

Saddam and the Economic Lever: Whither Sanctions?

by [David Schenker \(/experts/david-schenker\)](/experts/david-schenker)

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ABOUT THE AUTHORS



[David Schenker \(/experts/david-schenker\)](/experts/david-schenker)

David Schenker is the Taube Senior Fellow at The Washington Institute and director of the Program on Arab Politics. He is the former Assistant Secretary of State for Near Eastern Affairs.



Brief Analysis

A UN approved Jordanian "humanitarian" flight into Baghdad today punctuates a month of air travel to Iraq unprecedented since 1991. The flight, following similar flights in recent weeks by France and Russia, is significant as Jordan is a key U.S. ally and a recipient of substantial U.S. foreign assistance. The absence of any explicit U.S. objections to the Russian and Jordanian flights highlights a shifting in U.S. policy vis-a-vis the sanctions regime.

Non-Middle East States Iraqi President Saddam Husayn has pursued an economic policy of carrots and sticks geared toward ending Iraq's international isolation. Counting legal and illegal sales, Iraq will earn over \$20 billion in oil income this year, making the sanctioned state an extremely attractive export market. In September, a New York Times article cited a CIA report suggesting that Iraq is giving UN oil-for-food contracts to states proffering "antisansctions rhetoric." Based on this policy, Germany and Japan, leading suppliers to Iraq prior to the Gulf War, now only account for one percent of total contracts, while France, Russia, and China account for 1/3 of these deals. The strategy appears to be paying off; by awarding contracts, Saddam has purchased international support for loosening UN Security Council constraints.

In August, for example, the Foreign Ministry of France revisited its longstanding interpretation of UN Security Council Resolution 670 pertaining to rules for flying into Iraq. Noting no specific prohibition of passenger flights, on August 4, the French Foreign Ministry granted permission for a direct passenger flight from Paris to Baghdad. Russia has also taken a more permissive attitude towards flights to Iraq. This was best illustrated by an August 19 arrival in Baghdad of a Russian "humanitarian" flight and a September 17 "economic" charter, which brought eleven senior Russian oil officials to Iraq. Following meetings between these visitors and Iraqi officials, Russia recommended to the UN Security Council that Iraqi war reparations be cut to Kuwaiti by 1/3 (to 20 percent of its total oil for food revenues.) As the Russian oil mission would suggest, trade is becoming an increasingly important lever employed by Saddam to erode sanctions.

Middle Eastern States Iraq has also tried to foster economic ties with its neighbors-including some historic enemies-in order to achieve political gains. In particular, Iraq has capitalized on the fact that King Abdullah II and Bashar al-

Asad may be feeling politically and economically vulnerable at home and looking to cement relations with Baghdad to solve potential internal problems.

Jordan Shortly after Vice President of Iraq Taha Yassin Ramadan visited Jordan in July, King Abdullah proclaimed a "new page" in bilateral relations. The significance of this pronouncement is yet to be determined, but reports suggested that during the meetings, the Iraqis offered to double the trade protocol with Jordan to \$600 million per year in exchange for a resumption of air travel between Amman and Baghdad. Jordan had submitted its first request to the UN in February 2000, only to be rejected in May. In June, Jordan resubmitted the request. Earlier this month, the Jordanian minister of trade and industry led a trade delegation to Baghdad to follow up on the July meeting, and during the visit, the Iraqi vice president expressed satisfaction at Jordan's efforts to lift the sanctions.

Many Jordanians consider bilateral trade and economic relations with Iraq to be the key to short-term economic growth in the Kingdom. By way of comparison, the volume of Jordanian exports to Iraq are ten times larger than Jordanian exports to the U.S. Likewise, Jordan receives an annual oil grant from Iraq valued at between \$600-\$900 million (depending on oil prices), dwarfing the U.S. foreign assistance package to Jordan, which for 2001 is proposed to be \$227 million.

Syria For more than a quarter century relations between the Ba'ath regimes in Baghdad and Damascus have been cold and adversarial. In the aftermath of the Hussein Kamel defection to Jordan in 1995, however, ties started to warm, suggesting a strategic modus vivendi. The death in June of Syrian president Hafiz al-Asad at least temporarily diminished the historic rivalry between Syria and Iraq, paving the way for improved ties. In addition, as with Jordan, trade appears to be a factor in the recent warming. This summer, the Iraqi Minister of Trade held trade meetings with the Syrian prime minister. After these meetings, in August the Iraqi Minister of Trade indicated that the annual (legal) trade volume between Syria and Iraq-- which then stood at roughly \$450 million (of which \$300 million are Iraqi imports)-- would increase and would "certainly exceed \$1 billion in the future." Currently, the Iraqi market takes about 20 per cent of Syrian non-oil exports. It has likewise been reported that Syria is planning to upgrade its diplomatic representation in Baghdad, and will soon open a trade representation office in the Iraqi capital.

In late August, Syria and Iraq re-opened the Aleppo-Mosul railroad, a link that had been inactive since 1981. The Aleppo-Mosul route will facilitate the transport of Syrian goods and people to Iraq, suggesting a level of coordination between security services that has not been witnessed since the 1970's. There are also reports that Syria and Iraq are negotiating the reopening of a long dormant oil pipeline. And yesterday, Iraqi deputy prime minister Tariq Aziz paid a surprise visit to Damascus, where he met with President Bashar al-Asad to discuss Syrian flights to Baghdad.

Turkey and Iran Turkey has allowed an illegal trade in Iraqi oil since 1991, much of the time with Washington's implicit blessing. In fact, the Turks openly acknowledge this trade and rationalize it as partial compensation for the difficulties its economy has endured under the sanctions regime. While trade has fluctuated over the years, Radio Free Europe reported in August 2000 that illegal trade-- which had been reduced by half in recent months due to a government decree-- would soon return to the usual 36,000 barrels per day. According to this report, revenues from these sales go directly to a company owned by Uday Hussein, Saddam's son.

Like Turkey, Iran too has a long record in circumventing sanctions. Although Iran periodically impounds oil tankers transiting illegal Iraqi oil, smuggling of Iraqi oil still continues via Iranian waters. U.S. officials estimate that Iran earns as much as \$500 million per year in "tolls." The U.S.-led multilateral intervention forces tries to interdict these shipments. However, the smaller gulf monarchies where this oil is generally sold have only been periodically cooperative in these efforts. Earlier this year, United States 5th Fleet commander Vice Admiral Charles Moore told the UN Sanctions Committee that Iraq would earn up to \$1 billion from illicit trade this year if Iran "did not clamp down." Based on its irregular cooperation during the first decade of sanctions, an Iranian clamp-down anytime in the near future is highly unlikely.

Implications During a hearing of the Senate Foreign Relations Committee yesterday, Secretary of State Madeleine Albright expressed "concern" about the Russian, French, and Jordanian flights. But in noting that flights are indeed permitted, she failed to mention that permission was granted for the Russian and Jordanian flights because the U.S. did not object when the request was brought before the UN sanctions committee.

Today, for all the talk of "sanctions erosion" there is no country in the world overtly flouting the UN sanctions on Iraq. In part, this is because over the past year, the United States has itself changed its sanctions policy to make it "smarter"-- i.e., to expand the list of what Iraq is permitted to import and to reinterpret more narrowly restrictions (such as airflights) that affect ordinary Iraqis. If Saddam is growing bolder as a result of enhanced trade with the outside world, the responsibility lies not with Iraq's trading partners, but with those that set the rules.

David Schenker is a research fellow at The Washington Institute. He is currently writing a monograph on Jordanian-Iraqi relations.

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