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HOUSE OF COMMONS
LONDON SW1A 0AA

Sir John Chilcot
Chairman
The Iraq Inquiry
35 Great Smith Street
London
SW1P 3BQ

4 May 2011

Dear Sir John,

Please find enclosed an additional statement I have produced addressing the issue of sanctions.

I was asked a question on this topic by Sir Roderic Lyne during the oral evidence session on 2nd February 2011 and now wish to offer the enclosed document as an extended answer.

Yours,


JACK STRAW

Iraq Inquiry

Statement on Sanctions

Rt Hon Jack Straw MP:

1. During my oral evidence session on the 2nd February this year I was asked the following question by Sir Roderic Lyne, who quoted former FCO official Carne Ross:

SIR RODERIC LYNE: *Couldn't we have said the only way to stop the Americans going down the military route was to have really effective sanctions. We had evidence from Carne Ross, who was an official in our mission at the UN: "Coordinated, determined and sustained action to prevent illegal exports and target Saddam's illegal revenues would have consumed a tiny proportion of the effort and resources of the war (and fewer lives) but could have provided a real alternative." Isn't that valid?*

2. I replied that:

THE RT. HON. JACK STRAW MP: *I don't -- to try to contain the leakage from sanctions was very, very hard indeed. I am afraid I don't agree with Mr Ross on that. If it was that easy, we would have done it.*

3. I would now like to expand this answer, and in so doing discuss the erosion of sanctions more generally.

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4. When the UN weapons inspectors were expelled from Iraq in 1998 the sanctions that were first imposed on Iraq as a result of the Gulf War became *the* principal method of 'containing' the regime- notwithstanding the two No Fly Zones over Iraq which also grew in significance after the events of 1998. However, the sanctions regime had originally been devised to work concurrently and alongside a vigorous inspections system- in order that sanctions would be effective in prohibiting the import of proscribed goods, while inspections would confirm nothing had 'leaked' through the system. Without the weapons inspectors on the ground post-1998, the sanctions regime therefore took on a far greater importance than had been intended, or than it could ultimately bear.
 5. The erosion of sanctions, illegal oil trade and smuggling had been a mounting cause for concern during the 1990s, by the early 2000s it was a major issue. Without UN weapons inspectors on the ground and with a collapse in

international will to enforce, or even merely to sustain, a sanctions regime, 'containing' the Iraqi regime became a challenge. However, when coupled with a huge increase in smuggling, illegal trade and Saddam's increased control over trade revenue, and therefore on those countries he traded with, it became clear by 2001/2 the sanctions regime was collapsing. As Saddam Hussein himself said in a speech in January 2000, "We have said with certainty that the embargo will not be lifted by a Security Council resolution but will corrode by itself." Even clearer still he stated that, "The stage of embargo corrosion is no longer something which we predict or wait for. It has actually started."¹

6. An example of this erosion in sanctions is the illegal oil smuggling: in 1999 this amounted to some \$350million, or 5% of Iraq's total revenue. In 2002 this figure had risen to between \$2.5billion and \$3billion.² Indeed all the statistics recording this illegal trade were still climbing at the time, as the countries involved did all they could to maximise the amount of trade they were able to handle.
7. Iraq was able to engage in this illegal oil trade by diverting the legitimate oil trade, which would pass under the UN Oil For Food (OFF) programme, to smuggling. The *Petroleum Intelligence Weekly* journal recorded in 2001, for instance, that Iraq legally exported 1.67 million barrels-per-day (bdp) on average and illegally exported 365,000 bdp- or 18% of total oil exports. It is principally out of this diversion from the OFF programme to smuggling that led Oil For Food revenues to fall from \$17bn in 2000 to around \$11bn in 2001, while smuggling revenues increased from around \$600m in 2000 to \$2bn in 2001.³
8. On top of this illegal oil trade Saddam was also able to gain significant [illicit] funds by manipulating the OFF programme itself. By charging less than the market value for the oil he sold to certain countries under Oil For Food, Saddam was able to incentivise them to break sanctions, but in so doing he levied a surcharge of between 20 to 70 cents on each barrel of oil the regime sold at the lower price. This surcharge went direct to the regime. According to the General Auditing Office (GAO), coupled to oil smuggling, surcharges allowed Saddam to earn \$6.6billion between 1997 and 2001.⁴ In terms of their specific value the Iraq Survey Group (ISG) estimated that Saddam earned \$230 million from surcharge impositions.⁵

¹ http://news.bbc.co.uk/1/hi/world/middle_east/593012.stm

² p.xxviii- Pollack, Kenneth *The Threatening Storm* (Random House, New York: 2002)

³ p.215 - Pollack, Kenneth *The Threatening Storm* (Random House, New York: 2002)

⁴ <http://fpc.state.gov/documents/organization/19207.pdf>

⁵ p.139- Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD 30 September 2004 [Iraq Survey Group (Duelfer) Report]- Volume I

9. One serious aspect of the breakdown of sanctions was the illegal pipeline between Syria and Iraq. In 2002 the Iraqi regime was pumping between 180,000 and 200,000 bpd through this pipeline. The overall capacity of the pipeline allowed it to carry 800,000 bpd- giving the Iraqi regime scope to rapidly ramp up the oil sold in this way. On top of this pipeline trucks carried around 30,000 to 40,000 bpd across the border to Syria.⁶
10. Not only Syria, but key neighbouring states around Iraq also engaged in illicit trade. Iraq, for instance, made \$450 million from trade with Jordan.⁷ Turkey too took part, with the Turkish government itself playing its part to regulate the trade with Iraq. In 2001, trucks carried around 150,000 bpd from Iraq to Turkey, contributing between \$340-400million for the Iraqi regime. In addition, tanker trade through the Gulf allowed Saddam to make between \$500million and \$1billion extra per year.⁸
11. The Oil for Food system gave Saddam the ability to distribute all the contracts that went under this programme. Alongside rapidly increasing illegal oil sales and smuggling, over which the regime in Baghdad presided, Saddam thus had *de facto* control over all trade revenues. This meant that Iraq not only had more capital at its disposal (which was increasing year by year as sanctions collapsed) but also more control over his neighbouring states and those he traded with, both legally and illegally.
12. This control is exemplified nowhere more aptly than, as Kenneth Pollack notes, the collapse of the air travel ban over Iraq. This ban had been introduced in 1990 and ran all the way through until August 2000 when Russia flew commercial aircraft into Baghdad airport without permission from the UN.⁹ As a result of this flight, and the lack of action by the UN to censor such flights, Saddam and the Iraqi regime felt empowered to demand that other key trading partners reopen flights, using the OFF contracts as leverage. Therefore, after the Russian flight further arrivals followed from Yemen, Morocco, Tunisia, Turkey, the UAE, Algeria, Libya, Egypt, Lebanon, Ireland, Iceland, Greece, France and Jordan.¹⁰ This total collapse of the air travel ban underlines the power that the smuggling, control of the OFF contracts and the lack of political will on behalf of the UN to tackle sanctions busting gave Saddam.

⁶ p.214- Pollack, Kenneth *The Threatening Storm* (Random House, New York: 2002)

⁷ <http://fpc.state.gov/documents/organization/7975.pdf>

⁸ p.215- Pollack, Kenneth *The Threatening Storm* (Random House, New York: 2002)

⁹ http://cdnedge.bbc.co.uk/1/hi/world/middle_east/887354.stm

¹⁰ p.217- Pollack, Kenneth *The Threatening Storm* (Random House, New York: 2002)

13. The deeply troubling result of this status quo in 2001/2 was that neighbouring states and key trading partners had no reason to enforce the embargo on other proscribed items entering Iraq. With huge revenues deriving from smuggling, Iraq's neighbours were not inclined effectively to regulate what was going in the other direction into Iraq. More widely the extra revenues, and increased control of those revenues, meant Saddam had more financial clout with which to secure, by any means, the type of goods he wanted. The Iraq Survey Group report highlighted this fact in stating that, "Once money began to flow into Iraq, the Regime's authorities, aided by foreign companies and some foreign governments, devised and implemented methods and techniques to procure illicit goods from foreign suppliers".¹¹

14. Kenneth Pollack notes, for instance, that, "in June 2002, the Indian government brought charges against the executives of an Indian company for selling atomized aluminium powder and titanium engine parts to Iraq in such quantity and of such quality that India's Defence and Research Development Organisation concluded that they could only have been intended for chemical warfare and ballistic missile production."¹²

15. Of course, while many countries had little or no reason to take issue with such illicit trade, indeed had much to gain from actively encouraging it, the FCO was assiduous in attempting to curtail the entrance of proscribed goods into Iraq. As an example, in August 2002 the FCO sent instructions to raise with the Chinese Ministry of Foreign Affairs a possible sanctions breach involving a Chinese company attempting to supply fibre optics and other telecommunications equipment to Iraq. These exports fell outside the OFF programme and were thus in breach of UN sanctions and had significant military application. The FCO received assurances from Peking that this matter would be investigated.¹³ Further such examples exist in which the FCO took issue with relevant authorities regarding the actions of companies in those countries; with Paris in January 2002 regarding suspicious goods being imported to Iraq via Jordan, Cairo also in January 2002 about an Egyptian company supplying Iraq with computer technology outside Oil For Food and Moscow in August 2002 with regard to industrial production technology being supplied in breach of sanctions- to name only a couple of examples.¹⁴

16. Alongside the attempts to tackle breaches, UK Ministers would also take issues up directly with the Governments' concerned. Tony Blair, for instance, has already

¹¹ p.139 Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD 30 September 2004 [Iraq Survey Group (Duelfer) Report] – Volume I

¹² p.216- Pollack, Kenneth *The Threatening Storm* (Random House, New York: 2002)

¹³ FCO to Peking August 2002 [Telno 205], Peking to FCO August 2002 [Telno 417].

¹⁴ FCO to Paris 23 January 2002, FCO to Cairo 17 January 2002 and FCO to Moscow 7 August 2002.

told the Inquiry he raised the issue of the Iraq/Syria pipeline during a visit he made to Syria. Countless other documents held at the Foreign Office outline examples of sanctions breaches being raised. A briefing note prepared for me prior to a meeting with a member of the Syrian Government in July 2001, which contained key lines to raise during this meeting, made clear that HMG's position was that, "The greater Saddam's access to illegal oil revenue the longer it will take to convince him to abandon his WMD programmes and get sanctions lifted." Sanctions breaches would also be taken up directly, where possible, at official level. In February 2001, for instance, John Sawers, then a Private Secretary to the Prime Minister, sought, during a meeting with a Saudi official, to solicit the support of their Government in helping to tackle the issue of the Iraq/Syria pipeline.

17. As I say, the FCO, and HM Government more widely, was tireless in taking up these issues and seeking action from the countries concerned. The problem, from the very inception of the UN resolutions regarding sanctions, was that, without a strong international political consensus, of which by 2001/2 there was very little, no action would or could be taken against those busting sanctions. With France and Russia competing for Iraqi contracts, China involved in trade with Iraq and the neighbouring states locked into a system of illegal oil and goods smuggling, taking the type of action required to stop the flow of these types of goods was almost impossible. We therefore reached a stage in early 2001 where, as the BBC noted, "the general sense was that the hot war in the Gulf had evolved into a long, cold propaganda war - a war which the West was losing."¹⁵

18. As a consequence of this situation in 2001/2 the UK Government, along with the incoming American administration, came to review our policy towards Iraq. The outcome of this review is that we decided to attempt to get 'smart sanctions' agreed by the UN and in so doing reunite the P5. The idea behind 'smart sanctions' was to move to situation where the illegal trade and oil smuggling (including the Syria pipeline) would, through encouragement to those neighbours engaged in it, move to come under the UN programme. Alongside this would be a smaller number of dual-use goods that would be proscribed and a faster review system for all other goods. Faced with implacable hurdles created by neighbouring states, and also strong opposition from within the P5, we were forced to drop the parts of the resolution relating to Iraq's neighbours, and the issue of smuggling, and settle for the final two parts of the policy- which became the 'Goods Review List' (GRL), in UNSCR 1409.

¹⁵ <http://news.bbc.co.uk/1/hi/world/americas/2712919.stm>

19. Central to Carne Ross' assertion to the Inquiry, therefore, is that we could and should have got a wider ranging system that dealt more effectively with the oil and goods smuggling. This, however, flies in the face of the fact that this is precisely what we did attempt to get through 'smart sanctions', only to encounter almost implacable resistance from members of the P5 and difficulties with Iraq's neighbouring states.
20. It is clear, when looking at the data I give above, that by 2001/2 the illegal trade between Iraq and its neighbouring states and the capital some P5 members stood to gain through a further erosion of sanctions, meant that we could never have got the type of far-reaching resolution we wanted, and which Carne Ross outlines. It was certainly worth attempting and we gave it a very good shot- with the Americans, through our encouragement, eventually doing much of the heavy lifting required to get the eventual GRL. I noted publically at the time that UNSCR 1409 (2002) would help, "bring a significant reduction in UN bureaucracy to allow swifter delivery of goods to Iraq."¹⁶ Given the propaganda war Saddam was playing to discredit the sanctions regime, even this limited goods review resolution, by helping to take away this ability, was certainly worthwhile.
21. Kenneth Pollack accurately outlines the immovable difficulties that stood in the way of 'smart sanctions' and gives examples of what would have been required to get each of Iraq's neighbouring states on board. Jordan, for instance, would have required someone to supply it with \$500m in free and discounted oil to replace that coming from Iraq, as well as replace the \$900m in lost trade. Syria, as a further example, would have needed the UN to compensate it for the loss of \$500m in lost revenue from Iraq's smuggled oil and almost \$2bn in trade.¹⁷ Similar situations would have been the case with Turkey, Iran and the Gulf States- all of which was a huge challenge in itself. As a summary of the difficulties we faced just getting those in the region on board, "Time" magazine noted on 31st May 2001 that, "Iraq....loudly resisted the new proposals and threatened to cut off discount oil supplies to any of its neighbours that go along with the new programme, but sympathy for continued sanctions against Iraq is at a low ebb in the Arab world anyway."¹⁸ It is noteworthy also that, for 'smart sanctions' to work we also required the complete agreement of all Iraq's neighbours engaged in the illicit trade- one open border would have left Saddam able to divert all his oil and goods smuggling and still able to receive proscribed goods.

¹⁶ www.guardian.co.uk/world/2002/may/15/iraq.unitednations

¹⁷ p.219- Pollack, Kenneth *The Threatening Storm* (Random House, New York: 2002)

¹⁸ <http://www.time.com/time/world/article/0,8599,128606,00.html>

22. When this is coupled, as I outline earlier, with the fact that P5 members such as France, Russia and China were competing for Iraqi trade, and thus would have rather seen a total erosion in sanctions than their being ramped up, the problem of getting a workable sanctions system passed became impossible. The Daily Telegraph, for instance, quoted a Russian diplomat in May 2001 (after the first failed attempt to get the full 'smart sanctions' package) as saying that Russia, "will not accept this idea of smart sanctions. This is not about easing the sanctions but about strengthening them. We believe the sanctions should be lifted."¹⁹ Thus, through lack of political will within the P5, and Iraq's powerful economic grip over neighbouring states, the whole 'smart sanctions' framework became unworkable.

23. As the ISG report correctly concludes, "By 2000-2001, Saddam had managed to mitigate many of the effects of sanctions and undermine their international support."²⁰ This had long been Saddam's aim and his regime had focussed on working towards this end through its dealings with neighbouring states and permanent UNSC members. Ultimately, "Saddam wanted to recreate Iraq's WMD capability—which was essentially destroyed in 1991—after sanctions were removed and Iraq's economy stabilized, but probably with a different mix of capabilities to that which previously existed."²¹ As I argue, the UK, together with the US, worked hard to make the system work pre-2001/2, with the FCO in particular seeking tirelessly to ensure states worked through the sanctions system. In our attempts to have 'smart sanctions' agreed in the UN we sought to repair a disintegrating system but, due to Saddam's economic hold over Iraq's neighbouring states and the vested interest of certain P5 members, we were simply not able to get it passed. This meant, by the summer of 2002, the UK faced a stark, yet undeniable, choice: allow sanctions to completely fall apart and ultimately end up dealing with Saddam, and his highly unpredictable and illogical regime, through Cold War-style deterrence or seek, through diplomacy backed by the threat of force, to enforce the UNSCRs that demanded Iraq's disarmament.

JACK STRAW

¹⁹ www.telegraph.co.uk/news/worldnews/middleeast/iraq/1331497/Britain-struggles-over-Iraq-smart-sanctions-plan.html

²⁰ P.30 Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD 30 September 2004 [Iraq Survey Group (Duelfer) Report]- Volume I

²¹ P.30 Comprehensive Report of the Special Advisor to the DCI on Iraq's WMD 30 September 2004 [Iraq Survey Group (Duelfer) Report]- Volume I