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The Volcker Investigation into the U.N. Oil-for-Food Scandal: Why It Lacks Credibility

Nile Gardiner, Ph.D.

The Independent Inquiry Committee into the United Nations Oil-for-Food Programme (IIC) is due to release its interim report in February 2005. The committee was appointed by U.N. Secretary-General Kofi Annan in April 2004 following calls for a Security Council-backed inquiry into the Oil-for-Food scandal. The three-member inquiry is chaired by former Federal Reserve Chairman Paul Volcker and includes South African Justice Richard Goldstone and Swiss Professor of Criminal Law Mark Pieth. The committee's 60-member staff, which includes three support personnel on loan from the U.N., operates on a \$30 million budget drawn from the U.N. Oil-for-Food escrow account.

The interim report will be published at an extremely sensitive time for the United Nations. There is little doubt that the scandal has done immense damage to the reputation of the world organization.¹ Secretary-General Annan has come under fire for what is arguably the biggest scandal in the history of the organization and the biggest financial fraud of modern times. Embarrassingly for the U.N. chief, Benon Sevan, whom he picked to run the Oil-for-Food program, is alleged in the report of U.S. weapons inspector Charles Duelfer to have received a voucher for 13 million barrels of oil from Saddam Hussein.

Annan is facing growing calls for his resignation from Capitol Hill, where Senator Norm Coleman (R-MN), chairman of the Senate Permanent Subcommittee on Investigations, and 60 Members of Congress have called for Annan to step down.² Among them are

Talking Points

- Paul Volcker's previous position as a director of the United Nations Association and Business Council for the United Nations raises serious questions about his objectivity and neutrality with regard to the Oil-for-Food investigation. This should be a major issue of concern to Congress.
- A mechanism for external oversight of the operations of the Volcker Committee should be put in place. The committee's operations are shrouded in secrecy, with little transparency.
- In the interests of openness and accountability, the Independent Inquiry Committee should fully disclose the identities and previous affiliations of all 60 staff members.
- The United Nations should make available for interview to congressional investigators all U.N. personnel involved in managing and staffing the Oil-for-Food program.
- All U.N. documents relating to the Office of the Iraq Program, headed by Benon Sevan, should also be made available to Congress. The U.N. must not have a monopoly of vital evidence.

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214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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nine members of the House Appropriations Committee, which provides 22 percent of the U.N. operating budget each year, and eight members of the House International Relations Committee.³ Several more Senators are expected to support Coleman's call for Annan's departure.

In addition, the Bush Administration has begun to harden its stance toward Annan. Outgoing Secretary of State Colin Powell warned the embattled Secretary-General that he will be held accountable for management failures in the Oil-for-Food program.⁴ President George W. Bush has so far refused to express his confidence in Annan, declining to meet with him in December when the Secretary-General visited Washington.

Outside the oil-for-food scandal, Annan's problems are also mounting. He has acknowledged and accepted organizational responsibility for a major scandal involving U.N. personnel and peacekeepers in the Congo. The U.N. stands accused of human rights violations against refugees on a scale that dwarfs the Abu Ghraib scandal. In addition, internal unrest within the U.N. continues to mount in the wake of a series of harassment scandals involving senior U.N. managers. The threat of a U.N. staff revolt looms large. If 2004 was Kofi Annan's "annus horribilis," 2005 threatens to be even worse.

It is amidst this highly charged atmosphere that Mr. Volcker will unveil his eagerly awaited report. His report undoubtedly has the potential to bring down the U.N. Secretary-General. The U.N. leadership has placed so much political capital on this report that the stakes are extremely high: A damning report would almost certainly seal Annan's fate.

Regrettably, those expecting a hard-hitting expose of U.N. corruption and feckless leadership could well be disappointed by Volcker's report. As Chairman Volcker stated to *The New York Times*, his report will produce no "smoking gun."⁵ While the IIC interim report will probably contain valuable information of considerable interest to congressional investigators, some of which may be damaging to the U.N.'s reputation, it is unlikely to paint a detailed picture of corruption and mismanagement at the highest levels of the world body.

With the possible exception of one or two officials, a whitewash of most of the U.N.'s leadership, including the Secretary-General, is a strong possibility. Indeed, there is widespread suspicion on Capitol Hill that the Volcker Committee will instead focus heavily upon the supposed role of the Security Council in overseeing the Oil-for-Food program—especially the United States, even though it is not the main charge of the inquiry.⁶

1. For background on the Oil-for-Food issue, see Nile Gardiner, James Phillips, and James Dean, "The Oil-for-Food Scandal: Next Steps for Congress," Heritage Foundation *Backgrounder* No. 1772, June 30, 2004, at www.heritage.org/Research/InternationalOrganizations/bg1772.cfm.
2. "Expressing the sense of the House of Representatives that due to the allegations of fraud, mismanagement, and abuse within the United Nations oil-for-food program, Kofi Annan should resign from the position of Secretary-General of the United Nations to help restore confidence that the investigations into those allegations are being fully and independently accomplished," H. Res. 869, 108th Cong., 2nd Sess., December 6, 2004, at thomas.loc.gov/cgi-bin/bdquery/z?d108:HE00869:@@P (January 24, 2005). Representative Roger F. Wicker (R-MS) sponsored the resolution.
3. The author is grateful to James Dean, Deputy Director, Government Relations, Foreign and Defense Policy, at The Heritage Foundation, for these details.
4. See Sean Hannity, interview with Colin Powell, "Sec'y of State Powell Talks with Sean," partial transcript, *Fox News*, January 12, 2005, at www.foxnews.com/story/0,2933,144218,00.html (January 24, 2005).
5. Warren Hoge, "No 'Smoking Gun' in the Inquiry into Iraq's Prewar Oil Sales," *The New York Times*, January 7, 2005, p. A3.
6. The IIC's main terms of reference are to "collect and examine information relating to the administration and management of the Oil-for-Food Programme, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents, as well as contractors, including entities that have entered into contracts with the United Nations or with Iraq under the Programme." Independent Inquiry Committee into the United Nations Oil-for-Food Programme, "Terms of Reference," at www.iic-offp.org/reference.htm (January 24, 2005).

The Volcker Committee may fail to deliver an exhaustive account of U.N. failings and possible criminal activity by U.N. officials for several reasons, including a lack of investigative power and an absence of real independence from the U.N. Indeed, the five congressional investigations⁷ now underway are far more likely to prove effective in uncovering the full story of the Oil-for-Food fraud that allowed the Saddam Hussein regime to enrich itself at the expense of the Iraqi people.

The Volcker Committee's Lack of Credibility

The Independent Inquiry Committee is severely handicapped by its dearth of investigative power. Even if it wanted to, the committee clearly does not possess the means to fully investigate this gigantic scandal. As outgoing U.S. Ambassador to the U.N. John Danforth has pointed out, the IIC is not equipped with the necessary tools to conduct a thorough investigation:

The fact that [Volcker] doesn't have subpoena power, he doesn't have a grand jury, he can't compel testimony, he can't compel production of documents and witnesses and documents that are located in other countries might be beyond his reach....

Those are tremendous handicaps.... [W]hat is possible, is that his focus would move from the bad acts, from the criminal offenses to something that he will view as more manageable—namely the procedures and was it a tight enough procedural system, which might be interesting but not the key question to investigate.⁸

At the same time, there are also major questions regarding the independence of the Volcker Committee. So far, the names of just 10 senior staff have been released, including Reid Morden, former Director of the Canadian Security Intelligence Service, and Swiss magistrate Laurent Kasper-Ansermet.⁹ However, no details have been released regarding the remaining staff of investigators that are actually doing the investigating and handling the huge volume of documents. It remains unclear how many former U.N. employees are involved with the committee. It is self-evident that a truly independent inquiry into U.N. corruption should not be staffed either by former U.N. employees or by any other people with significant ties to the U.N.

Without any kind of external oversight, the Volcker Committee is clearly open to U.N. manipulation. Paul Volcker, handpicked by Annan, is under immense pressure from the U.N. to clear the Secretary-General and restore the reputation of the United Nations. Refusing to hand over to Congress the 55 highly damaging internal U.N. Oil-for-Food audits until January of this year only added to the impression of a major cover-up by the U.N.

In the eyes of Congress, the Volcker Committee was also badly damaged by the controversy over Anna Di Lellio, its director of communications and a former U.N. employee. She resigned¹⁰ on September 23, 2004, over statements to *The Guardian* in 2002, in which she implicitly compared President Bush to Osama bin Laden:

I see the major threats coming from ourselves, rather than the east. I find deeply unsettling both the ascendance of

7. The Senate Committee on Foreign Relations, Senate Permanent Subcommittee on Investigations, House Committee on International Relations, House Subcommittee on National Security, Emerging Threats and International Relations, and House Committee on Energy and Commerce are all conducting investigations. Three other U.S. federal investigations—by the Government Accountability Office (GAO), the Department of Justice, and the U.S. Treasury—are also underway.
8. John Danforth, quoted in Fox News, "Danforth: Volcker Doesn't Have Right Tools," January 8, 2005, at www.foxnews.com/story/0,2933,143714,00.html (January 24, 2005).
9. Paul A. Volcker, "A Road Map for Our Inquiry," *The Wall Street Journal*, July 7, 2004.
10. See press release, "Statement for the Press," Independent Inquiry Committee, September 24, 2004, at www.iic-offp.org/story24sept04.htm (January 24, 2005). See also Nile Gardiner and James Phillips, "The Volcker Oil-for-Food Commission: Is It Credible?" Heritage Foundation WebMemo No. 569, September 20, 2004, at www.heritage.org/Research/InternationalOrganizations/wm569.cfm.

George Bush and his puppeteers to the U.S. government, and the mix of self-serving hypocrisy and incompetence prevailing in European governments. I don't like it that the two nations whose citizenship I hold, Italy and the U.S., have leased their institutions to a couple of families. With defenders like W and Berlusconi, largely unchecked by a sycophantic media, who needs Bin Laden to destroy culture, personal freedom, respect for other human beings, integrity, and the rule of law—all the things that make our lives worthwhile?¹¹

The Di Lellio resignation helped to fuel growing doubt on Capitol Hill regarding the supposed independence of the Volcker inquiry and raised major questions regarding the committee's modus operandi, its staff, its judgment, and its overall effectiveness.

Paul Volcker and an Apparent Conflict of Interest

In addition to the problems outlined above, the fact that Mr. Volcker's own outlook may be influenced by past associations should be an issue of serious concern. It is vitally important that any independent inquiry into the extremely serious allegations against the United Nations over its management of the Oil-for-Food program be totally independent of the U.N. It is just as important that the person heading the inquiry be completely unbiased and objective in his approach to the organization he is investigating. For example, in the corporate world, it would be inconceivable for an independent inquiry into fraud and corruption to be headed by someone with strong ties and loyalties to the corporation being investigated.

However, in the case of Volcker and the IIC, there is an apparent conflict of interest that brings into question whether or not the committee can be relied upon to investigate the United Nations objectively. When Volcker was appointed to head the Oil-for-Food investigation in April 2004, it was not widely known by the public, the world's media, and the U.S. Congress that he was a director of the United Nations Association of the United States of America (UNA–USA) and the Business Council for the United Nations (BCUN). Volcker is listed as a director in the 2003–2004 UNA–USA annual report,¹² as well as in the annual reports for 2001–2002 and 2000–2001.¹³

His biography on the Independent Inquiry Committee's Web site does not mention his involvement with the UNA–USA,¹⁴ a rather striking omission considering that he is charged with conducting a highly sensitive investigation into the U.N. Volcker does disclose his other institutional affiliations—including the Trilateral Commission, the Institute of International Economics, the American Assembly, and the American Council on Germany—but is seemingly shy about his work with the United Nations Association.

The United Nations Association of the United States of America is a pro-U.N. advocacy group that “supports the work of the United Nations.” In the words of a grateful Kofi Annan:

There are United Nations Associations in many other countries, but this one is unique—both in the challenges it faces and in the energy and resources it devotes to tackling them. From our perspective, it is hard to think of any work more valuable than what you do to improve the understanding of United Nations issues in our host country.¹⁵

11. Mark Tran, interview with Anna Di Lellio, *The Guardian*, September 11, 2002, at www.guardian.co.uk/september11/oneyearon/interview/0,12385,787426,00.html (January 24, 2005).

12. United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations: UNA–USA Annual Report 2003–2004*, at www.unausa.org/pdf/publications/2003_annual_report.pdf (January 24, 2005).

13. United Nations Association of the United States of America, *Annual Report 2001–2002*, at www.unausa.org/..pdf/ar02.pdf (January 24, 2005), and *Annual Report 2000–2001*, at www.unausa.org/..pdf/ar01.pdf (January 24, 2005).

14. Independent Inquiry Committee into the United Nations Oil-for-Food Programme, “Members,” at www.iic-offp.org/members.htm (January 24, 2005).

A key goal of the United Nations Association is to “greatly expand and contribute to Americans’ understanding of the U.N. and its importance to the U.S. by increasing the channels through which we inform Americans, particularly opinion-makers, elites, UNA–USA members and students.”¹⁶ It is also a forceful advocate of U.S. membership of the International Criminal Court.

The UNA–USA has played a significant role in defending the U.N.’s response to the Oil-for-Food scandal and the leadership of Secretary-General Annan. It has also prominently defended the reputation of the Oil-for-Food Independent Inquiry Committee. To a great degree, the UNA–USA has acted as lead cheerleader for the U.N. and the Volcker Committee with regard to the Oil-for-Food controversy. Its talking points on “The Oil-for-Food Programme,” for example, argue that the Volcker report “will be objective, thorough and fair” and that “the U.N. Security Council—not the Secretary-General or his staff—had ultimate oversight authority for the Oil-for-Food Programme.” The UNA–USA has criticized the “politically motivated attacks” on the U.N. over Oil for Food and the calls for Annan’s resignation, which it says “constitute an effort to undermine the U.N., which is a real objective for many of those who are distorting the facts on this complex issue.”¹⁷

The UNA–USA’s partner organization, the Business Council for the United Nations, works to “advance the common interests of the U.N. and business in a more prosperous and peaceful world.” One of its chief underwriters was BNP Paribas,¹⁸ the French bank that held the escrow account for Oil-for-Food funds. BNP donated more than \$100,000 to UNA–USA and the BCUN in 2002 to 2003.¹⁹ BNP’s role in the Oil-for-Food

scandal is currently being investigated by the House International Relations Committee,²⁰ as well as by the Volcker Committee.

Key Recommendations

The U.N.’s credibility has been badly damaged by its disastrous mismanagement of the Oil-for-Food program. The United Nations as an organization will need to work hard to mend its battered image and restore the faith of both the Iraqi and American peoples, as well as of the wider international community. In order to guarantee an effective and credible investigation of the Oil-for-Food scandal, the IIC and the U.N. should take the following actions:

- A mechanism for external oversight of the operations of the Independent Inquiry Committee should be put in place. Its operations are shrouded in secrecy, with little transparency.
- In the interests of openness and accountability, the IIC should fully disclose the identities and previous affiliations of all 60 staff members.
- Transcripts of interviews conducted between the IIC and U.N. officials, including Secretary-General Kofi Annan, should be publicly disclosed along with the final findings of the IIC.
- Members of the U.N. Security Council should be furnished with regular monthly updates on the IIC investigation, including a full list of interviewees.
- A firm date should be set for final publication of the IIC report. The timing of the report’s release must not be open to political manipulation by the U.N.
- The United Nations should make available for interview to congressional investigators all

15. Kofi Annan, quoted in United Nations Association of the United States of America, *Annual Report 2001–2002*, p. 9.

16. United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations*, p. 3.

17. United Nations Association of the United States of America, “The Oil-for-Food Programme,” talking points, December 2004, at www.unausa.org/policy/newsactionalerts/advocacy/tpoff.asp (January 24, 2005).

18. United Nations Association of the United States of America, *Annual Report 2000–2001*, p. 22.

19. United Nations Association of the United States of America, *60 Years of Educating Americans About the United Nations*, p. 28.

20. See Bill Gertz, “Bank Lapses Cited in Iraq Oil Program,” *The Washington Times*, November 18, 2004, at www.washtimes.com/national/20041118-120331-8156r.htm (January 24, 2005).

U.N. personnel involved in managing and staffing the Oil-for-Food program.

- All U.N. documents relating to the Office of the Iraq Program, headed by Benon Sevan, should also be made available to Congress. The U.N. should not have a monopoly of vital evidence.

Conclusion

Supporters have hailed the Independent Inquiry Committee into the Oil-for-Food program as a huge step forward for the United Nations in terms of increasing accountability and transparency. They have held it up both as an example of a new spirit of openness supposedly sweeping through the world body and as a powerful symbol of Kofi Annan's stated objective to restore the reputation of the U.N.

In reality, the Volcker Committee suffers from a huge credibility problem of its own. It is hard to see how a team of investigators handpicked by the U.N. Secretary-General, whose son is himself a subject of investigation, can be considered truly independent. There is also a major question mark over its chairman's neutrality. Considering Mr. Volcker's several years as a director of the United Nations Association and the Business Council for the United Nations, it is difficult to see how he could cast a critical, objective eye on the U.N.'s leadership. It is inconceivable that Kofi Annan was unaware of Volcker's close ties to the UNA-USA when he appointed him to head the Oil-for-Food investigation. Indeed, it could well have been an important factor influencing his decision.

There are also major concerns over the IIC's lack of transparency. The U.N.-appointed investigation

has operated in astonishing secrecy, with virtually no outside scrutiny. For an inquiry designed to unearth hidden corruption and malpractice on a huge scale, it is strikingly opaque. Such is its level of secrecy that its Web site does not even contain a mailing address.

In addition to its clear lack of independence and questionable covert operating style, there are serious doubts with regard to the IIC's ability to do its job. The Volcker Committee bears all the hallmarks of a toothless paper tiger: It carries no enforcement authority (such as the power to punish contempt) to compel compliance with its requests for information and has no authority to punish any wrongdoing that it discovers.

As the U.N. faces a major crisis of public confidence, it is imperative that any investigation of U.N. corruption and mismanagement be seen as independent, open, transparent, and effective. It is regrettable that the Volcker Committee is failing on all counts. Indeed, the U.N.-appointed Independent Inquiry Committee should not be seen as the definitive investigation of the Oil-for-Food program. It should be viewed as one of several major investigations and, on current evidence, far less credible than its congressional counterparts.

—Nile Gardiner, Ph.D., is Fellow in Anglo-American Security Policy in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation. William Schirano, Foreign Policy Research Assistant, and Nicole Collins, Foreign Policy intern, assisted with the research for this paper.