

Tightening the Rules on Iraqi Oil Sales

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Brief Analysis

For the United States, supporting UN Security Council Resolution 986 is a gamble. Washington hopes that the "oil-for-food" deal will be a trap that will reduce pressure to lift the rest of Iraqi sanctions, thereby thwarting Saddam Hussein's strategy to win the end of sanctions by playing on international sympathy for the suffering of ordinary Iraqis about whom he could not care less. For his part, Saddam hopes that the limited oil sale will be "the beginning of the end for the embargo," as the Iraqi press puts it. What actually transpires depends in large part on U.S. policy in the months ahead.

Controlling the Money: At a time when the UN Security Council is focused on the election of a new Secretary General, Washington is well placed to insist that candidates for the job take a tough stance on controlling the revenue from the oil sales. No other issue under the Secretary General's purview is as important to U.S. security as keeping a close eye on the 986 funds. With the slack procedures typical of UN financial controls, Saddam could easily divert at least 10 percent of the oil sales proceeds, which could be \$400 million per year for his military and terrorist purposes.

Under Resolution 986, the Secretary General has extraordinary powers, which he should use to the fullest. The resolution specifies that the revenue from oil sales belongs to the UN, not Saddam. The Security Council "decides" how to use the funds generated by the oil sales; Saddam is not to touch the money, which is to be paid into an escrow account established by the Secretary General. His only responsibility to Baghdad is to "keep the Government of Iraq fully informed" about the funds. And according to Paragraph 8: "Iraq effectively guarantees equitable distribution [of the imported food, pharmaceuticals, and other goods], on the basis of a plan submitted to and approved by the Secretary General." Here, the exact mechanisms for the distribution bear careful watching. If sold at present Baghdad prices, the imported humanitarian goods would generate enough revenue for the Iraqi government to allow Saddam to double the wages of government employees, which could significantly increase his standing in the eyes of the public. It is in the U.S. interest to ensure that Saddam is not able to take advantage of the oil revenue in this manner. Washington could insist that goods are either distributed free or that any revenue generated from the sale be put into blocked accounts spent only with UN approval and only with full publicity inside Iraq that the funds are coming from the UN, not from the Iraqi government.

> Another issue of concern is the impact that Resolution 986 will have on poor Iraqis in rural areas, especially among the Kurds. Food imports financed by 986 may well flood the market, driving down prices. As a result, Iraq could

return to the pre-1990 situation, in which 70 percent of its food was imported. That would especially hit Kurdish farmers, who have earned several hundred million dollars a year for their wheat and barley crops. This makes particularly urgent the procedure authorized in Resolution 986 setting aside \$130 million-\$150 million to be provided each 90 days from the escrow account to the UN Inter-Agency Humanitarian Program operating in the three Kurdish controlled governates of Dihouk, Irbil, and Suleimaniyeh. Washington could insist that the full \$150 million be provided and that measures be implemented to assist farmers adversely affected by the price drop.

Keeping in Place the Other Sanctions: Washington's view is that the limited oil sales are a separate issue from other sanctions on Iraq. To this end, it is the U.S. interest to use high-profile public diplomacy, such speeches by high officials, to remind the world about the remaining restrictions on Saddam. In addition, this is an opportune moment to insist on the end to the recent Iraqi obstruction of the UN Special Commission (UNSCOM) headed by Rolf Ekeus. Since summer 1996, there has been little reaction by Washington or the Security Council to repeated Iraqi refusals to allow inspectors into suspicious sites. The result has been blatant Iraqi blocking of inspections. Given that 986 will for the first time provide UNSCOM with a guaranteed source of revenue, Ekeus will be well positioned to step up inspections. Washington could encourage its allies to increase cooperation with Ekeus; in particular, now that money is available, Germany could be urged to continue the valuable helicopter services that it is said it was stopping for financial reasons. The U.S. could also resume its pre-1996 policy of resorting to military retaliation, if necessary, to secure Iraqi compliance with UNSCOM inspections.

> UNSCOM's work is invaluable not only because of its efforts to monitor Iraqi weapons of mass destruction but also because of the role it plays in the overall sanctions debate. Inside the UN, there is disagreement over the requirements Iraq must fulfill before being allowed to resume full oil exports. Such exports would earn Baghdad \$16 billion a year now, expanding to \$30 billion within three to five years (as oil output rises from 2.5 million barrels per day to 4.5 million). The debate is whether Iraq should be allowed to export freely as soon as its weapons of mass destruction are fully under control, or whether Iraq must also comply with other UN resolutions. Washington has taken the latter position but argues that the entire debate is hypothetical, because Saddam has not cooperated with UNSCOM so far and is unlikely to do so in the future. As Ekeus points out, Saddam has forgone nearly \$100 billion in oil revenue that he could have had by cooperating with UNSCOM over the past five years. If Saddam is convinced that what he is hiding is worth \$100 billion, he is not likely to give it up easily now.

Exporting More Oil? Saddam has already announced he wants to secure a doubling of the amount of oil he is permitted to export when the Security Council holds its first 986 review in three months. The United States should try to deflect this plan and even -- if possible -- tighten existing rules for Iraqi imports and exports. At the very least, these new conditions should apply to any expanded oil export scheme. Such conditions could include: 1) Counting the 80,000 barrels per day sold to Jordan as part of Iraqi oil sales under Resolution 986. For years, the Security Council has tolerated those sales, but they should now be put under explicit UN authorization, subject to the same procedures as the other Iraqi oil sales. In particular, that means the revenue from those sales should go into the UN account (and be subject to the 30 percent restitution deduction), not into Saddam's pockets. 2) Requiring Lloyds customs inspectors to be deployed not just on the Iraqi border crossings sanctioned for 986 imports but at all border points. If Baghdad wants to be allowed to sell more oil, it could be required to permit Lloyds customs inspectors at all crossing points -- with Syria, Turkey, Iran, Kuwait, and Jordan. 3) Implementing procedures for all imports as tight as -- or tighter than -- those for 986 imports. The current procedures for non-986 imports leave much to be desired: licenses have no expiration date, there is no reporting requirement when a license has been used, no information is collected on how Iraq is financing the goods imported under a license, and information about licenses issued is not automatically shared with the customs inspectors in countries neighboring Iraq so that they can verify each shipment into Iraq against a specific license number.

> At least as important as whether to permit full oil exports is to clarify the issue of restrictions on Iraqi imports. The Gulf War ceasefire resolution, UNSC 687, clearly separates oil export restrictions from the import restrictions. This would be an opportune moment for the UN Security Council to reaffirm that principle. In particular, the Council could formally declare that Iraq will, for the indefinite future, be subject to very tight restrictions on imports of weapons as well as all nuclear material and dual-use technology. This would help counteract a February 1995 document submitted to the UN Sanctions Committee by the International Atomic Energy Agency and UNSCOM which left the frightful impression that restraints on Iraq's "peaceful" nuclear activities are only temporary. Conclusion: The United States has compromised on Iraqi oil sales largely to meet the concerns of some members of the Security Council, such as France and Russia. Now is the time to test whether those countries will match Washington's concessions by agreeing to procedures that follow both the spirit and the letter of 986. If 986 is implemented in a loose manner that permits Baghdad to squirrel away revenue for unsupervised purposes or use freed up sources of hard currency to burnish its image, then the lesson for Washington will be that the "oil-for-food" deal was a bad gamble.

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