

Statement of Claudia Rosett

Journalist in Residence, The Foundation for Defense of Democracies

Before the Committee on Oversight and Government Reform

United States House of Representatives

October 4, 2007

Good morning, Chairman Waxman, Ranking Member Davis, and members of the Committee. Thank you for the opportunity to testify here today. I hope that I may be of help in providing some historical background and context for the questions now arising about how best to address corruption in Iraq.

My background in reporting on corruption comes from working as a journalist over the past 26 years in a number of countries in which corrupt practices are widespread and deeply entrenched – among them the Philippines immediately after the fall of Ferdinand Marcos, India, China, and Russia and other former Soviet states in the years immediately following the Soviet collapse. During the past five years I have spent considerable time reporting on corruption connected with the United Nations Oil-for-Food relief program for Iraq, which ran during the final years of Saddam Hussein's rule, from 1996-2003. This program became a window on corrupt practices not only at the UN, but in Iraq itself. The two became intimately entwined.

As I informed the Committee staff, I am less familiar with the specifics of the current situation in Iraq, though it is clear that the corruption is extreme. Berlin-based Transparency International, in its 2007 Corruption Perceptions Index, ranks Iraq third from the bottom in a list of 179 countries; more corrupt than Zimbabwe, Uzbekistan and Haiti; and only slightly better than Burma and Somalia.

This did not begin with 2003 fall of Saddam Hussein. There are no pre-2003 rankings to compare, for the simple reason that despite a database on its web site going back to 1998, Transparency International did not include Baathist Iraq in its rankings at all. What happened inside Iraq in the way of corruption was treated by the rest of the world as largely a matter for Saddam's government, even after the UN in 1996 officially took on the job of oversight of the core economy. Saddam's approach was to institutionalize corruption in keeping with the opportunities and needs of himself and his inner circle to a

degree that transformed virtually the entire economy of Iraq into a network of patronage, plunder and graft.

In other countries that have emerged from tyranny bereft of any normal, functional system of law and versed in criminal rackets – for instance, most of the nations spun out of the former Soviet Union -- we have witnessed the enormous difficulty of establishing institutions that police corruption and protect and reward integrity.

In Iraq, this has been made all the more difficult not only by the violence, but by the legacy of the sanctions era and relief program that marked Saddam's final stretch in power. Sanctions, combined with Oil-for-Food, was a mix meant to contain and control Saddam's government while delivering help to the population. The irony is that the UN arrangements served, if anything, to hone the skills, compound the complexities and extend the depth of corruption both inside and emanating from Iraq. In the various investigations into Oil-for-Food that followed the overthrow of Saddam, much has come to light about the devices and dodges by which the Iraqi regime translated erstwhile relief funds into palaces, arms and patronage, rather than baby milk, medicine and soap.

Having entered into an agreement with the UN in 1995 that despite the sanctions imposed in 1990 following the invasion of Kuwait, Iraq's government would be allowed to sell oil solely in order to buy humanitarian relief, Saddam and his sons, cronies and functionaries then enlisted every subterfuge, scam and corrupt practice in the book to cream money out of the funds theoretically earmarked for the public good. Meanwhile, the majority of the population came to depend on the patronage and rations doled out by this same corrupt government. Corruption was the norm; the only issue was who came out on top in the competition to run the rackets. This provides at least a crude guide to the habits and tacit understandings – not to mention the unfortunate set of skills – which any attempt to address corruption in Iraq must now overcome.

An excellent report on this era, released in September, 2002 by the Coalition for International Justice, is a 70-page study entitled "Sources of Revenue for Saddam & Sons: A Primer on the Financial Underpinnings of the Regime in Baghdad." It includes a discussion of the competing crony networks of that time, the shifting balance between Saddam's sons, and an overview of sanctions-busting techniques -- illicit, immoral and ever more refined – including not only such well-known practices as smuggling oil (and the jockeying for the franchises to do so) and over-invoicing to scam money out of payments for food, but practices such as "Fleecing Pilgrims."

One of the authors of that study, John Fawcett, testified two years ago before the House Committee on Energy and Commerce. In that instance he was speaking mainly about the effects of Oil-for-Food corruption on the international system. But what he said applies even more thoroughly to Iraq itself: "The oil for food program gave a tremendous boost towards the institutionalization of corruption within the global economy, the repercussions of which have barely begun to emerge."

One after another, subsequent studies have weighed in with similar findings about the corruption that grew inside Iraq (and radiated from it). When CIA chief weapons inspector Charles Duelfer produced his September, 2004 report, what grabbed headlines was that he had found no weapons of mass destruction. Less noticed was that he had devoted hundreds of pages of his massive report to chronicling the vast landscape of corruption he encountered via interviews with former Iraqi officials, and documents from the secret files of the regime. In his introduction to what is now known as the Duelfer report, he wrote: “In many ways, the arms inspectors have merely been leading the way in exploring the decay that Iraq became, and, indeed, the corrupt systems that grew parasitically on Iraq as it decayed.”

Mr. Duelfer included detailed descriptions of many of the front companies, rackets, and the institutionalized corruption, such as that of the Ministry of Foreign Affairs, which “facilitated, established, and maintained foreign government and business contacts and provided Iraqi officials involved in illegal international trade with financial and political sanctuaries.”

Similarly, when Paul Volcker’s U.N.-authorized probe looked into Oil-for-Food activities on the ground in Iraq, he found – as he noted in his Sept. 7, 2005 report – that “It is clear that the environment in Iraq during the Programme enabled (and possibly even fostered) corruption.” Among the examples he cited, “in which poor controls enabled fraud and corruption” was the need, in absence of a reliable banking system, to transport and keep on hand large amounts of cash.

In a U.S. federal trial which ended just this week in Manhattan with the guilty plea (of conspiracy to defraud the Oil-for-Food program) of an American former Oil-for-Food contractor, Oscar Wyatt, prosecutors introduced into evidence a once-secret database kept by the marketing arm of the Iraqi Oil Ministry. It was devoted entirely to keeping track of hundreds of millions of dollars worth of illicit kickbacks on oil sales – including not only the names of the clients paying these fees, but the relevant front companies from which the money came, and the illicit Iraqi-controlled accounts into which it flowed. This was corruption exalted to the level of state policy – not for the good of the Iraqi people, who were in fact the chief victims of these schemes.

This translated into a culture of graft so brazen as to produce the example in 2002 of a Russian businessman with a Swiss front company, Lokia S.A.R.L., who paid a \$60,000 “deposit” upfront – in other words, a kickback -- into a secret Iraqi-controlled account in Jordan, in order to obtain a lucrative Oil-for-Food oil contract. The Iraqis on the receiving end took the money, but did not deliver the contract. Outraged, this businessman sent faxes to both the UN and the Iraqi government in Baghdad, demanding a refund of his kickback.

Multiply this sort of scene across thousands of companies contracting with Saddam’s government under the official Oil-for-Food program, compounded by many more doing

illicit business not only in smuggled oil but in smuggled goods, and what comes into view is an astounding infrastructure of corrupt activity.

As Mr. Duelfer noted in his 2004 report, Saddam did not tolerate corruption from others when it infringed on the wholesale corrupt activities of his regime. But he enlisted the entire apparatus of the state in furthering corrupt schemes that enriched himself and those he favored. When his government fell, what remained was an utterly corrupt ethos, wrapped around decayed institutions, in which the measure of right or wrong had nothing to do with justice, and everything to do with power and opportunity.

How to change that ethos is a big question. I believe there was a moment early on, just after the fall of Saddam – or even before -- when maximum daylight, in the form of extensive and early disclosure of the extent of the corruption, with the available documentation, might have helped chart a better course. But I do not think there is, or has been at any stage, a quick and easy fix. But the answers begin with transparency, combined with an understanding of the assumptions and practices that engendered this ethos in the first place.