

**DIVESTING SADDAM: FREEZING, SEIZING,
AND REPATRIATING SADDAM'S MONEY TO
THE IRAQIS**

HEARING
BEFORE THE
SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS
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CONTENTS

| | Page |
|--------------------|------|
| Hearing held on: | |
| May 14, 2003 | 1 |
| Appendix: | |
| May 14, 2003 | 31 |

WITNESSES

WEDNESDAY, MAY 14, 2003

| | |
|--|---|
| Aufhauser, Hon. David, General Counsel, Department of the Treasury | 5 |
| Lanzillotta, Lawrence, Principal Deputy and Deputy Under Secretary of Defense for Management Reform, Department of Defense | 9 |
| Wayne, Hon. E. Anthony, Assistant Secretary for Economic and Business Affairs, Department of State | 7 |

APPENDIX

| | |
|-------------------------------|----|
| Prepared statements: | |
| Kelly, Hon. Sue W. | 32 |
| Oxley, Hon. Michael G. | 34 |
| Gutierrez, Hon. Luis V. | 36 |
| Maloney, Hon. Carolyn B. | 38 |
| Shadegg, Hon. John B. | 40 |
| Aufhauser, Hon. David D. | 42 |
| Lanzillotta, Lawrence | 51 |
| Wayne, Hon. E. Anthony | 54 |

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

| | |
|---|----|
| Kelly, Hon. Sue W.: | |
| Banker who hid Saddam's Millions, <i>London Times</i> , April 13, 2003 | 63 |
| Hussein's Son Took \$1 Billion Just Before War, <i>New York Times</i> , May 6, 2003 | 69 |
| Iraqi Oil Smugglers Eluded U.S. Patrols, <i>Washington Post Foreign Service</i> , May 7, 2003 | 72 |
| Swiss Lawyer Denies Being Saddam's Banker, <i>Agence France-Presse</i> , April 14, 2003 | 75 |
| The Search for Saddam's Bucks, <i>New York Daily News</i> , May 4, 2003 | 77 |
| The Search for Saddam's Stash, <i>CNNMoney</i> , April 16, 2003 | 81 |
| Tracking Saddam's Billions, April 3, 2003 | 86 |
| Wayne, Hon. E. Anthony: | |
| Written response to questions from Hon. Luis V. Gutierrez | 89 |
| Written response to questions from Hon. John B. Shadegg | 94 |
| Lanzillotta, Lawrence: | |
| Written response to questions from Hon. Luis V. Gutierrez | 99 |

DIVESTING SADDAM: FREEZING, SEIZING, AND REPATRIATING SADDAM'S MONEY TO THE IRAQIS

Wednesday, May 14, 2003

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2128, Rayburn House Office Building, Hon. Sue W. Kelly [chairwoman of the subcommittee] presiding.

Present: Representatives Kelly, Paul, Shadegg, Hensarling, Garrett, Murphy, Brown-Waite, Barrett, Oxley (*ex officio*), Gutierrez, Moore, Inslee, Crowley, Maloney, Lynch, Davis and Renzi.

Chairwoman KELLY. Before I begin this hearing I want to explain that I am on another committee as well which is in the middle of a markup. I may have to take a break every once in a while to go over for votes. So, just to give you all fair warning that may happen, I hope that we can move along with this hearing.

So that being said, this hearing of the Subcommittee on Oversight and Investigations will come to order.

Over the last 20 years, Iraq and its people have been systematically looted by the brutal tyranny of Saddam Hussein. Today, tens of billions of dollars in assets and cash lie somewhere outside of Iraq in the smoky depths of phony front companies, hidden trusts, and cash accounts in the names of regime family members and loyalists. This stolen money represents another layer of destruction and deceit that the Hussein regime inflicted on the Iraqi people.

Specifically, you can recall the reaction of the Iraqi who stormed one of many Presidential palaces on April 14 and was finally free to express his feelings. And as he passed through that ruined palace, with shards of crystal from chandeliers and shattered mirrors and all that gilt furniture, he was marveling bitterly at Saddam's life of luxury and commented that his family couldn't even afford bread.

The Iraqi people have suffered enough and this money that was taken belongs to them. These assets must be found and they must be returned to the people of Iraq to build schools and reopen businesses and hospitals and repair the country's infrastructure, all of it destroyed by the malicious neglect of a tyrant and his inner circle.

Today the Oversight Investigations Committee holds the first congressional hearing on the search for Saddam's money and the

efforts to return it to the Iraqi people. Initial press reports are startling, with stories of shell companies in numerous countries, discoveries in Iraq of hundreds of millions of U.S. Dollars, and oil smuggling schemes that are without parallel among other petty dictators and thugs.

Passage of this committee's work on the Patriot Act has been a tremendous step toward monitoring the flow of illicit money and it has also served to raise the bar for the international community. Foreign financial institutions can no longer seek access to the U.S. market without providing U.S. financial enterprises with sufficient information to determine that no one is being misled by Saddam, his family, or their agents.

Our message to the world is straightforward and it should be heeded: The willingness to share cross-border information is now a license required to do business in America.

In case you missed that, let me repeat it: The willingness to share cross-border information is now a license required to do business in America.

We have accomplished a great deal in Iraq in a very short time. President Bush has been steadfast in his resolve to end tyranny, terrorism, and torture. The Administration, our brave soldiers and sailors, the coalition troops, have earned the admiration of the American people and the world for the rapid liberation of a terribly oppressed nation, a nation that spent its money funding, aiding, and exporting terrorism instead of caring for its people.

Congress must continue to give the Administration the resources it needs to locate and return the money to its rightful owners: the men, women and children of Iraq. While a collaborative effort is underway to seize this money, let's be very clear. America expects nothing less than the highest level of cooperation from financial institutions, international entities, and foreign governments across the globe. We know the money is out there and we will find it and we will return it to the Iraqi people, and we expect others to do the same thing.

We are pleased to have with us here today witnesses from the three principal departments responsible for efforts to repatriate this money to Iraq. At this time it is unclear what role each entity plays in the process. I am hoping that you can shed some light, you who are testifying, on how the U.S. Government works with the international community and the financial services industry to repatriate financial assets of dictators.

The committee has also an immediate interest in determining how entities across the world are working together to return Saddam's illegal money to the Iraqi people. Therefore, I would also like to announce that we will be requesting, this committee will request for GAO to study these issues. Chairman Oxley and I, along with Ranking Members Frank and Gutierrez have agreed that this is an issue that must be examined as closely as possible and we will be sending a letter this afternoon to request this study from the GAO.

There are many challenges ahead and we believe that this independent investigation by GAO will help to address them in a comprehensive and effective way.

I thank this panel for their appearance. I look forward to working with you all to ensure the Iraqi people recover the assets that they now own and that will be critical to building a free and democratic Iraq.

And Mr. Gutierrez's plane just landed, so I am going to call on Mrs. Maloney.

[The prepared statement of Hon. Sue W. Kelly can be found on page 63 in the appendix.]

Mrs. MALONEY. And I thank the gentlelady from the great State of New York for holding this important hearing. And I thank all our panelists.

This morning the subcommittee examines the seizure of Saddam Hussein's assets and Administration efforts to repatriate them. These assets were the product of years of looting from the Iraqi people, including the diversion of resources from humanitarian programs such as Oil for Food, and are further evidence of the sickness of Saddam's regime.

Just prior to military action on March 20, the President issued an Executive Order confiscating and vesting property of the Government of Iraq in the United States. The Executive Order operates under authority in section 106 of the Patriot Act. The order resulted in the seizure of 1.7 billion in assets by the U.S. Treasury Department from accounts held in the U.S. In the name of the Government of Iraq, the central bank of Iraq, the State organization for marketing oil, the Rafidain bank, the Rasheed bank.

As CRS explains and I quote: This authority becomes available when the United States is engaged in armed hostilities or has been attacked by a foreign country or its nationals. At this time, the property of any foreign person, organization or nation which planned, authorized, aided, or engaged in the hostilities or attack become forfeitable.

Given that we have yet to find Saddam, this seizure is especially important because of flight risk and the threat that his assets could be used to assist terrorists.

This morning our panelists will testify to the success of their efforts to track down Saddam's assets through his tangled web of accounts. This was difficult work and our witnesses and their departments deserve credit for a job well done. However, the job of limiting Saddam's funding sources is far more complex. Treasury's own testimony estimates that his family's wealth could be as much as \$40 billion worldwide.

I also look forward to a discussion this morning of what is next for the assets seized from Saddam. The President's Executive Order stated, and I quote, "such a vested property should be used to assist the Iraqi people and to assist in the reconstruction of Iraq," end quote.

This is a very broad statement that gives the Administration wide latitude for potential uses of this money. As this money was stolen from the people of Iraq, the U.S. in a sense is acting as a fiduciary for the Iraqi people. Iraq is a nation that suffers massive international debts. The Iraqi people will need every resource available to them to rebuild the country and service their debt obligations.

Whatever the final determination is for the uses of this money, I believe these decisions should be made in the open, not in closed Administration meetings. This money does not belong to the United States and it must not be obligated in no-bid rebuilding contracts, as has been the case with other Iraq projects. I think this issue is so important that last week I offered an amendment in the Government Reform Committee that would apply the highest Federal contracting standards to seized Iraqi assets. I withdrew the amendment because I wanted to hear from our witnesses this morning before proceeding. I did offer another amendment that requires full and open disclosure of contracts that were awarded without open bidding to the lowest responsible bidder. I am pleased that this amendment was accepted by the majority and attached to the defense authorization bill. I believe a similar one may be required for the assets that are the topic of this hearing. And I look very much forward to your statements.

In short, the Iraqi people suffered for 25 years and it is very important to get this money back into their hands for the rebuilding effort. And I hope that we are working with the United Nations, which happens to be in the district that I represent, to broaden the burden sharing so that other countries will be participating in a multilateral effort to help Iraq and to help rebuild it.

I am also interested in any efforts to seize the assets in foreign countries and where the United Nations stands in assisting our country to find these assets, seize them, return them to the Iraqi people. I am very concerned and dedicated to helping them. But we have many domestic challenges here at home in education, health care, and we really cannot carry this burden alone. So I hope the Administration is working to share this burden with other countries.

I thank you very much for being here and I yield back the balance of my time.

Chairwoman KELLY. Thank you.

[The prepared statement of Hon. Carolyn B. Maloney can be found on page 38 in the appendix.]

Chairwoman KELLY. Mr. Murphy. No opening statement?

Mr. Gutierrez.

Mr. GUTIERREZ. So that we can get to the witnesses, may I hand my opening statement for the record?

Chairwoman KELLY. Yes. Without objection, all members' opening statements will be made part of the record.

[The prepared statement of Hon. Luis V. Gutierrez can be found on page 36 in the appendix.]

Chairwoman KELLY. Mr. Barrett. Mr. Oxley, I am sorry, I didn't see you down there.

Mr. OXLEY. Thank you. I was hiding behind—

Chairwoman KELLY. Mr. Chairman.

Mr. OXLEY. —behind our distinguished freshman here. I just want to congratulate the Chairlady for this hearing today, submit my statement for the record, and welcome our witnesses.

This is a very important issue that our committee has undertaken, having passed the anti-money laundering provisions of the USA Patriot Act, and I know your interest in this personally. And

we are looking forward to this as being the first step in finding where Saddam's money is and going after it.

So again, I thank you for your perseverance and I yield back.

Chairwoman KELLY. Thank you.

[The prepared statement of Hon. Michael G. Oxley can be found on page 34 in the appendix.]

Chairwoman KELLY. All right, then, we are just going to go on down here.

Mr. Barrett. No? No statement.

Mr. Renzi.

Mr. RENZI. I am good to go.

Chairwoman KELLY. Mr. Hensarling?

All right, then, if there are no more opening statements, we proceed to the witness panel, the witnesses this morning. We welcome David Aufhauser, General Counsel, the Treasury Department, and Mr. E. Anthony Wayne, Assistant Secretary for the Economic and Business Affairs of the State Department, who together represent the lead Cabinet departments in the worldwide search for Saddam's money.

We also welcome Larry Lanzillotta, who is Principal Deputy of Defense in the Comptroller's Office and Deputy Under Secretary of Defense for Management Reform—that is a lot of water you are carrying there sir—who is testifying about the assets found in Iraq by our troops which will be used for the benefit of the Iraqi people.

We thank the witnesses for testifying. We welcome you on behalf of the committee and, without objection, your written statements and any attachment that you may have will be made part of the record. You will now each be recognized for a 5-minute summary of your testimony. When the light goes on green, obviously means you have time; yellow means you have 1 minute to sum up; and red means the time is over.

And we will proceed with you, Mr. Aufhauser.

**STATEMENT OF DAVID AUFHAUSER, GENERAL COUNSEL,
DEPARTMENT OF THE TREASURY**

Mr. AUFHAUSER. Thank you, Madam Chairwoman, and thank you to members of the committee for holding this session. We look forward to not only informing you about what we are doing, but we look forward to your counsel and to your recommendations and suggestions.

A great deal of money will be required to put Iraq back on an even keel. But that is not because of 25 days of war. It is because of 25 years of tyranny, a tyranny that made a prisoner of thought and a criminal of honest enterprise. The long war with Iran, the unlawful invasion of Kuwait, the elevation of palace corruption to an art form, and the decade of sanctions, book-ended by obscene public extravagances in the palaces while the common man lined up at one of 55,000 U.N. food distribution points, all bankrupted a rich country in everything except the hunger for freedom.

Now that they have the freedom, the Iraqi people deserve their wealth back: the inestimable wealth of the oil in their soil; the \$1.7 billion of vested assets here in the U.S.; the approximately \$2.3 billion of similarly frozen or blocked accounts in countries around the globe dating back to 1990; the recovery of the stolen assets of the

central bank; the unallocated U.N. OFF money, Oil for Food program money; the establishment of the donors fund from the community of nations under the supervision of the World Bank or the IMF; and, of course, the identification, capture, and repatriation of the hidden money or previously unaccounted for wealth of the nation.

This last tranche of money is expected to occupy much of this morning's testimony. And it should. It should not be because we are Pollyanna-ish in the belief that much of it has not been widely misspent in acts of unimagined profligacy, and not because it makes good theater, and not because much of it may already have taken flight; but rather, it is the right thing to do for so many reasons. Whatever unfound money there is ought to be returned to feed people. Whatever the hidden wealth is, it needs to be captured before it falls into the hands of purveyors of terror. And whatever commerce took place by corrupting the U.N. Oil for Food program and by nakedly gaming the economic sanction program up at the U.N., it needs to be answered and punished by denying profit to the illegal trade.

Now, frankly this last point is perhaps the most troubling. Some of the best of our kids perished in Iraq because a significant part of the world did not effectively enforce the U.N. sanctions program to keep arms from Saddam Hussein. One of the first acts of the Bush Administration back in March of 2001 was to introduce a resolution in the U.N. to smarten those sanctions, to accelerate the delivery of humanitarian goods, to close the trafficking in smuggled oil, and to try to stem the holiday of corruption that Hussein had made of the Oil for Food program. We succeeded only in the former. The price has been the lengthened tenure of a tyrant, and now blood in the sand.

The search for the hidden wealth of Hussein and his regime is therefore more than a search for assets. It is a reaffirmation of the rule of law and a necessary reinforcement of the notion that while economic sanctions can be a powerful tool for policing state sponsors of terror, where the enemies of democracy worldwide, if casually enforced—if casually enforced, they can be a lethal tonic of false security. So the search both in-country, back in Iraq, and around the globe is an imperative.

I am happy to report there are promising advances in that search, both in setting up the process and in capturing previously unknown monies. I leave you with one example. We have been in dialogue, near constant dialogue with the central bank of Lebanon. They have confirmed yesterday that more than \$495 million of previously unknown assets held by the central bank, the former central bank of Iraq, and by SOMA, the State Oil Marketing Organization, have been secured and will not be released to anyone until we stand up a new central bank, at which time they commit to send it back to and to repatriate it back to Iraq.

More importantly, we have an open invitation from that jurisdiction and others, but particularly that jurisdiction and the governor of the central bank, to proceed with presenting them with what evidence we have of suspected front companies, again with the commitment that if the evidence is sufficient to act upon, they would

secure those accounts, whatever they are, with the ultimate intention of repatriating them back to Iraq.

I give that to you as one example. I will be glad to give you more during the testimony. With that I will close.

Chairwoman KELLY. Thank you, Mr. Aufhauser.

[The prepared statement of Hon. David Aufhauser can be found on page 42 in the appendix.]

Chairwoman AUFHAUSER. Mr. Wayne.

**STATEMENT OF E. ANTHONY WAYNE, ASSISTANT SECRETARY
FOR ECONOMIC AND BUSINESS AFFAIRS, DEPARTMENT OF
STATE**

Mr. WAYNE. Thank you very much, Madam Chair, and esteemed members of the subcommittee and the general committee.

It is a pleasure to be here to discuss this very important topic of all the work that we are doing to identify, freeze, and prepare for the return of Iraqi State assets so they can benefit the Iraqi people. This is a truly interagency effort with the active participation of a number of agencies and departments not represented here today, and it has to be that to succeed.

And as you know, this is one part of the broader effort to deal with all the challenges that have arisen and are now there to get back on a path to development and prosperity for the people of Iraq. But finding and restoring these assets can be a very important part in that process, in providing the resources that are needed for the people of Iraq to develop themselves and to build their prosperity.

After the 1990 invasion of Kuwait, the United States acted very quickly and decisively to deprive the regime of Saddam Hussein of the means and materials to continue its regional aggression, to further develop its programs of weapons of mass destruction, and to continue the repression of the Iraqi people.

Based on U.N. Security Council Resolution 661, we quickly froze and blocked all of the Iraqi State assets legally in our jurisdiction. We also acted to prevent the regime of Saddam Hussein from acquiring additional revenues and goods through the illicit sale of Iraqi oil. We mounted and continued through the decade a very aggressive campaign, a diplomatic campaign to pressure countries to enforce the sanctions against Iraq. We worked with our Gulf War coalition partners to interdict illicit oil in the Gulf, and we took punitive actions in a number of cases for sanction busters where we had those options available.

As Mr. Aufhauser has made clear, there are two dimensions to our current effort to assure that Iraqi State assets are made available for the benefit of the Iraqi people:

First, President Bush has acted to vest more than \$1.7 billion in Iraqi Government assets in the U.S., and these assets are being made available to assist the Iraqi people and to assist in the reconstruction of Iraq.

And secondly, we are working with other countries around the world. We have reached out first to about 30 countries that declared that they have assets that were frozen in 1990 and 1991, and simultaneously to an additional 20 or so countries where we thought there might be additional assets available. And we have

asked all of these countries to carefully examine their bank records, their other financial records, to verify the numbers that are there, to find additional assets and to work with us to prepare for the return of these assets to Iraq.

Many countries have expressed their support in this effort. Also many countries have different legal systems than we do. In fact, not many countries have the robust set of tools which you and your fellow Members of Congress have made available to the President to act as he did, vesting these assets in the United States. And many governments are looking forward to a new U.N. Security Council resolution that will help prepare the way for them to feel that they can return the assets to Iraq.

As you know, we have now tabled, along with the United Kingdom and with Spain, on May 9, such a Security Council resolution. As President Bush has made clear, this resolution is aimed at lifting the sanctions on Iraq. But part of this resolution also would direct other countries to identify all the Iraqi State funds, other economic resources and financial assets tied to Saddam Hussein and members of his regime, and repatriate those funds into an Iraqi Assistance Fund, which would be held in the Iraqi central bank, would be held there in conjunction with an international advisory board, and would be used to help rebuild Iraq and to help meet the urgent humanitarian needs.

The State Department is now deeply engaged, as you have seen on the front pages every day, from Secretary Powell on down and our Ambassadors around the world and our team in New York, working hard to get this resolution passed very quickly. We are also working extremely closely with the Departments of Treasury, Justice, Defense, Homeland Security, as well as the law enforcement and intelligence agencies to identify the assets that are out there and to identify the front companies that have been connected to Saddam Hussein and his regime.

We have focused on a number of countries in this effort. We have reached out to countries in the region such as Jordan, Turkey, Lebanon, Syria, Bahrain and the UAE. Overall, we have found foreign governments very open to cooperating in this effort, as Mr. Aufhauser indicated.

We are reaching out to countries such as Switzerland, the United Kingdom, the other countries in Europe. We are very closely working to identify all the illicit channels, and we can get into this further in the testimony, since I see my time has run out.

I would just say that as we have also worked through this effort, we have a very closely knit interagency team. They are in practically daily—not practically, really daily—contact in working this through so we can use law enforcement intelligence and diplomatic channels in this overall effort.

We have also been, I think, very clear on the use of assets, as Mrs. Maloney mentioned in her introductory remarks, that these have to be for the benefit of the Iraqi people and that these assets need to be spent in a transparent, publicly explainable, accountable method that is evidently for the benefit of the Iraqi people.

We look forward to talking about this and also some of our broader efforts, if you are interested, against corruption and in favor of transparency around the world. And we look forward and

I look forward to working with you, Madam Chair, and the other members of the committee in this ongoing discussion and this ongoing effort of how we best take these tasks on and bring them to a successful conclusion.

Thank you very much.

Chairwoman KELLY. Thank you, Mr. Wayne.

[The prepared statement of Hon. E. Anthony Wayne can be found on page 54 in the appendix.]

Chairwoman KELLY. Mr. Lanzillotta.

STATEMENT OF LAWRENCE LANZILLOTTA, PRINCIPAL DEPUTY AND DEPUTY UNDER SECRETARY OF DEFENSE FOR MANAGEMENT REFORM, DEPARTMENT OF DEFENSE

Mr. LANZILLOTTA. Madam Chairwoman and members of the subcommittee, we appreciate this subcommittee's interest in the disposition of Saddam Hussein's assets and returning these assets to the Iraqi people. I welcome the opportunity to summarize the role of the Department of Defense in this area as well as discuss our procedures pertaining to the administrative use and accounting of the vested and seized Iraqi property.

Now that the regime of Saddam Hussein no longer rules Iraq, it is the primary aim of the Department of Defense to take all measures necessary to ensure much needed humanitarian and reconstruction assistance is brought to the Iraqi people so that they can begin to rebuild their lives and the country after decades of oppression.

Towards this end, the Department is committed to using Iraqi State- and regime-owned property that has been vested in the U.S. Treasury from banking accounts in the U.S. and state- and regime-owned cash, funds, or realizable securities found and seized in Iraq to assist the Iraqi people and to assist the reconstruction of their country.

On March 20, 2003 the President, acting pursuant to the International Emergency Economic Powers Act, confiscated and vested in the Treasury approximately 1.7 billion in Iraqi Government assets to be used to assist the Iraqi people and to assist in the reconstruction of Iraq. The Secretary of the Treasury has subsequently designated the Secretary of Defense with the authority to use approximately 92 million of this property.

On April 30, 2003, the President confirmed the authority of the Secretary of Defense under the laws and usage of war to seize, sell, administer, or use state- or regime-owned cash, funds, or realizable securities in Iraq. The President specified that this property shall be used only to assist the Iraqi people in support of the reconstruction of Iraq.

The Department of Defense is dedicated to work with the affected U.S. Government agencies to ensure that vested and seized properties are subject to rigorous procedures to ensure that such property is properly safeguarded, accounted for, audited, and used only to assist the Iraqi people and to assist in the reconstruction of Iraq.

Presently the Department, in collaboration with U.S. Government entities such as the Department of the Treasury, Office of Management and Budget, GAO, has developed procedures for ad-

ministrating, using, and accounting for vested assets. These procedures outline, for example, the manner in which vested property will be secured, transported, accounted for, disbursed, and used and audited to ensure it applies, as authorized by law and approved by the President.

To date, nearly 22.8 million in vested assets have been used to assist the Iraqi people and assist in reconstruction efforts. These vested funds have been used to make greatly needed emergency payments to Iraqi civil servants and pensioners; to help pay for startup costs of Iraqi ministries; and to provide other forms of intermediate impact humanitarian assistance.

With regard to state- and regime-owned property seized in Iraq, the Department is in the process of developing in coordination with other affected government agencies, procedures similar to those used for vested assets regarding safeguarding, auditing, accounting for, and use of such property to ensure its use as authorized by law and approved by the President.

The procedures will specify, among other things, that seized state- and regime-owned property shall be held on behalf and for the benefit of the Iraqi people and shall only be used to assist the Iraqi people in support of reconstruction of Iraq. The procedures will also ensure that determinations of whether the property found in Iraq is public or private are made in accordance with applicable domestic and international law.

In summary, the Department of Defense is deeply committed to ensure that vested and seized assets of the Saddam Hussein regime are used in accordance with law, and rigorous accounting and auditing procedures are in place, and only to assist the Iraqi people and assist the reconstruction of Iraq.

I thank you for this opportunity. This concludes my formal statement, and I would welcome any questions from the committee.

Chairwoman KELLY. Thank you very much Mr. Lanzillotta.

[The prepared statement of Lawrence Lanzillotta can be found on page 51 in the appendix.]

Chairwoman KELLY. Mr. Aufhauser, I want to thank you for the very important information about the Lebanon bank. Congratulations on that, sir. I think most Americans were completely appalled when the news came out that there was someone in the Saddam regime who was essentially using U.S. currency as what might be called an insulation in their house. So when they opened that wall and found all those dollars in boxes, we knew that there was a lot of money. And I am delighted to think that the Bank of Lebanon is now working with us, and you are to be congratulated on that.

You mentioned that you might have other examples. Would you be willing to share some of those with us?

Mr. AUFHAUSER. Well, let me go through, if I can, the—thank you first for that comment.

It is more than Treasury, though. It was, again to reflect Mr. Wayne's comments, everything we do actually is quite joined at the hip, interagency, on this matter. Tony and I know each other too well because of all of this.

It might be helpful if we rehearse the litany of actions we have taken. The first and most important is the exploitation of the data that we find in Baghdad which is effectively shared in what is

called the fusion center of information, either in Qatar or Kuwait, or back in CENTCOM down in Tampa, made available to those of us working on these matters. That is the exploitation of the data.

Some of the documents, by way of example—and I want to refer to this somewhat elliptically and maybe we can get into it in a later session—is perhaps a road map for front companies that we previously didn't know about.

Second major resources, of course, would be information made available to us by the detainees, and interrogations have gone forward on some of the key detainees, such as the Finance Minister. But that is an interactive process and those will continue.

Those participating either in scripting it or actually in conducting the interrogations include representatives from the FBI and Customs and Treasury and DOD and others.

Third, of course, is reaching out to the jurisdictions of the border states which did a great deal of what we will term the illicit trade with Iraq, and to secure document exploitation there as well as the attempts to request that they freeze assets.

Let me pause there for a second and underscore how important the documents are. A lot of the information we get in this kind of endeavor, as is the case in the war on terrorist financing, is really suspect. It comes from disreputable people, or it comes from people who find themselves in distress and will say anything. But the one thing that doesn't lie are the financial records that you get ahold of. And these financial records are very useful for three reasons: One is not only trying to secure the assets; but, two, telling us who participated, who participated in the nefarious activity; and three, perhaps helping us track down suppliers or purveyors of what is necessary to put together weapons of mass destruction. So going after the records is almost as important as going after the assets.

But to return to the litany of actions taken, we have gone to those border jurisdictions and we have investigative teams in some of them—I don't want to identify them in this session—again, to good accord, to the effect of another \$800 million, give or take, that has been secured. I use the word "secured." I don't want to use the word "locked" or "frozen," because they are in a suspense account under a different kind of legal regime.

Then, of course, we have the jurisdictions which were the switching stations for where the money went. Some of those are border states. Some of those are other Gulf States, and we have gone to them to see whether or not we can get access to information to trace where the money might be nested.

And finally, we have gone to many of the jurisdictions which are known as nested jurisdictions or potential nested jurisdictions where we think the money might be, if it hasn't flown the coop already.

On all of those actions we are actually making substantial progress. I will be making a fair amount of trips in very short order, delivering some material information developed by the U.S. Government to whet the appetite of those nested jurisdictions and others to climb on board and help us.

Chairwoman KELLY. Thank you. I want to ask both you and Mr. Wayne, who is the single official in charge of this effort?

Mr. AUFHAUSER. Out of deference to the man who gave me my job, I want to say President Bush is first. In country, in country in Iraq, mainly DOD is in charge of marshaling the assets and setting up the interrogations and exploiting the documents. But we are in—as I referred to the fusion center before, we are in constant dialogue with them. But short answer, in country, it is DOD. The rest of the globe it is Treasury, but it is Treasury building consensus, not in a linear fashion of commanding people what to do.

Chairwoman KELLY. But is there one single individual who is in charge of this?

Mr. AUFHAUSER. Yes.

Chairwoman KELLY. The reason I am asking is—

Mr. AUFHAUSER. The answer is me, on behalf of Secretary Snow.

Chairwoman KELLY. All right. So that in other words, you have the authority if there is—the agencies disagree on a strategy or an action, you have the authority then to make the final decision; is that correct?

Mr. AUFHAUSER. No, I don't want to overstate my importance. I have the authority to make a recommendation to Secretary Snow to make the final decision.

Chairwoman KELLY. So Secretary Snow is the individual in charge.

Mr. AUFHAUSER. Yeah. But I do want to come back to you and I want to underscore the dynamics of the process. It is nearly like an NSC interagency policy coordinating committee. So we ultimately make recommendations to the NSC, which is to say, the White House and the President, if there is disagreement. But our job is to make sure that we iron out disagreement at our level.

Chairwoman KELLY. Thank you very much. I am out of time.

Mr. Gutierrez.

Mr. GUTIERREZ. Thank you very much. I guess just for the panel, how much do you believe is out there, approximately? If there is a—and of that, and I understand a little bit more about the decisionmaking— but how do—is there a plan? How much does the United States get? How much do those that have claims, how much do the Kuwaitis—I mean, if there is—I guess if somebody said there were \$50 billion out there and I suspected there were \$50 billion out there and I knew that there were different people claiming the money, and I was in charge, and I also had expenses in terms of the rebuilding of Iraq and providing—is there a plan that says well, you know, it is costing the United States Government so much, so maybe 10 percent of every dollar should go here and 5 percent should go here and, you, know the Kuwaitis are demanding 100 billion, so maybe 40 cent of every dollar—is there a plan that says here is how we are going to distribute the money?

Mr. AUFHAUSER. I will give you paragraph one and perhaps Tony will give you paragraph two.

First, on the estimate, it is wild-eyed guesstimating frankly, Congressman. Probably the best single guess is the GAO guess, which was \$6.6 billion, to use their term, “conservatively” between 1997 and 2001. And, of course, we would have 2 more years of the gaming and the corruption, so that number is undoubtedly, in my mind, conservative. With one exception. I do believe that amount of money was generated, at least that amount of money and more,

perhaps twice, perhaps three times that, but I also believe a great deal of it was misspent, misspent either on those extravagances of personal disgrace, or for supplying, resupplying their army with spare parts, weapons, and the like.

In terms of the plan, the ultimate plan is that wherever these assets are—with the resolution tabled in New York by the United States—is that they will be marshaled, gathered, and repatriated to the people of Iraq through the Iraqi Assistance Fund to be set up under the resolution established there. And that is the plan. It is not intended to reimburse the U.S. In any way for any of the costs incurred in freeing and liberating the people of Iraq, if I understood your question correctly.

Mr. GUTIERREZ. Well, I just thought that as we move forward and we have plans as a government to assist the people of Iraq in the reconstruction, and those plans incur bills that need to be paid, if that—I think I understand that there is going to be a fund, and then they will—

Mr. AUFHAUSER. Well, in addition to the fund, a part of the current resources that we have command of—and Larry referred to it—is, under the law of occupation law, free to be expended for the benefit of the Iraqi people currently by General Franks and the coalition provisional authority right now. So the ongoing costs, if you will, the standing-up of the Iraq economy and the Iraq civilian authorities, is being underwritten by the Iraqi assets that have either been vested here in the U.S. Or found or seized in Iraq.

To give you one specific example, \$91 million in cash was shrink-wrapped here on the East Coast, put on convoy, taken to Andrews, I believe, put on planes and flown to Iraq, and that money has been used to underwrite the initial costs of pensioners, pensions for the pensioners, civilian costs of the oil workers and dock workers down in Kazar and the like. So the vested funds are being used precisely how the President said they would be used, and, Congressman Maloney, with every intention of being absolutely transparent about the expenditure of that money.

Mr. GUTIERREZ. We are going to paragraph two.

Mr. WAYNE. I might just add, you mentioned compensation claims. There are indeed a number of compensation claims from Kuwait and others that have been treated under a U.N. compensation commission. A number of those have been awarded, a large number have not yet been adjudicated.

In the draft U.S. Security Council resolution that we have tabled, we have proposed to reduce the percentage of oil revenues that go into that from 25 percent right now to 5 percent, so that more of the oil revenues would go into rebuilding Iraq and that the compensation claims would be repaid over a longer period of time.

There is also outstanding Iraqi debt. There is at least 19 billion indicated in the Paris Club initial look at this that we are now going out and trying to do additional, what we call data calls, to find out how much other debt is out there. That does not include any interest that might have accrued on this debt, because much of this debt has not been paid since 1990 or 1991, no payments into it.

Additionally, just in totals of money, in 1991 there were about \$6 billion of assets reported frozen around the world under the ini-

tial U.N. Security Council freeze orders, U.N. Security Council Resolution 661. Much of that remains in place. Much of that was the money that President Bush vested.

In some countries, under their legal systems, some of that money has been used to pay claims that existed in that country, in the same way there are a number of court cases in the United States which had claims against some of the money in—that had been frozen in the United States.

Mr. GUTIERREZ. Thank you very much.

Chairwoman KELLY. Thank you. Chairman Oxley.

Mr. OXLEY. Thank you, Madam Chairwoman.

I had an opportunity to look over some of the press reports of some of the activities going on, the smuggling of oil under the oil for—somebody described the oil for palaces program, which I think really calls into question whether this type of plan set up by the United Nations really does work. It appeared that Saddam was skimming profits almost from the get-go on the sale of embargoed oil. And the article says Saddam even found ways to profit from the U.N.-run Oil for Food program. The Baghdad regime billed a 30-cent to 50-cent per barrel kickback for its oil price. Can you imagine a 50-cent kickback on oil?

And then it goes on to say, since U.N. sanctions were imposed, investigators and expatriates say the regime has kept most of its money outside Iraq in such safe and liquid investments as bank deposits and government bonds, even U.S. Treasuries.

So these folks were obviously sophisticated in many ways. And apparently Saddam's half brother, al-Tikriti, Hassan al-Tikriti who is now in our custody, was essentially the major bag man, although he had apparently a lot of help from Tariq Aziz who was operating, of course, under diplomatic immunity all over the world. Rather interesting. And I am going to ask all of you to just comment on this general situation.

But it also indicates how difficult all of this process is as we learned, I think, when we were working on the anti-money laundering provisions of the USA Patriot Act. Although—and this is a quote from a Money Magazine article: Although agreements were reached in the 1990s to make asset recovery easier, the system remains difficult to negotiate, as I am sure all you gentlemen know. Eighteen years after Ferdinand Marcos—remember him—was overthrown in the Philippines, for example, at least six Swiss banks still are holding deposits he had made, even though they acknowledge the money is illicit and Marcos is long since dead.

All of us recognize, again, how difficult this is, but perhaps the good news is now that we have access to some of these major players, that we can start to unravel that. Let me just open it up to all three of you in terms of some comments you may have.

And lastly, if I could, it appears that without a concerted effort by either the Group of 8 or the U.N. or some international organization, this is going to be even more difficult. So let me just throw all of those out and let you—I know it is a softball, but that is what we are here for.

Mr. AUFHAUSER. Mr. Chairman, I think we would just be repeating what you said. As for the U.N. program, as I pointed out in my brief oral statement, the Bush Administration immediately seized

on the opportunity to try to tighten up the sanctions, because they were being corrupted in a naked, nefarious, brazen fashion, one that should have embarrassed the whole world. We failed up at the U.N. in doing that. So we resorted, if you will, to plan B, to make sure that to the extent we have the capabilities, intelligence or otherwise, to follow the money, that none of it is used to buy arms.

Mr. OXLEY. Do you think that the—given the abject failure of the U.N. that front and obviously on the military front, that there is any hope that the U.N. could be shamed into changing their ways based on the incontrovertible evidence that is out there?

Mr. AUFHAUSER. Well I don't want to use the word "shamed." and I occupy this office because I am actually a sanguine guy. The U.N. Security Council resolution tabled last week in Manhattan by Secretary Powell puts the ball right back into the U.N.'s court. It says we have to have—the worst and lousiest model in the world is 18 years of litigation in Switzerland over \$600 million dollars of the Marcos assets. It is precisely that example that informed us in the drafting of the omnibus resolution tabled in New York, that said we need an alternative for the quick repatriation of these monies. So there continue to be a lot of complexities.

If I can tell you one brief anecdote. Shortly after we vested assets here in the U.S., I was visited by an Ambassador from one of the former eastern bloc states who said to me, David, unfortunately in my country, we cannot take title to people's property without going to court first. What he meant by that—and I, of course, retorted that was probably something, a difficult habit to kick. But they have changed their regime. The problem is the Patriot Act gave and vested in the President of the United States the most extraordinary power, the power to actually, through the stroke of a pen, take people's money, take possession of people's money and title to it, and apply it and disburse it. There is almost no other nation on Earth that has a similar statute. So we have to deal with the litigation—the legal issues posed in those countries in terms of dealing with third-party claims against the assets.

Tony did you have something?

Mr. WAYNE. Well, just to say there definitely were kickbacks that were going on. We were aware that there were kickbacks going on during this period. As you remember, it came in the context of establishing the Oil for Food program where there was a great concern expressed around the world, including in the United States, that the Iraqi people were not getting the food and the medicines that they needed to survive at a minimal level. So there was an attempt to really modify these comprehensive sanctions so you could allow and monitor certain kinds of sales and try to direct a lot of that to the humanitarian needs.

Now, clearly Saddam Hussein and his officials figured out a lot of ways to try and get around that and the GAO study, that was done was a very good study. It identified how they started accumulating illicit assets. As we tried to work that through, as the U.S. Government over the past several years, at one point the United States and the U.K. put in a whole different way of pricing oil, so one didn't get paid for oil until a month after the prices were set. And that actually cut back significantly the amount of kickbacks on the oil sales that had been going on. But it was far from perfect.

And one of the real challenges here was that this was such a comprehensive sanction system, existing for such a long time, that very clever people found a lot of ways to go about it.

We had an active interagency process involving the intelligence community, the law enforcement community, and others aimed at trying to find sanctions busters and to act against them. But often we were the strongest voice and the loudest voice in the world to act on this. And it was very tough slogging, as I am sure you remember, both in the U.N. and internationally a lot of times, to keep the momentum up on this issue.

On the more general question of going after assets, it is exactly right that it is extremely complicated, because we have a plethora of different legal systems around the world. One of the additional areas where we are working on now to see if we can't get a multilateral agreement is a proposed anticorruption convention in the U.N.. This would have a special chapter specifically on going after the assets, illicit assets of leaders and exposed leaders and others around the world. The idea is trying to get some common baseline so we can more easily work together with other countries and they can more easily work together with U.S..

It is an ongoing process. It is a real tough process, and certainly the tools that you have given the President and the Administration are very helpful in this effort.

Mr. OXLEY. How many countries would you need to get to critical mass on something like that?

Mr. WAYNE. Well, I think there are 120-some countries right now in the negotiation on this broad convention. There are clearly a number of key financial centers that will be essential to have in any convention. And they are all engaged in this. Some of them are in Europe, some of them in Asia, some in the Middle East and other places. And we are engaging with them not only, of course, in this U.N. Convention, but also in this process that is going on. In fact, one of the very nice stories in this so far is Switzerland. One of our colleagues just returned from Switzerland. The Swiss have actually stepped up and issued new ordinances and guidances to all of their institutions regarding the assets of Saddam Hussein and have been very actively cooperating with us in this effort.

Mr. AUFHAUSER. On Saddam Hussein's assets, if we had 20 countries, whether or not it is under the umbrella of the U.N. or through some other agreement, that would be critical mass. We have specifically identified countries.

Mr. OXLEY. Very good. Thank you, Madam Chairman.

Chairwoman KELLY. Thank you.

Mr. Moore.

Mr. MOORE. Thank you, Madam Chairwoman.

To the panel generally, there is an Executive Order that some of you mentioned—it was in Mr. Wayne's testimony—on March 20 issued by the President that says, "All right, title, and interest in any property so confiscated," and obviously he is talking about property confiscated in Iraq or elsewhere, "should vest in the Department of the Treasury. I intend that such vested property should be used to assist the Iraqi people, and should be used for the reconstruction of Iraq."

To that end, Mr. Wayne or others on the panel, what is the time frame for getting the oil fields in Iraq up and producing again? If you spoke to that while I was out—I met with some constituents briefly, so please forgive me, but I would like to know the answer to that, if there is an answer.

Mr. WAYNE. Just about the Iraqi oil fields, you may have noted that we have—an Iraqi who has assumed leadership in the Oil Ministry and in the effort to restore the Iraqi oil fields, with the very strong support from our Defense Department and also some contract help on the ground to get that production restored. If I remember correctly, he gave a press conference a few days ago.

Mr. MOORE. He, who?

Mr. WAYNE. Mr. Ghadhban, Thamir Ghadhban. He estimated that he would hope to have production restored to its post—to the pre-conflict level by the end of June. That was about 1.5 million barrels a day, with the aim of getting to 3 million barrels a day by the end of the year.

All of this, of course, is estimates, and it is going to take a lot of hard work to get it up and running not only because of damage that might have been done during the conflict, but because a lot of it was being held together by duct tape up until that point.

Mr. MOORE. Duct tape has been very handy, hasn't it?

Mr. WAYNE. Duct tape does a lot of things.

Do you want to add anything, Larry?

Mr. LANZILLOTTA. I really don't have anything to add to that. The Administration is committed to get these oil fields producing as fast as possible. We have run into some technical difficulties we are trying to overcome. These are the estimates out there now, and we are trying to make them.

Mr. MOORE. Do you have any information about sales? I am talking about monthly or annual sales prior to us going to Iraq, and what might be expected and what might be anticipated in terms of sales?

I understand this is all kind of speculative right now because of damage to the oil fields, but I'm looking for a number that we might use a portion of to help in the reconstruction of Iraq. Any ideas?

Mr. AUFHAUSER. There is no question that whatever oil revenues are produced, they are going to be poured over into an Iraq assistance fund to underwrite the cost of reconstruction, to underwrite the budget of the IIA and the new Iraq. There is no question about that. That is reflected in the U.N. Security Council resolution.

I can't put a number, sir, on it; but I am aware that very soon, very soon production in Iraq will exceed domestic requirements, which means there will be oil for sale.

Mr. MOORE. Okay. Any other answers there, Mr. Wayne?

Mr. WAYNE. Well, one very important point is that pending the lifting of the oil sanctions, and thus the U.N. resolution in New York, there were not international sales going on at present.

Secondly, of course, the amount of money that comes in from this will depend upon the price of oil in general. Some of the ballpark figures have been perhaps \$20 billion a year. A lot of that depends on the price of oil and the amount of production you get going.

Mr. MOORE. Thank you.

Thank you, Madam Chairman. Thank you, members of the panel.

Chairwoman KELLY. Thank you, Mr. Moore.

Mr. Murphy?

Mr. MURPHY. Thank you, Madam Chairman.

As you were reviewing companies that have been cooperative with these efforts in freezing and seizing assets, how do European countries rate on their cooperation level, and in particular, Russia, Germany, and France?

I might add to that, have there been some assets hidden in some of their banks that you have found, too?

Mr. WAYNE. Well, the process is actually just going on right now. I would rather not get into details in this open session, but would be happy to in the next session that we are having.

What I can say is that the initial response from all of those countries has been "yes, we want to cooperate in this effort; and yes, we agree that any assets need to be restored to Iraq."

Mr. MURPHY. I appreciate that.

Have there been any attempts to access any of the assets since the war began from some of the operatives from Iraq? Can you tell us any information on that, what they have tried to do?

Mr. AUFHAUSER. Why don't we deal with that in the next session?

Mr. MURPHY. I am apparently asking some excellent questions.

How about issues involved with our knowledge of these deals being done on the Oil for Food? What were some of the things they were doing with this money instead of buying food? When did we become aware of that?

Can I ask that one? Is that okay?

Mr. AUFHAUSER. Yes. The money skimmed—you have seen on videotape some of the things they have used it for, which are the extravagances in their palaces. We also know they used some of the skimmed money to buy goods and weapons otherwise prohibited under the U.N. sanctions program.

Just to show you how this would be comic, except it turned into a terrible tragedy, the U.N. program was wildly successful in one sense. It is the source of food for the better part of the people of Iraq. When I mentioned those 55,000 distribution points, that is because of the U.N. program.

The ration card that the common Iraqi holds today is as good as currency, as is the Saddam dinar, because it is his meal ticket.

Notwithstanding that, there are other portions of the program which were designed to fail. For example, they had 75 inspectors on a porous border thousands of miles long located at a limited number of border crossings, say three or four, who were empowered only to look at authorized imports into the country.

Step back and think about that. If something came in and it was not a U.N. import, a U.N. Oil for Food program import, they were disempowered from investigating what is going in.

Mr. MURPHY. Were those authorizations set up by the U.N.?

Mr. AUFHAUSER. Yes. So it was comic, leading to tragedy. Those borders were not policed.

Mr. MURPHY. With some of the food that was purchased, I heard some reports that some of that was to go for food supplies for the Iraqi soldiers and not for the citizens. Was that accurate?

Mr. AUFHAUSER. I can't confirm that. I don't know.

Mr. WAYNE. I don't know. But I do know that there was a very tight system for going through all the contracts in the formal system. In many cases, we had holds on contracts for years and stopped them up. We gave them very careful scrutiny. There was also a very tight system for auditing the use of money within the system.

The real challenges came to things that were taking place outside the system, or the special deals that were made around the edges of the contracts. That is where we got a lot of the challenges that we tried to deal with, and we can talk about in the next session, and the ways that we worked to deal with them.

Mr. MURPHY. Another area. I hear mixed reports in the media that the people in Iraq are grateful to us, and some say, Thanks for the war, now get out.

Clearly, there must be an awareness—you talk about the 25 years of the incredible oppression that took place, and these issues about the continued corruption and deceit that leaders in Iraq had with the money and Oil for Food that became oil for weapons.

How aware are the Iraqi people being made of what is being discovered now, and what is their reaction to that?

Mr. AUFHAUSER. I don't know the level of their awareness of what is being discovered now. I don't know what is being broadcast to them in Iraq about the discoveries.

You know, many of the discoveries are just confirmation of what has been a public source information for the last decade in terms of the corruption.

Mr. MURPHY. Certainly I would hope, Madam Chair, that is something we can check to see what the State Department does with these kinds of discoveries, because it is important for them to know.

Mr. WAYNE. We could work to get back to you, because I know that the U.S. Authorities in Iraq have been working to get information out to them. General Franks and his colleagues have been working hard on this to inform the Iraqi people of what is going on, so we can certainly take your question and get back to you.

Mr. MURPHY. I appreciate that. It may well be that part of what was done, if it was not becoming food for people and people were harmed, it is one of those more subtle weapons of mass destruction that the people in Iraq were using against their own people.

Chairwoman KELLY. We will make that an official request of the committee. If you will get back to us with an answer, that would be good.

Chairwoman KELLY. Mrs. Maloney.

Mrs. MALONEY. Thank you. You have testified we have seized roughly \$7.5 billion, an additional \$8 billion has been added in our own country, 20 countries are cooperating.

Do we have a sense of how much is in those other countries? Do we know how many billions are there that belong to the Iraqi people in Saddam's accounts?

Mr. AUFHAUSER. Two answers. By definition, the hidden wealth we don't know yet. We need to track that down. As for the money that has been held in suspense or frozen accounts, yes, we have a pretty good peg on it. That is a broad—it is upwards of \$2.3 billion.

By the way, that represents a substantial leakage from the amount of money seized by those countries back in 1990, following U.N. Security Council Resolution 661. In other words, as Mr. Wayne alluded to, a lot of the money has been awarded to other claimants, so it shrunk. Also, other parts of the money seized in other countries require explanation as to why it disappeared.

Mrs. MALONEY. You testified we have spent roughly \$91 million on dock workers and the border, for pensioners and oil workers. Can you describe how this decision was made? Apparently Treasury is making decisions on seizing assets and DOD is making decisions on how this is spent.

Certainly during war, decisions need to be made quickly, but now that things have calmed down you mentioned that it is transparent. How can we see this information? How is it transparent and how is it publicly disclosed, and how are you making decisions to hire dock workers as opposed to teachers, or the security force that is now trying to be built in collaboration with the American government?

Mr. LANZILLOTTA. Until the appointment of Ambassador Bremer, Jay Garner was assigned that exact responsibility. These payments were made based on his assessment of what it was going to take to get certain industries or functions like ministries working.

The types of payments we have been making basically boil down to emergency payments to civil service type people to get the Government of Iraq back working. Outside that arena, I believe there was a payment made to oil workers and at the docks to try to be able to offload the humanitarian aid that has been coming in from other countries as well as the United States. So this assessment is made on the ground of what it is taking to be able to get the country up and moving.

I think in the long-term plan that we are developing spending plans that outline exactly the concerns that you have: where this money is going, how it is being spent. But Jay Garner, and now Ambassador Bremer, had a very difficult task of stepping in on ground zero and immediately trying to get the Government of Iraq stood up and some of the necessary supplies to come in.

So that is where the initial—I think so far an estimate of \$22 million has gone.

Mrs. MALONEY. You testified earlier \$91 million.

Mr. LANZILLOTTA. That is how much money has been made available, but \$22 million has been disbursed.

Mrs. MALONEY. You mentioned that it is transparent. If I didn't have the opportunity to ask you these questions and I was a taxpayer and just wanted to know, where would I go? With our government spending, we can go to agencies and look at their budgets and go to the Office of Procurement and look at the budgets. Where can citizens go? Where is the transparency?

Everybody keeps saying it is transparent, but I don't know where it is. I don't know how to find out this information without having a hearing and asking you, so how is it transparent?

Mr. LANZILLOTTA. It is not on the Web site yet, and most of this is just developing now. On these interagency meetings we have, we have invited GAO as a participant to talk about exactly how this money is spent and where it is going, with that very purpose in mind, to assure the American people—and as directed by the President—that this money is going for reconstruction and, in fact, to the Iraqi people.

I don't know of any reason why, for the record, that we can't provide where these disbursements to date have gone.

Mrs. MALONEY. I think it would be good to put it on the Web site. I would send it back to the committee, that I would like to see it and to understand where we are going.

When we let these contracts to Halliburton and others, is this money being used for that, to run the oil fields and to rebuild the construction that is taking place to rebuild the water works and electricity? Is that coming from the seized Iraqi money, or is that coming from the U.S. Government?

Mr. AUFHAUSER. No, for the most part that is USAID money.

Mrs. MALONEY. USAID.

Mr. WAYNE. There are actually two different sets of money. There is USAID money, which is one set, and then there are Department of Defense contracts that are being let. The oil contracts have been under the Army Corps of Engineers, I believe, that are in charge of that.

The AID money, when the choice of contractors and others are put on their Web site right away, whenever there has been a decision.

Mrs. MALONEY. Could this seized Iraqi money be used to pay Halliburton and Bechtel and some of the companies that have gone in on the groundwork to restore water and electricity?

Mr. WAYNE. What I can say is that up until now the proposed uses of this have been to go right to the benefit of the Iraqi people, notably to pay salaries.

There was an emergency—there is an emergency plan to give people an emergency payment for 1 month in various parts of the country. There has been a proposal to buy some emergency equipment for the Ministry of Trade, which runs the Oil for Food distribution program, so they can start distributing food again.

I am not aware of any proposal to use this to pay for contractors.

Mr. LANZILLOTTA. From the Department's point of view, we have not used any of the seized or vested property to pay for contracts. It has all gone towards payroll or operational costs to try to clear out ministry buildings in a small amount, to try to get these ministries up and running. The department has taken the administrative costs for operating Jay Garner's group, or that group that is trying to put Iraq back together out of appropriated funds. We assume that is within the Department of Defense's budget.

We have not used any of the invested or seized assets to date on any of those types of contracts you mentioned.

Chairwoman KELLY. Mrs. Maloney, why don't we make your request, as you had asked the expenses—let us make it an official request of this committee. That will get it started.

Mr. Lanzillotta, Mrs. Maloney has a good point. It would be good for all of the people in America who are interested in this subject if we could get that on the Web site. Thank you very much.

Mrs. MALONEY. I know my time is up. Can I ask one question on debt?

Chairwoman KELLY. No, I'm sorry, your time is up. We have others who have been waiting as well.

Mr. Hensarling.

Mr. HENSARLING. Thank you, Madam Chairman.

Gentlemen, quite obviously the Oil for Food program left much to be desired. I think, Mr. Aufhauser, in your written testimony you said that Hussein not only survived under the U.N. sanctions regime, he flourished. I think we would all agree with that assessment.

My question is, what is it precisely that we can do—what is it the United States can do in future sanction programs or limited trade programs to ensure that the U.N. does a better job of monitoring these programs?

Mr. AUFHAUSER. We have to structure the architecture of the program in a manner so it is policed similar to our own financial borders, so money cannot be diverted and so that you can more easily catch people if there are kickbacks and the like. That is, if you will, country-specific or product-specific or industry-specific, so I can't give you a better answer than that.

But in my professional opinion, also wearing my hat with responsibilities for the country's money laundering program, what was designed in New York was not designed well to capture wrongdoing; it was designed well to get food into people's mouths.

Mr. HENSARLING. Do the other two gentlemen have a comment?

Mr. WAYNE. Just to say that we are going—we do definitely need to sit back and think about the lessons from this 10-year effort to have a sanctions regime in place. It is very hard to maintain the political enthusiasm of countries all around the world, in a long-term situation, for a sanctions regime. So there are clearly a number of lessons that we need to draw from this. I haven't drawn them all yet, but clearly we could do this better, and we need to think of a different set of tools, if we are approaching a long-term effort like this again.

Mr. HENSARLING. Mr. Lanzillotta.

Mr. LANZILLOTTA. I really don't have any specific comments, since it is outside of the Department of Defense. But, of course, we are interested in a viable program, and would continue to work with the Agency to make it most efficient.

Mr. HENSARLING. It appears that the money laundering provisions of the Patriot Act are a very powerful tool to enable you to accomplish your mission to identify, seize, and repatriate assets.

If your agencies or departments had their wish list granted, are there other tools, other provisions, that you would like to bring to this subcommittee's attention that would better help you accomplish your mission?

Mr. AUFHAUSER. I have only one specific request which is long outstanding up here on the Hill. The section 11 power to effectively bar a foreign financial institution from doing business in the U.S. Is an extraordinarily powerful tool in undermining, if not down-

right destroying, the franchise of any international institution. The ability, also, to argue that it reaches barring anybody who does business with such an institution has a potentially paralyzing effect, so it is the nuclear bomb of the Patriot Act.

Unfortunately, I can't use it as often—I can't recommend to John Snow to use it as often as I think I would like, because much of the evidence in support of such actions is highly classified and becomes subject to revealing and disclosure in a courtroom.

I have asked the Hill to consider giving section 311 the same evidentiary privileges that IEEPA now enjoys under the Patriot Act, which is to present, *ex parte* and *in camera*, sensitive information in support of our legal actions.

Beyond that, our real problem is abroad. I don't think a U.S. law can change it. That is when the venue turns to Tony, and we need to go abroad and convince people to follow suit, because most of the assets we are concerned about are abroad, most of the cash flow we are concerned about capturing is abroad, and most of the records we hope to exploit are abroad.

It is all the more reason Tony and I have a direct line. The Treasury Department can't do this without the State Department, and vice versa.

Mr. HENSARLING. Mr. Wayne?

Mr. WAYNE. I would just add that this is exactly what we have been working on since 2001 in the area of terrorist financing, where we have the same team essentially working all around the world. What is very key is having the bilateral agreements and building in, as we can, the multilateral agreements to get other jurisdictions to cooperate with us without using, as David said, the nuclear weapon of our sanctions.

In this connection, the work that has been done in the Financial Action Task Force, for example, has been extremely important in building up money laundering best practices, and now, over the past year and a half, terrorist financing best practices.

Again, this work that is going on in the U.N. Convention Against Corruption is exceptionally important. We have also been trying to work in the G-8 process to come up with a multifaceted attack on corruption and promotion of transparency, which is all part of this same problem.

Then we have been working in regional institutions like the Organization of American States, where they have put in place for the first time a very thorough anticorruption convention. Now, the challenge is to actually implement it. So the effort is part using our own tools, but also building that network and building up that base of cooperation.

Mr. HENSARLING. Thank you, gentlemen.

Chairwoman KELLY. Thank you. Mr. Lynch.

Mr. LYNCH. Thank you, Madam Chair.

Gentlemen, thank you for your willingness to help the committee with this important work.

Most of the members of the committee are aware of a report from back on May 6, and there was a related story in the New York Times, where at about 4 o'clock in the morning on March 18, one of Saddam Hussein's sons, accompanied by one of his chief advisers, went to the central bank of Iraq and withdrew about \$1 billion,

\$900 million in U.S. Currency, \$100 bills, and about \$100 million in Euros, and put them all in three semi-tractor/trailers.

Then we have a corresponding report from the U.S. Military that intelligence tells us that a convoy of three semi-tractor/trailers pulled into Syria at the same time, shortly after the seizure of money. We have the U.S. Treasury that confirms that that happened.

I just wanted to know specifically what we are doing about that incident. If you can't speak to that specific incident for security reasons and, I hope, for recovering the money, maybe you can give me an example of how we respond to large robberies, if you will, like the one I have just described.

Mr. AUFHAUSER. Congressman, the incident you described is an astonishing example of the plunder of the Hussein family. Perhaps with serendipity and perhaps with some pretty good forensic work by DOD and others in Iraq, we may well be on being able to confirm that a substantial amount of the found money is indeed the plundered money. Let me be more specific.

This is all subject to confirmation. There is no certainty to this, but it is more likely than not. Some 236 boxes of cash, either Euros or U.S. Dollars, were packaged that night by central bank personnel, but they were very meticulous in the records they kept. They indexed the boxes and numbered them, and they put certificates in the boxes indicating how much money had been placed in them.

Out of the 236 boxes, we may well have found 191, constituting \$850 million U.S., give or take, and \$100 million of Euros, leaving still an unbelievable amount of wealth unaccounted for in that theft. But if this information is correct, a substantial amount of the found money that you have been reading about in Iraq is indeed the plundered money.

Mr. LYNCH. That is great. That is good news. I hope we can confirm that. Thank you.

Chairwoman KELLY. Thank you, Mr. Lynch.

Mr. SHADEGG?

Mr. SHADEGG. Thank you, Madam Chairman. Thank you for holding this very, very important hearing.

Gentlemen, I appreciate the job you are doing. I wish you the best in doing it, but I have grave concerns. I listened to you read and stress that the current Executive Order says that the purpose of this is only to assist the people of Iraq and in the reconstruction of Iraq. For political purposes, I fully understand that, and think that it is important that Iraqi assets be used for that purpose.

But I am here concerned about a different issue. As you gentlemen I think know, particularly in the State Department and at the Treasury, in the first Gulf War as a result of Iraq's invasion of Kuwait, millions of dollars in property losses were suffered by American citizens.

A procedure was put in place to compensate those American citizens. It was structured to go through the United Nations Compensation Commission, UNCC.

As I understand the process, a group of Americans litigated their claims in the United States in front of the United States Foreign Claims Settlement Commission, and actually a case was pending.

There were more claimants that came forward. A judge made a decision to bifurcate the cases. One set of cases went to judgment and was concluded. A second set of cases involving other claimants with claims and losses that were every bit as legitimate has not been resolved as a result of that judge's decision to bifurcate the two cases.

Where we stand at this point has been that it has been some 12 years since these people suffered losses, losses in the millions of dollars. Only a small handful of Americans are aware of this circumstance. Only a small handful of Members of Congress are aware of this circumstance.

Nonetheless, those U.S. Citizens who lost millions of dollars in property claims in the first Gulf War have been totally frustrated by the UNCC process and have not received any compensation. I can tell you that personally because I have met and sat with them. Some of them have had their financial lives ruined, and some have had their personal lives ruined because their families have fallen apart as a result of the economic pressure. I can take you to people who are divorced and whose children are now raised in single-family homes because of the consequences of this.

My concern is, given that right now we are focused on the current war, and given that we are as a Nation focused on rebuilding Iraq, as we should be, I am deeply worried about this other small subset of claims of people who are not Iraqi citizens, but American citizens. They are not even Kuwaitis; they were American citizens who were in Kuwait at the time of the first Gulf War and who lost homes, cars, businesses, and property.

As I read the language of the President's Executive Order, it precludes or could be read to preclude that any of those assets be used to take care of those claims.

I must tell you before I put the question to you, number one, I am convinced that the UNCC's process is a joke. It has not worked or functioned to help those American families. I am interested in what you can do to help solve that problem.

Second, I would like your answer today, and if not, if you can get a better answer at a subsequent time. I am intensely interested in the Administration's plan to help these American victims obtain compensation for the property they lost in the first Gulf War.

I suppose that question is directed both at you, Mr. Aufhauser, and you, Mr. Wayne.

Mr. AUFHAUSER. There were a lot of questions there. Let me see if I can capture most of them.

Mr. SHADEGG. Please do. Take your best shot. If you want to submit more in writing later, that is good.

Mr. AUFHAUSER. I will pick the ones I think I can answer.

First, a little background. The assets that were invested previously had been frozen. Those frozen assets, by law, were beyond the reach of judicial process to anybody, with one exception: holders of victims' judgments, the shield people. But property, property judgment holders could not access those funds under TRIA, the Terrorist Risk Insurance Act.

So the funds that were invested were funds that were never historically available, and this is not a perfect answer to your ques-

tion, I understand, but never historically available for judicial process and award to property claimants. That is point one, okay?

Point two, the President's first desire in applying the funds here is to make sure that there are no more victims of terror and the like. The \$1.7 billion really represents the kickstart to the Iraqi economy.

I think it was Congresswoman Maloney who asked how we can account for this. The ambition is that the lion's share of that money will go back into the reserves of the central bank, because it was the reserves of the central bank; \$1.1 billion of the vested funds were held by the central bank up at the New York Fed. It is absolutely necessary to kickstart the economy there in Iraq.

In terms of whether the UNCC process is frustrating these claimants, I confess I am unaware of it, and I am happy to look into it for you and reply to you in writing. I will say, although still uninformed, the receipt of claims against the State of Iraq is one of the necessary things the Treasury Department, our economic team under Ambassador Bremer right now in Baghdad, and ultimately the interim Iraqi Authority, is going to have to deal with in some setting, dealing with everybody's claims and using the wealth of the nation, which is the oil generated, the oil generated, to try to satisfy those claims in a sensible fashion.

Mr. SHADEGG. Maybe Mr. Wayne can add greater clarity. But let me tell you this much. These claims have been submitted to the State Department, were submitted years ago to the State Department, and have been submitted to the UNCC and have not been paid. I can assure you that people are frustrated.

Not only have I introduced legislation, but other Members of the House have introduced legislation and several Members of the Senate have introduced legislation to try to get these victims compensated.

Chairwoman KELLY. I am sorry, Mr. Shadegg, you are out of time. If you want, we can go to the adjacent hearing, or you can ask Mr. Wayne to submit his answer in writing.

Mr. SHADEGG. If he would submit his answer in writing, Madam Chairman, that would be fine.

[The following information can be found on page 94 in the appendix.]

Chairwoman KELLY. Thank you.

Mr. Garrett.

Mr. GARRETT. I will begin by yielding to Mr. Murphy.

Mr. MURPHY. I just have one question. I thank the gentleman for yielding.

I have a question which relates back to the March 11 hearing on efforts to stop terrorist financing, and we have talked about groups such as al Qaeda, Hamas, and Hezbollah. At the time, the President's critics didn't seem to want to face the truth of those links; but weren't those alliances further proven during the liberation and with some of the investigations you have done?

Mr. WAYNE. Well, we have no doubt that there were very strong links between Saddam's regime and terrorist organizations. Ansar al Islam, the Mujaheddin, al-Aqsa, the Abu-Nidal organization, the Arab Liberation Front, and the Palestinian Liberation Front are

among those that enjoyed safe haven and various levels of support from the Iraqi regime.

The U.S. Government is in the process and the people on the ground are in the process of gathering and assessing information from captured terrorists such as the PLF leader, Abu Abbas. We expect to gain from this effort a great deal of additional information, but right now we are still in the process of gathering this all together.

We might be able to add a little bit in the next session.

Mr. MURPHY. Thank you. I appreciate it.

I yield back, Mr. Garrett.

Mr. GARRETT. Just following up on Mrs. Maloney's question, one of the answers we received was going back to the 1991—the term used was a linkage occurred back then. I wondered if in the time remaining if you could just briefly explain what was the nature of that linkage.

I know the initial question by the Chairwoman was who was on the ground, who was in charge. So the question is, who was in charge when the past linkage occurred, what have we learned since then, and what will be implemented differently?

Mr. AUFHAUSER. I am trying to count the countries by orders of magnitude. There are about 30 countries outside of the United States back in 1991 that froze approximately \$2.35 billion, according to our estimates, including United Kingdom, Switzerland, Germany, Bahrain, Italy, and France, by way of example.

By today's date, if you take out the close to \$1.2 billion of new money that has been found since Secretary Snow announced in March this effort of outreach of finding hidden assets, if you take out that \$1.2 billion, that had been reduced down to about \$1 billion. I am reading from a chart now.

So the differences in accounting—by way of example, in Germany in 1991, they reported \$359 million was frozen. Today, we have been unable to identify from them whether any of those frozen assets remain. It is zero right now, just by way of example.

Now, back to your question of who was in charge in 1991, I confess I was in private practice and I don't know.

Mr. WAYNE. In that accounting, that is part of what we are doing right now in going out and asking people, what is the difference between this money and what happened to it?

I know in the case of Switzerland they have told us recently, when they turned their number in in 1991 they included the assets of Swiss banks that were in the United States. So there was a double counting, they are telling us, that went on. When we froze that money we counted it in our total.

They also reported it because it was in the accounts of a Swiss bank, even though it was in the United States. So there is part of that that we are doing—we are trying to sort the numbers through now.

Also, as David Aufhauser mentioned earlier, a number of countries in their legal systems allowed claims to be paid off over the years, claims against Iraq. Their courts would make a judgment. So we are trying to figure out exactly what the tallies were of each of these right now.

Mr. GARRETT. The GAO says about \$61 billion in the Oil for Food program, and they have only spent about \$41 billion. Does that mean there is \$20 billion in the bank?

Mr. WAYNE. There is about \$10 billion in the pipeline and about \$3 billion unencumbered in the OFF program. That is as of—our estimate now.

Mr. GARRETT. And the other seven?

Mr. WAYNE. I can only tell you what our estimates are right now. Sorry.

Chairwoman KELLY. Thank you very much, Mr. Garrett.

Ms. Brown-Waite?

Ms. BROWN-WAITE. Thank you very much.

This question is for Mr. Aufhauser. Last year, this committee heard testimony about the successful effort to recover funds misappropriated by Nigeria's former dictator. The effort actually involved private attorneys working on behalf of the people of Nigeria.

If the U.N. is ineffective at this, should we try to set up a permanent asset recovery system in the financial action task network?

Mr. AUFHAUSER. I don't think they are mutually exclusive. We should try, in my judgment, every alternative means to facilitate the repatriation of stolen wealth to people so kleptocrats cease to have a motive to steal.

Ms. BROWN-WAITE. I like the term "kleptocrats." so you obviously would support such a privatization and attempts to recover the money?

Mr. AUFHAUSER. I want to be careful. The devil is in the details. I don't support anything I haven't written, read, and perhaps even edited. But the concept—the concept, the concept of an alternative to a U.N. mechanism, is very attractive.

Ms. BROWN-WAITE. I think the follow-up question is, are you as frustrated as many of us are at the current U.N. ineffectiveness?

Mr. AUFHAUSER. Our government has tabled a resolution at the U.N. that puts the responsibility right back at the U.N. in repatriating these assets. So right now I back our government's efforts to infuse more legitimacy, authenticity, effectiveness, in that mechanism through the U.N..

Ms. BROWN-WAITE. Thank you.

Chairwoman KELLY. Thank you, Ms. Brown-Waite.

Mr. Paul.

Mr. PAUL. Thank you, Madam Chairman.

I have a question somewhat related to Congressman Shadegg's question dealing with property ownership, because I think we drift away from our goals, at least what I think our goals should be. Those are not only to defend here the private property principle, as well as the market, but—we talk glibly about bringing democracy to Iraq, but we very rarely see many comments dealing with what are we going to do about private property ownership.

I think terminology is so important. Earlier on it was referred to that the Halliburton money came from USAID, but more accurately what we should say is that money came from American taxpayers. I know that is just a technical detail, but it makes a big difference if we know what we are dealing with.

You know, we have a lot of financial assets recovery going on. We are talking about the oil assets. It has been conceded here sev-

eral times today that these assets belong to the Iraqi people, but we never talk like that in this country. We don't talk like that in Texas. We don't say, the oil belongs to the people. I live in Texas, but I don't have any oil.

Why do we make these assumptions—the President has these extraordinary powers which, quite frankly, frighten me. We have the U.N. that is in the oil business. They are making the profits and they store the money. They have controls. Nothing is going to be done without the U.N. making some deal somewhere along the way. We don't talk about, you know, who owned this stuff once.

Cuba, it is so much different. We have a Helms-Burton Act that emphasizes the fact that once Castro and communism is gone, the rightful owners will get their property back again. But there were at one time rightful owners and property owners of the oil wells over there. It may be because it might have been that the French owned a little bit that we have to drop those ideas. The French and the Germans and the Americans—we never seem to emphasize the importance of returning this to the owners. Contracts are a form of property.

Is there any concern at all or any interest in talking about how we might settle some of this, whether it is financial or whether it is the oil, in trying to get it back to the rightful owners, and get us away from the idea that we are in control and it belongs to the people and we do with it what we want?

It is all fungible, so nobody is going to end up knowing where this money goes anyway. Or it might sit in a bank, like Congressman Shadegg indicates; it sits there, and nobody touches it.

What about is it worthwhile pursuing this, and emphasizing the need to talk about private property ownership in a country that once understood private property ownership?

Mr. AUFHAUSER. I don't think there is any doubt that the long-term strategy of the United States Government is a freestanding Iraq that can determine things like what is the best way to promote private enterprise and the like. That is the surest way to make sure that the U.S. Taxpayer is not paying the bill. A thriving and enriched Iraqi economy that honors property rights and the like is a central part of our strategy. How you get there from here is a complicated calculus.

In direct response to your question about the oil, we were both trying to recollect here—the oil has been titled in the Iraqi State for the last half of the 20th century. It is not like there was a sudden taking from private parties during any of our recent lifetimes.

Mr. PAUL. But may I interject, it has been probably a half a century that Castro has owned the property as well, but we still talk about returning it to the original owners.

Mr. AUFHAUSER. Now I turn to the State Department.

Mr. WAYNE. Mr. Congressman, I guess I would add that certainly the importance of private property can't be underestimated as we move forward and work in Iraq.

In fact, already, as you probably noted, in the north of the country there has been a lot of discussion about who has title to what land, what apartments, what homes. Sorting these issues out has been a very important priority for the Americans working in that part of the country.

Similarly, as we move forward, one of our clear intentions is as quickly as possible to move decisions into Iraqi hands and to move to an elected government in Iraq so they can make some of these decisions themselves.

In that process, of course, as you know, we will be talking of the benefits of a market system and the benefits of private property. But we are trying to be very respectful of the need for Iraqis to come to these conclusions and to build this system themselves.

Chairwoman KELLY. Thank you, Mr. Paul.

Before I end this hearing, I would like to read something that I find is important for people to think about. It is a paragraph from Mr. James Lacey, who is a Times correspondent embedded with the 101st Airborne Division.

He says, "It was the American soldiers who handed over food to hungry Iraqis, who gave their own medical supplies to Iraqi doctors, and who brought water to the thirsty.

"it was the American soldiers who went door-to-door in a slum because a girl was rumored to have been injured in the fighting. When they found her, they called in a helicopter to take her to an Army hospital. It was the American soldiers who wept when a 3-year old was carried out of the rubble where she had been killed by Iraqi mortar fire.

"It was American soldiers who cleaned up the houses they had been fighting over and later occupied, because they wanted the places to look at least somewhat tidy when the residents returned.

"it was these same soldiers who stormed Baghdad in only a couple of weeks, accepted the surrender of three Iraqi army divisions, massacred any Republican Guard unit that stood and fought, and disposed of a dictator and a regime with ruthless efficiency.

"there is no other army and there are no other soldiers in the world capable of such merciless fighting and possessed of such compassion for their fellow men. No society except America could have produced them."

I would like to add, and no society but America can lead the way to finding the money that rightfully belongs to the Iraqi people.

Now the Chair notes that some members may have additional questions for this panel that they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses, as well as other pertinent information, in the record.

Chairwoman KELLY. This panel is excused with the committee's great appreciation for your time and your patience. I want to briefly thank all the members and their staffs for their assistance in making this hearing possible.

This hearing is adjourned.

[Whereupon, at 11:50 a.m., the subcommittee was adjourned.]

A P P E N D I X

May 14, 2003

OPENING STATEMENT OF REP. SUE KELLY
CHAIRWOMAN

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
"Divesting Saddam: Freezing, Seizing, and
Repatriating Saddam's Money to the Iraqis"
May 14, 2003

Over the last 20 years, Iraq and its people have been systematically looted by the brutal tyranny of Saddam Hussein. Today, tens of billions of dollars in assets and cash lies somewhere outside of Iraq in the smoky depths of phony front companies, hidden trusts, and cash accounts in the names of regime family members and loyalists. This stolen money represents another layer of destruction and deceit that the Hussein regime inflicted on the Iraqi people.

I specifically recall the reaction of an Iraqi who stormed one of many presidential palaces on April 14th and was finally free to express his feelings. As he passed shards of crystal from chandeliers and shattered mirrors, the countryman marveled bitterly at Saddam's life of luxury and commented that his family couldn't even afford bread.

The Iraqi people have suffered enough, and this money belongs to them. These assets must be found and returned to the people of Iraq to build schools, reopen businesses and hospitals, and repair the country's infrastructure – all of it destroyed by the malicious neglect of a tyrant and his inner circle.

Today, the Oversight and Investigations Committee holds the first Congressional hearing on the search for Saddam's money, and the efforts to return it to the Iraqi people.

Initial press reports are startling, with stories of shell companies in numerous countries, discoveries in Iraq of hundreds of millions in U.S. dollars, and oil smuggling schemes that are without parallel among other petty dictators and thugs.

Passage of this Committee's work on the PATRIOT Act has been a tremendous step toward monitoring the flow of illicit money, and it has also served to raise the bar for the international community. Foreign financial institutions can no longer seek access to the U.S. market without providing U.S. financial enterprises with sufficient information to determine that no one is being misled by Saddam, his family, or their agents. Our message to the world is straightforward and should be heeded: the willingness to share cross-border information is now a license required to do business in America. In case you missed that – let me repeat: the willingness to share cross-border information is now a license required to do business in America.

We have accomplished a great deal in Iraq in a very short time. President Bush has been steadfast in his resolve to end the tyranny, terrorism, and torture. The Administration, our brave soldiers, sailors and coalition troops have earned the

admiration of the American people, and the world for the rapid liberation of a terribly oppressed nation – a nation that spent its money funding, aiding and exporting terrorism, instead of caring for its people.

Congress must continue to give the Administration the resources it needs to locate and return this money to its rightful owners: the men, women and children of Iraq. While a collaborative effort is underway to seize this money, let's be very clear: America expects nothing less than the highest level of cooperation from financial institutions, international entities and foreign governments across the globe. We know the money is out there, and we will find it and return it. We expect others to do the same.

We are pleased to have with us today, witnesses from the three principal Departments responsible for efforts to repatriate this money to the Iraqi people. At this time, it is unclear what role each entity plays in this process. I am hoping that you can shed some light on how the United States government works with the international community and the financial services industry to repatriate financial assets of dictators.

The Committee also has an immediate interest in determining how entities across the world are working together to return Saddam's illegal money to the Iraqi people. Therefore, I would also like to announce our request for GAO to study these issues. Chairman Oxley and I, along with ranking members Frank and Gutierrez, agree that this issue must be examined as closely as possible, and we will be sending a letter this afternoon. There are many challenges ahead, and we believe that this independent investigation by GAO will help to address them in a comprehensive and effective manner.

I thank you for your appearance and look forward to working with you to ensure that the Iraqi people recover assets they now own and that will be critical to building a free and democratic Iraq.

Submitted for the Record

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Oversight and Investigations
“Divesting Saddam: Freezing, Seizing, and
Repatriating Saddam’s Money to the Iraqis”

May 14, 2003

I would like to thank Chairwoman Kelly of the Subcommittee for calling this first congressional hearing to examine the urgent matter of dismantling Saddam’s financial regime and returning the money to its proper use. This Committee is the proud author of the anti-money laundering provisions that were included in the USA Patriot Act, and we continue our oversight of how terrorists and tyrants exploit the world’s financial institutions and systems for either political or personal gain.

As the events in Riyadh this past Monday clearly demonstrate, we remain in a global war against cold and calculated terrorism. This war is financed by international thugs who have stashed billions throughout the world. Saddam Hussein stole precious resources from his own people in order to maintain internal control, to threaten the world, and to finance his own lavish palaces. His hordes of cash and property must be found and returned to the people of Iraq. To accomplish this, we must ask that all countries of the world work with the United States toward that end in much the same way we are working to hunt down and bring terrorists to justice.

Earlier this year, Chairwoman Kelly held a hearing on the status of terrorist financing investigations. Testimony showed that the Administration is successfully using the USA Patriot Act to deal with those international institutions that continue to be the financial conduit for worldwide terrorism. I suspect that the Patriot Act will be useful in gaining access to the assets of the murderous regime of Saddam Hussein.

We will use all tools at our disposal to gain cooperation from world governments and world financial institutions to return to the people of Iraq what is rightfully theirs.

I look forward to hearing our witnesses today regarding the Treasury, Defense, and State Departments’ plan to locate these hidden assets by gaining cooperation from our allies and financial institutions. Just yesterday, we heard from Treasury Secretary John Snow about the multi-agency task force which is addressing the key financial and economic aspects of Iraq’s reconstruction.

Oxley, page two

I do want to state for the record this Committee's resolve on this issue. The President has been steadfast. He faced a lot of naysayers throughout this entire effort who questioned his rationale, his military plan, and his chances for success. And yet, we have learned a great deal about the torture and repression of the Iraqi people, we learned that Saddam really didn't have many allies in the Middle East, and we learned that the U.S. military cannot be stopped.

Now, we face different challenges as we work through this new phase of assisting Iraq in creating a democratic nation. To fulfill the sacrifice of our military members and their families, we must bring the benefits of a free society to Iraq. This Committee will follow closely the actions of the Departments represented here today, as well as those of foreign governments and financial institutions. We hope to support this effort at gaining cooperation from all involved.

Again, Mrs. Kelly, I commend you for bringing this issue before the Subcommittee, and I look forward to hearing from our witnesses. Thank you.

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OPENING STATEMENT OF
LUIS V. GUTIERREZ
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SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS
“DIVESTING SADDAM: FREEZING, SEIZING AND REPATRIATING
SADDAM'S MONEY TO THE IRAQIS”
MAY 14, 2003

Good morning, Madame Chair, and thank you for holding this timely hearing.

I will be brief since the purpose of today's proceedings is to hear from the agencies who have a primary role in seizing Saddam Hussein's illegally-earned assets and returning them to the Iraqi people.

President Bush's order to seize Iraqi frozen assets was the first time the President used the authority granted to him under the USA PATRIOT Act.

Going forward, I hope that the Administration through the work of the agencies represented here today and in conjunction with other departments taking a lead role in this important issue, such as the Justice Department, the Department of Homeland Security through their Bureau of Immigration and Customs Enforcement, as well as their international counterparts will continue working together to return the assets that rightfully belong to the Iraqi people.

In the coming months and years, our country faces the enormous challenge of helping the Iraqi people rebuild their lives in peace and prosperity. This challenge represents an extraordinary opportunity for the United States to help the people of Iraq gain stability and security in their country.

However, we need to ensure that in the process of helping the Iraqi people gain their own identity after 25 years of dictatorship and despair, that we do not overly exert our will upon them and remove them from the decision-making process. The Iraqi people must be able to shape their own future and destiny, not have it imposed on them by outsiders. And we should and must help create an environment for this to happen.

The reconstruction effort must also continue to restore the basic elements of everyday life, from ensuring that Iraqi men, women and children have adequate electricity and clean water to aiding them in the rebuilding of their roads and schools.

To conclude, I would like to say that I am pleased to be joining Ranking Member Frank, Chairman Oxley and Chairwoman Kelly in requesting a study by the General Accounting Office to further examine how our government is working with international agencies, the financial services industry and government officials abroad to track Saddam Hussein's assets and return them to the people of Iraq. I look forward to working with both Chairs and the Ranking Member of this Committee during this important investigation.

Thank you again, Madame Chair, for holding this hearing.

I look forward to the testimonies that will be presented today.

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Statement of Rep. Carolyn B. Maloney (D-NY)
Subcommittee on Oversight
“Divesting Saddam: Freezing, Seizing, and Repatriating Saddam’s Money to the Iraqis”
May 14, 2003

This morning the Subcommittee examines the seizure of Saddam Hussein’s assets and Administration efforts to repatriate them. These assets were the product of years of looting from the Iraqi people including the diversion of resources from humanitarian programs, such as oil for food. They are further damning evidence of the sickness of Saddam’s regime.

Just prior to military action, on March 20 2003, the President issued Executive Order # 13290 – confiscating and vesting property of the government of Iraq in the U.S. The Executive Order operates under authority in Sec. 106 of the Patriot Act. The Order resulted seizure of \$1.7 billion in assets by the U.S. Treasury Department from accounts held in the U.S. in the name of the Government of Iraq, the Central Bank of Iraq, Rafidain Bank, Rasheed Bank, or the State Organization for Marketing Oil. As CRS explains, this “authority becomes available when the United States is engaged in armed hostilities or has been attacked by a foreign country or its nationals. At that time, the property of any foreign person, organization, or nation which planned, authorized, aided or engaged in the hostilities or attack becomes forfeitable.”¹

Given that we have yet to find Saddam, this seizure is especially important because of flight risk and the threat that his assets could be used to assist terrorists. This morning our panelists will testify to the success of their efforts to track down Saddam’s assets through his tangled web of accounts. This was difficult work and our witnesses and their departments deserve credit for a job well done. However, the job of limiting Saddam’s funding sources is far from complete. Treasury’s own testimony estimates that his family’s wealth could be as much as \$40 billion worldwide.

I also look forward to a discussion this morning of what is next for the assets seized from Saddam. The President’s Executive Order stated that “such vested property should be used to assist the Iraqi people and to assist in the reconstruction of Iraq.” This is a very broad statement that gives the Administration wide latitude for potential uses of the money. As this money was stolen from the Iraq, the U.S. is in sense acting as a fiduciary for the Iraqi people. Iraq is a nation

¹CRS Report for Congress: “Terrorism: Section by Section Analysis of the USA Patriot Act”; Updated December 10, 2001; Charles Doyle, Senior Specialist, American Law Division

that suffers massive international debts. The Iraqi people will need every resource available to them to rebuild the country and service their debt obligations.

Whatever the final determination is for the uses of this money, I believe these decisions should be made in the open, not in closed Administration meetings. This money does not belong to the U.S. and it must not be obligated in no-bid rebuilding contracts as has been the case with other Iraq projects. I think this issue is so important that last week I offered an amendment in the Government Reform Committee that would apply the highest federal contracting standards to seized Iraqi assets. I withdrew the amendment because I wanted to hear from our witnesses this morning before proceeding. I did offer an amendment that requires full and open disclosure of contracts that were awarded without open bidding. I am pleased that this amendment was accepted by the Majority and attached to the Defense Authorization. I believe a similar may be required for the assets that are the topic of this hearing. I yield back the balance of my time.

**Opening Statement of Congressman John Shadegg
Financial Services Committee Hearing:
“Divesting Saddam: Freezing, Seizing, and Repatriating Saddam’s Money to the
Iraqi’s”
May 14, 2003**

Thank you, Chairwoman Kelly for holding a hearing on this important topic. I would like to draw the attention of everyone present or listening to this hearing today to the plight of the American citizen victims of the first Gulf War.

The issue of seizing Iraqi assets is one that I have been following for several years. One of my constituents and a friend of mine, Mr. Ian McPherson, has been active in assisting Americans claimants who suffered property losses arising out of the 1990 Iraqi invasion of Kuwait obtain compensation from frozen Iraqi assets. I have long supported Mr. McPherson’s efforts to obtain compensation for this group of American citizens many of whom lost homes, businesses, and suffered substantial financial losses as a result of the invasion.

The United States Foreign Claims Settlement Commission (“USFCSC” or “Commission”) is an independent quasi-judicial federal agency within the Department of Justice whose primary mission is to determine the validity and valuation of claims of United States nationals for loss of property in foreign countries. These losses have occurred either as a result of nationalization of property by foreign governments or from damage to and loss of property as a result of military operations abroad.

In 1995, the Commission drafted proposed legislation to resolve claims by U.S. nationals against Iraq for property and financial losses arising out of the August 1990 invasion of Kuwait. The United Nations Compensation Commission (“UNCC”) in Geneva has jurisdiction over the claims of U.S. nationals arising after Iraq’s invasion of Kuwait.

The United States, through the Department of State, Office of International Claims and Investment Disputes, approved 3,100 claims for injuries, damages, and losses suffered by American individual citizen claimants arising out of the Iraqi invasion. The total amount in private individual claims was originally approximately \$215 million. In the decade-plus period between private individual losses and the present, these American claimants have coped with the frustrations of a UNCC process that has yielded little by way of judgments or payments to U.S. claimants.

The USFCSC has jurisdiction to hear the cases of the 3,100 citizens whose claims have languished before the UNCC. Because information concerning the identities of claimants who have registered claims with the USFCSC is confidential, it is difficult to provide numerical data concerning the number of individuals who have registered claims with the USFCSC.

In 1997, I offered an amendment to H.R. 1757, the “Foreign Affairs Reform and Restructuring Act of 1997 (engrossed Senate Amendment to S.903)” which was geared toward getting victims of the Iraqi invasion (including decisions issued by the USFCSC) compensation from Iraq’s assets frozen and controlled by the U.S. However, this amendment failed to gain

approval of the House of Representatives. Subsequently, during the 107th Congress, I introduced H.R. 1632 – The Justice for Victims of Iraq Aggression Act – a bill which would authorize the Treasury to establish an Iraqi claims fund from frozen Iraqi assets. The bill would also have required the USFCSC to coordinate with the UNCC to compensate American citizens for their losses due to actions by the Iraqi government.

Other members of Congress have recognized the difficulty American nationals have had in receiving compensation for losses from foreign governments. In the 107th Congress, S. 2134, “The Terrorism Victim’s Access to Compensation Act of 2002,” was introduced jointly by Senator Harkin and Senator Allen to provide American victims of state sponsored terrorism to receive compensation from blocked assets of those states.

The possibility these victims will eventually receive compensation for their losses has greatly diminished since March when President Bush issued an Executive Order which vests Iraqi government property with the Department of Treasury to be used to assist with the reconstruction of Iraq. Unless modified, the Executive Order has effectively removed the previously frozen Iraqi assets as a source of payment for American Gulf War loss claims.

In addition, the United Nations Security Council passed Resolution 1472 on March 28, 2003 – an attempt to secure to now-displaced and war-ravaged Iraqi’s with additional humanitarian, medical and related relief. Under Resolution 1472, however, it is proposed that monies which would otherwise be made available for payment of UNCC claims would be intercepted and diverted to the humanitarian purposes identified in the resolution.

Plainly, there is little argument that the humanitarian needs of the people of Iraq, especially at this time, must be recognized and addressed. While we assist in the rebuilding of Iraq, as I believe we should, we should also be aware of the deep frustration and disappointment of the uncompensated victims of the first Gulf War after a decade-long ordeal of unfulfilled promises of compensation for their losses.

Thank you, Chairwoman Kelly

**TESTIMONY OF DAVID D. AUFHAUSER
GENERAL COUNSEL
DEPARTMENT OF THE TREASURY
BEFORE THE
HOUSE FINANCIAL SERVICES SUBCOMMITTEE
OVERSIGHT AND INVESTIGATIONS
MAY 14, 2003, 10:00 A.M.
THE UNITED STATES HOUSE OF REPRESENTATIVES**

Madame Chair and distinguished Members of the Subcommittee on Oversight and Investigations, thank you for inviting me to testify today about the Treasury Department's efforts to track down, freeze, and repatriate to the people of Iraq assets that have been systematically looted by Saddam Hussein, his family, and his cronies. While major combat operations in Iraq are over and the Hussein regime has been toppled, the search for assets continues. Our task is clear – identify and repatriate all assets, whether they are held in the name of the Iraqi government or hidden in the international financial system behind a maze of front companies and straw men. Whatever Hussein's legacy may be, it must not include successfully stealing and hiding billions of dollars in the international financial system.

Today I will stress two overarching themes that help to put our task into perspective – first, identifying and securing the repatriation of Hussein's assets is but one part of this Administration's multifaceted effort to rebuild Iraq for the Iraqi people. President Bush has made it clear to the world that our liberation of the Iraqi people did not end with the elimination of Hussein's regime. It is our obligation to alter the economic conditions that permitted Hussein to thrive and repress the Iraqi people, creating instead the opportunity for democracy and self-determination. Second, while it is obvious, it bears repeating: the hunt for Hussein's assets is not solely a Treasury initiative. The complex challenge of uncovering the trail of illicit money in a country that has suffered under a Stalin-esque dictatorship for 25 years demands that our

government agencies work together in a coordinated manner. And that is precisely what we are doing. Working closely with the intelligence community and the Departments of State, Defense, Justice, and Homeland Security, we have launched a comprehensive effort to hunt down these assets and enhance the likelihood of their return to the Iraqi people.

I want to take a moment to emphasize why we are engaged in these efforts. First and fundamentally, we have an obligation to ensure that assets rightfully belonging to the people of Iraq are located and returned. Second, wherever illicit assets may be hidden, we must not permit them to find their way into the hands of terrorists. Third, global efforts to identify and repatriate assets stolen by Hussein will serve as a strong deterrent against other tyrants and kleptocrats who seek to loot their countries and then place those funds out of reach in the international financial system. Finally, the exploitation of financial documents and the questioning of individuals with knowledge of Hussein's financial web may well help us to track down weapons of mass destruction, suppliers of those weapons, or agents of the regime that may be hidden abroad.

In sum, our plan for recovering Iraqi assets has the following elements:

- Exploiting documents and key financial figures in Iraq to better understand fund flows;
- Securing the cooperation of jurisdictions through which illicit funds have flowed so that we may exploit financial records and uncover the money trail;
- Securing the cooperation of jurisdictions in which illicit assets may reside to locate, freeze, and repatriate the assets;
- Engaging the financial community in the hunt for illicit assets generally, and specifically secure the cooperation of financial institutions through which illicit funds have flowed or may still reside;
- Developing a system to facilitate the fluid repatriation of funds; and

- Preparing for potential sanctions against uncooperative jurisdictions and financial institutions.

I. The Systematic Looting of a Nation

We may never know the full extent to which the Hussein regime stole from the Iraqi people, or how much money remains hidden in the international financial system. Criminals rarely keep consolidated accounting records. What continues to emerge from the rubble of Hussein's fallen regime is a disturbing tale of his ability to create a web of deceit under a comprehensive international sanctions program; a web in which he trapped and victimized his own people.

This we do know. Hussein's circumvention of the United Nations sanctions regime to the financial benefit of his regime has been open, notorious, and well-documented. Sanctions imposed by the UN Security Council beginning in 1990 were sweeping, barring virtually all commercial transactions with Iraq. The international community moved quickly to implement these and subsequent UN Security Council Resolutions.

In 1995, building upon previous humanitarian exceptions to the sanctions regime, the international community further responded to the plight of the Iraqi people by creating the oil-for-food (OFF) program: permitting the official sale of Iraqi oil and placing the proceeds in a designated UN account to be used for humanitarian purposes.

Despite the laudable goals of the OFF program and the best of intentions, Hussein intentionally exploited the program to generate substantial illicit income. Hussein not only survived under the UN sanctions regime, he flourished. The various ways in which he subverted sanctions have been widely reported and include:

- *Sales of oil outside of the OFF program* – from the inception of the sanctions program through the development of the OFF program, Iraq conducted illegal oil sales to its neighbors by pipeline, tanker truck, and barge.
- *Skimming and kickbacks on oil legitimately sold through the OFF program* – price manipulation and additional surcharges deposited to separate accounts provided a significant revenue source within the otherwise legitimate oil sales program.
- *Kickbacks and surcharges on humanitarian purchases under the OFF program and other schemes.*

Various estimates exist as to the money illegally generated outside of the OFF program. In its May 2002 report, the GAO “conservatively” estimated that Hussein regime amassed \$6.6 billion in illegal revenue from oil smuggling and skimming on UN sanctioned oil sales from 1997 to 2001.

Even more challenging is to estimate the amount of money Hussein and his family personally amassed before the beginning of Operation Iraqi Freedom. While estimates range from \$2 billion to \$40 billion, we simply do not yet know how much of this wealth still exists in accounts throughout the world.

II. Assets of the Iraqi Government

On March 20, one day after the military phase of the liberation of Iraq began, President Bush vested in the United States Iraqi government assets frozen upon the imposition of economic sanctions in 1990. Secretary Snow and Treasury’s Office of Foreign Assets Control implemented the vesting order, directing that \$1.7 billion be deposited in a special account at the Federal Reserve Bank of New York. Vesting under the International Emergency Economic

Powers Act, which is itself a new authority given to the President in the USA PATRIOT Act, provides us with maximum flexibility to repatriate these assets. Secretary Snow has already ordered initial disbursements of those funds to meet the immediate humanitarian needs of the Iraqi people.

Concurrent with the vesting of assets, we began working with the State Department to engage other jurisdictions around the world to identify, freeze and make available Iraqi government assets for repatriation. These outreach efforts, which include efforts to secure not only Iraqi government assets, but also illicit assets of Hussein and his family, have taken place on many fronts. For example, we have sent out cables and demarches to more than 50 countries seeking cooperation in our hunt for assets. We have had and continue to have extensive bilateral and multilateral meetings with key jurisdictions. For example, we took advantage of the IMF/World Bank meetings held in Washington last month to hold several important bilateral meetings to discuss the matter. Both Treasury and State officials have placed telephone calls to their counterparts in key jurisdictions. And Secretary Snow brought this message to the meeting of the G7 last month.

The response of other nations to our renewed call to locate illicit Iraqi assets has been positive. To date, we believe that an additional \$1.2 billion has been located and held in "suspense" accounts pending further dialogue. Cooperation has come from many jurisdictions. We will continue this outreach process to engage other jurisdictions to locate and freeze all additional Iraqi government assets.

III. Illicit Assets of Hussein, his Family, and his Cronies

The greatest challenge lies in identifying and tracing the flow of funds that Hussein has stolen and injected into the international financial system. The funds may be hidden in a web of front companies and straw men, spun to avoid detection. It is therefore essential that we assemble evidence from all sources, in Iraq as well as in other jurisdictions.

Exploitation of documents and individuals in Iraq and transiting jurisdictions. The obvious, but essential, first step in tracing the illicit assets is to locate evidence that may exist, whether it be the financial audit trail or human intelligence. We have already begun assembling interagency teams of forensic investigators and sending them to Iraq to assist the Department of Defense with the search for evidence. These teams will also be available to assist jurisdictions used as conduits for illicit funds with their own searches for relevant documents and evidence.

Enlisting the cooperation of transiting and nesting jurisdictions. We must have cooperation all along the emerging money trails, from all the jurisdictions through which funds transited, as well as jurisdictions in which funds may have ultimately nested. The scope of this search is ever-expanding. International assistance is needed to track the illicit assets of Hussein, his family, his cronies, and the front companies and straw men they used. As we develop more specific information about money flows, I expect the intensity of interaction and cooperation to increase.

Enlisting the cooperation of the private sector. The hunt for illicit assets will take us through the doors and into the records of financial institutions worldwide. It is therefore vital that financial institutions lend their assistance to our efforts. We expect financial institutions to be vigilant against accepting the proceeds of corruption, and we expect that when we develop specific information on money trails, financial institutions will assist in the recovery effort.

Possible sanctions. Our message from outset has been clear – we expect that jurisdictions and financial institutions will assist us in our efforts to recover the plundered assets of the Iraqi people. Our experience thus far has been positive. But in the event of recalcitrance, we have available to us various tools to encourage both jurisdictions and individual institutions to cooperate. For example, section 311 of the USA PATRIOT Act gives the Secretary of the Treasury, in consultation with other agencies, the authority to require U.S. financial institutions to take appropriate countermeasures against foreign jurisdictions or foreign financial institutions that the Secretary finds to be of primary money laundering concern. This authority includes the power to cut off access to the U.S. financial system. Should it be necessary, a jurisdiction's or a foreign financial institution's refusal to search for and eliminate accounts holding illicit proceeds may fall within the purview of this provision.

IV. Developing an International Mechanism to Secure the Repatriation of Iraqi Assets

Our efforts to recover illicit Iraqi assets highlights the problem of securing the repatriation of assets that are stolen by kleptocrats and placed in the international financial system. Recent examples demonstrate that locating illicit assets is just the beginning. The government of the Philippines located accounts throughout the world where Ferdinand Marcos had stashed illicit funds under the names of real and fictitious friends and accomplices, but the effort to repatriate those assets through traditional means has taken over a decade.

Under the auspices of the United Nations, the United States has been participating in the negotiation of an international convention that will strengthen international mechanisms to locate, seize and return assets stolen by kleptocrats. These negotiations are not scheduled to

conclude until the end of 2003, and implementation of such an agreement on a global basis is likely years away.

While the United Nations continues its efforts to devise a general mechanism to facilitate recovery of illicit assets on a global scale, immediate arrangements must be made for the fluid repatriation of Iraqi assets, both those in the name of the Iraqi government as well as illicit Hussein assets. One possibility is a UN Security Council Resolution related directly to the recovery of funds of the government of Iraq that have been frozen pursuant to existing Resolutions. Another possibility is consultations or arrangements among jurisdictions that have located illicit Iraqi assets within their borders in order to facilitate resolution of third party claims, and thus expedite the return of those assets to Iraq.

Separately, the hunt for illicit Iraqi assets reinforces the need for financial institutions to take responsibility to ensure they do not become the haven for the proceeds of corruption. Treasury is completing work on a regulation implementing a provision of the USA PATRIOT Act, section 312, that will place renewed emphasis on U.S. financial institutions to guard against accepting the proceeds of foreign corruption from kleptocrats, their families, and other associated "politically exposed persons" in the first place.

We are not alone in pursuing this type of regulatory requirement. In Switzerland, for example, recent amendments to Swiss anti-money laundering laws and regulations are designed to enhance protections against accepting the proceeds of foreign corruption from politically exposed persons. Additionally, the Financial Action Task Force, as well as groups of private financial institutions, have addressed the need for financial institutions to guard against accepting funds looted by other countries' political figures.

V. Results

Since March 20th, an additional \$1.2 billion in Iraqi government assets have been placed beyond the reach of the former regime, the United States vested \$1.7 billion in assets, the movement of those vested assets back to Iraq has begun, U.S. financial investigators are in Iraq, and every day we are learning more about the maze of Hussein's money trails. This is a time-consuming, laborious, and potentially dangerous task. This is a process that, by its very nature, will take time. We owe a debt of gratitude to the civilians who are engaged in these efforts.

As you know, on April 20, 2003, our troops on the ground discovered nearly \$900 million worth of currency. We are now in the process of examining the authenticity of the currency, checking for counterfeiting, and attempting to determine where it came from.

Beyond this, our success to date is measured in terms of commitments from other jurisdictions to join in this effort, investigative teams assembled and inserted into Iraq, and the review of evidence already obtained. Our purpose is clear and we will continue to provide this Committee with updates on our progress.

Madame Chair, we are engaged in an important task intended to have a significant and tangible impact on the people of Iraq who have suffered for so many years under the repression of Saddam Hussein. Treasury will continue to work with our sister departments and agencies to secure the cooperation of the international community to locate, freeze, and repatriate Iraqi assets. This concludes my formal testimony and I would be pleased to answer any questions that you, or members of the Committee, may have.

Thank you.

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FINANCIAL SERVICES

STATEMENT OF

Larry J. Lanzillotta

**Principal Deputy Under Secretary of Defense (Comptroller)
Deputy Under Secretary of Defense (Management Reform)**

BEFORE THE

**House Committee on Financial Services
Subcommittee on Oversight and Investigations**

14 May 2003

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FINANCIAL SERVICES

**Statement Prepared for Larry L. Lanzillotta
Principal Deputy Under Secretary of Defense (Comptroller) and
Deputy Under Secretary of Defense (Management Reform)
Hearing on Freezing, Seizing, and Repatriating Saddam's Money to the Iraqis
House Financial Services Committee
Subcommittee on Oversight and Investigations
14 May 2003**

Madame Chairwoman and Members of the Subcommittee: We appreciate this Subcommittee's interest in the disposition of Saddam Hussein's assets and returning these assets to the Iraqi people. I welcome the opportunity to summarize the role of the Department of Defense in this area as well as to discuss our procedures pertaining to the administration, use, and accounting of vested and seized Iraqi property.

Now that the regime of Saddam Hussein no longer rules Iraq, it is the primary aim of the Department of Defense to take all measures necessary toward ensuring much-needed humanitarian and reconstruction assistance is brought to the Iraqi people so that they can begin rebuilding their lives and country after decades of oppression. Towards this end, the Department is committed to using Iraqi state- and regime-owned property that has been vested in the U. S. Treasury from banking accounts in the U.S., and State- and regime-owned cash, funds or realizable securities found and seized in Iraq to assist the Iraqi people and assist in the reconstruction of their country.

It is important to distinguish between Iraqi government and regime-owned property confiscated and vested in the United States pursuant to the International Emergency and Economic Powers Act (IEEPA) versus Iraqi government and regime-owned property seized by U.S. troops pursuant to the laws and usages of war.

Vested Property. On March 20, 2003, the President, acting pursuant to IEEPA, confiscated and vested in the Secretary of the Treasury \$1.7 billion in Iraqi government assets to be used to assist the Iraqi people and to assist in the reconstruction of Iraq. The Secretary of the Treasury has subsequently designated the Secretary of the Defense with the authority to use \$91,648,000 of this property. On April 30, 2003, the President confirmed the authority of the Secretary of Defense, under the laws and usages of war, to seize, sell, administer or use state- or

regime- owned cash, funds or realizable securities in Iraq. The President specified that this property shall be used only to assist the Iraqi people and support the reconstruction of Iraq.

The Department of Defense is dedicated to working with other affected U.S government agencies to ensure that vested and seized property are subject to rigorous procedures that ensure that such property is properly safeguarded, and accounted for, audited and used only to assist the Iraqi people and assist in the reconstruction of Iraq.

Presently, the Department, in collaboration with such U.S. Government entities as the Department of Treasury and the Office of Management and Budget has developed procedures for administering, using and accounting for assets vested pursuant to IEEPA. These procedures outline, for example, the manner in which vested property will be secured, transported, accounted for, disbursed, used and audited to ensure it is applied as authorized by law and approved by the President. To date, nearly \$22.8 million in vested assets have been used to assist the Iraqi people and assist in reconstruction efforts. These vested funds have been used to make greatly needed emergency payments to Iraqi civil servants and pensioners, to help pay start-up costs of Iraqi Ministries, and to provide other forms of immediate-impact humanitarian assistance.

Seized Property. With regard to state- and regime-owned property seized in Iraq, the Department is in the process of developing, in coordination with other affected government agencies, procedures similar to those used for vested assets regarding safeguarding, auditing, accounting for and using such property to ensure its use as authorized by law and approved by the President. The procedures will specify, among other things, that seized state- and regime-owned property shall be held on behalf of and for the benefit of the Iraqi people and shall only be used to assist the Iraqi people and support the reconstruction of Iraq. The procedures will also ensure that determinations of whether property found in Iraq is public or private are made in accordance with applicable domestic and international law.

In summary, the Department of Defense is deeply committed to ensuring that vested and seized assets of Saddam Hussein's regime are used in accordance with law and rigorous accounting and auditing procedures, and only to assist the Iraqi people and assist in the reconstruction of Iraq.

**Statement of the Honorable E. Anthony Wayne
Assistant Secretary for Economic and Business Affairs
U.S. Department of State
Testimony before the House Committee on Financial Services
Subcommittee on Oversight and Investigations
May 14, 2003**

Madame Chair, distinguished Members of the Subcommittee on Oversight and Investigations, I am pleased to be here today with representatives of the Department of Treasury and the Department of Defense to discuss repatriation of Iraqi state assets to the Iraqi people. I appreciate the opportunity to appear before you to outline our efforts to identify, freeze and prepare for return Iraqi state assets so that they may be made available for the benefit of the Iraqi people. Our effort is one that includes participation from appropriate agencies and Departments across the government acting in concert to achieve our objective.

Iraqi Assets: Part of the Overall Reconstruction Effort

Making Iraqi state assets and the ill-gotten gains of Saddam Hussein and his regime available for the benefit of the Iraqi people is one part of our overall reconstruction effort. As the new Iraqi leadership moves forward to build a better future for all the citizens of Iraq, there are a number of areas that pose both important challenges and present real opportunities. Iraq's abundant natural resources, particularly its oil wealth, were misused by the previous regime as a political and economic tool of regime power, internationally and within Iraq. President Bush's determination to address the threat posed by Saddam Hussein's defiance of his international obligations has liberated the Iraqi people from a murderous tyrant and created an opportunity for Iraqis to transform their political and economic landscape. Restoring assets to Iraq is an important part of our overall effort.

UN Sanctions and Iraq's Assets

With Saddam Hussein's invasion of Kuwait in 1990, the U.S. acted quickly and decisively to deprive the Iraqi regime of the means and materials to continue its regional aggression, further develop its weapons of mass destruction programs, and continue its repression of the Iraqi people.

Consistent with UN Security Council resolution 661, the United States blocked all Iraqi state assets legally within its control. Today, the United States is using those assets, as I will explain shortly, for the benefit of the Iraqi people, as they build a new and better Iraq.

The United States also acted, throughout the years between the two wars with Iraq, to prevent Saddam Hussein's regime from acquiring revenues and goods through the illicit sale of Iraqi oil. To this end, the United States mounted an aggressive, long-term diplomatic campaign to pressure countries to enforce UN sanctions on Iraq, worked with Gulf War Coalition partners to interdict illicit oil shipments and other trade in areas such as the Persian Gulf, and took punitive actions against sanctions busters where such actions were available, such as restricting exports and re-exports of US-origin goods to offending persons or commercial entities and taking steps to deprive those responsible for illicit transfers of the privilege of travel to the United States. These are examples of just some United States actions; others actions can only be discussed in a classified setting.

Iraqi Assets are for the Iraqi People

With the outbreak of hostilities in Iraq on March 20 the President took action to preserve Iraqi state assets for the Iraqi people. In Executive Order 13290, the President determined:

The United States and Iraq are engaged in armed hostilities, that it is in the interest of the United States to confiscate certain property of the Government of Iraq and its agencies, instrumentalities, or controlled entities, and that all right, title, and interest in any property so confiscated should vest in the Department of the Treasury. I intend that such vested property should be used to assist the Iraqi people and to assist in the reconstruction of Iraq, and determine that such use would be in the interest of and for the benefit of the United States.

There are two dimensions to our efforts to ensure that Iraqi state assets may be available for the benefit of the Iraqi people. First, the President vested more than \$1.7 billion in Iraqi government assets in the United States. These funds are being made available to assist the Iraqi people and to assist in the reconstruction of Iraq. The Secretary of the Treasury has already designated the Secretary of Defense with the authority to use \$91.648 million of these assets to meet the immediate humanitarian needs of the Iraqi people.

Second, we are working with the more than thirty countries around the world that declared Iraqi state assets to the UN in 1991 to determine the status of assets frozen under their domestic laws in 1990 and 1991 under UN Security Council resolutions. We have also reached out to more than twenty additional countries that also may have information regarding Iraqi state assets. In many countries, as in the U.S., individuals and entities with claims against the Iraqi government have sought to satisfy those claims with frozen Iraqi assets. Since the President signed the March 20 Executive Order vesting Iraqi state assets in the U.S., the State Department, in cooperation with our interagency partners, is confirming the status of assets declared frozen by foreign governments in 1991. We have asked all governments to identify within their own domestic laws the most expedient means make these assets available for the benefit of the Iraqi people.

Many countries have expressed their support for our efforts to make these assets available to the people of Iraq. Countries' legal systems nevertheless differ in the manner and extent to which their respective governments may take action in this regard. Many of our partners in this effort do not have the robust legal tools available to the President under our domestic laws. Some governments are awaiting UN Security Council action to release their assets. Some have indicated that they are awaiting the emergence of a new Iraqi government which can receive any assets currently frozen.

Lifting United Nations Sanctions

On May 9 the United States tabled, along with Spain and the U.K., a draft Security Council resolution that would lift sanctions on Iraq. This resolution reflects the President's call for the United Nations to lift from the

Iraqi people the burden of economic sanctions originally directed against Saddam Hussein's regime in order to compel Iraqi compliance with their disarmament obligations. It will allow Iraq to resume exports, to sell its own oil, provided that the proceeds are deposited in the Iraqi Central Bank, and to use its revenues to purchase needed goods from overseas. Our proposed resolution directs countries to identify all Iraqi state funds, or other economic resources, including financial assets, funds that Saddam Hussein or members of his regime, their families or persons acting on their behalf removed from Iraq, and to repatriate of those funds to an Iraqi Assistance Fund held by the Iraqi Central Bank with an international advisory board which will be used to rebuild Iraq.

The State Department is engaged at all levels in working with our allies and Security Council partners to advance this proposed resolution. Secretary Powell traveled to New York May 7-8 to meet with the UN Secretary General and others on the urgent reasons for this resolution. He has also spoken directly to many of his ministerial colleagues to urge support for the resolution. Secretary Powell is currently in the region, where this issue, as well as advancing the Israeli/Palestinian roadmap, is at the top of his agenda. Deputy Secretary Armitage traveled last week to South Asia to, among other things, build support for our proposal. Assistant Secretary Kim Holmes visited Moscow and Berlin to preview the resolution and to convey personally to our Russian and German colleagues our strong commitment to Iraq's recovery and reconstruction. We will be working intensely with other UNSC members, coalition partners, and allies to achieve agreement to lift Iraqi sanctions soon.

Identifying Ill-Gotten Gains of Saddam's Regime

The Department of State is working closely with the Departments of the Treasury, Justice, Defense, and Homeland Security, as well as law enforcement and intelligence colleagues across the government to identify assets and front companies that may be connected to Saddam Hussein or his fallen regime. The interagency group is coordinating and disseminating information gathered from intelligence leads, investigation and interrogations in Iraq, and the work of teams examining bank records and account information. Our efforts are leading to the identification

of funds that can be made available for the benefit of the Iraqi people.

Our efforts to identify Iraqi state assets and ill-gotten gains of Saddam Hussein's regime are focused in a number of countries. We are actively engaged in discussions with countries in the region such as Jordan, Turkey, Lebanon, Syria, Bahrain and the UAE, as well as elsewhere to pursue this effort. Overall, foreign governments are cooperating in confirming previously frozen Iraqi state assets, and are actively looking for assets that can be traced to Saddam Hussein and his fallen regime. Our effort is being coordinated with senior officials around the world.

Within hours of the President's announcement on March 20 of the vesting of frozen Iraqi state assets in the U.S., our Ambassadors were briefing coalition partners and other countries known to have Iraqi assets on our actions. We also asked these governments, at the highest levels, to cooperate with us in identifying, freezing and preparing to return ill-gotten gains of Saddam Hussein and his regime. My colleagues and I have stressed the need for all countries to search their financial institutions for ill-gotten gains of Saddam Hussein and his regime in meetings with dozens of local Ambassadors and visiting officials from a number of countries.

Among the many countries we are working closely with to trace Iraqi state assets, Switzerland is often in the spotlight. The Swiss government has stepped forward to demonstrate its commitment to make Iraqi assets frozen in Switzerland available for the benefit of the Iraqi people, and to investigate accounts that may be linked to the ill-gotten gains of Saddam's regime. With the onset of hostilities in Iraq, the Swiss Cabinet moved to expand the 1990 ordinance that had blocked Iraqi regime assets in Swiss financial institutions. The Cabinet's action reaffirmed the 1990 freeze and added an additional reporting requirement on institutions to provide the additional account detail necessary to make these assets available for the benefit of the Iraqi people once UN sanctions are lifted. Swiss authorities have met with State and Treasury Department officials both in Washington and Bern to share information on measures they have taken to ensure that assets with suspected links to the Saddam Hussein regime are investigated, and to reiterate their

commitment to act on any information we share with them in this effort.

We are also coordinating closely with the U.K. government in these efforts. The U.K. is taking steps to ensure that Iraqi assets frozen in the U.K. may be made available for the benefit of the Iraqi people. Like many of our other partners the U.K. has also stressed that a new Security Council resolution would be required for it to be able under its domestic law to make these assets available for the Iraqi people. Our efforts at the UN to move forward with the lifting of sanctions will open the path for return of assets.

We are actively pursuing Saddam's underground network which funneled the ill-gotten gains of non-Oil For Food program oil sales and kickbacks into accounts overseas. This effort builds on the substantial strides that have been made in recent years in combating money laundering and build comprehensive anti-terrorist finance regimes in countries without them. The United States is leading the charge to increase regulatory scrutiny of suspicious financial transactions and root out illicit transfers of money. Our sustained effort in this area is paying dividends through greater information sharing, stronger laws and institutional infrastructure worldwide. I can also assure you that the important tools that Congress has provided in this area, most recently with the passage of the USA PATRIOT Act, are important as we work to achieve our goals.

Close Coordination of Effort

The effort to identify, freeze and make these assets available for the benefit of the Iraq people includes actions from a host of agencies and departments, working toward our objective. A senior-level interagency team meets weekly to coordinate the search for assets. We are working closely with those on the ground in Iraq to expand our search using documents obtained during Operation Iraqi Freedom. We are also beginning the process of interrogating those Iraqi officials that are in U.S. custody that have knowledge of the financial affairs of Saddam's regime. As these leads develop we are expanding our net further to capture assets that must be made available for the benefit of the Iraqi people.

This strong interagency teamwork involves the intelligence agencies, with support from other agencies including the State Department, all leading the Administration's efforts to ferret out the system of financial schemes, facilitators and intermediaries that played a role in Saddam's shadowy financial world. It involves the Treasury Department, working with other agencies, leading the process by which we are examining records that can lead us to the final nesting locations for assets hidden away by Saddam and his cronies. The FBI and the Department of Homeland Security, through the Bureau of Immigration and Customs Enforcement, are also playing important roles in this interagency process. The State Department is leading the interagency effort to engage and sustain the bilateral and multilateral relationships, strategies and activities to win international support for and cooperation with our efforts.

Use of Assets

President Bush has made it clear that Iraqi assets under the control of the United States are to be used only for the benefit of the Iraqi people. These assets fall into two categories: \$1.7 billion of Iraqi state assets that were vested by the President on March 20, and assets in Iraq that are under the control of U.S. Armed Forces. The President has authorized Treasury to allocate and disburse the vested assets. As for the assets under the control of the U.S. Armed Forces, the President ordered that Defense, in consultation with Treasury, State and OMB, develop procedures to ensure that the assets in Iraq are used for the benefit of the Iraqi people and are properly accounted for.

We believe that our use of Iraqi assets should be transparent, publicly explainable, accountable, and for the benefit of Iraqis in Iraq. The world will be looking at how we shepherd these funds for the good of the Iraqi people, and whether we set the right priorities to ensure the most direct and immediate benefits flow to the Iraqi people. There are many urgent needs that fill this definition, including to pay the salaries of Iraqis who are helping to rebuild the country, to provide basic human needs for health, sanitation, water and food, to fund infrastructure rehabilitation, to provide assets to support an Iraqi currency and more.

Treasury has allocated some of the vested assets to Defense's Office of Reconstruction and Humanitarian Assistance (ORHA) to meet the most immediate needs on the ground. We are working interagency to identify and coordinate the uses of these assets, with the NSC and the Office of Management and Budget (OMB) playing key roles. Our goal is to meet the priority needs of the Iraqi people in Iraq. The Administration is committed to do this in a fully transparent manner so that it will be clear to the world that all the assets under our control have met the priority needs of the Iraqis in Iraq and that the US has been a good steward of these resources.

Beyond Iraq - Corruption and Kleptocrats

The United States takes very seriously the broader problem of theft and transfer abroad of state assets by corrupt heads of state, high government officials, their family members, cronies and collaborators. Such people, including of course, Saddam Hussein, have victimized their own people and abused the world's financial markets for their own personal gain. They have been able to take advantage of national and jurisdictional boundaries to hide their corruption and shield them from law enforcement. G8 members are participating in negotiations on measures to deny safe haven in our countries to the assets of corrupt public officials, and have been coordinating in the ongoing negotiations for a United Nations Convention Against Corruption, which includes a chapter on asset recovery in corruption cases.

The United States is also moving forward with an aggressive anti-corruption/transparency action plan that we have proposed jointly in the G8 with the U.K. Reducing corruption and enhancing transparency are top priorities because they are central to advancing our national security interests and supporting stable democracies. The U.S. has long been a leader in the campaign to stop corruption by promoting transparency and strengthening judicial systems and rule of law. The United States was the first country to outlaw foreign bribery in 1977 with enactment of the Foreign Corrupt Practices Act. Our goal is to improve country public financial management and governance systems, drawing upon international best practices and the help of the international financial institutions' experience in this field.

Conclusion

As I have outlined, the Department of State is an active participant in the U.S. effort to marshal Iraqi state assets and trace the ill-gotten gains of Saddam Hussein and his cronies. U.S. Ambassadors and our Embassy teams overseas are pressing foreign governments to move swiftly to preserve and make available these assets for the benefit of the Iraqi people. We are also deeply engaged at the UN and around the world to build support for the President's call to lift the burden of sanctions from Iraq, and to open the door for countries around the world to make these assets available to meet the humanitarian and reconstruction needs of the people. I look forward to continuing to work with the members of the committee in this effort.

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Overseas News

Banker who hid Saddam's millions
Stephen Grey, Nick Fielding, Jon Ungoed-Thomas, Edin Hamzic, Paolo Fusi,

A FINANCIAL adviser to Saddam Hussein has revealed how the Iraqi dictator channelled hundreds of millions of pounds into secretive offshore companies.

For more than 10 years Elio Borradori, a company trustee in the tax havens of Liechtenstein and Lugano, Switzerland, managed the huge "commissions" and "consultancy fees" from the Iraqi dictator's arms deals and development contracts.

The money was funnelled into companies controlled by Saddam's appointees operating through Panama, the Bahamas and Switzerland. It is thought to have partly funded the dictator's palaces and lavish lifestyle.

Many of the millions moved in and out of an account codenamed "Satan", which was originally overseen by a relative of Saddam. He was Saad al-Mahdi. But he made the mistake of falling out with Saddam and was executed, possibly for pilfering from the Satan account. A Swiss lawyer took over some of the companies; others went into the hands of Barzan Ibrahim Hasan al-Tikriti, Saddam's half-brother.

Just before the first Gulf war in 1991 almost Pounds 1 billion was moved from Satan and other accounts to be hidden around the world. Italian police last month identified Pounds 300m in one account in Geneva.

The network of offshore companies remained active long after United Nations sanctions were imposed on Iraq at the end of the war.

The Sunday Times has uncovered more than 1,000 documents, some of which confirm Borradori's role. They also provide indications of export deals relating to Dassault and Thomson-CSF, two French arms companies (then state owned), and to Russian firms.

Although many of the documents relate to the 1980s, others suggest activity in the mid-1990s. The material will be a fillip to investigators in Italy, Switzerland and Liechtenstein trying to untangle the web of transactions in the hunt for Saddam's billions.

Borradori, who said he met Saddam in person several times, retired some years ago to live quietly in Switzerland. But a Lugano court case brought by the al Mahdi family, and the mysterious death of one of the lawyers involved, revealed documents relating to Saddam's secret network of companies. Now 75 and living on the southern shores of Lake Lugano, Borradori admitted he was Saddam's banking adviser.

In the 1970s Borradori was working in Lugano as a trustee for companies in Vaduz, the capital of Liechtenstein. A former cycling champion with a penchant for stylish suits, he was the perfect face of private financial advice: imposing, charming and discreet.

Through a business associate in Italy he was introduced to al-Tikriti, the then head of Iraqi intelligence. Oil prices were soaring and Iraq was on a buying spree. Saddam, then a rising power in the government before becoming president in 1979, was keen to get a share of the multi-million-pound contracts negotiated by the state. Borradori was hired to set up companies as havens for the money.

He met Saddam and was encouraged to expand the network of companies. Once Saddam gave him a bullet engraved with his name. It was meant, Saddam said, to ensure he was never killed, although Borradori thought it carried a more sinister message.

By 1977 the network of companies and number of deals had grown so extensive - with both overt and covert operations - that al-Mahdi was sent to Europe to oversee them, under the control of al-Tikriti, who was then the overall head of Saddam's financial network.

Borradori remains defensive: "Is it worse to work as a trustee of Saddam Hussein than to work for a mafia godfather or a drug trader, or for Albanian serial killers, for people trading radioactive waste? If the answer is yes, everyone in Switzerland should destroy their passports."

Though he declined to discuss his work for Saddam in detail, saying he "could not remember", other sources provided the documentary evidence of the money trail. The main entity was Mediterranean Enterprises Development Projects (Lugano), which had branches in New York, Tokyo, London, Paris and other centres. It in turn controlled about 300 other companies, mainly in Liechtenstein and Panama.

Three key companies, called Dumynta, Radistal and Technoservice International (Vaduz), were among those that received commissions

and consultancy fees, handling at least Pounds 300m in the 1980s. Some payments, however, were staggered over the life of the contracts and stretched into the 1990s. There were, for example, commission payments related to a missile site near Mosul, in northern Iraq, which, according to Italian authorities, was not completed until the mid-1990s - even though such work was supposed to stop after the Gulf war.

To cover the tracks, much of the money passed through account number 70513 at the Banca del Gottardo in Nassau in the Bahamas - the Satan account. One banking slip indicated a payment as recently as December 1998.

There were 47 other bank accounts linked to the offshore network. Borradori was usually president and signatory for the companies, and the day-to-day transactions were handled by an accountant for him.

But the man in control for the Iraqi regime was al-Mahdi. Something of a playboy, al-Mahdi jetted around Europe, while in Iraq Saddam used some of the millions to build extravagant palaces.

Saddam constructed at least 50 palaces, with expensive if tasteless fittings. His son Uday bought scores of luxury cars, including a red Rolls-Royce Corniche. And millions more went to cronies.

Saddam, however, appears to have suspected al-Mahdi of stealing from the accounts.

He was summoned to Baghdad and beheaded for theft and behaviour disrespectful to Islam.

"Saddam Hussein is a blood-thirsty, crazy man. I hated what he did to Saad al-Mahdi," said Borradori, who still shudders at the memory. "This poor young man. To cut the head off such a close relative. I can't understand that."

After al-Mahdi's death the overt tier of the network was run down; but the secretive side continued. Though who took control after the restructuring is disputed, it seems Saddam's system of raking off commissions continued.

One document from Radistal, dated March 3, 1994, and later seized by Italian police, stated: "The new contracts with Dassault and Thomson have been signed in B (Baghdad) last week. The consultancy has been fixed at 7.5% of the contracts."

According to Borradori, the word "consultancy" was used to mean the commission or kickback on a deal that would go to Saddam or his interests.

Last week Dassault and Thales (which took over Thomson) both said they had destroyed documents relating to their arms exports in the 1980s. They also emphatically denied exporting any banned goods to Iraq in the 1990s.

Saddam's companies are also suspected of receiving kickbacks from oil trading, both official and covert, after sanctions were imposed on Iraq. After the first Gulf war, all military exports to Iraq were illegal and all exports of oil, Iraq's primary source of revenue, had to be handled by the UN which used the money to buy food and other imports.

Despite this, investigators also suspect the Iraqi regime managed to extract money from the oil-for-food programme in the form of kickbacks which found their way into the Dymynta and Radistal offshore accounts, though the documents do not detail such transactions.

The Guardia di Finanza, the Italian financial police, say that during the 1990s vast amounts of cash went through the accounts of both companies. It believes the companies, both still registered as "active" in Panama, were "recycling the results of dirty business".

Giovanni Rinaldi, a Guardia intelligence officer, said: "We believe there is a connection between these offshore companies and Saddam Hussein.

We are investigating evidence they have been involved until very recently in illegal trade with Iraq."

The Borradori network was just one part of the total wealth Saddam plundered, which runs into billions. US officials estimate he channelled between Pounds 4billion and Pounds 7billion into accounts around the world.

Downing Street said yesterday that the former dictator's wealth could total almost Pounds 13 billion.

The US has frozen Pounds 1.1billion in Iraqi assets, and the Bank of England a further Pounds 400m. Saddam also invested in French companies, including Lagardere, a defence and media group. His stake, once worth more than Pounds 50m, has been frozen since 1990.

Years after the death of al-Mahdi, his family decided to pursue some of the millions that had washed through the network of offshore companies. They hired Gianluca Boscaro, a Swiss lawyer, to bring a case which named, among others, Borradori's accountant and other trustees.

In defence against Boscaro's claim, a welter of documents was produced which aimed to show that most of the assets had been transferred out of the offshore network.

But they also provided clear evidence that the ultimate beneficiary of the companies was the Iraqi regime and not Saad al-Mahdi.

Through the legal action, Boscaro secured evidence of how, at least in part, Saddam had siphoned off a fortune and hidden it around the world. Increasingly paranoid about his own safety, Boscaro told one friend that should anything untoward happen to him, the documents should be brought to public attention.

In the midst of the legal action in August last year, Boscaro, an adventurous man in his forties, died while taking time off from the case to relax in the foothills of the Piedmont mountains.

At around 7.30pm on a clear sunny evening, he was floating high in the sky beneath a paraglider. Suddenly the canopy seemed to stall. Boscaro plunged to his death.

It is a dangerous sport and such accidents are not uncommon, but officials who examined the canopy noticed cords were damaged.

Police concluded it was an accident, although friends of Boscaro dispute their findings.

Accident or murder? It may never be known. But for Saddam, the end was nearing. Within months coalition troops were on their way to Kuwait. However, the many millions Saddam siphoned off for his own purposes may never be fully traced, let alone recovered.

Insight: Stephen Grey, Nick Fielding, Jon Ungoed-Thomas, Edin Hamzic, Paolo Fusi, Eben Black

---- INDEX REFERENCES ----

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May 6, 2003
Hussein's Son Took \$1 Billion Just Before War, Bank Aide Says
By DEXTER FILKINS
New York Times

AGHDAD, Iraq, May 5 — In the hours before American bombs began falling on the Iraqi capital, one of President Saddam Hussein's sons and a close adviser carried off nearly \$1 billion in cash from the country's Central Bank, according to American and Iraqi officials here.

The removal of the money, which would amount to one of the largest bank robberies in history, was performed under the direct orders of Mr. Hussein, according to an Iraqi official with knowledge of the incident. The official, who asked not to be identified, said that no financial rationale had been offered for removing the money from the bank's vaults, and that no one had been told where the money would be taken.

"When you get an order from Saddam Hussein, you do not discuss it," said the Iraqi official, who held a senior position in a bank under Mr. Hussein's government. He said he had been told about the seizure of the cash by the Iraqi financial officials who had turned over the money to Mr. Hussein's son and the adviser.

The allegations provide a glimpse into the final days of Mr. Hussein's rule — which, with its emphasis on family connections, has been compared to the mafia — and perhaps a clue about how he intended to finance his escape and survive out of power.

Qusay Saddam Hussein, Mr. Hussein's second son, presided over the seizure of the money, along with Abid al-Hamid Mahmood, the president's personal assistant, the Iraqi official here said. The seizure took place at 4 a.m. on March 18, just hours before the first American air assault.

The two men carried a letter from the president, bearing his signature, authorizing the removal of the money, the official said.

The sheer volume of the cash was so great — some \$900 million in American \$100 bills and as much as \$100 million worth of euros — that three tractor-trailers were needed to cart it off, the Iraqi official said. It took a team of workers two hours to load up the cash. Their work was completed before employees of the downtown Baghdad bank arrived for work.

The seizure of the money was confirmed by a United States Treasury official assigned to work with Iraqi financial officers here to rebuild the country's banking and financial system.

Iraqi officials said they were uncertain of the effects that the disappearance of \$1 billion would have on the Iraqi economy. The Iraqi official said the removal of the money amounted to about a quarter of the Central Bank's hard currency reserves.

The billion dollars is nearly twice the amount of hard currency believed to have been looted by Iraqis in the three weeks after the collapse of the Iraqi government. American and Iraqi officials said about \$400 million in American dollars and at least \$40 million in Iraqi currency were taken by looters from banks across the country after April 9.

The disappearance of such a sizable amount of cash as \$1 billion is giving rise to fears here that it is being used to finance remnants of Mr. Hussein's government, many of whose senior members are believed to be hiding in Baghdad or its environs.

Some members of the Iraqi National Congress, an umbrella organization for groups that opposed Mr. Hussein, assert that the money may be a central element in what they described as an extensive "post-

occupation strategy" devised by Mr. Hussein that envisioned an American takeover of the capital and his eventual return to power.

Neither Iraqi nor American officials claimed to know the whereabouts of the \$1 billion or, for that matter, of Saddam Hussein, Qusay Hussein or Mr. Mahmood. All three men are being sought by the United States.

The Iraqi official insisted on anonymity because, he said, he feared that he could fall victim to Mr. Hussein or one of his associates who remain at large.

Some Americans suspect that the money may have been spirited across the border into Syria, in much the same way some senior officials in Mr. Hussein's government are believed to have fled Iraq.

Col. Ted Seel, a United States Army Special Forces officer who said he was aware of the seizure of money from the Central Bank, said intelligence information at the time indicated that a group of tractor-trailers crossed the Iraqi border into Syria. Colonel Seel, who is assigned to the Iraqi National Congress, said the trucks' contents were unknown.

Mr. Hussein held near-absolute power in his government, and so, in a sense, it is unclear what laws might have been violated by the cash seizure. But the Iraqi bank official said the country's banks had been largely left alone during Mr. Hussein's years in power. He said the president and his family would sometimes demand cash from Iraqi banks but not in the amounts said to have been taken on March 18.

"Sometimes they would come in for small amounts, maybe \$5 million," the official said.

In the case of the \$1 billion, the official said Qusay Hussein and Mr. Mahmood had brought five Iraqi officials with them to the bank: the director of the Central Bank, the Iraqi finance minister and the director of the Iraqi treasury. The only others present, he said, were workers to load the money and the drivers of the trucks.

The Iraqi official, as well as others in Baghdad, said the former Iraqi finance minister, identified as Hekmet al-Azawi, was in American custody.

George Mullinax, an official with the Treasury Department, said the money had been taken by "Saddam Hussein's people." He put the figure taken at about \$900 million.

"If you had \$900 million dollars, you would need two or three flatbed trucks to carry it all away," he said.

Mr. Mullinax said it was possible that a large chunk of the money had already been recovered. He said the roughly \$650 million in American \$100 bills discovered by an American sergeant in one of Mr. Hussein's palaces last month might be from the Central Bank. He said that had not been determined for certain.

The Iraqi official, however, said the \$650 million certainly belonged to Mr. Hussein's eldest son, Uday, who, he said, was known for hoarding vast stores of personal cash. "That was Uday's money," he said.

American and Iraqi officials have recovered other large sums of cash since the fall of the Hussein government. Last month, Iraqi bank officials, with the help of American soldiers, recovered an armored car loaded with about \$250 million in American currency.

Dhia Habib al-Khyoun, chairman of Rafidain Bank, one of Iraq's largest, said the \$250 million had been gathered into the armored car from branch banks around the country.

While it was unclear for what purpose the \$1 billion was taken, it seems clear that Mr. Hussein took steps in the dying days of his government to safeguard at least some of its money.

In early March, Mr. Khyoun said, he was ordered to disburse the Rafidain's Bank hard currency deposits to branches around Baghdad. He said the goal was to safeguard some hard currency in case the headquarters of the bank was bombed.

Mr. Mullinax, the Treasury official, said he believed that the Central Bank's vaults had not been opened since the beginning of the war. But the Iraqi official said some 18 billion Iraqi dinars, or about \$9 million, had been taken by looters from the bank.

American troops have since sealed off the area around the Central Bank and have barred entry to all but its employees.

Iraqi Oil Smugglers Eluded U.S. Patrols

'Fishing Boat' Crew Members Describe Elaborate Schemes Used to Skirt Trade Sanctions

By Peter S. Goodman
Washington Post Foreign Service
Wednesday, May 7, 2003; Page A16

ZUBAIR, Iraq -- It looked like nothing more than a working fishing boat, and that's what it was before the crew pulled out the freezer containers and the air compressor, inserting an oil tank in their place. They filled it with 1,000 tons of diesel fuel purchased from Saddam Hussein's state oil enterprise. Then they pulled away from this port at the top of the Persian Gulf and headed for open water.

A few miles south, they were confronted by a U.S. warship, on patrol to enforce trade sanctions aimed at depriving Hussein of the wealth fetched by his oil. But all the sailors saw was a big boat pulling nets, followed by hungry seagulls.

"We even threw dead fish into the water for effect," recalled Ali Lafta Ali, the pilot aboard the tanker-in-disguise on that trip last year -- one of thousands he and other smugglers completed from this Iraqi port to secret points off Iran and the United Arab Emirates. "The Americans didn't even board our ship. They just let us go."

Between the Persian Gulf War in 1991 and the U.S.-led invasion of Iraq this year, it proved impossible to completely cut the flow of Iraqi oil and choke off the regime's finances. There were simply too many routes through which Hussein could get oil over borders, too many traders eager to buy it, and too many Iraqis willing to take risks.

Interviews in southern Iraq with two dozen state oil company managers and lower-level workers, as well as five people involved in illegal exports, confirmed widespread reports that Hussein relied on oil smuggling for revenue.

The trade here in the southern part of the country relied on a network of mostly Iraqi merchants with offices in Dubai in the United Arab Emirates, according to those involved in the smuggling. Most of the merchants also worked out of unmarked offices in the Jaza'ar Hai neighborhood of Basra, a wealthy quarter of the city full of soaring houses hidden behind gates and patrolled by guards.

There were two ways for the merchants to buy oil from Hussein's state companies. Outside of the United Nations-authorized oil-for-food program, they sometimes traded foreign shipments of food such as rice and beans for letters from the Ministry of Oil that authorized them to claim equivalent sums of heavy fuel oil or diesel. But mostly they paid cash, sometimes by wire transfer, and sometimes in sacks. They deposited the funds at the Al Batra Bank in Jordan, in an account under the name of the State Organization for Oil Marketing, or SOMO, according to Ali and three oil industry executives.

Once the funds reached the bank account in Jordan, a SOMO agent there notified the oil ministry in Baghdad, which informed a SOMO branch in Basra. There, in an office now occupied by the newly named leader of South Oil Co., a special agency set up to handle smuggled oil released the needed letters of authorization.

The merchants easily procured old and relatively small tankers from Thailand, Singapore and Syria, said Ali. They had no difficulty finding people to operate them. Ali was still working for the Iraqi Overseas Tanker Co., but much of its fleet had been destroyed in Kuwait by American bombs. The remainder was mothballed because of the sanctions. He was in Yemen, aboard a stranded tanker as a security guard, when he heard about a smuggling opportunity in 1995.

Hussain Abdul Kadir, 50, was a jobless engineer when, in 1995, he bumped into Saad Bahar, an Iraqi trader with an office in the Emirates who was looking for a crew to smuggle oil.

The ship was a 350-foot tanker called the Reem. It carried the Honduran flag, though it wasn't legally registered anywhere. It lacked lifeboats, life vests or insurance, said Kadir, who signed on as a crew member. Some of the dozen crew members -- mostly Iraqis, but a few Indians and Pakistanis -- had no passports. But Bahar was offering \$1,500 a month, plus bonuses up to twice that for successful shipments. In the first years after the Gulf War, the smugglers favored departing from Abu Flous, a port on the Shatt al-Arab waterway. Two pipes connected the terminal there to the prodigious fields of Zubair and a refinery in Basra, bringing in heavy fuel and diesel. They pulled their tankers up to the hoses, presented their letters of authorization and filled out a single sheet of paper marking the total. Then they were free to go.

The tankers were able to cross into Iranian waters and remain within three miles of the shore as they traveled the length of the Persian Gulf. In that fashion, they were able to avoid U.S. vessels. The merchants paid fees in cash at a bank in Dubai, which then transferred the money to Tehran, Ali said.

The fees for passage were dwarfed by the enormous profits. The merchants typically paid Saddam Hussein's oil marketing agency \$80 per ton for diesel fuel. They could usually sell it for between \$180 and \$200 per ton.

The route through Iranian waters was closed off in 1998, when Iran began denying entry to the smugglers. The smugglers shifted to a larger terminal in Zubair. It sat directly on the Persian Gulf, but it led straight to where the U.S. Navy was patrolling most intensely.

The smugglers began shipping only at night, hiring small fishing boats to scout for unwelcoming vessels, radioing back in code if they encountered any.

" 'The master is here' meant the Iranians were there," said Kadir. " 'The Red is here' meant the Americans, because their white skin was always so sunburnt. 'There's no fishing' meant it was safe."

Twice, Kadir's ship was caught by the U.S. Navy. The first time, they were kept in anchorage for two months, then taken to the Emirates where the Navy sold the boat along with the fuel. But

Bahar simply bought it back for \$70,000 under a different name, Kadir said, and the boat went back to sailing the same route.

But the second time, in March 1999, the Navy confiscated his ship and did not release it. Bahar cut bonuses and made salaries contingent upon successfully completing shipments. Kadir soon quit for the construction business.

Ali continued on, albeit with increasing stealth. His crew retrofitted the giant fishing boat. Sometimes they used cargo ships, pumping oil into the ballast, then constructing a false bottom into the sounding pipe used to check the level of the water inside. They filled the top few feet with seawater to hide the real contents.

"When the Americans came on board and examine the sounding pipe, what did they see?" said a gleeful Ali. "Seawater!"

He was stopped many times, he said, but he was never caught.

The war brought everything to a halt. Today, British soldiers occupy the port, and the pipeline connecting the refinery to the loading terminal is on fire, sabotaged by Saddam Hussein's retreating remnants -- or perhaps struck by a shell.

With the dictator gone, the once legitimate sailors-turned-smugglers wonder when they can go legitimate again, resuming shipments out of Iraq in the open, free of interception.

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Monday, April 14, 2003

Swiss lawyer denies being Saddam's banker

LUGANO, Switzerland, April 14 (AFP) - A Swiss lawyer on Monday rejected a newspaper report that he was involved in managing Iraqi president Saddam Hussein's hidden fortune abroad.

The British newspaper The Sunday Times reported on Sunday that Elio Borradori helped funnel payments to the Iraqi leader from arms deals and other contracts for about a decade.

US officials estimate Saddam channelled between four and seven billion pounds (6.3 and 11 billion dollars, 4.9 and 10.2 billion euros) into accounts around the world, which must now be tracked down.

"I have never dealt with Saddam Hussein's fortune and I never met him," Borradori told the Swiss news agency ATS.

"I did have contacts with some of his personal staff and especially with his nephew, Saad al-Mahdi, whose financial interests I managed in Lugano," he added.

The newspaper reported that al-Mahdi controlled an account dubbed "Satan" with the Banca del Gottardo in the Bahamas.

The Lugano-based bank said on Monday that it had found no record of the account at its subsidiary in the Bahamas.

Borradori confirmed that al-Mahdi was executed when he was summoned to Baghdad shortly after his marriage in Paris. He had been accused of embezzling the Iraqi leader's funds.

"I tried to stop him from going, but in vain. As soon as he arrived in Iraq, he was beheaded," he added.

Borradori's Lugano-based consultancy had managed about 400 offshore companies in offshore havens such as Liechtenstein and Panama before it was declared bankrupt in the early 1990s.

In February 2002, the 78 year-old lawyer received an 18-month suspended prison sentence after being accused of embezzling some of

his clients' funds.

A psychological evaluation ordered by the court also questioned Borradori's mental health, and accorded him diminished responsibility.

According to the newspaper, the former banker could not remember details of his work for Saddam.

The Swiss government last week said that it hoped to have a "clearer picture" of any Iraqi funds that might be held in accounts in Switzerland after it ordered banks, lawyers and accountants to declare them.

A freeze on transfers to Iraq implemented for more than 12 years under UN sanctions had been aimed at stopping money flowing back to Saddam Hussein's regime.

mnb/pac/kjm/sjw

Iraq-war-funds-Switzerland-Britain-banker

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Sunday, May 4, 2003

THE SEARCH FOR SADDAM'S BUCKS Billions in oil sales hidden overseas
New York Daily News; New York, N.Y.; May 4, 2003; WILLIAM SHERMAN DAILY NEWS
STAFF WRITER;

In the hunt for Saddam Hussein's billions, investigators have identified five networks of more than 100 companies used to launder money skimmed from Iraqi oil sales.

Saddam's gangster regime set up shell companies in Switzerland, Jordan, Lichtenstein, Luxembourg and Panama, according to investigators.

Those company networks and their banking affiliations were used to enrich the former Iraqi strongman, his sons Uday and Qusay, and other family members.

"Ultimately, the money was stolen from the Iraqi people," said Taylor Griffin, spokesman for the Treasury Department, which is heading the government's laundering probe along with U.S. Customs, the Secret Service and various intelligence agencies.

Last month, investigators isolated \$1.2 billion in previously unknown assets outside Iraq, Griffin said. The assets include cash, real estate and diamonds held in the names of the companies controlled by Saddam.

With names like Jaraco SA and Dynatrade SA, the companies used major banks in Switzerland, France, Russia, Egypt and the United Arab Emirates to conduct transactions, according to investigators.

The intricate web was managed at the top by about 20 of Saddam's relatives and friends, who spent most of their time outside Iraq.

Possible road map

The mastermind of this vast criminal enterprise was believed to be Saddam's half-brother, Barzan Ibrahim Hasan al-Tikriti. Now in American custody, he could provide a road map to Saddam's hidden wealth.

Hasan, the five of clubs in the U.S. deck of most-wanted Iraqis, was Iraq's ambassador to the UN in Geneva for 10 years, ending in 1998.

During that time, he helped set up and manage a money-laundering network that was among the most sophisticated in the world, said investigators.

A second manager was Tareq Aziz, Iraq's Foreign Minister, according to a Treasury Department source. Aziz, also in U.S. custody, traveled widely under diplomatic immunity.

Estimates of the hidden loot range as high as \$40 billion, but Saddam's personal trove "is in the single-digit billions, not more than 10," according to investigator John Fawcett.

"I'm kind of conservative in calculating his wealth," said Fawcett, who has focused on Saddam's finances for more than three years, most recently on behalf of Kreindler & Kreindler, a Park Ave. law firm.

The firm is trying pinpoint the links between Saddam's assets and financing of Al Qaeda. Once identified, those assets could be seized, recovered in court proceedings and distributed to families of those who died in the 9/11 terrorist attacks.

"We think Saddam's laundered money was used in part to provide financial support to Al Qaeda, and we're looking at billions of dollars hidden in financial institutions and companies," said lawyer James Kreindler.

\$900 million

One clue as to the size of Saddam's laundered legacy was found two weeks ago - \$780 million in makeshift vaults in a palace compound and another cache of \$112 million found in dog kennels on the grounds.

The cash was in \$100 bills, and in the dog kennels, there were 200 aluminum boxes with \$4 million in each box, all sealed with tags reading Bank of Jordan.

Customs and Secret Service agents in Baghdad are tracing the serial numbers to learn the origin of the bulk cash shipments, said Customs spokesman Dean Boyd.

The serial numbers on the bills will reveal which U.S. bank first received the cash from the Federal Reserve. From there, it may be possible to trace how the money got to Saddam's palace.

"We've also uncovered a lot of documents on Saddam's financial apparatus," Boyd said.

For more than 20 years, Saddam skimmed 5% of just about everything that moved in and out of Iraq.

"Kickbacks were everywhere," said Fawcett.

Sulfur and fertilizer exports and imports of tobacco and alcoholic beverages were among the items subject to the rakeoff, according to the British Foreign Office and the Coalition for International Justice.

The rakeoff in 2000 alone included monthly imports of 300 million cigarettes, 38,000 bottles of whiskey, 230,000 cans of beer, 120,000 bottles of vodka and almost 19,000 bottles of wine, according to Peter Hain, a British foreign office official.

Saddam also fleeced pilgrims to Iraqi Shiite shrines in the holy cities of Najaf and Karbala, making them travel in buses owned by the Al-Hoda company, controlled by Uday Hussein, and stay in designated hotels.

A nine-day pilgrimage costs at least \$900, much of which went to Saddam's family, according to the coalition.

But the principal source of the regime's skimmed revenue was oil exports, including more than \$6.6 billion from the UN-sponsored oil-for-food program, General Accounting Office investigators found.

That program involved a direct exchange of exported Iraqi oil for food and medicine. It was part of UN sanctions imposed on Iraq after the 1991 Gulf War to prevent the diversion of oil proceeds to weapons.

Large-scale smuggling

In the last five years, the regime managed to duck the UN sanctions with a large-scale smuggling operation involving shipments through Jordan, Syria, Turkey and Persian Gulf countries.

During March 2002, Iraq smuggled out between 325,000 and 480,000 barrels a day, according to the General Accounting Office.

Barges, tankers, pipelines and trucks were used to get the oil out past UN inspectors' scrutiny, and at one point, an estimated 45,000 Turkish truckers were on the roads, loaded up with oil, the agency said.

Until the sanctions were imposed, Iraqi oil exports were not monitored, and all were subject to the 5% kickback. In the early years of Saddam's 25-year reign, Iraq exported as much as 3.2 million barrels per day.

The kickback-laundering system is essentially quite simple. Oil buyers, whether companies or countries, bought Iraqi oil from Saddam-controlled trading companies located outside the country.

The trading companies would forward 95% of the money to the Iraqi oil ministry and send Saddam's 5% to shell companies outside Iraq, investigators said.

Directors of those shell companies would deposit the 5% in company bank accounts, and the money was effectively laundered. Swiss and French lawyers did the paperwork

Laundry list

Gold, artworks, hotels, construction and metal fabrication concerns, money market accounts, commodity trading companies and publishing are among Saddam's laundered investments.

Kroll Associates, a private investigative company, and the International Campaign to Indict Iraqi War Criminals, a U.S.-funded organization based in England, have identified other key figures in the financial network.

Hussam Rassam, a 67-year-old Iraqi businessman who established residency in Switzerland in 1987, was the administrator of the Saddam family pension fund, valued at \$41.6 billion in 1990, according to a Kroll report.

Hussam "was appointed [administrator] in 1989 after the execution of his predecessor for skimming funds," said the report.

A telephone call to Hussam's home in the Swiss Canton of Vaud was answered by a French-speaking woman who told a reporter, "Mr. Hussam isn't here."

Whether Saddam and his sons are alive remains an open question, but it's unlikely they could ever again enjoy their over-the-top opulent lifestyles.

Previously frozen Iraqi assets include \$20 million in the Cayman Islands, \$85 million in the Bahamas and \$14 million in Japan.

"What's the total, and where is it all?" asked Griffin. "I wish I knew."

Graphic: Anatomy of a giant scam

1. Company or country wants to buy oil from Iraq.
2. Instead of paying Iraq directly, it buys the oil from a Saddam- controlled brokerage company located outside Iraq, typically in Switzerland or Russia.
3. Broker forwards 95% of the purchase price to the Iraqi Oil Ministry and keeps 5% as a kickback for Saddam.
4. Broker deposits that 5% in a bank account set up in the name of a shell company controlled by Saddam's agents.
5. Shell company converts 5% into cash, gold or other investments and forwards it to other Saddam-controlled companies. In some cases, "commissions" go straight to Iraq, like the caches of dollars recently found in Baghdad.
6. Kickback now is successfully laundered and accessible.



- from \$6 billion, as Deputy Secretary of State Richard Armitage estimates, to \$20 billion or more.

Finding it won't be easy. Over the past three decades, experts say, the Iraqi regime established an intricate global apparatus to keep its finances well hidden. Indeed, many people involved in the asset-recovery business doubt that all the money can ever be identified, let alone recovered.

It won't be for lack of trying. Here's how investigators will look for the money.

Looking for legitimate companies

The responsibility for finding the assets will fall to an international task force, still to be assembled. For now, there are active research units within the departments of Treasury and State, as well as the CIA. The British government also is looking.

One of the first things they want to do is find the corporations that Saddam owns," says Ed Pankau, a Texas-based private investigator. Pankau has worked on scores of asset-recovery projects, including ones involving Panamanian strongman Manuel Noriega and deposed Ethiopian ruler Haile Selassie.

"These people live in a world of their own, with an unlimited amount of wealth they have to put somewhere," Pankau says. In the case of Hussein, "he's going to own hotels, shopping centers, and real estate."

Managing all the data is a key element of discovery.

"You start with a look at overall sources of financing," says John Fawcett, of the New York law firm Kreindler & Kreindler.

Fawcett is the co-author of an exhaustive report, "Sources of Revenue for Saddam and Sons," published last fall by the Coalition for International Justice, a human rights organization based in the Hague and Washington.

The study documents a wide-ranging series of transactions, both legal and illegal. The regime imported hundreds of millions of dollars worth of steel from Egypt's Ginza Co., for example, and mechanical equipment from Technopromexport of Russia. It



traded for \$1.2 billion of wheat from Australia and nearly \$500 million worth of rice from Vietnamese partners. It had relationships with some of the biggest banks in Europe.

Such transactions will be pored over for signs of profit-skimming, embezzlement, and money laundering.

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As investigators plow through the information, they start to notice patterns emerging. "Hundreds to thousands of names of individuals turn up," Fawcett says. Investigators then put them all into a database, looking for multiple references.

"The people who keep showing up are invariably connected somehow," says Fawcett. "When you find them, you've narrowed your focus to do more in-depth individual searches."

Past experience

After the first Gulf War, the security firm [Kroll Worldwide](#) conducted a comprehensive survey of Saddam's assets on behalf of the Kuwaiti government.

Kroll found numbered Swiss bank accounts, shell companies, and ownership stakes in a number of legitimate businesses. One of them: Hachette, a publishing arm of the French multinational Lagardere. The Iraqis own an 8 percent stake in the company, which publishes *Elle*, *Car and Driver*, and other magazines. (The shares have been frozen since 1991, under a U.N. sanction.)

When Kroll conducts an investigation, according to managing director Peter Turecek, it culls through a vast array of news articles and independent reports. It's not all dry documents in musty government archives.

"Profile articles are great, because they give little hints like 'Mr. So-and-so enjoys sailing on weekends,'" Turecek notes. "With that, we can go and check out boating sales records, and licenses, and docking reports."

Like a jigsaw puzzle, much of the information interconnects, Turecek explains. "What business relationships does he have? Who are his corporate

partners? Which financial institutions have been intermediaries in transactions?"

Kroll's earlier study on Iraqi assets, for example, uncovered an international network of individuals and firms involved in laundering activities. They ranged from unwitting giants like Lagardere to active accomplices like a 12-person machine tool company in Ohio.

Looking for bank accounts

On the financial side, the hunt will involve a number of shadowy -- and not so shadowy -- global banking institutions.

Rafidain Bank, a state-owned enterprise based in Baghdad, has for years been widely thought to be a centerpiece of Saddam's financial empire. The bank has branches in Jordan, Egypt, Lebanon, Bahrain and the United Arab Emirates.

Rafidain is a joint venture partner with some of Europe's leading financial institutions. It has ownership stakes, for example, in banks controlled by Britain's HSBC and France's Credit Lyonnais. (Both European partners have strenuously denied having working relationships with Rafidain, though Rafidain does hold board seats in each venture.)

Just weeks before the war began, Rafidain boasted of its global finance capacity to a Bloomberg News reporter. "The UN is no problem," the bank's Beirut manager said. "You can transfer money from Beirut to Baghdad to any beneficiary if we have a telephone number or account."

According to experts, the ability to move money freely from Baghdad to institutions outside of Iraq is what let the regime build and control its invisible empire of cash.

Investigators say the regime routinely transferred cash through Rafidain and 17 privately owned banks within Iraq to intermediaries in such places as Jordan and Switzerland.

To find evidence of those transactions, the U.S. will be "going through looking for records in the rubble," says Pankau. "Going through CIA files. Searching the trail of contacts and relationships stemming from any transaction that comes out of Iraq."

It's likely they'll find records involving safe-haven banking systems, which operate on the periphery of international finance. Some -- like Labuan in Malaysia, or the island nation of Vanuatu -- are not signatories to various treaties that compel open disclosure of criminality.

Although agreements were reached in the 1990s to make asset recovery easier, the system remains difficult to negotiate. Eighteen years after Ferdinand Marcos was overthrown in the Philippines, for example, at least six Swiss banks still are holding deposits he'd made, even though they acknowledge the money is illicit.

For aggressive recovery of assets to take place, "there has to be a regulatory mechanism in place, like a presidential order or a UN resolution," Fawcett says. "For example, a UN Sponsors of Terror list bars travel and financial interaction with countries and agents of countries on the list."

When that happens, the U.S. government and the U.N. can muscle hesitating banks to cooperate by providing names, records, and data.

"There's really quite a bit of pressure put upon banks to report suspicious activity. They face heavier and heavier sanctions," Fawcett said. "Financial police name countries in egregious violation of accepted standards in banking."

Because it threatens the very ability of the safe havens to conduct business, according to Fawcett, the pressure to release records becomes intense.

"Getting on the black list is not a pretty thing." ■

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APRIL 3, 2003

WAR IN IRAQ

Tracking Saddam's Billions

Some estimates say as much as \$10 billion may be salted away in various international banks. Can these funds be used to rebuild Iraq?

As U.S. troops advance on Baghdad, a parallel assault on another prize -- the wealth of Iraq's elite, particularly that of Saddam Hussein and his family -- is also speeding up. From the U.S. Treasury Dept. to creditors angling to collect decades-old debts, financial sleuths around the world are trying to figure out how much money Saddam, his family, and his cronies have stashed away, where it's hidden, and how quickly they can get their hands on it.

For the U.S., the hunt for Saddam's wealth is a key test. To bolster its case that the war in Iraq is aimed at liberation, not empire, the Bush Administration has decreed that any funds looted from Iraq -- starting with \$1.7 billion in Iraqi accounts frozen in the U.S. since 1990 -- will be devoted to rebuilding the country.

U.S. officials and private analysts estimate that an additional \$7 billion to \$10 billion is hidden away, though little of that is likely to be in the U.S. So finding the disputed loot, claiming it, and winning consensus on how best to use it will severely tax already strained ties among the U.S., Europe, and the Middle Eastern nations where the bulk of the cash probably resides.

ON THE BARRELHEAD. A senior Treasury official boasts that allies have located more than \$1 billion in previously unknown Saddam accounts since the U.S. stepped up the hunt on Mar. 20. The Bank of England, which had already frozen \$648 million in British banks, has also ordered banks to search for Iraqi accounts "as a matter of urgency."

The combatants aren't the only searchers. Iraq owes more than \$100 billion on debts incurred before its 1990 invasion of Kuwait, according to Treasury. Creditors from the French government to South Korea's Hyundai Engineering &

Construction are pressing claims as well.

The sources of Saddam's wealth are no secret. Despite a dozen years of U.N. sanctions, the Iraqi regime has openly smuggled out oil -- by truck, tanker, and pipeline, via Syria, Turkey, and the Persian Gulf -- and smuggled in cigarettes and luxury goods. Saddam even found ways to profit from the U.N.-run Oil for Food Program: Although the U.N. controlled the bulk of the proceeds from Iraqi oil sales, the Baghdad regime built a 30 cent to 50-cent-per-barrel kickback into its oil price, according to the U.S. General Accounting Office and the Coalition for International Justice, a Washington-based human-rights group. The group says Saddam's eldest son, Uday, has overseen much of the skimming and smuggling. A spokesman for the U.N. Oil for Food Program declined to comment.

SCOUTING THE TRAIL. Where the money went is harder to establish. In the 1980s, Saddam invested in Western companies, including Lagardère, the French defense and media group that owns Hachette, the French publisher of *Elle* and *Car & Driver*. Hachette says Saddam's 8.4% stake, estimated to be worth \$90 million, has been frozen since 1990.

Since U.N. sanctions were imposed, investigators and expatriates say, the regime has kept most of its money outside Iraq in such safe and liquid investments as bank deposits and government bonds -- even U.S. Treasuries. According to a retired Iraqi banker in London who asked not to be named, Saddam and Uday directed kickbacks and bribes into banks in Jordan, Egypt, and Lebanon.

From there, the funds would be turned over to Saddam allies abroad, who would move money through a chain of banks and perfectly legal accounts to disguise its origins. These fronts played an increasingly important role as the sanctions on Iraq bit deeper.

CROSS-STREET TRANSFERS? Iraq's state-owned bank, Rafidain Bank, may have been critical to moving the regime's cash, the Iraqi banker and former U.S. officials say. They allege that Rafidain's branch officers in Jordan, Bahrain, the United Arab Emirates, and other Middle Eastern countries would transfer funds on Saddam's behalf from Baghdad into the global banking system -- in some cases literally walking money across the street to other banks. The U.S. has asked that Rafidain's branches be closed, but only Britain has acted.

The manager of Rafidain's branch in Amman, Jordan, Abd Al-Hussein Majid Al-Mokhtar, denies the bank played any role in laundering Saddam's money. Rafidain's lawyer in London, Alan Walls of the firm Linklaters, refused questions on the bank's activities. Officials at the London branch, in liquidation under the Bank of England's control, refused comment.

Tracing this money trail isn't easy. U.S. officials hope that the Iraqis' penchant for

thorough record-keeping will yield a trove when American and British troops occupy Baghdad. But the really tough job will be laying claim to any funds that are found. The governor of the Central Bank of Iraq, Issam Rashid Hwaish, has denounced the U.S. seizure of Iraqi assets as an "act of piracy" that violates U.N. orders.

"WE NEED COOPERATION." U.S. law gives the President authority to seize enemy assets during wartime -- but few other nations have such power, and most of the likely havens for Iraqi money aren't at war. Even Switzerland, eager to prove that its five-year-old controls on hot money are working, says it will need a court order from the U.S. to freeze or seize any suspect accounts.

That's why rounding up the money is far from a sure thing. "It isn't going to matter that the U.S. is a military superpower -- we need cooperation," says William F. Wechsler, a money-laundering expert who served in the Clinton Administration.

Treasury is hoping that the U.N. or an institution like the Bank for International Settlements can establish a speedy procedure for resolving claims on Iraqi accounts and redirecting the money to a new Baghdad regime. "It's clear that any assets accrued by Iraqis since 1990 are violations of U.N. sanctions and illicit," says Treasury General Counsel David D. Aufhauser.

Perhaps. But it will take more than a U.N. fig leaf to persuade countries from Bahrain to France to overrule their own courts and banks and turn over disputed accounts. Saddam's billions could go a long way toward helping rebuild his country, but it's too soon to start writing checks on those accounts.

By Mike McNamee in Washington and David Fairlamb, with Kerry Capell, in London

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Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. Luis V. Gutierrez (#1)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

Question 1:

Mr. Wayne, we recently held a hearing on the problem of international money laundering and how that money has found its way into the hands of terrorists abroad. I imagine that now that the Baath regime is out of power, there must be a significant amount of information available to us that was not before. Since we have gained access to Iraqi banks and financial institutions, have we found any instances of funds that may have been used for terrorist organizations? Have there been any paper trails through Iraq that would lead us to investigate other possible sources of funding that we were not aware of before?

Answer:

With the fall of Saddam Hussein's regime a number of agencies are coordinating to develop leads from documents recovered in Iraq and officials in custody regarding the financial dealings of Saddam Hussein's regime. The Treasury Department leads an interagency group that has been established to develop leads and exploit the financial information uncovered in Iraq. This group includes participation from both law enforcement and intelligence agencies. Information being uncovered in Iraq, as well as our cooperation with a number of countries, is providing new information on assets connected with the former Saddam Hussein regime. We are moving forward with investigations

of these leads and will pursue all aspects of recovering assets and uncovering terrorist connections.

Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. Luis V. Gutierrez (#2)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

Question 2:

Mr. Wayne, you commented that in the U.S. as well as in other countries, people have sought retribution against Iraq through Iraq's frozen assets held in those countries. How much, as a percentage, if possible, have we lost in those claims? Is it a significant enough issue where those in Iraq would see a difference in the amount coming back to them for aid and reconstruction?

Answer:

The U.S. vested more than \$1.7 billion in frozen assets on March 20, 2003. At that time an additional \$122 million in Iraqi state assets were subject to writs of attachment and were not vested. Around the world we have been in touch with foreign governments to confirm the value Iraqi state assets they have identified. We have identified \$2.9 billion in Iraqi state assets in financial institutions overseas. We are working with countries to identify the total value of funds that are not under prior liens or judgments.

Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. Luis V. Gutierrez (#3)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

Question 3:

You have commented that the DoD's Office of Reconstruction and Humanitarian Assistance (ORHA), the NSC and the OMB have all worked together to set the priority needs of the Iraqi people. Has there been any discussion with the international community in setting those priorities? Are we hearing any criticism from other countries and international organizations in how we are setting those priorities?

Answer:

We have worked with the international community to help identify priorities for meeting the humanitarian and reconstruction needs of Iraq. Seven Coalition partners have representatives in the Office of Reconstruction and Humanitarian Assistance and are integrated directly into the process of assessing needs in Iraq. We are also consulting with a number of other countries on the humanitarian relief and reconstruction effort, including an international solicitation for experts to serve in ORHA offices and in Iraqi ministries. We are receiving good cooperation from a number of countries in support of our efforts.

Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. Luis V. Gutierrez (#4)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

Question 4:

Do you think that the UN needs to have a role in the task at hand? In other words, do you think that a UN resolution on this regard would help in this mission?

Answer:

As the President has stated, the UN has a vital role to play in Iraq. We will be working in the UN Security Council to bring forward a resolution that will support the reconstruction of Iraq for the Iraqi people. We believe that the participation of the international community, including the UN and the World Bank and International Monetary Fund, in the reconstruction of Iraq will be critical in reestablishing the Iraqi community.

Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. John Shadegg (#1)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

ESPOUSAL/UNCC CLAIMS QUESTIONS

Question:

Given the fact that the United Nations Compensation Commission seems to have utilized differing standards for its review of UNCC claims, imposing higher requirements of documentation and proof of "direct loss" for Americans than for other nationals, does the Administration have any intent to address and correct this circumstance by considering espousal of the claims directly to the new government of Iraq?

Answer:

American claims have not been subject to different standards by the UNCC. Claims are sorted and considered by type of claim (individual, corporate or governmental), not by nationality. UNCC Panels of Commissioners, composed of distinguished international jurists, review groups of claims within the various categories and examine the facts of each claim to determine if it meets the requirements for compensation and, if so, the amount of compensation to be recommended. The UNCC Governing Council, composed of the members of the UN Security Council, then decides whether to approve each recommendation.

Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. John Shadegg (#1)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

ESPOUSAL/UNCC CLAIMS QUESTIONS

Of the approximately 2.6 million claims from all over the world that have been reviewed so far, compensation was awarded in approximately 60%, or about 1.6 million claims. In contrast, compensation has been awarded in more than 90% of the approximately 3247 U.S. claims reviewed to date (2,977 out of 3119 individual claims, 73 out of 114 corporate claims, and 12 out of 14 U.S. Government claims). The remaining claims from U.S. claimants have all been submitted to the UNCC Panels of Commissioners that consider the merits of claims. We are expecting all of those claims to be resolved this year.

In actual dollar terms, the 2.6 million world-wide claimants were awarded about \$43.7 billion, which is approximately 28% of the 150 billion claimed. In contrast, compensation awarded to U.S. claimants has been about \$700 million, which is about 50% of the \$1.4 billion claimed.

Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. John Shadegg (#2)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

ESPOUSAL/UNCC CLAIMS QUESTIONS

Question:

Since the State Department reviewed all Americans' UNCC claims and, by forwarding and submitting them to the UNCC in Geneva, affirmed under UNCC claims guidelines that as to such claims the United States had "...no reason to believe that the information stated [in the claims] is incorrect...," what basis exists to decline consideration of espousal of the claims to the new government of Iraq in the amounts originally submitted by the American claimants and/or screened, reviewed and forwarded by the State Department in amounts which it deemed *prima facie* accurate and free of error?

Answer:

Before deciding to exercise its discretionary authority to formally espouse a claim against a foreign government, the Department of State reviews each case for which espousal has been requested on its own merits, considering numerous factors. We have not been requested to espouse any particular claim before the UNCC and therefore have not conducted such a review with respect to a UNCC claim. However, the certification by the Department that it had "...no reason to believe that the information stated [in any particular claim] is incorrect...," does

Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. John Shadegg (#2)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

ESPOUSAL/UNCC CLAIMS QUESTIONS

not constitute a conclusion on the merits of the claim. Such a conclusion could be reached only after a review of the evidence in support of the claim in far greater depth than was possible or required in order to make the mentioned certification at the time claims were filed with the UNCC.

Questions for the Record Submitted to
Assistant Secretary E. Anthony Wayne by
Rep. John Shadegg (#3)
Subcommittee on Oversight and Investigations
Committee on Financial Services
May 14, 2003

ESPOUSAL/UNCC CLAIMS QUESTIONS

Question:

Assuming that the Administration would not be prepared to interject itself into the UNCC claims process - despite the crippling impact of an 80% reduction in the "Oil for Food" compensation pool funding source, further jeopardizing even reduced payments - would the Administration consider, as part of a "global" effort to bring closure to the ordeal of the Americans with pending or minimally-satisfied UNCC claims, either

(A) amending, *nunc pro tunc*, the Executive Order of March 20, 2003, confiscating and vesting Iraqi assets theretofore frozen in US financial institutions to reflect the availability of such funds to fully compensate the American UNCC claimants in question, or

(B) issuing a new Executive Order amending and modifying Section 1(b) of the Executive Order of March 20, 2003 to reflect as an additional exception to the confiscation, vesting and transfer of Iraqi assets theretofore frozen amounts sufficient to fully compensate the American UNCC claimants in question?

Answer:

No government has been more vigilant than the U.S. Government in ensuring that the UNCC operates in a fair and honest manner and the Department of State is continuously engaged in the UNCC process. The properties vested by operation of the Executive Order of March 20, 2003 are now properties of the U.S. Government to be used "...to assist the Iraqi people and to assist in the reconstruction of Iraq..." The Administration has no plans to amend or modify the Executive Order.

House Committee on Financial Services
Oversight & Investigations Subcommittee Hearing
Subject: Divesting Saddam: Freezing, Seizing, and Repatriating
Saddam's Money to the Iraqis
Hearing Date: May 14, 2003
Congressman Luis Gutierrez
Witness: Mr. Larry Lanzillotta

Question: Mr. Lanzillotta, you said in your testimony that the Secretary of Defense has the authority over approximately \$92 million of vested property. Can you comment on how decisions are made in distributing those funds on the ground in Iraq?

I would like to know what the response has been from engineers, doctors, and teachers in Iraq. Have those individuals come to you regarding their salaries? Have there been any disputes from the people of Iraq? I am concerned whether we have the proper infrastructure in place to make sure these people are getting the humanitarian aid they need and whether or not our handling of the funds in strengthening relationships with the Iraqi people, or if the handling of funds is creating an atmosphere of distrust against Americans. The Secretary of the Treasury has designated the Secretary of Defense with the authority to use approximately \$92 million of confiscated assets to meet the immediate humanitarian needs of the Iraqi people. Can you tell us what the status of that \$92 million is? In what way is it being spent and to whom is it being paid?

Answer: The \$92 million of "vested" assets were spent as follows: \$81 million for Iraqi Civil Servant Payments, \$5 million for Humanitarian Assistance/Reconstruction, and \$6 million for the Oil for Food Program.

The Office of Reconstruction and Humanitarian Assistance coordinated the decision to set the initial emergency payment for each Iraqi Civil Servant at \$20.00 in late April. All non-military civil servants, including engineers, doctors, and teachers were disbursed this same emergency payment flat rate of \$20.00. These payments provided immediate humanitarian relief and provided a sustaining income until a salary payment scale could be developed. No significant disputes concerning emergency payments have occurred, and feedback on initial salary payments is positive. Due to the very low teacher salaries under the former Iraqi Regime, many qualified teachers decided not to teach. With the new salary payment scale, there are several reports of former teachers desiring to return to the profession.

To date, over 150 humanitarian and reconstruction projects have been approved by the CPA Program Review Board using "vested" funds. Over a third of these projects are initiated or completed. These include critical power, water, and health projects that are accomplished by and directly benefit the Iraqi people.

In addition to Iraqi "vested" funds, there are also Iraqi "seized" funds, which are Iraqi assets that were seized by U.S. troops while conducting military operations in Iraq. A combination of "vested" and "seized" funds are currently being used to fund small

reconstruction projects that are undertaken by the military and civilian personnel that are deployed in Iraq.

Additionally, Congress has made available \$2.475 billion in appropriated funds, which are available via OMB apportionment for the relief and reconstruction of Iraq.

The coordinated efforts of CPA and the Army 336th Finance Command have effectively and expeditiously disbursed Iraqi funds directly to Iraqi recipients or to cleared Iraqi ministry officials, who in turn executed the final emergency, salary, or project payments to the intended Iraqi recipient. These payments have significantly contributed to winning the hearts and minds of the Iraqi people and to restarting the Iraqi economy.

The Coalitional Provisional Administration works closely with OMB and the Department of Defense. Its efforts are directed, in this area, to both humanitarian and reconstruction efforts. All funds are fully accounted for and expenditures are being recorded in Defense Finance and Accounting Service records.

