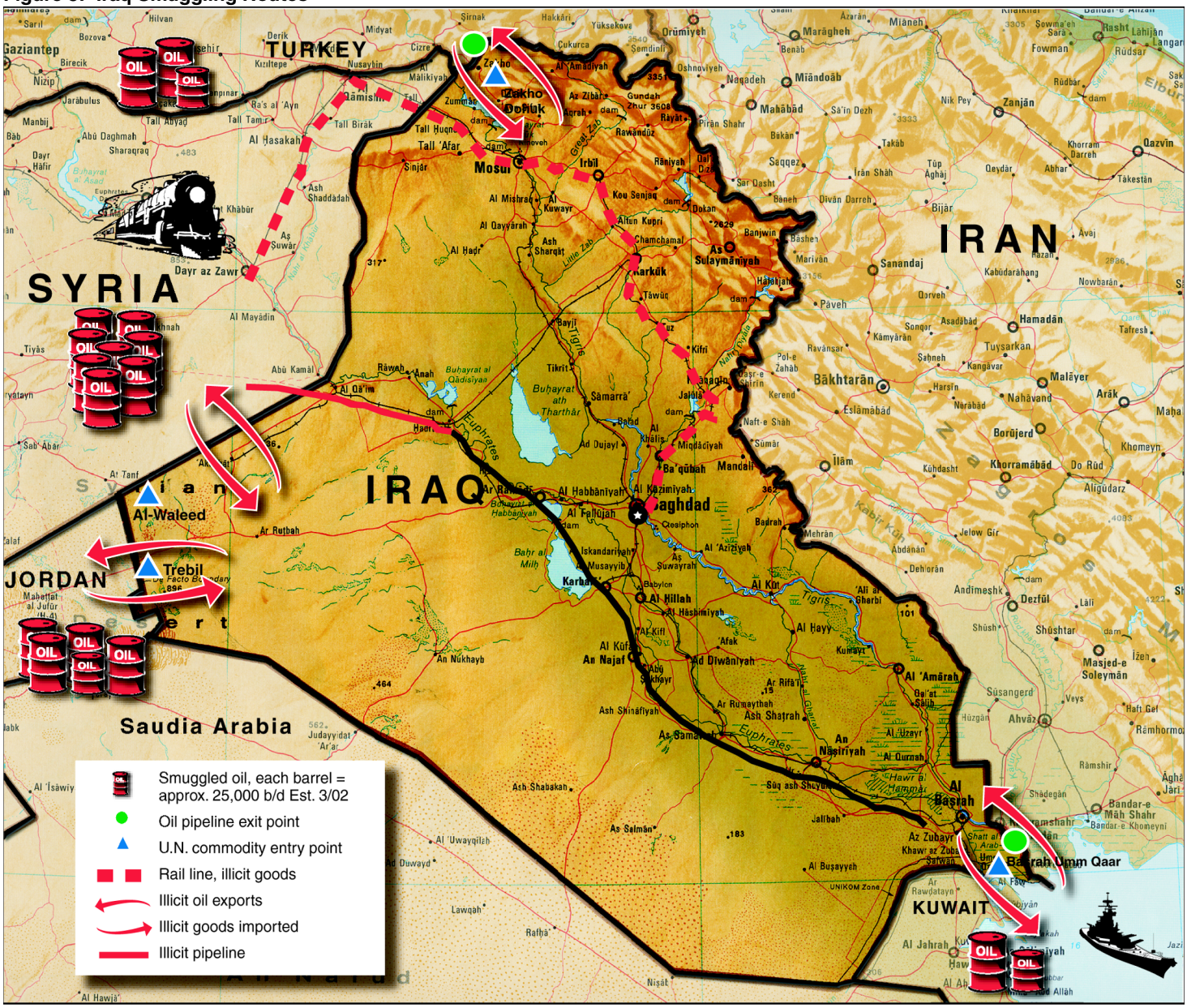
[3]According to the World Health Organization, the standard food aid requirement for a typical population is 2,100 calories per person per day.

Iraq Program stated that the oil for food program has had considerable success in several sectors such as agriculture, food, health, and nutrition by arresting the decline in living conditions and improving the nutritional status of the average Iraqi citizen. However, Iraq's decision in April 2002 to suspend oil exports for several weeks until Israeli troops withdrew from Palestinian areas caused the oil for food program to forgo an estimated $1.3 billion. At that time, contracts approved for shipment to Iraq already exceeded funds in the escrow account by $1.6 billion, including nearly 700 contracts for humanitarian supplies.

Iraq Smuggles Illicit Goods and Oil through Numerous Routes

Iraq is able to obtain commodities that are not approved by the Security Council and smuggle them in, as well as smuggle oil out through neighboring states and the Persian Gulf. Figure 3 shows potential routes for bringing illicit goods into Iraq and smuggling oil out of Iraq.

Figure 3: Iraq Smuggling Routes



Source: GAO analysis based on information from the United Nations and U.S. government agencies.

As figure 3 illustrates, Iraq has long, open borders with neighboring states. Moreover, shipments not approved by the Security Council are brought into Iraq at designated U.N. entry points on Iraq's borders, according to U.N. officials. At these entry points, a U.N. contractor uses 78 monitors to check the goods and validate shipments for payment under the oil for food program. The monitors visually inspect approximately 7 to 10 percent of the approved deliveries and review the shipping documents for the rest, the officials said. However, U.N. monitors only have authority to check goods approved under the oil for food program and thus do not stop or check any other shipments.

Under Security Council resolutions, all member states have responsibility for enforcing the sanctions and the United Nations especially depends on neighboring countries to deter the importation of illicit commodities. However, despite Security Council resolutions controlling air travel to Iraq, several countries within and outside the region allow regular air flights to Baghdad. For example, according to U.S. government officials, Syria allows daily flights between Damascus and Baghdad that the United Nations has neither approved nor been notified of. According to Security Council members, flights originating from eastern Europe are of particular concern to weapons inspectors because of the region's history as a source of illicit weapons sales and the governments' close military relationship with Iraq. In addition to these air flights, a rail line from Syria, daily ferry traffic, and cargo ships bring unapproved commodities into Iraq in violation of U.N. sanctions, according to Security Council members.

Oil is smuggled out through several routes, according to U.S. government officials and oil industry experts. The major routes are through an oil pipeline to Syria and by truck through entry on the borders with Jordan and Turkey. Iraq has a trade protocol with Jordan under which Iraq purchases up to $300 million in goods from Jordan in exchange for oil at a heavily discounted price.[4] Also, according to U.S. government officials, oil is smuggled out through the Persian Gulf. In the Gulf, a Multilateral Maritime Inspection Force of six to eight ships tries to limit oil smuggling. According to a Department of Defense official, the inspection force interdicts only about 25 percent of the oil smuggled out through the Gulf.

[4]The U.N. Iraq Sanctions Committee noted the existence of the protocol and took no further action.

Sanctions Do Not Assure Iraq Has Stopped Developing Weapons of Mass Destruction

The Security Council established a weapons inspection regime to provide final assurance that Iraq was not reconstituting its nuclear, biological, and chemical weapons programs, but Iraq's actions forced the withdrawal of weapons inspectors in 1998. Prior to their withdrawal, the inspectors were able to confirm the destruction of much of Iraq's weapons of mass destruction program, including buildings used to produce and test prohibited solid propellant rocket motors, 180 tons of sodium cyanide, and more than 6,000 122mm rockets designed to carry sarin gas. However, the U.N. Special Commission issued several reports concluding that, due to Iraqi obstruction and lack of access to suspected sites, it cannot ensure that Iraq has stopped its prohibited weapons programs.[5] In addition, there are indications from the United Nations, the Central Intelligence Agency, and other sources that Iraq continues to develop weapons of mass destruction, particularly since weapons inspections ceased.

In January 1999, the U.N. Special Commission reported to the Security Council that Iraq substantially misled the United Nations on the extent of its proscribed weapons program and the continuation of prohibited activities. The report cited numerous examples where Iraq failed to account for known weapons and related items, including

- biological weapon warheads,
- liquid missile propellant,
- artillery shells filled with mustard gas, and
- R-400 bombs filled with biological agents.

According to some U.N. Security Council members, other factors raising concern that Iraq continues its weapons programs are (1) Iraq's history of developing and using weapons of mass destruction, (2) its access to illegal revenues, (3) the ease with which it can import illicit goods, and (4) its willingness to accept more than a decade of economic and political isolation to maintain a weapons capability.

[5]The U.N. Special Commission was superceded by the United Nations Monitoring, Verification, and Inspection Commission in December 1999.

In a January 2002 unclassified report to Congress,[6] the Central Intelligence Agency stated that without an inspection-monitoring program, it is difficult to determine the current status of Iraq's weapons of mass destruction program but it is likely the government has used the period since inspectors were forced out to reconstitute prohibited programs. The report indicates that Iraq has rebuilt key portions of its chemical production infrastructure as well as its missile production facilities. The report further states that Iraq has probably continued low-level theoretical research and development associated with its nuclear program and expresses concern that the government may be attempting to acquire materials that could help reconstitute its nuclear weapons program.

There are other indications that Iraq continues programs to develop weapons of mass destruction since the sanctions were imposed. For example:

- In February 2001, Germany's Federal Intelligence Service reported that Iraq has created a military intelligence bureau in Russia to carry out arms negotiations. The service reported that an Indian-based company is acting for Iraq to buy materials and equipment related to developing chemical and biological weapons.

- In January 1999, the United Nations reported that 50 specialty missile warheads for biological or chemical agents declared to be in Iraq's arsenal could not be accounted for. Further, tests indicated that Iraq, contrary to its official claims, had loaded similar warheads with deadly nerve gas agents.

- In September 1996, the Monterey Institute reported that a shipment of 300 Swiss-made valves for uranium enrichment centrifuges, as well as a shipment of cascade components, bound for Iraq was seized in Jordan. The valves and components could be used to develop fissile material for weapons.

- In January 1995, the Department of Commerce reported that a New York resident pleaded guilty to arranging to transport ammonium

[6]Central Intelligence Agency, *Unclassified Report to Congress on the Acquisition of Technology Relating to Weapons of Mass Destruction and Advanced Conventional Munitions* (Washington, D.C.: Jan. 2002).

perchlorate, a highly explosive chemical used to manufacture rocket fuel, from China to Iraq via Jordan.

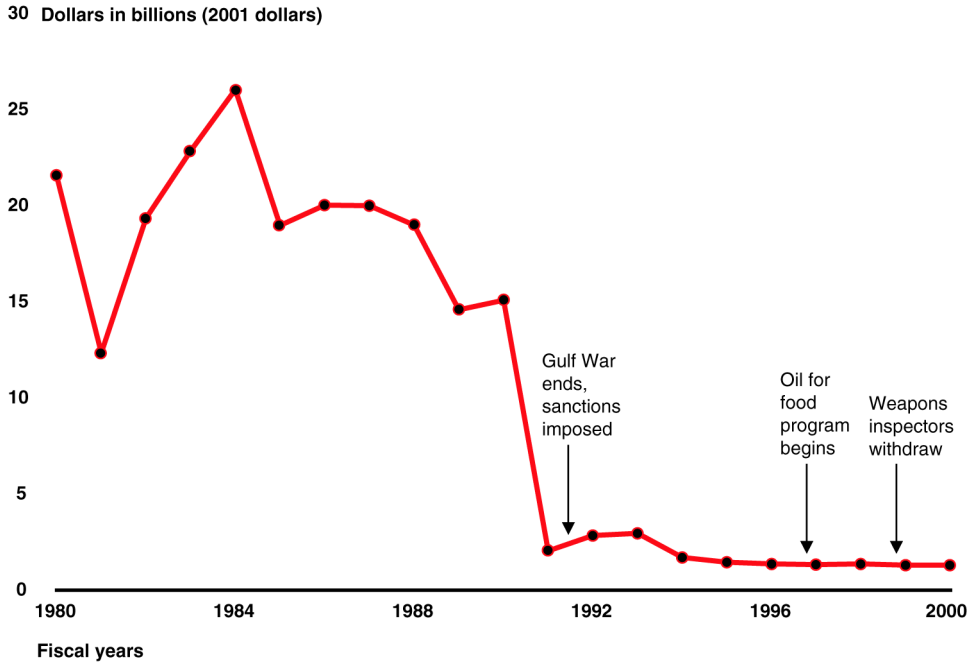
- In November 1995, Jane's *Defence Weekly* reported that Jordanian officials intercepted a shipment of 115 Russian-made gyroscopes bound for Iraq designed for use in long-range intercontinental missiles.

Sanctions May Limit Iraq in Obtaining Conventional Weapons

Sanctions may have constrained Iraq's purchases of conventional weapons. According to U.S. and U.N. officials, U.N. screening and monitoring of Iraq's imports provide some deterrent to bringing in weapons and also provide limited on-the-ground checking that commodities are not being diverted to military use. Furthermore, these officials say there is no indication that Iraq has purchased large-scale weapons systems, such as aircraft, ships, or armor. Iraq's conventional rearmament efforts are limited to purchases of small arms and spare parts to keep weapons and vehicles not destroyed during the Gulf War operational.

Most importantly, according to State Department arms experts, conventional weapons systems, such as aircraft and ships, are expensive and U.N. controls have limited the amount that Iraq can spend on arms. As previously discussed, since 1997, the United Nations has controlled about 90 percent of Iraq's oil revenues—$51 billion in the oil for food account versus $6.6 billion in illegal revenues. Partly because of this control, according to State officials, Iraq's military expenditures have dropped dramatically. Iraq's annual military expenditures averaged more than $18.8 billion between 1980 and 1990 (in constant 2001 dollars) but dropped in the years after sanctions were imposed and, beginning in 1995 remained flat, averaging an estimated $1.4 billion annually. Figure 4 shows Iraq's military expenditures from 1980 to 2000.

Figure 4: Iraq Military Expenditures 1980-2000



Source: Department of State, *World Military Expenditures and Arms Transfers* and the International Institute for Strategic Studies, *Military Balance*.

Little Divergence between U.N. and U.S. Decisions on Exports to Iraq

The United Nations requires that exports to Iraq be reviewed and receive a U.N. letter of approval; U.S. exporters must also obtain a U.S. export license. In design, the standards for granting a U.S. export license are more restrictive than requirements for a U.N. letter of approval. However, because the United States, as a permanent member of the Security Council, may block any contract processed through the U.N. oil for food program, U.S. and U.N. decisions on approving exports to Iraq are nearly identical. As part of the U.N. process, the United States conducts the most thorough review of any Security Council member, firmly applying U.N. resolutions as it scrutinizes all contracts to prevent any imports with a potential military application. In 2001, the United States was responsible for more than 90 percent of the contracts withheld for shipment to Iraq. As of April 2002, the Sanctions Committee was withholding $5.1 billion worth of contracts that had been submitted for approval.[7]

U.S. and U.N. Decisions Nearly Identical in Practice

U.N. Security Council Resolution 687 and other resolutions on Iraq provide the requirements for Iraq sanction committee members' actions and call for strict control of imports to Iraq of arms and munitions and materials or technology that could be used to produce weapons of mass destruction, ballistic missiles with a range over 150 kilometers, and conventional military equipment and spare parts. The U.N. resolutions apply to all nations, but members of the Iraq Sanctions Committee apply the resolutions when screening applications for export to Iraq. U.S. standards for getting a U.S. export license to Iraq require that licenses comply with all applicable U.N. resolutions.[8] In addition, however, Treasury Department regulations allow the United States to prohibit exports that comply with U.N. Security Council resolutions.[9] For example, according to U.S. officials, denials can be related to U.S. national security concerns, such as terrorism.

[7]Since the inception of the oil for food program, the Security Council has approved more than $23 billion in food, medicine, and other contracts for Iraq. The holds represent a snapshot at a specific date; some holds are released at a later date, while others become inactive and are no longer counted. See appendix II for information on how Iraq's oil revenues are distributed.

[8]As stipulated by 31 C.F.R. section 575.525.

[9]Id. 575.205

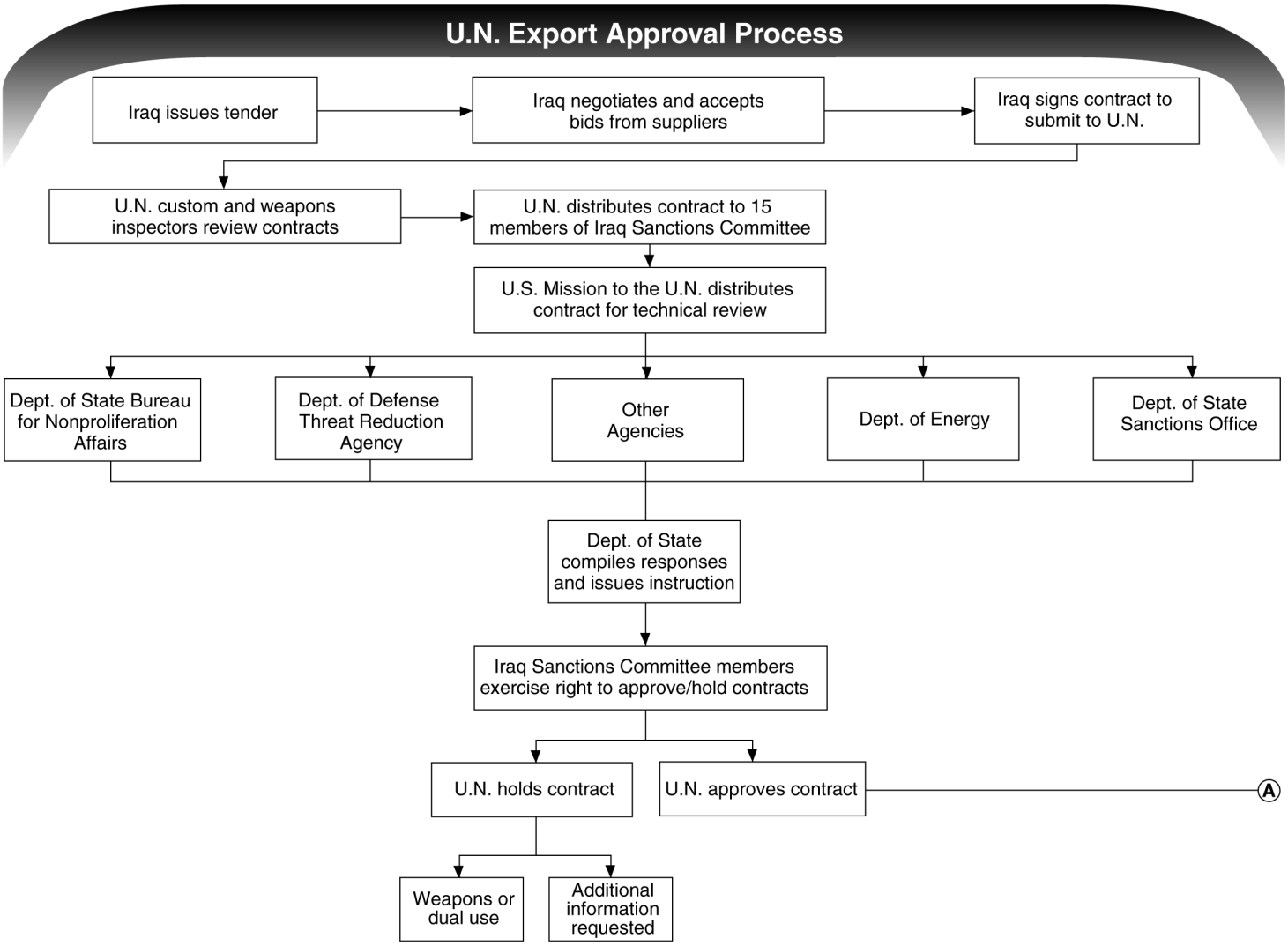
In actual practice, though, there is little difference between U.S. and U.N. requirements, as U.S. and U.N. decisions on proposed shipments to Iraq are nearly identical. Our examination of all U.S. export license actions taken in 2000 and 2001 revealed that very few applications were denied, if they met U.N. requirements. Out of the 503 applications for a U.S. export license that met U.N. standards, only 4 were denied a license. In those four instances, the commodities in question were controlled for anti-terrorism reasons.

United Nations and United States Conduct Thorough Screening of Contracts for Exports to Iraq

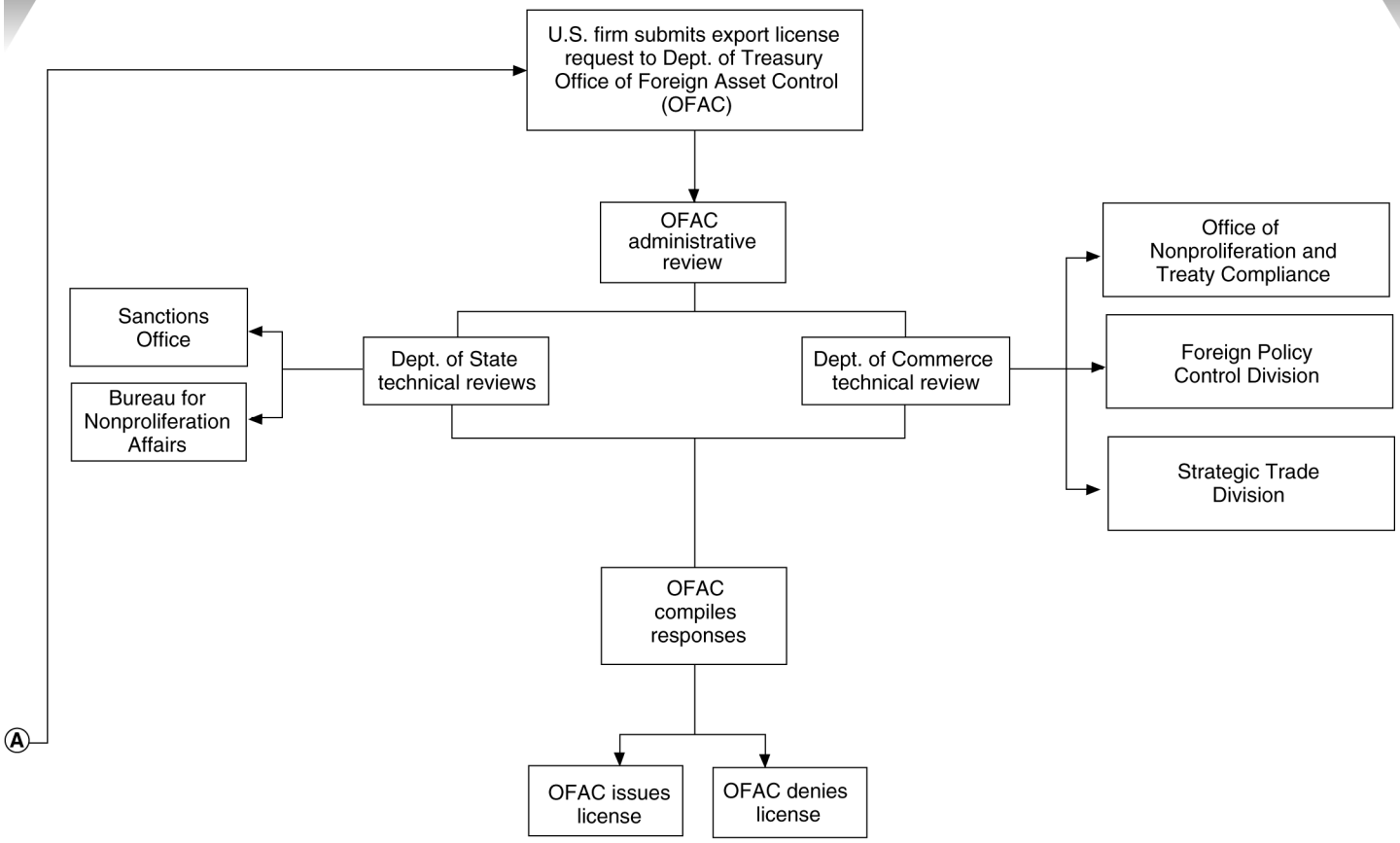
Figure 5 outlines the screening process a member nation must initiate on behalf of a company to obtain a U.N. letter of approval for exports to Iraq and procedures that U.S.-based firms, their foreign-based subsidiaries, and foreign companies selling U.S.-origin products must also follow to get a U.S. export license.[10]

[10]The vast majority of U.S. export applications to Iraq are submitted by U.S. foreign-based subsidiaries and foreign companies selling U.S. origin products. In cases where a U.S. company is seeking authorization to ship commodities to Iraq, the licensing process starts with the firm submitting the export license request to the Department of Treasury for review.

Figure 5: U.N. and U.S. Export Approval and Licensing Processes



U.S. Export License Process



Source: GAO.

For the U.N. process, Iraq negotiates a contract with an international supplier and the contract is submitted by the exporting state to the U.N. Office of the Iraq Program in New York. The Office of the Iraq Program manages the oil for food program and refers the contract to the U.N.'s Monitoring, Verification, and Inspection Commission and the International Atomic Energy Agency, as necessary, for an assessment of whether weapons and related items are present. The Office of the Iraq Program has authority to immediately approve contracts that contain only items on a "fast track" list[11] of goods—generally food, medicine, and other humanitarian goods. Otherwise the contracts are forwarded to the U.N. Security Council's Iraq Sanctions Committee for final review and determination.

The Iraq Sanctions Committee comprises representatives of the U.N. Security Council's 15 member states. Each member has authority to approve or hold any contract. The United States is an active member of the Iraq Sanctions Committee and, according to Security Council members and State officials, conducts the most thorough and complete review compared with other Security Council members. U.S. technical experts assess each item in a contract to determine its potential military application and if the item is appropriate for the end user. They also examine each end user's track record with such commodities. An estimated 60 U.S. government personnel within the Departments of State, Defense, Energy, and other agencies examine all proposed sales of items that could be used to assist the Iraqi military or develop weapons of mass destruction.

According to U.N. Secretariat data, of the more than 2,100 contracts currently being held by the Iraq Sanctions Committee, the United States is responsible for approximately 90 percent of the holds. As of April 2002, about $5.1 billion worth of goods were being withheld for shipment to Iraq. Our review of held contracts indicated they cover numerous sectors—including telecommunications, agriculture, health—and involve goods with both civilian and military application, such as chemicals and electronics. Examples of contracts currently being held at the U.N. include

- water supply trucks worth $34 million, pending submission of additional technical specifications on composition and weight bearing capacity;

[11]The fast track list is compiled and agreed to by the Iraq Sanctions Committee.

- oil well equipment, including detonators and charges, worth $9.2 million; and

- agricultural tire production equipment and insecticides, which include proscribed dual-use chemicals, worth $1.5 million.

The Department of the Treasury is responsible for issuing the U.S. export licenses to Iraq. It compiles the results of the review by U.S. agencies under the U.N. approval process and obtains input from the Department of Commerce on whether the contract includes any items found on a list of goods prohibited for export to Iraq for reasons of national security or nuclear, chemical, and biological weapons proliferation.[12] Since several U.S. agencies have already reviewed the contract during the U.N. export approval process, 99 percent of the suppliers with U.N. approval are granted a U.S. export license.

New Sanctions Agreement Addresses Humanitarian Concerns but Not Monitoring and Enforcement Problems

Security Council Resolution 1409 commits the Security Council to implement a new sanctions agreement by May 30, 2002, that should expedite shipments of civilian goods to Iraq. As outlined in the resolution, only weapons and specified items with potential military application will be subject to review by the Iraq Sanctions Committee. All other items will be approved by the United Nations. U.N. Security Council members and U.S. officials believe these steps will eliminate contract holds, increase the flow of goods into Iraq, and effectively address humanitarian concerns while continuing to ensure that militarily useful items are not exported to Iraq under the oil for food program. However, the new sanctions agreement does not address problems of oil smuggling and illicit imports of goods into Iraq or the return of weapons inspectors.

[12]In some cases, where the Department of Commerce classified commodities as controlled for export to Iraq, the State Department's Sanctions Office or Bureau for Non-Proliferation Affairs is consulted a second time before a decision to approve or deny is made.

Adoption of Goods Review List Should Accelerate Screening Process

As outlined in Resolution 1409, the new sanctions contain a goods review list of specific items subject to review by the Security Council. The list should expedite the screening process and result in increased imports of goods designed to repair Iraq's civilian infrastructure, according to U.N. Security Council members. Under the existing sanctions, all exports to Iraq are forbidden unless specifically permitted by Security Council resolution or specific decision. Under the new system, all goods are permitted except products that could be used to develop weapons of mass destruction, conventional weapons, and military-related or dual-use goods. These controlled items will be specifically listed, and only these items will be referred to the Iraq Sanctions Committee for review. According to U.N. and U.S. officials, Security Council members reached agreement on lists of (1) nuclear, chemical, biological, and missile-related items contained in Security Council Resolution 1051[13] and (2) dual-use materials used in conventional weapons contained in the Wassenaar Arrangement.[14] In April 2002, Security Council members—primarily the United States and Russia—reached agreement on a more contentious and expanded third list that included dual-use items in nine categories, such as telecommunications, fiber optic technologies, sensors and lasers, and computers.

U.N. Security Council members and U.S. officials involved in the screening process expect a marked increase in the number of export applications granted because suppliers will have a specific list of items that must be referred for review and control. By following this list, suppliers should be able to submit contracts that can be quickly processed. The adoption of a goods review list will also focus the trade restrictions against Iraq on designated categories of goods, resulting in closer scrutiny of only the more difficult, borderline cases. Under the revised controls, the Sanctions Committee would evaluate specific items, not entire contracts. For example, if a contract contained items on a goods review list as well as items that are not, the United Nations would approve the latter. Under current practice, committee members must hold an entire contract if there is a single offending item on it.

[13]Adopted in March 1996, Security Council Resolution 1051 and its amendments contain lists of items used in ballistic missiles and missile delivery systems; chemicals capable of being used for the development, production, or acquisition of chemical weapons; and microorganisms, viruses, and toxins.

[14]The Wassenaar Arrangement is a global multilateral arrangement on export controls for conventional weapons and sensitive dual-use goods and technologies that began operations in September 1996.

New Sanctions Do Not Address Oil Smuggling and Illicit Trade or Return of Weapons Inspectors

The new sanctions agreement does not address the oil smuggling and illicit trade occurring outside U.N. control, nor does it contain provisions to improve monitoring or enforcement of existing sanctions. According to Security Council members, the British government in fall 2001 submitted a proposal to compensate states that were being harmed economically by the trade embargo in return for tougher enforcement. However, this proposal was dropped, as states bordering Iraq were more concerned with maintaining access to smuggled oil at a heavily discounted price than in enforcing sanctions against Iraq, according to some Security Council members. According to oil industry experts, the value of the discount has fluctuated over time, with Jordan receiving the largest discount of up to two-thirds the market price and the other countries receiving about a one-third discount.

In addition, the new sanctions do not provide for resumption of weapons inspections. In December 1999, the Security Council established a U.N. Monitoring, Verification, and Inspection Commission to fulfill the weapons inspection tasks mandated by Security Council resolutions. The commission has produced an organizational plan and is prepared to resume weapons inspections upon acceptance of the Security Council resolution by Iraq. The U.N. inspection commission is mandated to inspect any designated site at any time and plans to carry out inspections to provide assurance that Iraq has stopped developing nuclear, chemical, and biological weapons. Figures 6, 7, and 8 help illustrate the continuing concerns in these areas and what prior weapons inspections teams did to address these concerns.

Figure 6: Inspection for Prohibited Missile Components

Iraq is prohibited from having ballistic missiles with a range greater than 150 kilometers. Components and production equipment for shorter-range missiles could be used to produce longer-range missiles and must be monitored.

Source: United Nations.

Figure 7: Inspection for Chemical Nerve Agents

Iraq is prohibited from developing chemical and biological weapons. Weapons inspectors from the earlier weapons inspection teams check for deadly nerve agents in a storage tank.

Source: United Nations.

Figure 8: Destruction of Chemical Weapons

U.N. resolutions call for the elimination of all weapons of mass destruction. Weapons inspectors destroy 500 kg bombs designed for use as chemical weapons.

Source: United Nations.

Agency Comments and Our Evaluation

The U.N. Office of the Iraq Program and the U.N. Monitoring, Verification, and Inspection Commission provided oral comments, which we incorporated in the report as appropriate. Treasury provided technical clarifications, which we also incorporated. The Department of Defense accepted the report without comment. State provided written comments that are reprinted in appendix IV.

State noted that the new sanctions agreement is a sign of renewed consensus on Iraq among the five permanent members of the Security Council. That consensus will be useful not only to improve the efficacy of sanctions against Iraq but also if the United States should choose a different path to end Iraq's threat to international peace and security. State

also provided additional information on how the new sanctions agreement will be implemented.

State expressed concern that a statement in our draft report that the new sanctions agreement has no provisions to reintroduce weapons inspectors leaves the false impression that Security Council resolutions do not adequately provide for weapons inspections and that the new resolution should do so. State further stated that it has rejected all efforts to modify previous resolutions that require Iraq to admit and cooperate fully with weapons inspectors without conditions. We have revised our report to clearly state that prior Security Council resolutions address weapons inspections, but that Iraq is failing to comply with them. Our report does not imply that State has failed to take a firm stand on weapons inspections. As noted in our report, the sanctions are an integrated system of three elements: (1) control of Iraqi oil revenue; (2) rigorous screening and monitoring of Iraqi imports for proscribed items; and (3) weapons inspectors to ensure that Iraq is not acquiring or developing nuclear, chemical, and biological weapons.

State also commented that we leave the impression that U.N. personnel have the authority to stop and inspect all shipments into Iraq, even those outside the oil for food program. We believe our report clearly presents the facts concerning U.N. authority to stop and inspect shipments to Iraq. Our report states that "U.N. monitors only have authority to check goods approved under the oil for food program and thus do not stop or check any other shipments." Our report further states that "under Security Council resolutions, all member states have responsibility for enforcing the sanctions and the United Nations especially depends on neighboring countries to deter the importation of illicit commodities."

We are sending copies of this report to interested congressional committees, the secretary of state, the secretary of the treasury, the secretary general of the United Nations, the director of the Office of Management and Budget, and the director of the Office of the Iraq Program. We will also make copies available to other parties upon request.

If you or your staff have any questions concerning this report, please call me at (202) 512-4128 or my director, Joseph Christoff at (202) 512-8979. Key contributors to this report were Tet Miyabara, Janey Cohen, Patrick Dickriede, Stacy Edwards, Philip Farah, Peter Ruedel, and Richard Seldin.

Sincerely yours,

Susan S. Westin

Susan S. Westin, Managing Director
International Affairs and Trade

Scope and Methodology

At your request, we examined (1) the challenges confronting the United Nations in implementing sanctions, (2) whether U.S. standards for approving exports to Iraq are more stringent than U.N. requirements, and (3) the elements of a new sanctions agreement that could make it more effective than the current sanctions agreement.

As an agency of the U.S. government, we have no authority to review operations of multilateral organizations such as the United Nations. However, throughout this review we obtained broad access to officials and information from the U.N. Secretariat and Security Council member states.

To examine the challenges in implementing the sanctions, we compared the results of U.N. actions taken against Iraq with the criteria set forth in Security Council resolutions on Iraq. We reviewed related Security Council resolutions, a memorandum of agreement between Iraq and the United Nations, and quarterly and semi-annual reports submitted by the U.N. Secretariat describing developments in implementing the sanctions program. We interviewed officials from the Office of the Iraq Program and the United Nations Monitoring, Verification, and Inspection Commission responsible for the weapons inspections. We also met with Security Council members Norway and Britain to obtain their perspective on implementing sanctions and interviewed U.S. government officials responsible for managing and monitoring sanctions against Iraq, including officials from the Department of State, the U.S. Mission to the United Nations, the Department of Defense, the Defense Intelligence Agency, and the Central Intelligence Agency. We also met with Iraqi experts at the Brookings Institution and the Fourth Freedom Forum and obtained and analyzed reports on Iraq and U.N. sanctions from various knowledgeable think tanks, including the Center for Strategic and International Studies, the Wisconsin Project, and the Bonn-Berlin Process.

As part of our analysis of the challenges in implementing the sanctions, we estimated Iraq's illicit earnings from oil smuggling, surcharges on oil, and commissions on commodity contracts. We obtained data and reports related to Iraqi oil production, capacity, and smuggling from the Department of Energy's Energy Information Administration, the Middle East Economic Survey, and the International Monetary Fund. We then divided our analysis into two periods: January 1991 to January 1997 (the beginning of the sanctions to the beginning of the oil for food program) and January 1997 to the end of 2001. (Estimates of oil production, consumption, and exports are measured in thousands of barrels per day

(kbd).) We used the following steps to estimate the revenues from oil smuggling, surcharges, and commissions.

Period 1 (1991 to 1997)

- To estimate the amount of oil smuggled through Turkey and the Persian Gulf, we started with Energy Information Administration estimates of Iraqi oil production and subtracted estimates of Iraqi domestic consumption and exports to Jordan. The remaining amount was the volume of smuggled oil. We assumed that Iraqi domestic consumption was 300 kbd in 1992 and grew slowly during the first few years, then more quickly during subsequent years, until it reached nearly 400 kbd in 2001. Exports to Jordan started at 75 kbd in 1992 and grew by 2 kbd each year. Our estimates of the amount of smuggled oil were lower than some U.S. government estimates, but higher than some oil industry estimates.

- To estimate the revenues from smuggled oil during the first period, we multiplied the volume of smuggled oil by a discounted proxy Iraq oil price. Since data on Iraq oil prices were not available for this period, we used the Iran Light crude price and discounted it by 9 percent for the quality differential. (This is consistent with the implicit price of Iraqi oil exports under the oil for food program between 1997 and 2001.) We assumed that the price of exports to Jordan was a third of the resulting figure, and the price of exports to Turkey and the Persian Gulf was two-thirds of this resulting figure. According to oil industry experts, this is representative of the prices paid for smuggled oil.

Period 2 (1997 to 2001)

- To estimate the volume of smuggled oil for the second period, we started with Energy Information Administration estimates of Iraq production and subtracted oil sold under the oil for food program and domestic consumption. We assumed that the remaining oil was the oil smuggled through Turkey, the Persian Gulf, Jordan, and Syria. We adjusted the amounts of smuggled oil in 1998 and 1999 to reflect some Iraqi storage of oil in 1998 to sell at a higher price in 1999. The price of oil in the second period (1997 to 2001) was based on the same assumptions regarding the pricing of smuggled oil as in the first period (1991 to 1997). (Note that oil smuggling through Syria began in late 2000; we priced this oil at two-thirds of Iran Light crude discounted by 9 percent.)

- To estimate the amount Iraq earned from surcharges on oil from 1997 to 2000, we multiplied the barrels of oil sold by Iraq under the oil for food program by 25 cents per barrel—the most conservative estimate of the surcharge by Security Council members and oil industry experts we interviewed. In 2001, we priced the surcharge at 35 cents per barrel as both oil industry experts and Security Council members estimate that Iraq was trying to get 50 cents per barrel.

- To estimate the commission from commodities, we multiplied Iraq's letters of credit for commodity purchases by 5 percent—the most conservative estimate of the commission by Security Council members.

The final element of our examination of the challenges facing U.N. sanctions was to analyze the effect of sanctions on Iraq's ability to fund its conventional military. To do this, we interviewed U.S. officials, Security Council members, and U.N. weapons inspectors about military armaments Iraq was obtaining. We also analyzed Iraq's military expenditures from 1980 to 2001, based on data from the State Department and the International Institute of Strategic Studies in London. We compared these military expenditures with Iraq's oil revenues during the same period and focused particularly on the period since the sanctions were imposed beginning in 1991.

To assess whether U.S. standards for approving exports to Iraq are more stringent than the United Nations', we interviewed officials from the Office of the Iraq Program and the U.N. Monitoring, Verification, and Inspection Commission involved in screening contracts to gain an understanding of the U.N. screening process. We analyzed databases detailing the screening process and obtained statistics on the number of contracts submitted, approved, and blocked, as well as the criteria and time frames employed. We met with Security Council members Britain and Norway, which along with the United States are the only Iraq Sanctions Committee members to review all contracts, to determine the process and criteria they used when screening contracts. We then met with officials from the Treasury Department's Office of Foreign Assets Control, the Department of Commerce's Bureau of Export Administration, and the Department of State who are responsible for reviewing export application requests from U.S.-based firms, their foreign-based subsidiaries, and foreign companies selling U.S.-origin products. We reviewed applicable U.S. laws and regulations to determine U.S. standards for exports to Iraq. To test whether export applications received a different outcome when going through the U.N. and

U.S. screening processes, we conducted a comprehensive review of all U.S. export application actions to Iraq during 2000 and 2001.

To assess the elements of the new sanctions agreement that could make it more effective than the present sanctions, we analyzed U.N. Security Council Resolution 1382 of 2001, which outlined the new sanctions and set May 30, 2002, as the date they were intended to go into effect. We compared resolution 1382 with the previous resolutions about the sanctions and the memorandum of understanding with Iraq on the oil for food program. Since most of the previous resolutions are still applicable, we focused on the new material in resolution 1382, including appendixes that dealt with the goods review list of prohibited items. We compared the goods review list with documents from the Wassenaar Arrangement, which also identified items that should be controlled for export because they could have military uses. We interviewed U.N. weapons inspectors, officials of the Office of the Iraq Program, members of the U.N. Security Council, and U.S. officials about what changes they expected in the implementation of the new sanctions.

Due to travel restrictions and security concerns, we were unable to travel to Iraq or the frontline states of Turkey, Jordan, or Syria to examine firsthand the U.N. monitoring of commodities imported into Iraq under the oil for food program.

We performed our review from October 2001 through April 2002 in accordance with generally accepted government auditing standards.

The U.N. Oil for Food Program

The U.N. Security Council established the oil for food program, which authorized Iraq to sell oil and put the funds into a U.N.-controlled escrow account to pay for humanitarian and other goods. Since the program was established, more than $51 billion in Iraq oil revenues have been channeled into the escrow account. A distribution plan prepared by the government of Iraq and approved by the U.N. secretary general authorizes Iraq to purchase and import goods for 11 sectors of the economy, including food, health, sanitation, electricity, agriculture, and telecommunications. For example, the most recent distribution plan included the purchase of 400 ambulances for the health sector; the purchase of 15,000 irrigation pumping sets and pesticides for the agriculture sector; and the expansion of a mobile cellular system for the telecommunication sector.

Under a current Security Council resolution, 72 percent of the oil revenue in the escrow account must fund the purchase of food, medicine, and other commodities for Iraq; 25 percent must go to a compensation commission to pay for war reparations; 2.2 percent covers the U.N. cost for administering the program; and 0.8 percent funds the operations of the U.N. Monitoring, Verification, and Inspection Commission. Table 2 shows the amount of funds allocated to procure commodities by sector and to fund war reparations and U.N. administrative costs.

Table 2: Oil for Food Revenues and Allocation, 1997 through 2001

Dollars in millions

Sector or other expenses	Security Council approved	Security Council review not required	Total	Percentage of total
Sector				
Food	$ 5,782	$ 5,213	**$10,995**	21.5
Food handling	2,286	137	**2,423**	4.7
Health	1,749	604	**2,353**	4.6
Oil production equipment	1,860	872	**2,732**	5.3
Electricity	2,622	12	**2,634**	5.1
Water/Sanitation	1,233	116	**1,349**	2.6
Agricultural	2,312	302	**2,614**	5.1
Education	580	185	**765**	1.5
Telecommunications Transportation	1,432	0	**1,432**	2.8
Housing	1,930	324	**2,254**	4.4
Northern governorates	1,154	95	**1,249**	2.4
Other expenses				
Special allocation	13		**13**	0.1
War reparations		13,960	**13,960**	27.3
Administrative fees		1,485	**1,485**	2.9
Approved but not yet funded		4,948	**4,948**	9.7
Total	**$22,953**	**$28,253**	**$51,206**	**100**

Source: United Nations.

Screening and Monitoring

U.N. and member state screening and monitoring help verify that Iraq's purchases are not for military uses and that it is not illegally selling oil. First, U.N. Security Council resolutions require that Iraq clear its proposed purchases from the escrow account through a U.N. screening and approval process. U.N. customs and weapons inspectors screen proposed Iraq contract purchases for weapons and related dual-use items and ensure that prices being charged are reasonable. The proposed contracts are then submitted to the Iraq Sanctions Committee for further review.[15] As a member of the sanctions committee, the United States subjects all potential Iraqi imports to a thorough examination to ensure that they have no military application before approving them.

To verify that the goods actually delivered to Iraq are the approved ones, the United Nations deploys 78 contract workers at 4 designated entry points on Iraq's borders with Turkey, Jordan, and Syria, and at the Persian Gulf. At these border crossings, vehicle drivers who have U.N.-approved purchases and want to be paid by the escrow account must stop to have their shipments authenticated by the U.N. contractors. The authentication form must be signed to receive payment from the U.N. escrow account. The United Nations also monitors the use of sensitive goods within Iraq, such as vehicle spare parts and helicopters, through 158 observers from 9 U.N. agencies working in Iraq. According to their mandate, however, the observers are not weapons inspectors and do not track all items in a shipment to their final use.[16]

To check that Iraq is selling the approved quantity of oil under the oil for food program, the United Nations deploys 14 contract workers inside Iraq at three designated exit points, one on the Gulf and on both ends of an oil pipeline to Turkey. These contractors check that the quantity of oil pumped through the pipeline matches the quantity allowed under an

[15]The U.N.'s Office of the Iraq Program has authority at this point to immediately clear—or fast track—contracts that include items in such sectors as food, education, health, agriculture, sanitation, and oil and electricity spare parts.

[16]U.N. agencies and programmers working as end-use monitors of oil for food commodities include the Department for Economic and Social Affairs, the Food and Agricultural Organization (FAO), the International Telecommunication Union (ITU), the United Nations Children's Fund (UNICEF), the United Nations Development Program (UNDP), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the United Nations Office for Project Services (UNOPS), the World Food Program (WFP), and the World Health Organization (WHO).

approved oil contract. There are also 7 personnel who monitor spare parts procured for the oil industry. In addition, a 16-nation Multilateral Maritime Inspection Force is deployed in the Persian Gulf to limit smuggling of illicit goods into Iraq and oil from Iraq. The force varies in size but consists of between six and eight vessels.

Timeline of Major Events Related to Sanctions against Iraq

Date	Event / Action	Summary
Aug. 2, 1990	U.N. Security Council Resolution 660	Iraqi forces invade Kuwait. Resolution 660 condemns the invasion and demands immediate withdrawal from Kuwait.
Aug. 6, 1990	U.N. Security Council Resolution 661	Resolution 661 imposes economic sanctions against the Republic of Iraq. The resolution calls for member states to prevent all commodity imports from Iraq and exports to Iraq, with the exception of supplies intended strictly for medical purposes, and in humanitarian circumstances, foodstuffs.
Aug. 6, 1990	Operation Desert Shield	President Bush orders the deployment of thousands of U.S. forces to Saudi Arabia.
Nov. 5, 1990	U.S. legislation	Public Law 101-510 prohibits import of products from Iraq into the United States and export of U.S. products to Iraq.
Jan. 12, 1991	U.S. legislation	Iraq War Powers Resolution authorizes the president to use “all necessary means” to compel Iraq to withdraw military forces from Kuwait.
Jan.16, 1991	Operation Desert Storm	Operation Desert Storm is launched: Coalition operation is targeted to force Iraq to withdraw from Kuwait.
Feb. 28, 1991	Gulf War cease-fire	Iraq announces acceptance of all relevant U.N. Security Council resolutions.
Apr. 3, 1991	U.N. Security Council Resolution 687 (Cease-Fire Resolution)	Resolution 687 mandates that Iraq must respect the sovereignty of Kuwait and declare and destroy all ballistic missiles with a range of more than 150 kilometers as well as all weapons of mass destruction and production facilities.
June 17, 1991	Creation of U.N. Special Commission	The U.N. Special Commission is charged with monitoring Iraqi disarmament as mandated by U.N. resolutions and to assist the International Atomic Energy Agency in nuclear monitoring efforts.
Oct. 6, 1992	U.S. legislation	Public Law 102 –391 stipulates that funds to carry out the Foreign Assistance Act or the Arms Control Act may not be used to provide assistance to any country not complying with U.N. Security Council sanctions against Iraq.
Apr. 14, 1995	U.N. Security Council Resolution 986 (oil for food resolution)	Resolution 986 allows Iraq to sell $1 billion worth of oil every 90 days. Proceeds must be used to procure foodstuffs, medicine, and material and supplies for essential civilian needs. Resolution 986 is supplemented by several U.N. resolutions over the next 6 years that extend the oil for food program for different periods of time and increase the amount of oil that may be exported and humanitarian goods that may be imported.
Dec. 10, 1996	Start of oil for food program	With the completion of measures for implementing Resolution 986, Phase I of the oil for food program begins.

(Continued From Previous Page)

Date	Event / Action	Summary
Aug. 14, 1998	U.S. legislation	Public Law 105 –235 finds Iraq in unacceptable and material breach of its international obligations.
Oct. 31, 1998	U.S. legislation: Iraq Liberation Act	Public Law 105 – 338 authorizes the president to provide assistance to Iraqi democratic opposition organizations.
Oct. 31, 1998	Iraqi termination of U.N. Special Commission activity.	Iraq announces it will terminate all forms of interaction with UNSCOM and that it will halt all UNSCOM activity inside Iraq.
Dec.16, 1998.	Operation Desert Fox	Following Iraq's recurrent blocking of U.N. weapons inspectors, President Clinton orders 4 days of air strikes against military and security targets in Iraq that contribute to Iraq's ability to produce, store, and maintain weapons of mass destruction and potential delivery systems.
Nov. 29, 2001	Security Council Resolution 1382	Resolution 1382 extends the oil for food program an additional 180 days. Phase 11 of the program will be in effect until May 29, 2002. The resolution stipulates that a new Goods Review List will be adopted and relevant procedures will be subject to refinement.

Comments from the Department of State

United States Department of State

Washington, D.C. 20520

MAY - 9 2002

Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "WEAPONS OF MASS DESTRUCTION: U.N. Confronts Significant Challenges in Implementing Sanctions Against Iraq," GAO-00-000, GAO Job Code 320085.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact William Grant, Sanctions Officer, Office of Peacekeeping and Humanitarian Operations, Bureau of International Organization Affairs, at (202)736-7606.

Sincerely,

Christopher B. Burnham
Assistant Secretary and
Chief Financial Officer

Enclosure:

As stated.

cc: GAO/IAT - Mr. Tetsuo Miyabara
State/OIG - Mr. Berman
State/IO- Mr. William Grant

Ms. Susan S. Westin,
Managing Director,
International Affairs and Trade,
U.S. General Accounting Office.

State Department Comments on GAO Draft Report

WEAPONS of MASS DESTRUCTION: UN confronts Significant Challenges in Implementing Sanctions Against Iraq
(GAO-PUB No., GAO Job 320085)

The Department provided numerous comments and clarifications to GAO on earlier drafts of this report, most of which are reflected in this draft. Our additional comments concern three subjects:

1. the revised export control system for Iraq (GAO completed its draft before all details were final);

2. the impression the report conveys that Security Council resolutions do not adequately provide for the return of weapons inspectors to Iraq when in fact they do; and

3. more precision regarding the mandate of UN personnel who man the border crossing stations into Iraq.

New Export Control System for Iraq. We expect the United Nations Security Council to approve by mid-May a resolution adopting a new export control system for Iraq based on the Goods Review List (GRL), for implementation beginning May 30, 2002. As GAO notes, the Council agreed in principle to adopt the GRL in its last resolution on Iraq, UNSCR 1382 of November 29, 2001. The new resolution will reflect refinements of the List and associated procedures contained in 1382. Examples include modifications to the entries on biological growth media, lasers, telecommunications, and chemical sprayers and clarifications of the responsibilities of the UN Office of the Iraq Program, UNMOVIC (United Nations Monitoring, Verification and Inspection Commission) and the IAEA (International Atomic Energy Agency).

Under the new system, items covered by the GRL will be subject to scrutiny by the Iraq Sanctions Committee. The UN will have authority to approve other items with minimal delay; under the current system, many of those also must be referred to the Committee. The total ban on export to Iraq of military goods and services under paragraph 24 of UNSCR 687 is maintained. Because the new system focuses controls on items that Iraq could use to re-arm, it effectively

lifts sanctions on purely civilian trade, while making clear to all nations and suppliers the items that warrant heightened scrutiny before export to Iraq.

This agreement is a sign of renewed consensus on Iraq among the five permanent members of the Security Council. That consensus will be useful as we continue efforts to improve sanctions to deny Iraq's access to dangerous goods and seek the return of UN weapons inspectors. Such a consensus will also be useful should we choose a different path to ending the threat to international peace and security that the Iraqi regime poses. The Security Council is expressing its view that the Iraqi regime continues to threaten international peace and security and controls are necessary to ensure that it does not re-arm. The Council also demonstrates its intention to meet the needs of the Iraqi people. Success on that point will depend on the actions of the Iraqi government, which has shown a consistent pattern of diverting goods intended for civilian use to its military and to supporters of the Iraqi regime.

Under the new system, there will be no contract holds, which the GAO discusses--the focus of review will be items, not contracts. UN experts from UNMOVIC and IAEA will conduct technical reviews of all items in all contracts. They will approve non-GRL items for shipment to Iraq without Iraq Sanctions Committee review. Items which either of the two agencies determines are covered by the GRL will require Committee review. Committee members (including the U.S.) will have the following options available for items that are referred: (a) approval; (b) approval subject to conditions as stipulated by the Committee; (c) denial; and (d) request for additional information. If the additional information is not provided in a specified time-period, the item(s) will be considered inactive and the review process will not proceed further. If supplier does not provide the requested information within a further specified time-period, the application will be considered lapsed.

Requirement for weapons inspections unchanged. GAO states that the "new sanctions do not provide for resumption of weapons inspections", referring to the new export control system to be adopted by the Security Council. This leaves the false impression that Security Council resolutions do not adequately provide for weapons inspections and that the new resolution should do so. In fact, numerous Security

Council resolutions require that Iraq admit and cooperate fully with UN weapons inspectors without conditions. The United States has rejected efforts to modify the requirements of these resolutions in order to entice greater Iraqi cooperation. The UN's chief weapons inspectors took the same position in meetings with Iraqi representatives May 1-3. As Secretary Powell has made clear, the Iraqi government knows what it must do to comply with resolutions. The Department will continue to oppose proposals that would weaken the provisions regarding weapons inspections.

Clarifying the authority of UN personnel at border crossings. GAO language in the Background section leaves the impression that UN personnel have the authority to stop and inspect all shipments into Iraq and turn away goods that have not been approved under the UN program. In fact, the mandate of the UN staff at the borders (who are contractors from an inspection firm) is limited to checking goods that have been approved under the Oil-for-Food program, to verify that the goods conform to the contract that was approved by the UN. Governments of UN member states have the responsibility for preventing exports to Iraq that have not been authorized under the UN program. As a practical matter, the states bordering Iraq have a particular responsibility. We consult frequently with them on this subject.

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