

THE ROLE OF BNP-PARIBAS SA IN THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

HEARING BEFORE THE SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED NINTH CONGRESS

FIRST SESSION

APRIL 28, 2005

Serial No. 109-72

Printed for the use of the Committee on International Relations



Available via the World Wide Web: http://www.house.gov/international_relations

U.S. GOVERNMENT PRINTING OFFICE

20-921PDF

WASHINGTON : 2005

For sale by the Superintendent of Documents, U.S. Government Printing Office
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THE ROLE OF BNP-PARIBAS SA IN THE UNITED NATIONS OIL-FOR-FOOD PROGRAM

THURSDAY, APRIL 28, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:30 p.m., in room 2200, Rayburn House Office Building, Hon. Dana Rohrabacher (Chairman of the Subcommittee) presiding.

Mr. ROHRABACHER. This Subcommittee will come to order. The Subcommittee on Oversight and Investigations will come to order. And, Howard, are you going to join us today?

This afternoon, we will examine the role of Banque Nationale de Paris (BNP) and the operation of the finances of the Oil-for-Food Program. The Full Committee, under Chairman Hyde, examined BNP last November. The responses we received then were not satisfactory, which has become even more evident as this scandal has unfolded. At that hearing, for example, BNP witnesses denied any problems with payments in the program. This just does not seem consistent with what has been disclosed since that November hearing.

In that November hearing, we found that one recipient of misdirected payments in the program was a shadowy company called East Star Trading. According to BNP's contract with the United Nations, this company was not authorized to receive these payments as they were not the original party to the transaction. This is a third party being paid for what someone else is doing. The payment was supposed to go to a company called Al-Riyadh International Flowers. According to the terms of BNP's contract with the United Nations, only financial institutions could have funds reassigned to them. I want to stress that East Star Trading is not a financial institution, and even BNP recognizes that.

While we initially believed that there were only three improper transfers to East Star, we now believe that there were at least dozens of such transfers. We have also learned that there were, in fact, at least 400 payments like this to other companies. We still do not fully understand what kind of company East Star Trading is, and we are anxious to find out. We are told by BNP that East Star is part of a consortium that has participated in other Oil-for-Food transactions. There are some allegations that East Star has conducted itself in a way that is a little bit more disconcerting than conduct that is simply part of the consortium. These charges will require some research and we will be doing just that.

As to the company that was supposed to get the payments, Al-Riyadh International Flowers, we know a bit more. We now understand that the company was owned by Prince Bandar bin Mohamad, a member of the Saudi royal family. Let me note that he is not the same Prince Bandar who is the Ambassador from Saudi Arabia to the United States. Prince Bandar is, of course, not someone who would be involved in this type of operation, or at least we do not have any evidence of that. But let me note, this is not the same Prince Bandar who is the Ambassador, and his integrity has not been called into question by this investigation.

In 2003, the Defense Contract Audit Agency, DCAA, received some remaining Oil-for-Food contracts for potential overpricing. They reviewed these for some of the potential overpricing that we thought was happening. Some of these contracts were suspicious, and overpricing was evident in some of these contracts. Apparently, some of them belonged again to Prince Bandar's company. The auditors found at least three instances in which Al-Riyadh overpriced goods destined for Iraq in the Oil-for-Food Program. It was through overpricing of goods that kickbacks were made to Iraq—by inflating the price of goods and kicking back the difference to Saddam's henchmen.

DCAA found that over \$8 million of such examples of overpricing could be found in these transactions. BNP suggests that all of this was normal practice—and we will be talking about that today—and that all of these funds were fully accounted for, causing no loss to the program.

In his prepared statement, Mr. Schenk admits that mistakes were made by BNP, but contends that they were in fact avoidable, and this is good. The question remains, however: Why were these payments made, period? More importantly, there are still 80 such transactions being reviewed, and BNP does not fully understand exactly what was going on in these 80 transactions. We want to talk about that as well. Moreover, the Committee has obtained documents from BNP concerning internal audits the bank prepared for itself on the program. In two audits from 2000 and 2001, BNP auditors reported that the bank's operating procedures were out of date as of January 1997, soon after the program began and that the flow of paperwork, according to these audits, was even at that time irrational.

At this time, I would like to ask unanimous consent that I submit for the record several documents provided to the Committee concerning these payments, including the report prepared by BNP on the hundreds of third-party payments made by the bank as well as the two internal audits I just mentioned. Without objection, so ordered.

[The information referred to follows:]

**PAYMENTS UNDER UN OIL-FOR-FOOD PROGRAM
LETTERS OF CREDIT TO PERSONS OTHER THAN BENEFICIARIES
AND BANKS PROVIDING DIRECT LOANS TO BENEFICIARIES**

INTERIM REPORT

Submitted to the House
International Relations
Committee by

BNP Paribas
New York Branch
787 Seventh Avenue
New York, NY 10019

April 25, 2005

INTERIM REPORT**PAYMENTS UNDER UN OIL-FOR-FOOD PROGRAM
LETTERS OF CREDIT TO PERSONS OTHER THAN BENEFICIARIES
AND BANKS PROVIDING DIRECT LOANS TO BENEFICIARIES****I. INTRODUCTION**

By way of background, the Oil-For-Food Program was created through a unanimous resolution of the Security Council of the United Nations ("UN") with the principal objective of alleviating the suffering of the Iraqi people by providing humanitarian goods to Iraq under contracts approved by the so-called "661 Committee" or "Sanctions Committee" of the UN Security Council. To that end, the 661 Committee, of which the United States was an active member, authorized specified contractors to furnish approved goods to Iraq. Once a contract had been authorized by the 661 Committee, the UN directed its bank, the New York branch of Banque Nationale de Paris and later BNP Paribas (either or both sometimes referred to herein as "BNPPNY"), to issue a letter of credit naming the contractor as the beneficiary, thereby providing assurance that the beneficiary would receive payment under the contract upon delivery of the approved goods to Iraq and presentation of the required documents.

Because it was contemplated that letter of credit beneficiaries might well need financing in connection with the transactions (for example, to procure raw materials or to manufacture or procure finished goods in order to fulfill their contractual obligations), the beneficiaries were permitted under the Oil-For-Food Program to assign proceeds under their letters of credit to secure bank financing to obtain the required items. An assignment of proceeds is a traditional means of securing financing to enable the

beneficiary to obtain the goods covered by the letter of credit. As discussed more fully below, this means of financing ordinarily can take various forms, including an assignment to a bank to obtain a direct cash loan to the beneficiary from which the beneficiary can pay its supplier, an assignment to a bank making funds available to the supplier, or an assignment to the supplier providing financing to the beneficiary in the form of goods supplied on open account.

In response to questions that have been raised by the Staff of the House International Relations Committee (“HIRC”) regarding instances in which letter of credit proceeds may have been paid to persons other than beneficiaries or banks providing financing to beneficiaries in the form of a direct loan, BNPPNY is in the process of conducting a review, utilizing the methodology described in Section II below, to identify such payments. The results of that review to date – which is ongoing – are discussed in Section III below.

II. METHODOLOGY

From the inception of the UN Oil-For-Food Program through November 18, 2004, when BNPPNY’s review commenced, BNPPNY had processed approximately 54,000 payments under humanitarian letters of credit issued at the direction of the UN. These payments fall within the following broad categories: approximately 23,000 U.S. dollar-denominated wire transfers; approximately 18,000 Euro-denominated wire transfers; approximately 2,000 wire transfers in foreign currencies other than the Euro; and approximately 11,000 direct dollar or other currency deposits into accounts maintained at BNPPNY, or at other branches or affiliates of BNPPNY. Because different

payment systems have been used by BNPPNY for processing transactions in each of these different categories, the methodology employed by BNPPNY for identifying payments to persons other than beneficiaries or banks making direct loans to beneficiaries has been tailored accordingly. BNPPNY's review of these payments to date has focused on the approximately 41,000 U.S. dollar- and Euro-denominated wire transfers. The review so far has consumed approximately 8,000 man-hours of labor on the part of BNPPNY employees detailed from audit functions with support from other personnel.

The account established for the U.N. Oil-For-Food Program was handled within BNPPNY's Trade Finance Department. As a first step, all payment data from the Trade Finance Department account was extracted from BNPPNY's money transfer system for U.S. dollar-denominated wire transfers (approximately 107,000 records, including but not limited to Oil-For-Food Program data). A similar process then was used to extract comparable data from approximately 32,000 records relating to Euro-denominated wire transfers. Based upon various internal coding conventions and matching programs, transactions known to be unrelated to the Oil-For-Food Program were removed from the extracted data. Various manual validation reviews of these transactions then were performed to ensure the accuracy of the identification process.

In order to review the universe of approximately 41,000 U.S. dollar- and Euro-denominated wire transfer payments, BNPPNY first identified those U.S. dollar- and Euro-denominated wire transfer payments which, in accordance with standard trade finance practices, were made to banks that were presenting documents for payment of humanitarian letters of credit, ostensibly on behalf of the letter of credit beneficiaries, with no "further credit to" reference in the electronic files. This step identified

approximately 19,000 US dollar-denominated payments and approximately 15,000 Euro-denominated payments, which were set aside for further analysis to determine whether the data in the electronic files fully reflected the transactions.

The payment instructions on BNPPNY's electronic systems for the approximately 4,000 U.S. dollar-denominated wire transfers and approximately 3,000 Euro-denominated wire transfers that remained then were compared electronically to the names of beneficiaries listed on humanitarian letter of credit spreadsheets maintained by BNPPNY, in order to identify those payment instructions that included a name other than that of the beneficiary. This process resulted in the identification of 2,079 U.S. dollar-denominated payments and 145 Euro-denominated payments that required further manual review. The results of that review in turn identified 98 U.S. dollar-denominated payments and 12 Euro-denominated payments that were made to a person other than the beneficiary or a bank providing it with a direct loan.

The complete files for each of the letters of credit under which these 110 payments had been made were then manually reviewed. That review led, among other things, to the identification of a financing facility maintained by East Star Trading Company Ltd. ("East Star") at Credit Agricole Indosuez Singapore (now Calyon Singapore) ("Credit Agricole") and a financing facility maintained by Al Douh Jordanian Establishment ("Al Douh") at HSBC Bank Middle East, Amman, Jordan ("HSBC"), discussed in Section III below.

Based upon this information, 100% of the files for letters of credit issued to each of the beneficiaries that had directed these 110 payments were targeted for review to determine whether they had made other payments of a similar nature. In addition,

further searches of the Oil-For-Food Program payment records were conducted, initially on a sample basis and then on a 100% basis, for any other payments to HSBC and Credit Agricole; and to Philadelphia Investment Bank and Egyptian Arab Land Bank, by reason of the frequency with which those two banks had appeared in the review to that point. These searches identified other beneficiaries who also had directed payments to those banks. This triggered an iterative process, pursuant to which a 100% review of all letter of credit files has been or will be performed for every beneficiary who is identified as having caused a payment to be made to any person other than a bank providing it with a direct loan. 293 payments in addition to the initial 110 were identified through these steps as having been made to persons other than beneficiaries or banks providing them with direct loans.¹

As a further measure, BNPPNY elected to evaluate a random sample of 151 of the 582 U.S. dollar-denominated payments that were made to several banks identified in Figure 29 of Volume I of the Comprehensive Report of the Special Advisor to the Director of the Central Intelligence Agency on Iraq's Weapons of Mass Destruction, dated September 30, 2004 (the "Duelfer Report") and two banks that were

¹ 169 other payments were identified through these steps for further review to determine whether they were made to persons other than beneficiaries or banks providing them with direct loans. In addition, ongoing reviews of the U.S. dollar- and Euro-denominated wire transfers, as well as planned reviews of payments to direct deposit accounts and payments in foreign currencies other than the Euro, which have not yet been examined, may identify other such beneficiaries. In such an event, 100% of the letter of credit files for those beneficiaries will be reviewed. Refinements in the methodology described herein and factors not presently anticipated also may expand the universe of payments to be reviewed.

referenced in the Duelfer Report and that recently had been designated as primary money laundering concerns by the U.S. Treasury Department. That review identified no payments to persons other than the letter of credit beneficiaries or banks providing them with direct loans.

As noted above, a number of payments to banks with no "further credit to" reference were identified and earmarked for further evaluation as part of the review process. This was accomplished by selecting for manual file review a statistically significant sample of these payments designed to achieve an error rate not to exceed 1%, sampling precision of .99% and a confidence interval of 95%. A U.S. Army computer program at <http://www.hqda.army.mil/aaaweb/audit.htm> was used to determine the requisite sample size of 381 U.S. dollar-denominated payments and 378 Euro-denominated payments needed to satisfy these parameters. A random number generator then was used to select these payments. The review to date of 358 of the dollar-denominated payments and 323 of the Euro-denominated payments thus selected has identified none with indicia that it was made to a person other than the beneficiary or a bank providing a direct loan to the beneficiary.

To summarize the interim results of the implementation of the foregoing review and certain follow-up efforts, BNPPNY's review so far has identified 403 payments that appear to have been made to persons other than beneficiaries or banks providing them with direct loans. As discussed more fully in Section III below, the composition of these 403 payments is as follows:

- 50 that appear to have been made at the direction of the beneficiaries of the letters of credit to their own affiliates and/or financing facilities maintained by those affiliates.

- 273 of the remaining 353, accounting for approximately 83% of their aggregate dollar value, that appear to have been made to bank financing facilities that were utilized by three exporters of various goods -- which in their own right or through affiliates were UN-approved letter of credit beneficiaries in other humanitarian goods transactions -- to finance goods that they were supplying other UN-approved beneficiaries.²

- 80 that are being reviewed to determine the role played by the recipients of those payments (*e.g.*, other bank financing facilities, etc.).

BNPPNY believes its review methodology is well-designed to identify any other such payments on a going-forward basis. This methodology is, however, being reevaluated continually and will be revised as indicated by the ongoing results of its application.

III. DISCUSSION

As of April 1, 2005, BNPPNY has identified 353 instances, as detailed in Attachment 1 hereto, in which payments were made to persons other than humanitarian letter of credit beneficiaries or banks providing those beneficiaries with direct loans. BNPPNY so far has been able to obtain information sufficient to evaluate the roles of banks and other persons that were involved in transactions which accounted for approximately 83% of the value of the payments listed on Attachment 1, and is continuing its efforts to obtain information regarding the others. The information that has

² It is common for a supplier of goods to arrange a financing facility under which a bank extends a "revolving line of credit" to the supplier, whereby the bank makes loans up to a specified maximum for a specified period. As the borrower repays a portion of the loan, an amount equal to the repayment can be borrowed again under the terms of the agreement. See the definition of "revolving line of credit" in Barron's Dictionary of Finance and Investment Terms (5th ed.). An assignment to such a facility of some or all of the proceeds of a transaction being financed through that facility thus serves in the first instance to repay the bank for the loan.

been obtained is set forth in Attachment 2 hereto. Generally, letter of credit beneficiaries in those transactions appear to have assigned or otherwise directed letter of credit proceeds to repay banks that financed the UN-approved humanitarian goods transactions through financing facilities maintained by suppliers that provided the beneficiaries with goods covered by the letters of credit.

As of April 1, 2005, BNPPNY also had identified 50 payments that were made to persons who appear to be the beneficiaries' affiliates and/or financing facilities maintained by those affiliates, as detailed in Attachment 3. Information that has been gathered to date regarding these relationships is provided in Attachment 2 hereto.

The following points should be noted at the outset with respect to the transactions identified during the course of BNPPNY's review to date, as reflected in the above-referenced attachments:

- Assignments of proceeds by letter of credit beneficiaries to banks providing transaction financing through either the beneficiary or its supplier, or to the supplier financing the beneficiary by providing goods on open account, are commonplace in trade finance practice:

The seller as a beneficiary under a letter of credit could assign its right to the proceeds to its bank as security for a loan under [§ 5-114 of the UCC] . . . With the loan the seller [i.e., beneficiary] could then pay its own supplier, procure the necessary documents under the letter of credit, present the same to the issuer, and remit the amount owed to the lending bank. The foregoing arrangement can take other forms too. For example, the seller's bank might take an assignment of proceeds, but instead of disbursing the loan to the seller, it could notify the seller's supplier that the supplier may draw drafts on the bank for goods supplied. The seller might even assign the right to proceeds to its supplier as security for an extension of credit by the

supplier itself. (3 White & Summers, Uniform Commercial Code § 26-12 (4th Ed.))

- BNPPNY has identified no instance where a letter of credit and its corresponding obligations were transferred or assigned by a beneficiary to a third party.³
- The UN Iraq Account has not been subject to any loss in connection with any of the referenced transactions.
- The suppliers and beneficiary affiliates who were involved in the overwhelming majority of the transactions that are the subject of this Interim Report were UN-approved beneficiaries under other humanitarian letters of credit, or affiliates of the same.
- The source of goods and disposition of funds in a letter of credit transaction is not affected by whether financing for that transaction is obtained through an assignment of proceeds to a financing facility that is maintained by the beneficiary or one that is maintained by its supplier.
- Where the proceeds of a letter of credit are paid directly to a beneficiary, the beneficiary is free to use some or all of those proceeds to repay any bank that provided financing for the transaction, whether the funds were

³ As observed in paragraph 10.04[1] of the leading treatise, "The Law of Letters of Credit," by John F. Dolan, "[r]estrictions on transfer of the right to draw" on a letter of credit, in order to "protect the applicant's expectations concerning performance and facilitate document examination," "do not apply to assignments of letter of credit rights or of the letter of credit proceeds where there is no risk of substitute performance and no deviation from the strict compliance standard that permits document examiners to make payment decisions without looking beyond the face of the documents and the credit itself."

advanced to the beneficiary or its supplier; or to pay its supplier directly;
or to pay third parties unrelated to the transaction.

- None of the non-beneficiaries identified in said attachments appears on the United States Department of Treasury Office of Foreign Asset Control's List of Specially Designated Nationals.
- BNPPNY has seen no indication that any assignment of proceeds or other payment instruction identified in said attachments is causally linked to any corruption that may have occurred in connection with the Oil-For-Food Program.

The transactions that involved two of the persons identified on Attachment 1 – Al Douh and East Star, an affiliate of Pacific Inter-Link SDN BHD ("Pacific Inter-Link") which, like Al Douh, is a large, well-established business organization – generally are illustrative. Together, those transactions represent approximately 82% of the dollar value of the payments listed in that Attachment. Al Douh and East Star, as well as a number of the latter's affiliates, supplied various Oil-For-Food Program letter of credit beneficiaries with the goods required under their UN-approved contracts. Indeed, Pacific Inter-Link and several of its affiliates as well as several affiliates of Al Douh also were UN-approved suppliers of hundreds of millions of dollars of goods under other humanitarian letters of credit.

In the case of Al Douh, in order to obtain financing for humanitarian goods transactions, letter of credit proceeds were assigned by various beneficiaries to an account at HSBC, which was maintained in respect of a financing facility made available by that bank to Al Douh. Similarly, in the case of East Star, in order to obtain financing

for humanitarian goods transactions, letter of credit proceeds were assigned by various beneficiaries to an account at Credit Agricole, which was maintained in respect of a financing facility made available by that bank to East Star. In accordance with BNPPNY's procedures, the beneficiaries typically represented in their requests to assign proceeds to these financing facilities that the assignments were for the purpose of repaying those facilities for financing provided to them to purchase the humanitarian supplies covered by the underlying letters of credit; and both HSBC and Credit Agricole provided confirmation that this was the case on various occasions during the course of the Oil-For-Food Program.⁴

Discussions with representatives of Al Douh, East Star and Pacific Inter-Link, as well as with certain beneficiaries of humanitarian letters of credit that obtained the required goods from them, together with other information gathered during the course of BNPPNY's review, have provided further assurances that Al Douh and East Star were the suppliers of goods to various Oil-For-Food Program beneficiaries, and that their supply activities were financed through their respective financing facilities.

In sum, the 403 payments at issue appear, in all of those cases in which BNPPNY so far has been able to obtain sufficient information to perform an evaluation, to have been made to banks which made financing facilities available to suppliers of goods to beneficiaries as a means of financing the underlying humanitarian goods

⁴ In the case of some of the payments listed on Attachments 1 and 3, and as noted therein, the beneficiaries did not assign letter of credit proceeds to, and create a legal entitlement to receive funds on the part of, any other person in advance of the time the letters of credit became payable. Rather, the beneficiaries simply instructed, in those instances, that BNPPNY pay certain sums to specified persons at the time the beneficiaries themselves became entitled to receive those funds under the letters of credit.

transactions, or else to the beneficiaries' own affiliates. These financing arrangements are in keeping with normal trade finance practice, as described above. It bears emphasis that, even today, none of the non-beneficiaries listed in the attachments hereto appears on the United States Treasury Department Office of Foreign Asset Control's List of Specially Designated Nationals. Nor has BNPPNY seen any indication that any of those payments was causally related to any corruption that may have occurred in connection with the Oil-For-Food Program.

BNPPNY is continuing its review, as described above. It intends to provide a final report to HIRC at the conclusion of that process.

[illegible]

ATTACHMENT 1

Qatar Entity	Company Name	LC No.	Value	Curr	Amount in US\$ Equivalent Amount	Y/N
Al-Doha	BOLCHAY	216184	412,000	USD	51,056.08	Y
Al-Doha	BOLCHAY	216184	412,000	USD	1,07,301.12	Y
Al-Doha	BOLCHAY	216184	412,000	USD	792,325.00	Y
Al-Doha	FALCON TRADING	172766	412,000	EUR	1,07,414.15	Y
Al-Doha	FALCON TRADING	172766	412,000	EUR	1,72,866.35	Y
Al-Doha	FALCON TRADING	172766	412,000	EUR	245,966.82	Y
Al-Doha	FALCON TRADING	172766	412,000	EUR	232,478.86	Y
Al-Doha	FALCON TRADING	172766	412,000	EUR	65,268.49	Y
Al-Doha	FALCON TRADING	172766	412,000	EUR	2,946,773.91	Y
Al-Doha	FALCON TRADING	172766	412,000	EUR	11,355,445.13	Y
Al-Doha	FALCON TRADING	172766	412,000	USD	2,654,763.78	Y
Al-Doha	SOLAR	216184	222,000	USD	700,277.46	Y
Al-Doha	SOLAR	216184	222,000	USD	6,203.45	Y
Al-Doha	SOLAR	216184	222,000	USD	2,145,866.38	Y
Al-Doha	SOLAR	216184	222,000	USD	1,245,054.26	Y
Al-Doha	SOLAR	216184	222,000	USD	46,550.88	Y
Al-Doha	SOLAR	216184	222,000	USD	41,974.00	N
Al-Doha	UNITED CO FOR DAIRY AND FOOD PRODUCTS	U72280	515,000	USD	115,177.51	N
Al-Doha	UNITED CO FOR DAIRY AND FOOD PRODUCTS	U72280	515,000	USD	115,177.51	N
Al-Doha	UNITED CO FOR DAIRY AND FOOD PRODUCTS	U72280	515,000	USD	488,621.25	Y
Al-Doha	UNITED CO FOR DAIRY AND FOOD PRODUCTS	U72280	515,000	USD	353,811.25	N
Al-Doha	UNITED CO FOR DAIRY AND FOOD PRODUCTS	U72280	515,000	USD	440,780.20	Y
Al-Doha	UNITED CO FOR DAIRY AND FOOD PRODUCTS	U72280	515,000	USD	586,892.15	N
Al-Doha	UNITED CO FOR DAIRY AND FOOD PRODUCTS	U72280	515,000	USD	216,471.50	N
Al-Doha	UNITED CO FOR DAIRY AND FOOD PRODUCTS	U72280	515,000	USD	1,778,859.50	N

ATTACHMENT 1

Al-Jahd Region	US Embroidery	IS No	Int. Sale	EUR	Arabic (USD) Other (USD) USD Equivalent	AP
Al-Jahd	AL JAHQLINE	U72402	12/2003	USD	1,638,177.10	N
Al-Jahd	AL JAHQLINE	U72402	12/2003	USD	331,724.07	N
Al-Jahd	AL JAHQLINE	U72402	15/2003	USD	2,651,604.17	N
Al-Jahd	AL JAHQLINE	U72402	16/2003	USD	2,053,029.65	N
Al-Jahd	AL JAHQLINE	U72402	16/2003	USD	1,502,000.77	N
Al-Jahd	FIRST INTERNATIONAL TRADING	C72460	5/2003	USD	161,250.00	Y
Al-Jahd	FIRST INTERNATIONAL TRADING	C72460	5/2003	USD	94,122.35	Y
Al-Jahd	FIRST INTERNATIONAL TRADING	C72460	7/11/2003	USD	4,202.64	Y
Al-Jahd	FIRST INTERNATIONAL TRADING	C72460	4/2003	USD	319,500.00	Y
Al-Jahd	FIRST INTERNATIONAL TRADING	T721346	5/10/2002	EUR	317,364.65	Y
Al-Jahd	FIRST INTERNATIONAL TRADING	C724783	12/16/2002	EUR	343,324.40	Y
Al-Jahd	AL WASEL & BABEL GENERAL TRADING	C724783	8/16/2002	USD	587,156.80	Y
Al-Jahd	AL WASEL & BABEL GENERAL TRADING	C724783	8/16/2002	USD	916,173.32	Y
Al-Jahd	AL WASEL & BABEL GENERAL TRADING	C724783	8/16/2002	USD	1,151,640.03	Y
Al-Jahd	AL WASEL & BABEL GENERAL TRADING	T721638	4/18/2002	EUR	1,562,766.69	Y
Al-Jahd	AL WASEL & BABEL GENERAL TRADING	T721638	7/5/2002	EUR	28,616.45	Y
Al-Jahd	AL WASEL & BABEL GENERAL TRADING	T721638	5/8/2002	EUR	3,410,491.32	Y
Al-Jahd	FOOD INDUSTRIES	T730122	6/11/2002	EUR	3,428,807.24	Y
Al-Jahd	FOOD INDUSTRIES	T730122	6/11/2002	EUR	3,422,611.44	Y
Al-Jahd	FOOD INDUSTRIES	T730122	6/11/2002	EUR	3,440,222.27	Y
Al-Jahd	FOOD INDUSTRIES	T730122	7/2/2002	EUR	3,664,007.97	Y
Al-Jahd	SIAG	C724001	4/2/2003	USD	327,000.00	Y
Al-Jahd	SIAG	T724008	2/21/2002	EUR	367,162.50	Y
Al-Jahd	SIAG	T724150	5/8/2002	EUR	60,365.14	Y
Al-Jahd	SIAG	U720342	10/25/2002	USD	315,000.00	Y
Al-Jahd	SIAG	U720342	11/27/2002	EUR	352,946.54	Y
Al-Jahd	SIAG	T720379	5/7/2003	EUR	373,316.65	Y
Al-Jahd	AL INWAD AGENCIES	T720379	5/30/2003	EUR	53,541.35	Y
Al-Jahd	AL INWAD AGENCIES	T720379	6/6/2003	EUR	151,462.80	Y
Al-Jahd	AL INWAD AGENCIES	T720379	7/2/2003	EUR	181,176.15	Y
Al-Jahd	AL INWAD AGENCIES	T720379	12/20/03	EUR	553,203.36	Y
Al-Jahd	SEOLP GALAXY	L720395	6/8/2002	EUR	313,020.96	Y

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Vehicle Search:	LP Beneficiary	LP No.	Vehicle	CUR	Amount in US Dollars Equivalent	AD
Al-Dabb	LESLIE GALAXY	171584	826/2012	EUR	319,000.80	Y
Al-Dabb	SHOULP GALAXY	171585	521/2012	EUR	553,226.36	Y
Al-Dabb	MAINTLAND	C72506	507/2007	USD	3,685,080.00	Y
Al-Dabb	MAINTLAND	K71728	303/2003	USD	1,280,228.50	Y
Al-Dabb	MAINTLAND	U72006	1026/2003	USD	3,081,106.51	Y
Al-Dabb	MAINTLAND	U72006	1030/2000	USD	518,785.45	Y
Al-Dabb	SOMEZIA	H70507	562/2001	USD	92,280.00	Y
Al-Dabb	SOMEZIA	H75107	1016/2001	USD	440,016.75	Y
Al-Dabb	SOMEZIA	U72216	516/2001	USD	270,000.00	Y
Al-Dabb	SOMEZIA	Y71436	323/2001	USD	868,934.80	N
Al-Dabb	HOLDING CO	P73880	170/2004	EUR	2,184,035.21	Y
Al-Dabb	HOLDING CO	P73882	170/2004	EUR	1,948,833.99	Y
Al-Dabb	HOLDING CO	P73882	326/2004	EUR	1,582,882.73	Y
Al-Dabb	ISO TAMP	U71907	13/2001	USD	901,332.35	Y
Al-Dabb	ISO TAMP	Z71670	34/2002	USD	73,706.00	Y
Al-Dabb	ISO TAMP	Z71671	171/2002	USD	1,183,872.67	Y
Al-Dabb	LANA S.A.	U72506	925/2002	USD	248,071.50	Y
Al-Dabb	LANA S.A.	U72506	1036/2002	USD	144,982.50	Y
Al-Dabb	LANA S.A.	U72506	191/2003	USD	385,331.15	Y
Al-Dabb	LESLIE CRISTAL	C74284	300/2001	USD	1,157,058.60	N
Al-Dabb	LESLIE CRISTAL	C74284	300/2001	USD	885,180.75	N
Al-Dabb	LESLIE CRISTAL	U72142	145/2001	USD	1,233,917.15	N
Al-Dabb	AGRI MAD	U72542	516/2001	USD	484,873.15	Y
Al-Dabb	ARAB INTERNATIONAL FOOD	U71962	817/2003	USD	621,006.00	Y
Al-Dabb	ARAB INTERNATIONAL FOOD	U71962	822/2003	USD	1,138,947.23	Y
Al-Dabb	ETS ABDELMOULA SA	U73571	1216/2002	USD	1,405,057.94	Y
Al-Dabb	ETS ABDELMOULA SA	V73551	1216/2002	EUR	685,355.32	Y
Al-Dabb	VEHICLES AND CONSTRUCTION GROUP	L76618	321/2008	EUR	15,822.80	Y
Al-Dabb	VEHICLES AND CONSTRUCTION GROUP	L76619	331/2008	EUR	2,918,172.13	Y
Al-Dabb	VEHICLES AND CONSTRUCTION GROUP	L76619	331/2008	EUR	953,725.55	Y

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Country/Region	EC Beneficiary	EC No	Alve Day	CUP	No. of Beneficiaries Equivalent to 1000	Y
Al-Doha	ZADCO CONTRACT TRADING	C7443	5/2/2007	USD	391,120.00	Y
Al-Doha	ZADCO CONTRACT TRADING	C7443	10/2/2007	USD	245,770.00	Y
Al-Doha	AL WASHHER	V7461	3/7/2007	EUR	5,085,649.35	Y
Al-Doha	AL RADI ARABIAN CO.	P73910	4/7/2007	EUR	2,325,649.35	N
Al-Doha	ARAB CO. TRADE AND INDUSTRY	V73083	3/12/2007	EUR	4,532,207.96	Y
Al-Doha	EGYPTIAN CO. FOR DAIRY	L72715	12/12/2007	EUR	2,865,625.74	Y
Al-Doha	GLOBAL FREE GLOBAL DEVELOPMENT GROUP	P72047	8/14/2007	EUR	394,736.84	Y
Al-Doha	ITHMAR FOUNDATION	V73177	4/19/2007	EUR	276,670.18	Y
Al-Doha	MAGE ELECTRONIC	V73660	5/19/2007	EUR	5,006,885.50	Y
Al-Doha	MEERWAST FOR TRADING	L73557	8/4/2007	EUR	1,151,469.72	Y
Al-Doha	PUSSEMBER	Z71679	3/15/2007	USD	4,000.00	Y
Al-Doha	SEMEANS INTERNATIONAL TRADING	P72096	6/6/2007	EUR	1,582,241.70	Y
Al-Doha	TAMM SHENG GENERAL TRADING	V73628	8/4/2007	EUR	1,353,342.24	Y
Al-Doha						
East Star	AL RYADH INTERNATIONAL FLOWERS	C74307	7/16/2007	USD	225,663.51	N
East Star	AL RYADH INTERNATIONAL FLOWERS	C74307	7/16/2007	USD	66,235.67	N
East Star	AL RYADH INTERNATIONAL FLOWERS	C74307	7/16/2007	USD	424,620.92	N
East Star	AL RYADH INTERNATIONAL FLOWERS	C74307	5/14/2007	USD	38,736.85	N
East Star	AL RYADH INTERNATIONAL FLOWERS	C74307	1/17/2007	USD	313,403.50	N
East Star	AL RYADH INTERNATIONAL FLOWERS	C74307	1/17/2007	USD	216,022.28	N
East Star	AL RYADH INTERNATIONAL FLOWERS	C74319	6/4/2007	USD	2,035,690.00	N
East Star	AL RYADH INTERNATIONAL FLOWERS	C74612	7/16/2007	USD	1,261,363.00	N
East Star	AL RYADH INTERNATIONAL FLOWERS	K71247	5/16/2007	USD	9,712,740.00	Y
East Star	AL RYADH INTERNATIONAL FLOWERS	K71247	5/22/2007	USD	3,365,290.00	Y
East Star	AL RYADH INTERNATIONAL FLOWERS	K71247	10/2/2007	USD	1,118,760.00	Y
East Star	AL RYADH INTERNATIONAL FLOWERS	K71247	10/2/2007	USD	5,712,760.00	Y
East Star	AL RYADH INTERNATIONAL FLOWERS	K71247	11/2/2007	USD	2,237,460.00	Y
East Star	AL RYADH INTERNATIONAL FLOWERS	K71247	11/2/2007	USD	1,000,000.00	Y
East Star	AL RYADH INTERNATIONAL FLOWERS	K71247	12/2/2007	USD	1,211,840.01	Y
East Star	AL RYADH INTERNATIONAL FLOWERS	K71247	1/20/2008	USD	1,957,700.00	Y

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Site Name	Company Name	Product Name	Lot No.	Volume	Unit	Quantity	Unit Price	Total Price	Remarks
East Star	AL RYADH INTERNATIONAL FLOWERS	472249	873032	180	USD	3,461,247.50	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	472249	7192002	180	USD	2,135,696.00	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773016	2713003	180	EUR	97,720.28	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773016	2672003	180	EUR	1,240,081.44	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	267003	180	EUR	1,635,477.55	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	2130032	180	EUR	655,543.01	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	377003	180	EUR	1,465,267.77	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	9120002	180	EUR	631,424.49	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	9240002	180	EUR	804,046.57	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	10170002	180	EUR	547,251.59	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	3302003	180	USD	1,990,000.00	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	3232003	180	USD	2,224,450.00	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	4120003	180	USD	3,635,446.00	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	3502003	180	USD	3,055,340.00	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	7170003	180	USD	5,567,290.00	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	6020003	180	USD	2,677,284.00	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	8270003	180	USD	2,667,500.00	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	7220003	180	USD	745,886.60	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	7160003	180	USD	2,558,134.00	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	3670003	180	USD	1,122,400.38	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	4710003	180	USD	677,495.37	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	8750003	180	USD	2,293,718.10	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	7170003	180	USD	1,840,313.19	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	7150003	180	USD	3,795,658.32	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	8210003	180	USD	3,133,919.48	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	7140003	180	EUR	3,658,353.28	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	7002003	180	EUR	2,467,463.17	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	1067003	180	EUR	616,460.98	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	1076003	180	EUR	1,528,691.01	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	1117003	180	EUR	1,121,078.38	Y		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	7620003	180	USD	6,102,010.00	N		
East Star	AL RYADH INTERNATIONAL FLOWERS	773031	3160003	180	USD	528,010.00	N		

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Other Parties	LC Beneficiary	LC No.	Value	Curr.	Amount Declared in USD - Equivalent amount	Age
East Star	SOMECA	U72759	7/16/02	USD	20,250.00	Y
East Star	SOMECA	U72759	9/8/2002	USD	275,886.29	Y
East Star	SOMECA	U72759	9/20/02	USD	285,274.80	Y
East Star	SOMECA	U72759	9/22/02	USD	131,338.00	Y
East Star	SOMECA	U72759	11/5/2002	USD	547,884.40	Y
East Star	SOMECA	U72759	12/13/02	USD	48,420.00	N
East Star	AL MASHREK	U72849	4/18/03	USD	675,350.00	N
East Star	AL MASHREK	U74055	5/7/03	USD	1,248,240.00	N
East Star	AL MASHREK	U72759	9/23/02	EUR	214,709.92	N
East Star	AL MASHREK	U72759	9/19/00	EUR	538,038.22	N
East Star	BAUER TATES SHALLAH	U73530	6/25/2003	EUR	2815,394.86	Y
East Star	BAUER TATES SHALLAH	U73530	6/25/2003	EUR	677,886.43	Y
East Star	BAUER TATES SHALLAH	U73530	8/12/2003	EUR	658,833.71	Y
East Star	BAUER TATES SHALLAH	U73530	9/22/2003	EUR	580,069.54	Y
East Star	AL AHAM TRADING	U72863	9/7/002	EUR	2,271,886.96	N
East Star	AL AHAM TRADING	U72863	6/21/0002	EUR	3,958,331.57	N
East Star	BATNEX IMPORT CO.	U73181	9/10/2004	EUR	4,642,236.75	N
East Star	BATNEX IMPORT CO.	U73181	8/10/2004	EUR	725,911.18	Y
East Star	BATNEX IMPORT CO.	U73181	10/11/2004	EUR	86,107.51	Y
East Star	LANDMARK INTERNATIONAL	U73563	9/11/2002	EUR	481,766.85	Y
East Star	LANDMARK INTERNATIONAL	U73563	9/12/2002	EUR	4,073,172.08	N
East Star	LANDMARK INTERNATIONAL	U73563	10/10/2002	EUR	4,073,172.08	N
East Star	MAHAS INTERTRADE	U73520	7/1/03	EUR	3,494.07	N
East Star	MAHAS INTERTRADE	U73520	8/12/2003	EUR	260,814.27	Y
East Star	MAHAS INTERTRADE	U73520	9/20/03	EUR	200,963.81	Y
East Star	MAHAS INTERTRADE	U73520	9/20/03	EUR	281,317.75	Y
East Star	WOODSTOCK	U71682	1/12/2005	USD	587,550.68	Y
East Star	WOODSTOCK	U71682	12/22/2005	USD	671,471.20	Y
East Star	WOODSTOCK	U71682	4/11/2005	USD	1,575,336.00	N
East Star	DAKSHI ECONOMIC GROUP	U73521	3/22/2005	EUR	1,011,165.51	Y
East Star	DAKSHI ECONOMIC GROUP	U73521	1/6/2005	EUR	737,822.71	Y
East Star	EL TARES EL ANBI	U73506	4/22/2002	USD	2,374,299.50	N

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Entity Name	Country	LC No.	Val. Date	Curr.	Amount Disposed (thb) Revised Disposed Equivalent Amount	Y/N
Egyptian International Company for Petroleum and Industrial Services	FEDERATION	Y71469	2/2/2001	USD	614,400.00	Y
Egyptian International Company for Petroleum and Industrial Services	FEDERATION	Y71469	3/23/2001	USD	355,200.00	Y
Egyptian International Company for Petroleum and Industrial Services	FEDERATION	Y71469	5/10/2001	USD	405,200.00	Y
Sarakhsen Wheat Pool	ZAFRAT AL RYAGH	Y71371	10/31/98	USD	7,453,500.00	Y
Sarakhsen Wheat Pool	ZAFRAT AL RYAGH	Y71371	2/28/2000	USD	7,862,973.80	Y
Sarakhsen Wheat Pool	ZAFRAT AL RYAGH	Y71371	4/27/2000	USD	7,510,225.70	Y
Sarakhsen Wheat Pool	ZAFRAT AL RYAGH	Y71371	8/7/2000	USD	6,280,037.37	Y
Large Cylind Co.	FLEX ENGINEERING LTD PROJECT	172627	4/25/2003	EUR	184,104.96	Y
Large Cylind Co.	FLEX ENGINEERING LTD PROJECT	172627	8/7/2003	EUR	1,081,383.07	Y
Large Cylind Co.	FLEX ENGINEERING LTD PROJECT	172627	8/7/2003	EUR	1,081,383.07	Y
Pacific Inter Link	AL RYAGH INTERNATIONAL FLOWERS	Z716590	9/14/2000	USD	10,000.00	N
Pacific Inter Link	PERSONAL ECONOMIC DEVELOPMENT	U720058	1/7/2001	USD	975,000.00	Y
Pacific Inter Link	SOVIET	C722713	6/11/2001	USD	580,000.00	Y
Société d'Etudes et de Commerce	MOUSTECI	Z716260	3/26/2001	USD	68,004.52	Y
Société d'Etudes et de Commerce	MOUSTECI	Z716260	1/7/2002	USD	158,262.38	Y

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Country/Region	LC Beneficiary	LC No.	LC Date	CUS	Amount in US Dollars Equivalent Amount	Y/N
Société d'Etudes et de Commerce	VOGOSTROF	2716203	8/7/2002	USD	1,289,405.48	Y
Al Hana Specialized Vehicles	RUSSIAN ENGINEERING CO	P765506	3/10/2004	EUR	1,865,004.22	Y
Al Hana Specialized Vehicles	RUSSIAN ENGINEERING CO	V724408	10/11/2002	EUR	1,117,141.00	Y
Interfood Interfood	CEYLON COMMODITY	P768951	4/1/2000	EUR	88,253.28	N
Interfood Interfood	CEYLON COMMODITY	P768951	4/1/2000	EUR	2,413,146.80	Y
AVB Ltd	AL KARKADZ LINE	0715307	7/30/2002	USD	5,466,800.22	N
BW Chama Pharmazie	ALSO IMPORT ATERA	K711792	11/18/1992	USD	64,960.00	N
Daigil International S.A. Angola	ZAKSANA PRODU CO	V714362	8/31/1992	USD	3,520,648.86	Y
Dairy Grant Training	TRADE INTERNATIONAL	H700046	9/10/1997	USD	4,402,955.00	N
El Hana for Import & Export	AL WASEL & BAGEL GENERAL TRADING	U720593	11/1/2001	USD	1,341,569.60	Y
Glencore Cornella France S.A.	KLOTTO	V713400	2/25/2001	USD	262,513.70	N
Helian Chawon	RUSSIAN ENGINEERING CO	V713640	9/20/1999	USD	262,312.50	N

**INFORMATION REGARDING CERTAIN SUPPLIER
AND AFFILIATE RELATIONSHIPS REFLECTED IN
ATTACHMENTS 1 AND 3 TO THE INTERIM REPORT**

A. East Star Trading Company Ltd.

I. Supplier Relationships

East Star, which was incorporated in the Cayman Islands on February 27, 1990, is affiliated with Pacific Inter-Link, a diversified business group engaged in various manufacturing and export activities. The ICP credit report for Pacific Inter-Link states that it was incorporated in Malaysia on June 22, 1988, and that its principal place of business is located at the Manara Dato Onn Putra World Trade Centre in Kuala Lumpur, Malaysia. According to its website, www.pacificinter-link.com.my, Pacific Inter-Link is involved in the export of various goods and services from Malaysia and the Far East to the Middle East, Africa and Europe. The goods offered by Pacific Inter-Link for export include cosmetics and toiletries, detergents, paints, pharmaceuticals, soaps, plastics, rubber, polyurethane, paper, tin, building materials, cooking oils and foodstuffs, and other consumer products, according to its website.

The website further indicates that "Pacific Inter-Link ... is a member of the Hayel Saeed Anam Group, one of the oldest and most noted business conglomerates in the Arab world," founded in Aden, Yemen in 1938 by Hayel Saeed Anam. Subsidiaries of Pacific Inter-Link include PT Pacific Indomas, PT Pacific Medan, PT Pacific Texindo, PT Pacific Palmindo, PT Pacific Agritama, PT Pacific Indo Dairy, PT

Oleochem & Soap, Pacific Oils & Fats and Asiatic Container. (*Id.*) Significantly, Pacific Inter-Link and seven of its affiliates – PT Pacific Indo Dairy, PT Pacific Indomas, PT Pacific Texindo, PT Pacific Medan, PT Pacific Agritania, PT Pacific Palmindo, and PT Oleochem & Soap – were awarded numerous UN-approved humanitarian supply contracts throughout the entire course of the Oil-For-Food Program, totaling approximately \$270 million in value.

BNPPNY's review to date has identified a number of payments, as set forth in Attachment 1 of the Interim Report, that were assigned by Al Riyadh International Flowers Co. for Investment Trading Industry & Medical Hygienic Services ("Al Riyadh") and various other beneficiaries of Oil-For-Food Program humanitarian letters of credit to a financing facility at Credit Agricole. As described below, funds were made available through that facility to East Star in order to finance the goods it supplied to those letter of credit beneficiaries, and thus the beneficiaries' performance of the underlying humanitarian goods transactions.

In recent discussions, Pacific Inter-Link has advised BNPPNY that East Star was the supplier to Al Riyadh and other beneficiaries of Oil-For-Food Program humanitarian letters of credit, and that these transactions were financed through a financing facility at Credit Agricole.¹ Credit Agricole, which on various occasions during the course of the Program had confirmed representations by humanitarian letter of

¹ Representatives of four humanitarian letter of credit beneficiaries – Al Riyadh, Regional Economic Fund, PT Quarto Bina Upaya, and Al Hoda International Trading – recently have confirmed that their companies assigned proceeds from their letters of credit to the Credit Agricole financing facility in order to finance their purchases from East Star or Pacific Inter-Link of the goods required under their UN-approved contracts.

credit beneficiaries that they were assigning proceeds to that financing facility in order to obtain financing for the underlying transactions, recently reconfirmed this point.

2. Affiliate Relationships

As noted above, PT Pacific Indo Dairy, PT Pacific Indomas and PT Pacific Texindo are identified by Pacific Inter-Link as its subsidiaries on its website. As set forth on Attachment 3, all three of these entities were letter of credit beneficiaries and as such directed payments to the Credit Agricole financing facility maintained by East Star at Credit Agricole.

East Star and Pacific Inter-Link are both 100% owned by the same entity, Commodities House Investment Ltd. Discussions with representatives of Al Riyadh, Regional Economic Development Fund and PT Quarto Bina Upaya, all of which are beneficiaries of humanitarian letters of credit, have confirmed that East Star and Pacific Inter-Link are part of the same group, and that East Star provided Pacific Inter-Link with access to financing through its facilities.

B. Al Douh Jordanian Establishment

1. Supplier Relationships

Al Douh was organized in 1993 in Amman, Jordan as a general partnership. According to the ICP credit report on Al Douh, it was founded by members of the Al Farhood family, which previously had emigrated to Jordan from Iraq. It is part of a large group of companies engaged in the production and supply of foodstuffs and other merchandise throughout the Middle East, with its principal place of business located at the Aqarco Commercial Centre in Amman, Jordan. Its affiliates include Al Methalia Establishment for Dairy Products, Al Naba Al Safi Industrial Establishment, Al

Jawhara Foodstuff Co. Ltd., Al Riyadh Co. for Detergents Industry, and Al Riyadh Co. for Vegetable Oil Industry, all of which have facilities located in Jordan. All of these affiliates were UN-approved suppliers of humanitarian goods under various letters of credit issued during Phases 3 through 13 of the Oil-For-Food Program, aggregating approximately \$88 million in value.

BNPPNY's review to date has identified a number of payments, as set forth on Attachment 1 to the Interim Report, that were assigned by various beneficiaries of Oil-For-Food Program humanitarian letters of credit to an account at HSBC. That account was used to repay HSBC for the funding it made available to Al Douh, which enabled it to supply goods to those letter of credit beneficiaries, who in turn furnished the goods to Iraq pursuant to humanitarian contracts authorized by the UN. The beneficiaries provided representations that they were receiving transaction financing from the HSBC financing facilities at the times they requested that proceeds of their letters of credit be assigned thereto, and those representations were confirmed by HSBC on various occasions during the course of the Program.

Al Douh recently has confirmed to BNPPNY that it supplied a number of humanitarian letter of credit beneficiaries with goods – including, among other staples, baby milk powder, full cream milk powder, vegetable ghee, toilet soap and feed barley – that those beneficiaries had agreed to furnish to Iraq pursuant to contracts they had been awarded under the Oil-For-Food Program. Al Douh advised that the contractual relationship between Al Douh as a supplier, and the beneficiary of a letter of credit, as a buyer, typically was formed through the issuance of a purchase order by the beneficiary to Al Douh, followed by a return invoice from Al Douh to the beneficiary for the price of

the goods. Al Douh further indicated that letter of credit proceeds were assigned by the beneficiaries to credit facilities at HSBC to secure financing for the goods supplied to them by Al Douh. Al Douh explained that as HSBC received payments into these accounts, funds were used to repay that bank for financing the goods being supplied by Al Douh.

C. Talfeet Trading Est.

1. Supplier Relationships

Talfeet Trading Establishment ("Talfeet") is an import/export company that trades primarily in teas and foodstuffs. It was registered as a partnership in Amman, Jordan in 1996 and maintains its principal place of business at the Al Aqad Complex in Amman. Its sole proprietors are Saleh J. Ihmaid, its chief executive, and Kamal Ihmaid, its financial manager. Talfeet was itself a UN-approved beneficiary under various humanitarian letters of credit with an aggregate value of approximately \$18 million.

BNPPNY's review to date has identified a number of payments, listed on Attachment 1 to the Interim Report, that were assigned by several beneficiaries of Oil-For-Food Program humanitarian letters of credit to accounts at the Philadelphia Investment Bank and Jordan Islamic Bank, both located in Amman, Jordan. The beneficiaries represented that they were assigning those proceeds in order to obtain transaction financing, and both banks confirmed those representations on various occasions during the course of the Program.

Talfeet advised BNPPNY in a recent discussion that funding was made available for its trading activities through financing facilities at those banks. Talfeet further advised that it supplied a number of Oil-For-Food Program letter of credit

beneficiaries with the goods they were required to furnish pursuant to their underlying humanitarian goods contracts. Talfeet explained that the assignments of proceeds were provided by the beneficiaries in order to provide security for the repayment of the financing for those transactions by the banks.

2. Affiliate Relationships

Discussions with Talfeet confirmed that it was a part owner of Nivitigala Tea Factory (PVT) Ltd., Ranfer Teas (PVT) Ltd., A.S. Chatoor (Tea) Ltd., and AgriNad, all of which are letter of credit beneficiaries that assigned proceeds to the financing facilities maintained by Talfeet. Talfeet advised BNPPNY that its managing partner had signature authority for all of these entities as well as for Talfeet. Documents in the letter of credit files sent to BNPPNY by these companies all include the managing partner's signature.

D. Inesfood Group – International Food Trading – Arab Oil Co.

1. Affiliate Relationships

There are strong indications that International Food Trading and Arab Oil Co. are part of the Inesfood Group. The names of these companies variously appear together on the letterhead of correspondence to BNPPNY maintained in the letter of credit files. All three companies have their principal place of business at the same address: Inesfood Food Center, Rue de La Mosquée, La Mornagua, Tunis, Tunisia. Extracts from the commercial register in Tunisia recite that International Food Trading and Inesfood Group have given the same individual, Jalel Ben Aissa, the authority to sign on behalf of both companies. Al Douh, which was a supplier to Inesfood Group and Arab Oil Co., has indicated that the three are affiliated entities.

E. Telwar International Inc. – Aegean Marble Inc.

1. Affiliate Relationships

According to a report of Dun & Bradstreet, Aegean Marble Inc. ("Aegean") is a corporation organized under the laws of the state of Georgia, with its principal place of business located at 7104 Crossroads Boulevard, Suite 123, Brentwood, Tennessee 37207. The capital stock of Aegean is 100% owned by its senior personnel, Hasin Bayram, CEO, Alikan Telwar, President, and Lisa Telwar, CFO and Secretary.

Aegean shares offices with Telwar International Inc. ("Telwar"), an international exporter of commodities including wheat, vegetables, rice, beans and fertilizer to the Middle East organized in 1978 under the laws of the state of Tennessee. Fatima Telwar, the mother of Alikan Telwar, is the owner and president of Telwar. Both Telwar and Aegean have directors and officers who are members of the Telwar Family.

Telwar was the beneficiary of seven Oil-For-Food Program humanitarian letters of credit issued pursuant to UN-approved contracts to supply goods to Iraq. The review conducted by BNPPNY to date has identified five of these letters of credit under which Telwar assigned proceeds to the account of Aegean at First Tennessee Bank, as reflected on Attachment 3 to the Interim Report. Telwar has advised BNPPNY that the proceeds assigned to Aegean were to reimburse Aegean through its account at First Tennessee Bank for a loan that Aegean had extended to Telwar to finance Telwar's acquisition of goods that it had contracted to supply to Iraq under the Oil-For-Food Program.

F. Limpex Trading – Letra Lebanese Trade Co.

1. Affiliate Relationships

Both Limpex Trading and Letra are owned and operated by the Al Banna family, as evidenced by extracts from the Beirut Commercial Register with respect to Letra and incorporation documents in Canada with respect to Limpex, which is based in Montreal, Canada. These entities have confirmed in recent discussions that they are owned by members of the same family.

G. Zahrat Al Riyadh – Prince Bandar Bin Mohammed Bin Abdulrahm Al Saud

1. Affiliate Relationships

A representative of Prince Bandar, a member of the Saudi Royal family, has advised BNPPNY that the Prince is the owner of Zahrat Al Riyadh ("Zahrat"), a UN-approved humanitarian letter of credit beneficiary. A portion of the proceeds under one letter of credit issued to Zahrat were paid to the Prince, who also reportedly is the owner of Al Riyadh International Flowers Co.

[illegible]

ATTACHMENT 3

Contract Party	US Designation	US No.	Value Date	CUR	Amount Due to Other Parties USD or USD EQUIVALENT AMOUNT	Y/N
Talbot	BARBER TEAS	271624	4/14/2001	USD	359,430.00	Y
Talbot	BARBER TEAS	271624	4/26/2001	USD	177,270.00	Y
Talbot	BARBER TEAS	271624	4/26/2001	USD	157,842.00	Y
Talbot	U.S. CHATCOB (DEAL) LTD	0710022	7/10/2000	USD	217,480.00	Y
Talbot	U.S. CHATCOB (DEAL) LTD	2714002	2/26/2000	USD	224,460.00	Y
Talbot	POR IND	0751003	12/28/2002	EUR	201,414.15	Y
East Star	PACIFIC IND/D DAIRY	0724680	4/12/2001	USD	1,144,770.00	N
East Star	PACIFIC IND/D DAIRY	0724680	4/16/2001	USD	5,253,546.00	N
East Star	PACIFIC IND/D DAIRY	0724680	5/2/2001	USD	515,318.00	N
East Star	PACIFIC IND/D DAIRY	0724680	7/22/2001	USD	252,744.00	N
East Star	PACIFIC IND/D DAIRY	0724680	7/22/2001	USD	255,936.00	N
East Star	PT PACIFIC TEXT/INDO	172737	10/10/2001	EUR	127,358.59	N
Argyan Marble Inc	TELWAR	7109183	3/24/1998	USD	1,249,303.59	N
Argyan Marble Inc	TELWAR	6707780	4/29/1998	USD	87,446.42	N
Argyan Marble Inc	TELWAR	H056705	9/27/1997	USD	2,883,276.00	N
Argyan Marble Inc	TELWAR	H006045	12/12/1997	USD	946,636.78	N
Argyan Marble Inc	TELWAR	H006266	12/12/1997	USD	334,335.40	N
Empire Trading	LETRA LEBANESE	0722879	3/15/2002	USD	21,220.00	N
Empire Trading	LETRA LEBANESE	0722879	4/24/2002	USD	136,185.00	N
H. H. Prince Bandar Bin Mohammed Bin Abdullah Al Saud	ZAHBAT AL RYQDH	Y719714	10/20/1997	USD	353,500.00	N

Total: 28,369,377.79

To: Jean-Pierre Bernard, Executive Vice President
 From: William Vassallo, Senior Vice President & Auditor
 RE: Corporate Banking Division – Telecommunication/Media and Commodities Desks Audit Report
 cc: Louis Deglaire
 Patrick Saurat
 Richard Sted
 Arnaud Collin Du Bocage
 Joseph Espeso
 Marianna Mason
 Nuata Marley
 Eva Millas Russo

Audit as of Date: January 31, 2000

Commencement Date: March 17, 2000

Report Date: May 11, 2000

An audit of the Telecommunication/Media Desk and Commodities Desk was conducted as of the close of business January 31, 2000. The audit was conducted in accordance with the standards established by the Audit Department and included such tests of the accounting records and other auditing procedures considered necessary under the circumstances.

The audit included, but was not limited to, tests and procedures to ensure the following:

Telecommunication/Media Desk and Commodities Desk

- Business Development Plans have been completed and circulated.
- Call Reports are completed and reviewed by management.
- Lending/banking transactions are properly reviewed and approved by authorized management.
- Limits are monitored and not exceeded.
- Outstanding commitments are properly approved and monitored.
- Facility pricing has been reviewed and approved by management.
- Credit Files are current, properly completed and reviewed.
- Legal Files are complete and reviewed.
- Missing legal documentation is identified, monitored and obtained in a timely manner.
- Confirmations exist for authorized transactions.
- The Officer Code List is current.
- The Watch List is prepared and monitored by Credit Risk Management.

Ex UNIR 03
 Sec comments
 7/10/12

The detailed comments, recommendations and management's responses are included in the report section that follows.

COMMENTS / RECOMMENDATIONS

1. Establishment of Legal Documentation Standards (Repeat Comment)**RISK: HIGH EFFORT: MEDIUM DESK: TELE/MEDIA and COMMODITIES**

Uniform legal documentation requirements for BNP U.S. Group have not been established. As noted in our two previous examinations, certain legal documents were "waived" by Corporate Banking, but listed as "required" by the Legal Department. This practice results in excessive lists of stale outstanding legal documentation.

The failure to develop and adhere to a uniform legal documentation standard may result in missing critical documentation, and unnecessary efforts to obtain documents deemed not critical.

Recommendation

Once again, we recommend that either the BNP Legal Department or an outside firm, in conjunction with the various desks, develop a uniform legal documentation standard for the U.S. Group (including all Branches). Once the standard is implemented, procedures should be written to support the requirements and address exceptional processing such as document waivers.

Management Response (Richard Sted, Corporate Banking Division)

I agree with the suggestion that we should develop a standard set of documents, along with an agreed upon list of critical documents to be obtained from clients in North America. I further believe that these documents should be applicable to all units in the U.S. There should also be a clear policy established regarding the waiving of documents since it is very clear that companies, certainly investment grade companies which we deal, are reluctant to accept onerous documentation drafted by banks, and often prefer to use their own standardized forms.

With regard to a target date for resolution, it would seem that this matter would be best addressed by the Legal Department of the newly integrated BNP-Paribas structure in North America. It would seem logical that to the extent that "standardized" documents are going to be utilized, then the standard should be set in conjunction with the integration of the two banks. The suggestion of utilizing outside counsel for a documentation review is a good one especially if the firm can bring us the concept of best practices having worked with other banks on this matter.

Management Response (Bruno DiNardo, Legal Department)**2. Missing Legal Documentation (Repeat Comment)****RISK: HIGH EFFORT: LOW DESK: TELE/MEDIA and COMMODITIES**

Our review of the Missing Documents Lists (prepared by the Legal Department) for the Corporate Banking Division disclosed that a significant amount of critical legal documentation remains outstanding for excessive periods of time. For purposes of this review, we define "critical documents" as notes, credit agreements, corporate resolutions, signature cards and legal opinions, and excessive as over 3 months. In addition, any efforts made to obtain the documentation are not documented/evidenced.

Recommendation

We recommend that management establish a policy (in conjunction with the Legal Documentation Standards comment #1) to address missing documentation and the steps required to process a transaction absent the necessary documentation. In addition, any efforts made to obtain the documentation should be evidenced in the Missing Documents List.

Management Response (Richard Sted, Corporate Banking Division)

We find that the current Missing Documents List prepared by Legal is less than a useful document since it lists all documents which Legal Department would like to have in hand, even though that is not always possible at closing. However, as is the market practice for syndicated facilities, we often receive conformed or executed documents well after the actual closing date, with documents held by Counsel for the Agent. As for promissory Notes, most syndicated credits do not require the borrower to execute Pro-Notes until the time of borrowing. If the committed credit is used for commercial paper back-up, there are no borrowings and thus we do not receive a note. However, the lack of a promissory note appears on the Missing Documents List and remains there even though we will not receive a note.

I do agree however, that there should be a policy established which clearly addresses missing documentation and the steps required to process a transaction. At the present time, the Division Manager must approve all operating tickets where legal documentation exceptions exist. While this might appear reasonable, it is not since we must "book" a facility at the legal closing, to begin accruing fees and to insure that commitments of the bank are accounted for when such commitments are incurred, even though the legal documents are still with the Agent Bank's legal counsel.

I believe if we create a true Documentation Exception Report, then there should in fact be a written response from the account manager regarding follow-up that has been taken. This would appear to be a more effective control of Documentation.

Management Response (Bruno DiNardo, Legal Department)

3. Legal Document Control

RISK: HIGH EFFORT: MEDIUM DESK: TELE/MEDIA and COMMODITIES

A review of selected legal files and the Missing Documents List disclosed that the current process for controlling and monitoring legal file deficiencies is insufficient. Currently, a document control sheet is not prepared to document the contents of each file and support the Missing Documents List.

According to the Legal Department, the Operating Memorandum's "Legal Documentation Complete" section is used for this purpose. Our review disclosed that the status of documents reported in the Operating Memorandums do not support the Missing Documents List.

The lack of proper legal document control procedures may result in missing documentation that jeopardize the Bank's security position in the event of default or other legal issues.

Recommendation

It is recommended that management implement a Document Control Sheet. The Legal Department should complete a Document Control Sheet for each file at the time of closing. The Sheet should list all required documents, and the current status of each document (received, pending, waived, comments, etc). The Sheet should also be utilized as the Input Sheet for preparation and support of the Missing Documents List. This procedure would provide management with the current status of the file at any given time, and ensure the accuracy of Missing Documents List.

Management Response (Bruno DiNardo, Legal Department)

4. Mercator Database Maintenance

RISK: HIGH EFFORT: MEDIUM DESK: TELE/MEDIA and COMMODITIES

A review of the Mercator Customer Limits and Positions By Customer Shortname (MERBIQ01A) report disclosed facility lines that have been canceled, but remain on the system as "available." This may result in the erroneous reporting of line excesses.

The failure to properly remove canceled lines from the system may result in inaccurate reporting and wasted resources spent reviewing erroneous excesses.

Recommendation

It is recommended that the Account Officers review the appropriate Mercator reports on a periodic basis to ensure all updates (cancellations and new facilities) are properly recorded to the system in a timely manner. Credit Administration should also ensure that their input/output controls are functioning as intended.

Management Response (Armand Bueno, Credit Administration)

First, when we receive an Operating Memo, this memo serves as a source document for the input of the line in MERCATOR as well as in SECCOM. Information from the Operating Memo is first input to SECCOM by an input operator, then the information input to SECCOM is verified by a supervisor against the Ops memo for accuracy.

Secondly, each month, Credit Administration sends each Loan Officer the following SECCOM-generated reports:

- A list of the files under the Loan Officer's responsibility in alphabetical order.
- A list of the same files sorted by "file review date."

The purpose of these reports and their frequency is to serve as a reference as well as a tool to allow each Loan Officer to review its portfolio and, if there is a discrepancy, to alert and instruct the Credit Administration Department accordingly.

Therefore, on a monthly basis, Credit Administration does contact each Loan Officer and, providing them with the details of their portfolio, asks them to review it and to contact them with any discrepancies.

Management Response (Richard Sted, Corporate Banking Division)

It was noted that even after lines of credit are cancelled, the Mercator system failed to reflect the cancellation of these facilities, which may lead to erroneous reporting of line excesses.

The existing policy for cancellation of a facility requires the account officer to prepare an operating memo which is then forwarded to Credit Administration for input into SECCOM and Mercator. Once this has been done, the Operating Memo is initialed and dated in the upper right hand corner and returned to the account manager evidencing that the cancellation has been inputted by Credit Administration.

It is not the responsibility of Business Development officers to reconcile reports prepared by the systems department and the Credit Administration Department. It is the responsibility of the account manager to notify Credit Administration on a timely basis of any cancellation in credit facilities, and this is accomplished by preparation of the Operating Memo.

Perhaps in the context of the BNP-Paribas integration this matter can be reviewed by the O&M department as it appears the problem relates to the proper processing of Operating Memos and the lack of interface between the SECCOM and Mercator systems, which results in incorrect reports being prepared.

Management Response (Eva Millas Russo, Commodities Desk)

5. Expired Line Renewals

RISK: HIGH EFFORT: MEDIUM DESK: TELE/MEDIA and COMMODITIES

A review of the Mercator (MERBIQ01A) report as of January 31, 2000 disclosed numerous expired lines. According to management, some may not have been reviewed in a timely manner, and others may have been submitted to Paris, but not yet approved:

CUSTOMER EXPIRATION DATE

Tele/Media Desk

- | | |
|------------------------|---------|
| 1. AT&T Corp. | 3/19/98 |
| 2. Bertelsmann Inc. | 9/02/97 |
| 3. General Instrument | 7/31/98 |
| 4. Lucent | 3/01/99 |
| 5. Newsline of America | 6/24/99 |
| 6. New Millennium | 6/24/99 |
| 7. Nynex | 4/24/98 |

Commodities Desk

- | | |
|--------------------|----------|
| 1. Barry Callebaut | 2/02/98 |
| 2. Bunge Corp. | 10/01/98 |

- | | |
|--------------------------------|----------|
| 3. Esteve Group | 10/29/99 |
| 4. Kolmar Petro Chem | 6/30/99 |
| 5. Louis Dreyfus Corp. | 10/01/98 |
| 6. Various United Nations L/Cs | Various |

The lack of a timely credit line renewal process (credit analysis, head office approval, etc.) may result in undetected credit and other risks.

Recommendation

It is recommended that management ensure all expired lines have been reviewed/analyzed and submitted to Paris for approval. In addition, management should periodically review the Mercator MERBIQ01A report (or similar) to ensure expiring lines are identified and placed into the analysis/review/approval pipeline in a timely manner.

Management Response (Richard Sted, Corporate Banking Division)

The observation that there were expired lines in the portfolio as of January 31, 2000 is correct. For a variety of administrative reasons, it is not unusual to have expired lines amount to 10% to 15% of the total portfolio at any given point in time.

In some cases, the expired lines reflect credits, which have been submitted to Paris and are awaiting approval. With DGE, certain files are reviewed at the Credit Committee level in Paris, and these global reviews are submitted at particular times of the year, which may not coincide with the expiry date for a facility in New York. Therefore, we are unable to update the Mercator or Seccom system until such time that a signed Authorization Ticket is returned from Paris.

In other cases, we may have an expiry date set by Paris on an Authorization Ticket, which conflicts with the date by which we would normally receive financial statements from the client. This is especially relevant for French and European subsidiaries where we would only receive an annual statement. Thus, we may have a file expire in October, but would not expect to receive the annual financials, which will allow a renewal to be prepared until the end of the first quarter following the year-end.

While we have always had such "administrative" challenges, which will naturally lead to some files being reflected as expired, I do agree that we need develop a more comprehensive report which shows the expired files within the portfolio so that proper follow-up action can be taken. It is my understanding that once all credit files have been entered into the SECCOM system, we will be able to generate a more meaningful expired file report.

With regard to the management of risk in the portfolio, it should be emphasized that account managers are meeting with clients throughout the year, and for those files where financial difficulties are noted, a close monitoring is provided. This may include the preparation of a Watch List Report to insure that both the Division Manager and Risk Management are aware of potential problems in the portfolio. The annual review of the financials is one of the tools we use in monitoring the portfolio, but it is not the only one.

Management Response (Eva Millas Russo, Commodities Desk)

6. *Covenant Compliance Monitoring*

RISK: HIGH EFFORT: HIGH DESK: TELE/MEDIA and COMMODITIES

Our review of Credit Files indicated that Covenant Compliance Reports are not being prepared by the Corporate Banking Division as required by the BNP Credit Policy. In addition, management does not utilize a "Covenant Compliance Master List" to monitor covenant compliance on an overall basis.

The lack of covenant reports and the ability to monitor compliance on an overall basis results in the violation of the BNP Credit policy, and may result in undetected covenant violations.

Recommendation

We recommend that Corporate Banking implement the use of Covenant Compliance Reports as required by the BNP Credit Policy. In addition, a "Covenant Compliance Master List" that lists all customers with financial covenants should be implemented and used to monitor compliance for the entire desk. Once implemented, procedures must be written to support covenant compliance/monitoring.

Management Response (Richard Sted, Corporate Banking Division)

It was noted that covenant compliance certificates were not found in examined Credit Files and that there does not exist a "Covenant Compliance Master List" to be used for monitoring covenant compliance on an overall basis.

For facilities in which we are a participant, the agent is responsible for forwarding the quarterly covenant compliance certificates, and we find that in such cases, we typically have such certificates on file. For bilateral facilities, where the client is required to send the certificate directly to us, there in fact are instances where we have not received such documents. This is especially true on small Network files which often are supported by French parent guarantees or BNP Network accreditifs issued in our favor.

I do agree with the observation that there should be a formalized Covenant Compliance monitoring program. To be effective and to act as an outside control, it is typical that the Credit Administration Department, or in the case of Banque Paribas, the Portfolio Management Group, are responsible for receiving the Certificates. This support function then notes whether the client is in compliance with the established covenants, and typically the account manager signs off on this "internal compliance" report. Where a company is not in compliance, or where a compliance certificate has not been received, the account manager or Department manager are notified directly.

I understand that the Portfolio Management concept of organization which is currently part of the Paribas organizational structure is likely to be part of the new BNP-Paribas Corporate Banking control structure. I believe that this independent control is the proper way in which to monitor this function, and thus requires the account manager to be involved only when an exception exists.

With regard to our current monitoring of covenants, it is important to note that at the time of each annual renewal, the credit proposal contains a section which specifically reviews the covenants and a statement is made regarding the client's compliance with established covenants. For the small files handled by the Network Desk, compliance statements are typically only required on an annual basis as these companies do not publish quarterly financials.

7. IBF Signature Cards

RISK: HIGH EFFORT: LOW DESK: COMMODITIES

Our review of the UN accounts (overnight investments) disclosed that signature cards were not executed for the new IBF accounts.

The lack of signature cards may expose the Bank to fraudulent transactions.

Recommendation

It is recommended that management obtain and file signature cards for the IBF accounts, where deemed appropriate.

Management Response (Eva Millas Russo, Commodities Desk)

We will present the issue to the new BNP/Paribas legal department for review.

8. Missing Credit File

RISK: HIGH EFFORT: LOW DESK: TELE/MEDIA

Our review of 10 credit files disclosed that one file (Texas Cable Partners) was missing.

The lack of complete and current credit files may result in incomplete analysis and servicing.

Recommendation

It is recommended that management locate and secure the missing file. Further, additional efforts should be made to secure the file room and account for files that are removed on a periodic basis.

Management Response (Nuala Marley, Telecommunication/Media Desk)

I'm not sure why Texas Cable Partners' file can not be found in our file room. I will research this matter immediately. At times, we have found that our files have been returned to the 499 Park file room by mistake.

9. National Amusements, Inc. - Missing Legal Documents

RISK: HIGH EFFORT: LOW DESK: TELE/MEDIA

A review of outstanding legal documentation as of January 31, 2000 disclosed that National Amusements, Inc. (closing 10/99) was still lacking vital legal documentation.

Recommendation

It is recommended that all legal documentation should be received within three months of a closing. Any delays should be reported to the Legal Department with the reasons properly documented.

Management Response (Brian Foster, Telecommunication/Media Desk)

Although I agree that normally all legal documentation should be received within 3 months of closing (except for closing for Latin American loans which generally take in excess of 3 months). I do not agree that it should be the relationship managers' job to verify that all syndicated loan documents have been received. The Legal Department creates the documentation checklist and it would appear logical that they discuss the missing documentation with the law firms involved. It does not make sense to forward this list to the account officer when this could be resolved within the legal department with a simple phone call.

I do agree that for bi-lateral (in house) transactions, which are transactions that are directly negotiated with the client, the responsibility of verifying that all documentation is received should be the relationship managers.

In this particular case, I received a boxed bound copy of the legal documentation. I forwarded those documents to the Legal Department for filing. When it was brought to my attention that our Legal Department believes that some items are missing, I asked the Legal Department to call the law firm to discuss the missing documentation. I am awaiting the final resolution.

Audit Comment

Please refer to the BNP Credit Policy, which states that it is the Account Officer's responsibility to ensure all legal documentation is obtained. In addition, it is the Division's current procedure (via the missing document list) for the Account Officer to monitor and obtain missing legal documentation.

10. Operating Procedures - United Nations Account

RISK: HIGH EFFORT: MEDIUM DESK: COMMODITIES

Our review of the operating procedures (dated January 1997) for the United Nations' Iraqi oil for humanitarian purposes program disclosed that they are outdated and do not reflect the current operating environment. In addition, the procedures have not been reviewed/approved by appropriate areas of the Bank external to the Commodities Desk.

The lack of current operating procedures may result in the violation of management directives.

Recommendation

It is recommended that management update the operating procedures to reflect the current operating environment. In addition, the procedures should be reviewed/approved by appropriate departments of the Bank such as Compliance, Accounting and Legal.

Management Response (Eva Millas Russo, Commodities Desk)

Agreed. We will submit amendments to the procedures to O&M. The amendments will be circulated to the appropriate areas of the Bank.

11. Call Reports

RISK: MEDIUM EFFORT: LOW DESK: TELE/MEDIA and COMMODITIES

Our review of Credit Files disclosed that Call Reports are either missing or outdated (more than 6 months old).

The lack of current Call Reports results in the violation of management directives and the inability to quickly and efficiently analyze the client's potential needs.

Recommendation

It is recommended that management enforce the current policy requirement that reports must be prepared for each visit in a timely manner. Further, management should implement some type of overall reporting mechanism to ensure visits are made and documented as required.

Management Response (Eva Millas Russo, Commodities Desk)

Due to the heavy workload of the United Nations Iraq Account, it is true that we have not documented all of our customer contacts in the form of call reports. We will do our best to correct this omission. However, this has not been for most of our clients and we therefore need to know which account they are missing for so we may more properly respond. We do have a large amount of documentation which has not been filed in the credit files for several months, and do not believe that you looked in this folder for any call reports.

Having said this, please be assured that visits and calls are being made and we are fully aware of customer needs. They would be the first to tell us if we were not! However, for credit monitoring purposes, we agree with the need to update the file on a regular basis and will work on correcting this problem.

Management Response (Nuala Marley, Telecommunication/Media Desk)

Over the last year, given our work load and limited staff (two maternity leaves), our recording of meetings has generally been done in the form of Credit Proposals or through the use of email where we inform relevant parties of information that needs to be shared or acted upon.

12. Management Review/Approval

RISK: MEDIUM EFFORT: LOW DESK: COMMODITIES

Our review of the United Nations Iraq account process disclosed that the various spreadsheets and reports prepared by the desk to control investment allocations, collateral balances, interest earned, etc. do not evidence one-up review and approval.

In addition, the Customer Collateral Report received from the L/C Department on a daily basis does not evidence management review.

Recommendation

It is recommended that management evidence one-up review and approval on all spreadsheets/reports prepared by the desk. In addition, management should sign or initial the Customer Collateral Report to evidence review.

Management Response (Eva Millas Russo, Commodities Desk)

Agreed. The Desk Head will sign the Daily Activity Reconciliation sheet for UN Iraq accounts and initial the Customer Collateral Report to evidence review.

13. Filing Backlog

RISK: MEDIUM EFFORT: LOW DESK: TELE/MEDIA and COMMODITIES

A review of the credit file room disclosed a large number of documents in the "to be filed" bins. Some of the documents were stale dated (i.e., June, July and August 1999). It was further noted that some of the Account Officers maintain additional documents to be filed in their offices. We also noted numerous misfiled documents.

Recommendation

It is recommended that management take additional steps to ensure all documentation is placed in the appropriate "to be filed" area. In addition, all documentation should be placed in the applicable Credit File for safekeeping in a timely manner (i.e., within one week).

Management Response (Richard Sted, Corporate Banking Division)

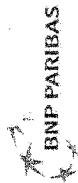
Since the Corporate Department was required to move from 499 Park in March, 1999, we of necessity had to bring our credit files with us. Credit Administration had been responsible for maintaining and securing credit files prior to this move, and thus we lost the staff support provided by Credit Administration.

We have used part-time support on two separate occasions to assist us in maintaining our credit files. While this has helped on a temporary basis, we have experienced turnover and currently have no support.

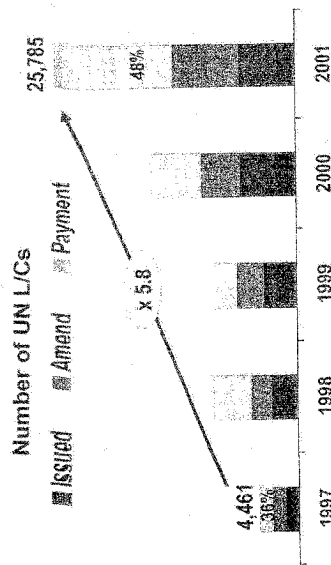
I would expect that when Corporate Banking is moved to the Paribas location, and all corporate files are housed in a centralized location, adequate staffing of file clerks will be made available to provide for the proper maintenance of these files.

Until that time, we have hired a temporary file clerk and will monitor her progress.

William Vassallo, Senior Vice President & Auditor



While the Oil For Food Program faced a critical situation in 2000 ...



Oil for Food Program is increasingly complex ...

- Dramatic growth in number of transactions and proportion of payments
- On-going change in typology of goods

... and evolves in a constraining context

- Operational risk with a complex process
- Reputation risk with atypical participants (UN, Iraq)
- Legal risk due to practises diverging from UCP rules

Weaknesses in internal process in 2000

- Low automation of systems
- Irrational workflow
- Inadequate organization and segregation of duties

Unsustainable level of risks

- 900 backlogs amounting to 1 B\$ leading to high reputation risk in 2000
- 2 provisions for operational risk totalling K\$ 500 (wrongly accounted for in 2001)

BHIA-005-0017

General Inspection - July 11, 2002

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Mr. ROHRABACHER. On top of all of this, we have BNP's own auditors warning that the bank was unprepared to run the program from the beginning. This only reinforces Paul Volcker's findings that BNP did not qualify according to the original bidding process created by the United Nations in 1995. How much more is out there that we do not know yet about BNP's performance and the Oil-for-Food scandal, especially in terms of this specific contract that BNP had with the United Nations?

We are going to ask a lot of questions, and there is a lot more we have to find out. I must say, what we have already found out about BNP in the past months is disturbing. It shows the bank's operations for the Oil-for-Food Program; basically its operation was insufficient for the task, and it makes me wonder if the bank cared at all about the risk that it placed on its investors by running the Oil-for-Food Program in the manner that it did. This afternoon, we hope to obtain some answers to these and other questions when we hear testimony from the various BNP directors present: Mr. Schenk, BNP's North American CEO; Patricia Herbert, the Director of the Oil-for-Food Program; William Vassallo, BNP's auditor for the program; and Harold Lehmann, former Director of BNP's Trade and Finance Department and the person who authorized some of the reassignments of payments from Al-Riyadh International Flowers to the East Star Trading Company, which we will be asking him about today.

I want to thank the witnesses for being with us today. Our Republicans should be joining us after the Republican Conference is over. And I will turn now to Mr. Delahunt for any opening statement he would like to make.

Mr. DELAHUNT. Thank you, Mr. Chairman.

I am going to use my time to express my frustration. I understand that, today, an Administration representative came to brief staff about the Administration's thoughts on reform of the United Nations. This Subcommittee had a public hearing on U.N. reform scheduled a few weeks ago, but the Administration would not testify, so the hearing was canceled. Are we ever going to have hearings on the Administration's thoughts on U.N. reform, let alone other policies in the United States Government? I am going to make a request right here that a representative of the Administration come before the Subcommittee in public session and respond to our questions and explain their position on U.N. reform.

Now maybe they are consulting with individuals in the Majority Party, but I am unaware of anything beyond today's staff meeting. My point is that part of this panel's mandate is investigations. But additionally, we are required to conduct oversight of the Executive Branch within the jurisdiction of the Full Committee. But all of our efforts to date have been to investigate the United Nations or multi-lateral banks or companies that employ Kofi Annan's son. Now that is fine, and that is good, but we seem to avoid examining the role of the Administration when it comes to the issues involving the United Nations and, in particular, its role in the so-called Oil-for-Food Program and what occurred over the course of the past 10 years.

I want to have hearings on why the Administration allowed Saddam to continue with trade protocols with Jordan and Turkey and

Egypt and Syria. According to the report by Charles Duelfer, the President's hand-picked inspector, those trade protocols and oil smuggling earned Saddam \$9 billion—as can be seen over by that chart that is sitting on the easel—six times as much money as he was able to skim from the Oil-for-Food Program. Where did that money go? Some have said that allowing those protocols, or looking the other way, was a policy decision. But we have yet to hear from anybody from the Administration to come before us and to explain the rationale for that policy. Whatever the reason, it certainly—and I think this is indisputable—facilitated Saddam Hussein's oppression of the Iraqi people and reinforced his hold on power. And we should look into the reason why the Security Council, of which we are a member, approved at least 70 Oil-for-Food contracts that the United Nations warned the Security Council were overpriced. Why didn't the U.S. mission raise objections in these instances? Why? And I would submit that we owe it to the American people and Iraqi people to provide a full and complete answer. And what kind of message does this send? We are willing to look at others and scrutinize them, but not review our own actions?

Additionally, we should investigate why, in February 2003, just before the invasion of Iraq, the Administration allowed 14 super-tankers filled with millions of barrels of Iraqi oil to sail away under the noses of our interdiction effort even after the U.N. directly warned the Bush Administration about the operation in time for us to stop it. And we should be investigating the findings by the inspector general for Iraq's reconstruction that the Coalition Provisional Authority managed to lose track of over \$8 billion of Iraqi money in a single year. Here we are accusing the U.N. of incompetence and corruption for losing \$1.5 billion over 8 years, and we cannot account for \$8 billion that was in our custody. Maybe because, as this photo graphically demonstrates, the Administration was handing out Iraqi Oil-for-Food money in cash. In cash. What kind of message does that send? If you are a foreign bank that keeps good records and are transparent about it, we will look at you. But if you are the U.S. Government and doing your business in cash, we will give you a pass?

There are other issues, Mr. Chairman, that we could look into. I know you have an interest in what occurred in the aftermath and prior to the Oklahoma City bombing. For my part, a couple of weeks ago, I sent a letter to you and the Chair of the Full Committee about a notorious terrorist, whose name is Luis Posada Carriles, responsible for the bombing of a civilian Cuban airliner resulting in the deaths of some 73 civilians, and allegedly, he is here in the United States, and he is even seeking political asylum. Let us have a hearing on that.

Rather than focus on any oversight of the Government that we are actually part of, we are here today to discuss the role of BNP Paribas in the Oil-for-Food Program, even though it is anticipated in the Volcker Commission's final report; they will address BNP's conduct. I understand that there are allegations that BNP did not fully investigate who they were giving the money to, and they violated the terms of their contract. That very well may be the case, but I am not a banking expert, which is understandable because this is not the Financial Services Committee. But I think it is im-

portant to keep in mind that all of the contracts that BNP fulfilled were reviewed by the 661 Committee. In fact, if BNP was giving money to bad people, then we should have known about it because of our presence on the Security Council. But having said all that, let me conclude by saying, welcome to the witnesses that are testifying here today.

Mr. ROHRABACHER. This Chairman intends to have a policy of permitting the opening statements of the Chair and Ranking Member, but also a very brief, perhaps 1 minute, opening statement.

Mr. ROYCE. If Howard did not make an opening statement—

Mr. ROHRABACHER. Would you like to make a 1-minute opening statement?

Mr. BERMAN. Give me 1 minute of thought.

Mr. ROHRABACHER. Mr. Royce for 1 minute and then Mr. Berman.

Mr. ROYCE. One of the reasons this Committee is pursuing BNP on this issue is, according to the Independent Inquiry Committee for the United Nation's Oil-for-Food Program chaired by Paul Volcker—because of opposition by the United States to the choice of the Swiss bank, despite the fact that the bank had not been included on the U.N.'s list of qualified banking vendors and not meeting the U.N. treasurer's criteria—somehow Banque Nationale de Paris was chosen by former Secretary-General Boutros Boutros-Ghali. Iraq had shown a preference for this particular bank as the bank had been used by the Iraqi Central Bank for its corresponding banking needs in Europe. Despite these deficiencies, Banque Nationale de Paris was awarded the contract, and it began providing banking services to the United Nations, administering the Letters of Credit Program. And the process, complicated as it was, necessitated interaction between the companies supplying the goods to Iraq and BNP. And it is in this part of the process that this Subcommittee is concerned.

At the Full Committee hearing into BNP's activities on November 17 in which we participated as Members of Congress, it was disclosed at that time that a company participating in the program, Al-Riyadh International Flowers, asked BNP for permission to reassign the proceeds for its payments from the letters of credit to an unauthorized third party, East Star Trading. According to the contract between BNP and the U.N., this practice was forbidden except if the reassignment was made to a financial institution, and East Star Trading is not a financial institution. And everyone understood that. And BNP conceded that point during the hearing. The Committee was told by the U.S. mission to the U.N. that the U.N. did not give BNP permission to reassign the proceeds from these letters of credit.

In the hearing on November 17, BNP was unable to provide a satisfactory explanation as to why they went ahead with the reassignment. Since that time, the Committee has subpoenaed BNP for the documents that detailed these and other deals between Al-Riyadh International Flowers and East Star Trading in an effort to determine why the reassignment occurred, who authorized these improper transfers to an unauthorized company, and details involving both companies. I think it is important we get to the bottom of this. And we can do it if we get cooperation. Frankly, if we are

going to clean up the type of corruption that we have seen in programs like this, rather than turn a blind eye, I think when we find indications of kickbacks of this magnitude, it is important to find out who exactly is involved. That is what we are trying to find out.

Mr. ROHRABACHER. Thank you, Mr. Royce, for your focus.

And Mr. Berman.

Mr. BERMAN. Mr. Chairman, I do not have any prepared statement, but I would like to just reconcile a couple of the points I have heard. I certainly do not think there is anything wrong with us reviewing one aspect of the Oil-for-Food Program and having a hearing and hearing the issues and hearing if there are answers to the concerns we have.

But I do want to say that in the context of creating an appearance of objectivity, Mr. Delahunt makes, I think, some important points. The issue of how two Administrations—one Democratic and one Republican—dealt with their review of the contracts on the 661 Committee—and there are legitimate arguments for why their focus was on proliferation issues and perhaps—I mean there are arguments that deserve to be heard and there are some good arguments for why Jordan and Turkey got special treatment, notwithstanding the sanctions. Syria, I do not quite understand as well. But the notion of at least having that discussion as part of our oversight responsibilities, once we are getting into the mess that occurred as a result of our very understandable decision—and I was a strong supporter of our effort to limit Saddam's ability to get the currency which would allow him to pursue the re-arming of his country and, as we thought at the time, a program of weapons of mass destruction. So the only thing I would argue for, as you contemplate scheduling hearings, I think it is appropriate to have the Administration come forward and just make the case why they continued policies started in the previous Administration regarding those countries and what the 661 Committee was doing. And it creates a dynamic that says: We are out here wherever the chips fall where they may; we are looking at this thing from an evenhanded point of view. And we can have that discussion.

I remember going to Jordan before the Iraq war and hearing Jordan talk about what the economic consequences of sanctions on Iraq were to Jordan. And I can understand that it may not have been the right call, but I can also understand the foreign policy reasons why you might want to give Jordan some flexibility at that particular point given the general role that Jordan was playing in terms of its own policies.

Mr. ROHRABACHER. Very wise of you, Mr. Berman.

Mr. BERMAN. Let us bring it out and discuss it and check it out.

Mr. ROHRABACHER. Thank you, Mr. Berman.

And Mr. Wilson. And these are supposed to be 1 minute—little thoughts.

Mr. WILSON. Thank you, Mr. Chairman.

I just want to restate my appreciation for your leadership. I have the highest regard and faith in the integrity and the abilities of Congressman Dana Rohrabacher to be our leader. I am particularly very hopeful, as we learn about the Oil-for-Food Program and as additional articles and media coverage are published and indictments are made, that all of us will be working together to do all

that we can to possibly assist in the recovery of funds as was intended by the Oil-for-Food Program to benefit the people of Iraq.

Thank you, Mr. Chairman.

Mr. ROHRABACHER. Several questions were directed toward the Chairman in the opening statements, so I thought I would certainly answer them before we proceed.

First of all, Mr. Delahunt, could you tell us who these people are again in this picture here?

Mr. DELAHUNT. Frank Willis to the left. He is a senior Coalition Provisional—sorry, Frank Willis in the middle.

Mr. ROHRABACHER. Who is on the left?

Mr. DELAHUNT. Darrell Trent.

Mr. ROHRABACHER. You are not sure who is who?

Mr. DELAHUNT. Darrell Trent is in front of the pile of the money at some undisclosed location in Iraq in this 2003 photograph provided by Willis.

Mr. ROHRABACHER. Somewhere in Iraq in 2003?

Mr. DELAHUNT. Right. In Baghdad.

Mr. ROHRABACHER. This is supposed to represent what, in giving that away?

Mr. DELAHUNT. There is a lot of cash there.

Mr. ROHRABACHER. Is that possibly a stash of cash that was found? Is it Saddam Hussein's cash? Is that possible?

Mr. DELAHUNT. It is DFI (Development Fund for Iraq) dollars; money that went to the Development Fund for Iraq from the CPA (Coalition Provisional Authority).

Mr. ROHRABACHER. That money was shipped from the United States to these fellows?

Mr. DELAHUNT. No. This money—

Mr. ROHRABACHER. You do not know who the guy on the left is, but there are some guys standing in Iraq.

Mr. DELAHUNT. I would be happy to subpoena them in and have a full hearing on it and get their names and find out what happened so we begin to discover what happened to the \$9 billion that the inspector general—

Mr. ROHRABACHER. Let me note, being the Chairman of the Committee, you certainly are welcome to bring pictures. I do hope that next time you will know who they are in the picture and exactly where the money came from and all that. I would hope that you do not take offense, as we move forward now, having had a chance to explain the picture, and take the picture down rather than having it dominate the ambience of the hearing.

Mr. DELAHUNT. I have no objection.

Mr. ROHRABACHER. In terms of the other points raised by Mr. Delahunt, we will certainly be asking Administration officials to come here and to explain the policies that we all should know about—what policies they are and whether they deal with Iraq or with other areas of the world. I certainly hope that the Administration can explain to your satisfaction and my satisfaction why it permitted certain things to happen.

In regards to the charges about Jordan and Turkey receiving this ability to have oil shipments given to them, we would have to call the representatives of the Clinton Administration who thought up those policies and established them. We will be glad to ask Sec-

retary Albright to come here and explain those to us because they were the ones who established the policy that we are talking about.

This Subcommittee will be happy to invite various expert witnesses from the past Administration and this Administration to get them on the record. This is a very legitimate question—why the Clinton Administration came up with this idea of letting Jordan and Turkey—

Mr. DELAHUNT. And Syria.

Mr. ROHRABACHER. Let us find out why President Clinton felt that was a good thing to do. I do not believe, as your colleague, Mr. Berman, has suggested, that it is wrong for us to look at a very specific issue, namely the integrity of the United Nations, at a time when we are trying to determine what America's long-term relationship is going to be and how much trust we will have in the United Nations.

The American people faced a choice during the last election between two groups of people politically advocating how much or how little we are going to rely on multilateral organizations like the United Nations in order to protect our interests and protect the interest of freedom in the world. It is totally within that context to try to find out information for the American people to make their own decisions as to the integrity of a project that was run by the United Nations.

This project, let me note, exemplified the strategy that I heard being advocated during the last Presidential election—let us not use force, let us go through a multilateral organization and try to put pressure on people rather than using military force. If we have an example of that, the Oil-for-Food Program, in front of us, it makes it very relevant for us to determine whether or not—and focus on this specific issue until we move on to another—the United Nations was capable of doing this and would be thus capable in the future of involving itself in this type of program dealing with billions of dollars and pressures, international pressures coming at them from all sides. It does not appear to me at this point that the United Nations has passed its test, but let us get into it and ask for the details.

Mr. Schenk.

Mr. BERMAN. Would the gentleman yield on that point?

Mr. ROHRABACHER. If we could get to the testimony now.

But yes, I yield to you for 1 minute.

Mr. BERMAN. Oil-for-Food was not an effort to put pressure on Iraq. Multilateral sanctions at the end of the Gulf War were the effort to put pressure on Iraq. Oil-for-Food was the program that was put in place when some people were arguing that the sanctions on Iraq were causing a great deal of suffering.

Mr. ROHRABACHER. The Oil-for-Food Program was designed specifically to make the sanctions on Iraq work in a way that would not cause collateral damage among the people of Iraq, children, women, et cetera.

Anyway, with that said, Mr. Schenk, you were a witness here before and let me commend you for coming back. Let me commend you for your testimony before, even though, as I say, some of the things we found out since have caused some questions. We want to ask further questions of you, but we do appreciate the fact that

you were willing to testify and that you are here and you have brought some experts with you to make sure that, if we ask some questions, that you will be able to adequately answer all the questions. So we appreciate that and if you can summarize somewhat, but I am not going to leave you to one time period because you ought to express your testimony and give your case fully. You may proceed.

**STATEMENT OF MR. EVERETT SCHENK, CHIEF EXECUTIVE
OFFICER, BNP-PARIBAS SA OF NORTH AMERICA**

Mr. SCHENK. Thank you, Chairman Rohrabacher, Congressman Delahunt.

My name is Everett Schenk and since May 2000, I have been CEO of BNP Paribas' North American Corporate Investment Banking Operations. You did appropriately introduce my colleagues. But as it is one of my privileges to introduce my colleagues, I will do it for BNP. Patricia Herbert, to my left, is head of our Banking Operations activities, New York branch. William Vassallo, to her left, is a Director of Corporate Banking Operations. And to my right is Harold Lehmann, who, prior to October 2001, supervised the bank's processing of Oil-for-Food Program letters of credit. Harold is no longer an employee at the bank and is, in fact, a fifth-grade teacher in New Jersey. And we thank him for joining us. I have provided a full opening statement, which includes much background information for the record, and I have a shorter oral statement, but it is along the same lines.

Mr. ROHRABACHER. You may proceed. And your full statement will be made part of the record.

Mr. SCHENK. From the program's inception, it was contemplated that the Humanitarian Letter of Credit beneficiaries might well need financing in connection with their U.N.-approved transactions. Beneficiaries were therefore permitted under the Oil-for-Food Program to assign proceeds under their letters of credit to secure financing to obtain required items. An assignment of proceeds is a traditional means of securing such financing and commonly takes various forms. These include an assignment to a bank to obtain a direct cash loan from which the beneficiary can pay its supplier, or an assignment to a bank making funds available to the supplier, or an assignment to the supplier providing financing to the beneficiary in the form of goods supplied on open account.

When I appeared before the Full Committee last November, questions were raised about a Humanitarian Letter of Credit that had been issued to a U.N.-approved beneficiary, named Al-Riyadh International Flowers Company, where it appeared that several payments had been made at the request of the beneficiary to an entity named East Star Trading Company. At that time, having no advance notice from the Committee that it was interested in those payments, the bank had not the time to fully prepare to address that issue on that occasion.

Since then, however, and in response to the Committee's inquiries in these regards, the bank has been engaged in a comprehensive review of approximately 54,000 payments that were made pursuant to Humanitarian Letters of Credit issued under the program utilizing a systematic approach that has required the expenditure

of approximately 8,000 man hours. As a result of that process, which is ongoing, we have considerably more information today than we did in November about payments that were made to certain persons other than the letter of credit beneficiaries.

As you know, we have shared that information with the Committee in the form of an interim report that was prepared specifically for the Committee's use in anticipation of this hearing. Let me say at the outset that nothing in our investigation to date has led us to believe that any letter of credit proceeds that were assigned or paid to anyone other than a bank making loans directly to the beneficiaries were causally related to any corruption which may have occurred in the Oil-for-Food Program. But we have found, in the course of processing assignments and payments, some mistakes were made. Although mistakes are perhaps inevitable in the context of a program of this magnitude, they should not have occurred. We certainly appreciate the Committee's concerns regarding the handling of the Humanitarian Letter of Credit transactions and hope that the Committee will find our interim report and testimony helpful in addressing the issues that were raised here at the last hearing.

To return then to the subject of East Star, we understand that East Star is an affiliate of a large international export group called Pacific InterLink that was incorporated in Malaysia in 1988. Pacific InterLink exports a wide variety of goods from the Far East to the Middle East to Africa and Europe. Pacific InterLink and seven of its affiliates were awarded numerous U.N.-approved humanitarian supply contracts in almost every phase of the program, totaling approximately \$270 million in value. East Star was a supplier to Al-Riyadh and a number of other Humanitarian Letter of Credit beneficiaries under the program.

We understand that these beneficiaries typically assigned a substantial portion of the proceeds they are entitled to receive under their letters of credit to a financing facility that a major international banking institution had extended to East Star. The financing facility enabled East Star to carry out its supply obligations to the beneficiaries. For those unfamiliar with trade finance practices, a financing facility is a common arrangement under which a bank extends a revolving line of credit to a borrower through an account that permits the borrower to draw a specified maximum loan amount. As funds are deposited back into such account, they are applied by the financing bank to reduce the outstanding balance and thus repay the loan. So when the letter of credit proceeds were paid to East Star's financing bank, we understand that these payments would have served in the first instance to repay the bank for the loans it had made to finance the underlying U.N.-approved goods transactions.

I will say more in a moment how such payments comported with the procedures that the bank had put in place for processing of payments and the payments for the Oil-for-Food Program. But I want to emphasize, as I noted earlier, that financing arrangements such as these are commonplace in the world of trade finance and are entirely legal and integral to the free flow of goods in the global marketplace.

The bank's review identified comparable financing arrangements involving other suppliers to the beneficiaries of Humanitarian Letters of Credit, including, in particular, a financing facility maintained at another large international bank by a major supplier of goods named Al Douh Jordanian Establishment. Significantly, a number of Al Douh affiliates were U.N.-approved suppliers of approximately \$88 million worth of goods under U.N.-approved contracts throughout the various phases of the program. As with East Star, letter of credit beneficiaries assigned proceeds to the financing facility maintained by Al Douh, which in the first instance would have been available to repay the bank for financing it provided for the underlying U.N.-approved humanitarian goods transactions.

As I already indicated, the review that the bank has undertaken is ongoing. We expect to provide this Committee with a final report of our findings when it is completed, but to date there has been no indication that any so-called third party payment has served as a means to corrupt the Oil-for-Food Program. That is not to say, however, that these payments, while totally consistent within normal trade finance practice, were also consistent with the procedures which the bank had put in place for processing letters of credit under the program. Under the bank's contract with the U.N., beneficiaries of Humanitarian Letters of Credit were permitted to assign proceeds of those credits, but only to a bank providing financing for the underlying transaction. It is far from clear, however, whether the contract meant to further limit assignments only to a bank providing such financing directly to the beneficiary and to foreclose such financing if it was provided by a bank through the beneficiary's supplier.

In any event, as its operational procedures evolved, the New York branch of BNP and then BNP Paribas took a conservative approach in deciding that assignments of proceeds as a general matter should be limited to banks providing financing directly to the letter of credit beneficiaries.

As I said earlier, our review has identified some instances reflected in our interim report in which assignments or payments were made to persons other than beneficiaries or banks making direct loans to them contrary to the bank's procedures. Based upon the review we have conducted to date, the bank has determined that in some—but by no means all—of these instances the information that was available to the letter of credit processing personnel at the time would have indicated the possibility that the assignments or payments were being made to financing facilities extended by banks to suppliers rather than to the beneficiaries themselves. The bank has determined that, in these instances, the processing of those assignments or payments constituted avoidable errors.

Although the bank did take steps over the course of the program to enhance management, strengthen, and reinforce its policies and procedures for processing letters of credit under the program, we believe, with the benefit of hindsight, that still more should have been done. In particular, numerous clerical employees had to be hired on extremely short notice to deal with the sudden sharp upsurge in the volume and complexity of the humanitarian supply

contracts that occurred in the 1999–2000 time frame, greatly complicating the processing of letters of credit. Better training of these employees could have minimized the incidence of such assignments and payments. In addition, enhanced monitoring of the performance of those employees could have resulted in corrective actions being taken that further could have reduced their incidence. Still, to evaluate these assignments and payments properly, we believe a number of observations are in order.

I would first begin by observing that the beneficiaries in the transactions involving assignments all made representations to BNP Paribas that they were assigning proceeds to banks that were providing them with financing for those transactions; and, second, that the banks providing the financings and the transactions involving assignments that I described earlier confirmed this on a number of occasions.

In fact, the assignment of proceeds in the transactions I described earlier were in favor of banks, and we understand that the payments that were made under those assignments would have served in the first instance to repay the banks for the financing they made available to the underlying U.N.-approved transactions.

Moreover, the fact that the financing banks in those transactions, which are large international institutions, evidently were comfortable stating on various occasions that they were providing financing for the transaction to the beneficiary, albeit through the supplier, underscores the fact that this distinction is, at best, one of form.

It is also worth noting that any legal claims with respect to the proceeds that have been assigned in these circumstances would have belonged to the financing banks that were designated as payees and not to the suppliers to which the financing had been extended.

Another point I would like to make is that assignments of this type that I have described are legitimate commercial arrangements, quite apart from any limitations that may have existed under the procedures adopted by the bank for processing Humanitarian Letters of Credit under the program.

Furthermore, the bank has not identified any instance where a letter of credit itself along with its corresponding obligations was transferred or assigned by a beneficiary to a third party in violation of the Banking Services Agreement.

The Committee also should be aware that the bank is in possession of a notice of arrival with respect to the goods that are the basis for 100 percent of the payments we are addressing here today.

It is also highly significant as well that the suppliers who were involved in a substantial majority of the dollar value of the transactions to which I referred earlier were either directly, or through their affiliates, U.N.-approved beneficiaries under other Humanitarian Letters of Credit worth hundreds of millions of dollars. Nor should we lose sight of the fact that where the proceeds of a letter of credit are paid directly to a beneficiary, the beneficiary is free to use some of those proceeds to repay any bank that provided financing for the transaction, whether the funds were advanced by

the bank to the beneficiary or the supplier, or to pay a supplier directly or to pay others.

I would call the Committee's attention to the fact that even today none of the so-called third parties that have been identified appears on the United States Department of Treasury Office of Foreign Asset Control's List of Specially Designated Nationals.

Finally, and most important, I want to emphasize again that the bank has seen no indication that any assignment of proceeds or payment to any so-called third party is causally linked to any corruption that may have occurred in connection with the Oil-for-Food Program.

In closing, I would reiterate that, in order to be fully responsive to the Committee's inquiries, the bank is continuing its review and that it intends to provide this Committee with a final report at the conclusion of this process, just as it did on an interim basis here, to assist the Committee in its own assessment of this matter.

I am going to deviate from my text for 1 minute. And I listened very carefully to the opening remarks, Mr. Chairman, and I am sure that we are going to address a number of the issues which you raised. But I can't let go of one comment that you made, and that was a question about whether the bank cared about its investors. That is a comment that I can't let stand in this kind of a public forum. And today I want to assure you that the bank has exercised in good faith all of the responsibilities that it has under this contract and all of its other activities that we engage in, and that we are a bank in good standing not only in the United States but in all the jurisdictions in which we operate, which is over 80 countries around the world. And we take very seriously our obligations, and we think very carefully about those.

I would also like to make a comment to Mr. Royce. Congressman Royce, you suggested that one of the ways to proceed here is if we get cooperation, and I want to assure you and this Committee that BNP Paribas will continue to cooperate in this investigation, and we are pursuing our investigation such that we can complete this and provide you with additional information.

So, at this point my colleagues and I, I guess, would be pleased to respond as best we can at this stage in the process to any questions the Committee may have. Thank you.

[The prepared statement of Mr. Schenk follows:]

BEFORE THE HOUSE INTERNATIONAL RELATIONS COMMITTEE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
APRIL 28, 2005

STATEMENT OF EVERETT SCHENK,
CHIEF EXECUTIVE OFFICER,
BNP PARIBAS – NORTH AMERICA

Chairman Rohrabacher, Congressman Delahunt, Members of the Committee, my name is Everett Schenk. Since May 2000, I have served as CEO of North American Corporate and Investment Banking Operations for BNP Paribas. With me today are Patricia Herbert, the head of Banking Operations for the Bank's New York branch; William Vassallo, a Director of Corporate Banking Operations for the New York branch; and Harold Lehmann, who prior to October 2001 supervised the Bank's processing of Oil-For-Food Program letters of credit.

BNP Paribas has over 10,000 employees in the United States. In my capacity as CEO, and since 2000, I have been responsible, among other things, for overseeing the New York branch of the Bank, which has provided certain banking services to the United Nations in connection with the Oil-For-Food Program pursuant to a Banking Services Agreement with the UN.

By way of background, the Oil-For-Food Program was created through a unanimous resolution of the Security Council of the United Nations ("UN") with the principal objective of alleviating the suffering of the Iraqi people by providing

humanitarian goods to Iraq under contracts approved by the so-called "661 Committee" or "Sanctions Committee" of the UN Security Council. To that end, the 661 Committee authorized specified contractors to furnish approved goods to Iraq. Once a contract had been authorized by the 661 Committee, the UN directed its bank – the New York branch of Banque Nationale de Paris and later BNP Paribas – to issue a letter of credit naming the contractor as the beneficiary, thereby providing assurance that the beneficiary would receive payment under the contract upon delivery of the approved goods to Iraq and presentation of the required documents.

Although the Program was expected to be short-lived, it was renewed on twelve separate occasions, each for a six month period, and lasted for some six and one-half years. In the 1999-2000 time-frame, the Program underwent explosive growth due to the decision of the 661 Committee to greatly expand the goods that were permitted to be delivered under the Program. With this decision, the sheer volume of the letters of credit that the Bank was required to issue and process skyrocketed. The processing of these letters of credit became a much more complicated and challenging task, not only because of this increase in volume, but also because the transactions themselves were considerably more complex due to the wide range of the goods that were being approved under the Program by the 661 Committee, and the greatly increased geographical diversity of the approved suppliers.

From the Program's inception, it was contemplated that humanitarian letter of credit beneficiaries might well need financing in connection with their UN-approved

transactions. Beneficiaries therefore were permitted under the Oil-For-Food Program to assign proceeds under their letters of credit to secure bank financing to obtain the required items. An assignment of proceeds is a traditional means of securing such financing, and commonly takes various forms. These include an assignment to a bank to obtain a direct cash loan from which the beneficiary can pay its supplier; or an assignment to a bank making funds available to the supplier; or an assignment to the supplier providing financing to the beneficiary in the form of goods supplied on open account.

When I appeared before the full Committee last November, questions were raised about a humanitarian letter of credit that had been issued to a UN-approved beneficiary named Al Riyadh International Flowers Company, where it appeared that several payments had been made at the request of the beneficiary to an entity named East Star Trading Company. Having had no advance notice from the Committee that it was interested in those payments, the Bank had not had time to fully prepare to address the issue on that occasion.

Since then, however, and in response to the Committee's inquiries in these regards, the Bank has been engaged in a comprehensive review of the approximately 54,000 payments that were made pursuant to humanitarian letters of credit issued under the Program, utilizing a systematic approach that so far has required the expenditure of approximately 8,000 man-hours. As a result of that process, which is ongoing, we have considerably more information today than we did in November about payments that were

made to certain persons other than the letter of credit beneficiaries. As you know, we have shared that information with the Committee in the form of an Interim Report that was prepared specifically for the Committee's use in anticipation of this hearing.

I would like to return in a minute to the subject of East Star. But before I do, let me say at the outset that nothing in our investigation to date has led us to believe that any letter of credit proceeds that were assigned or paid to anyone other than a bank making loans directly to beneficiaries were causally related to any corruption which may have occurred in the Oil-For-Food Program.

Further, let me say that we have found that in the course of processing assignments and payments, some mistakes were made. Although mistakes are perhaps inevitable in the context of a Program that required the processing of approximately 54,000 payments under approximately 20,000 letters of credit and 32,000 amendments involving an estimated 5 million pages of documents, they still should not have occurred. We certainly appreciate the Committee's concerns regarding the handling of the humanitarian letter of credit transactions, and hope that the Committee will find our testimony helpful in addressing the issues that were raised at the last hearing.

To return then to the subject of East Star. We understand that East Star is an affiliate of a large international export group called Pacific Inter-Link that was incorporated in Malaysia in 1988. Pacific Inter-Link exports a wide array of foodstuffs, pharmaceuticals, building materials and other consumer products from the Far East to the

Middle East, Africa and Europe. Pacific Inter-Link and seven of its affiliates were awarded numerous UN-approved humanitarian supply contracts in almost every phase of the Oil-For-Food Program, totaling approximately \$270 million in value. East Star was a supplier of goods to Al Riyadh and a number of other humanitarian letter of credit beneficiaries under the Program.

We understand that these beneficiaries typically assigned a substantial portion of the proceeds they were entitled to receive under their letters of credit to a financing facility that a major international banking institution had extended to East Star. That financing facility enabled East Star to carry out its supply obligations to the beneficiaries. For those unfamiliar with trade finance practices, a financing facility is a common arrangement under which a bank extends a revolving line of credit to a borrower through an account that permits the borrower to draw a specified maximum loan amount. Ordinarily, as funds are deposited back into the account to repay the loan, an equal amount can be borrowed again. So when letter of credit proceeds were paid into the account at that major bank, we understand that those payments would have served in the first instance to repay that bank for the loans it had made to finance the underlying UN-approved humanitarian goods transactions, rather than to pay East Star for the goods themselves.

I will say more in a moment about how such payments comported with the procedures that the Bank had put in place for processing assignments of proceeds and payments under Oil-For-Food Program humanitarian letters of credit. But I want to

emphasize, as I noted earlier, that financing arrangements such as these are commonplace in the world of trade finance and are entirely legal and integral to the free flow of goods in the global marketplace.

The Bank's review identified comparable financing arrangements involving other suppliers to beneficiaries of humanitarian letters of credit under the Oil-For-Food Program, including in particular a financing facility maintained at another large international bank by another major supplier of goods named Al Douh Jordanian Establishment. Significantly, a number of Al Douh affiliates were UN-approved suppliers of approximately \$88 million worth of goods under UN-approved humanitarian supply contracts throughout the various phases of the Program. As with East Star, letter of credit beneficiaries assigned proceeds to the financing facility maintained by Al Douh, which in the first instance would have been available to repay the bank for financing it provided for the underlying UN-approved humanitarian goods transactions rather than to pay Al Douh for the goods themselves.

As I already have indicated, the review that the Bank has undertaken is ongoing, and we expect to provide this Committee with a final report of our findings when it has been completed. But to date, there has been no indication that any so-called "third party payment" has served as a means to corrupt the Oil-For-Food Program.

That is not to say, however, that these payments, while totally consistent with normal trade finance practice, were also consistent with the procedures the Bank had

put in place for processing letters of credit under the Program. As I remarked at the outset, financing is integral to the movement of goods contemplated by the humanitarian side of the Program, and assignments of letter of credit proceeds are the logical means to assist in securing such financing, regardless of the form the financing might take.

The Banking Services Agreement contains an ambiguous provision that seems to speak to this issue as follows:

The Central Bank of Iraq will forward to the Bank requests from the appropriate Iraqi Government entities to open irrevocable, non-transferable, non-assignable (except to the supplier's bank for the repayment of financing for the purchase of the humanitarian supplies) [letters of credit] for the account of the Iraqi purchaser in favour of the supplier.

While it is clear that this provision was intended to exclude assignments of proceeds to anyone other than a bank providing financing for the underlying UN-approved humanitarian goods transaction, it is far from clear whether it was meant to further limit assignments only to a bank providing such financing directly to the beneficiary, and to foreclose such financing if it was provided by a bank through the beneficiary's supplier. In any event, as its operational procedures evolved, the New York branch of BNP and then BNP Paribas took a conservative approach in deciding that assignments of proceeds as a general matter should be limited to banks providing financing directly to letter of credit beneficiaries.

As I said earlier, our review has identified some instances, reflected in our Interim Report, in which assignments or payments were made to persons other than beneficiaries or banks making direct loans to them, contrary to the Bank's procedures. Based upon the review we have conducted to date, the Bank has determined that in some, but by no means all, of those instances, the information that was available to the letter of credit processing personnel at the time would have indicated the possibility that the assignments or payments were being made to financing facilities extended by banks to suppliers, rather than to the beneficiaries themselves. The Bank has determined that, in these instances, the processing of those assignments or payments constituted avoidable errors.

Although the Bank did take steps over the course of the Program to enhance management and strengthen and reinforce its policies and procedures for processing letters of credit under the Program, we believe, with the benefit of hindsight, that still more should have been done. In particular, better training of the numerous temporary clerical employees that had to be hired on extremely short notice to deal with the sudden, sharp upsurge in the volume and complexity of humanitarian supply contracts to which I referred earlier, could have minimized the incidence of such payments. In addition, enhanced monitoring of the performance of those employees could have resulted in corrective actions being taken that further could have reduced the incidence of such mistakes.

Still, to evaluate these assignments and payments properly, we believe a number of observations are in order:

- I would begin by observing first, that the beneficiaries in the transactions involving assignments all made representations to BNP Paribas that they were assigning proceeds to banks that were providing them with financing for those transactions; and second, that the banks providing the financing in the transactions involving assignments that I described earlier confirmed this on a number of occasions.
 - In fact, the assignments of proceeds in the transactions I described earlier were in favor of banks; and we understand that the payments that were made under those assignments would have served in the first instance to repay the banks for the financing they made available for underlying UN-approved humanitarian goods transactions.
 - Moreover, the fact that the financing banks, which are large international institutions, evidently were comfortable stating on various occasions that they were providing financing for the transaction to the beneficiary, albeit through the supplier, underscores the fact that this distinction is at best one of form.

- It also is worth noting that any legal claims with respect to the proceeds that had been assigned in these circumstances would have belonged to the financing banks that were designated as the payees, and not to the suppliers to which the financing had been extended.
- Another point I would like to make is that assignments of the type I have described are legitimate commercial arrangements, quite apart from any limitations that may have existed under the procedures adopted by the Bank for processing humanitarian letters of credit under the Oil-For-Food Program.
- Furthermore, the Bank has not identified any instance where a letter of credit itself, along with its corresponding obligations, was transferred or assigned by a beneficiary to a third party in violation of the Banking Services Agreement.
- The Committee also should be aware that the Bank is in possession of a notice of arrival with respect to the goods that are the basis for each of the payments we are addressing here today.
- It is highly significant as well that the suppliers who were involved in the substantial majority of the dollar value of the transactions to which

I referred earlier were, either directly or through their affiliates, UN-approved beneficiaries under other humanitarian letters of credit worth hundreds of millions of dollars.

- Nor should we lose sight of the fact that where the proceeds of a letter of credit are paid directly to a beneficiary, the beneficiary is free to use some or all of those proceeds to repay any bank that provided financing for the transaction, whether the funds were advanced by that bank to the beneficiary or its supplier; or to pay its supplier directly; or to pay others.
- I would call the Committee's attention to the fact that, even today, none of the so-called "third parties" that have been identified appears on the United States Department of Treasury Office of Foreign Asset Control's List of Specially Designated Nationals.

Finally, and most importantly, I want to emphasize again that the Bank has seen no indication that any assignment of proceeds or payment to any so-called "third party" is causally linked to any corruption that may have occurred in connection with the Oil-For-Food Program.

In closing, I would reiterate that in order to be fully responsive to the Committee's inquiries, the Bank is continuing its review; and that it intends to provide

this Committee with a final report at the conclusion of that process, just as it did on an interim basis here, to assist the Committee further in its own assessment of this matter. My colleagues and I would be pleased to respond as best we can at this stage of the process to any questions the Committee may have. Thank you.

Mr. ROHRABACHER. Well, thank you very much, Mr. Schenk, and let me just note that your bank has been fully cooperative and they are very lucky to have a spokesman like yourself who can present a case like this to Members of Congress, and we appreciate you being here.

With that said, we do have some pointed questions to throw in your direction. Of course the number one question, which you admitted in your testimony, is that making payments to third parties was obviously not consistent with the program as agreed to by the United Nations and as part of your contract. Why, then, did your bank decide to go ahead with it? I know that something may be a standard practice, but if it is not within the agreement that you reached with someone, why would you then go right ahead and do it?

Mr. SCHENK. As I referred to in my opening remarks, we have operated in good faith in our understanding of that agreement. While I am not an attorney and certainly not an expert in contract law, the contract is ambiguous on this point. I am knowledgeable about the bank's procedures and can tell you that we put in procedures that we believe were designed to ensure compliance, and in some instances these procedures were not adhered to. These departures should not have occurred. I am sorry that they did. I am personally disappointed that they did. However, we do not believe that any of these departures from procedures that we have identified to date have caused or contributed to any corruption under the program.

Mr. ROHRABACHER. Now, we do understand that when you are talking about what is common practice for a bank in dealing with regular business, but when you are dealing with something as supercharged as the Oil-for-Food Program, something dealing with the powers, the international power plays that are going on here, the regular rules don't apply. This is not just a regular program and this is not just a regular client. This is something that is extraordinary. Your bank did not really take the time and effort to get the approval of just, let us say, veering off of the agreement that you had. You say it is ambiguous. But it would seem to me that with something as highly charged as this you wouldn't want to move forward operating with ambiguity.

I guess I would put it this way. Didn't Harold Lehmann, who was working for your bank at the time, sign off on some of these payments? So this was done intentionally?

Mr. SCHENK. Well, the answer is that, based on the procedures that we had put in place, we believe that an assignment of proceeds was appropriate in some instances where we had what we thought was evidence of supplier financing arrangements. Those—they were agreed to.

Mr. ROHRABACHER. Who was it that approved that?

Mr. SCHENK. In this case—maybe I will pass it over to Harold.

Mr. ROHRABACHER. Who was it that approved, to begin with, the whole idea of making these third-party payments?

Mr. Lehmann. Well, the assignment of proceeds were allowed under the program.

Mr. ROHRABACHER. Well, we just heard that that was ambiguous. Did you have a law firm then clarify it?

Mr. SCHENK. I am sorry. Maybe my comments were not clear. It is very clear under the program that assignment for proceeds are permitted.

Mr. ROHRABACHER. To third party people or to financial institutions?

Mr. SCHENK. Assignment of proceeds directly to a bank providing—to a bank providing financing to the beneficiaries.

Mr. ROHRABACHER. But this was definitely not within that parameter?

Mr. SCHENK. No, but the contract—and here again I qualify remarks by saying I am not an attorney, I am not a contract specialist. But it specifically—it appears to be ambiguous as it relates to third-party—

Mr. ROHRABACHER. Well, if it does, what law firm or what lawyer in your institution then signed off on this? Would you have a document that indicates that you had legal opinion that suggested that that is the direction you could go?

Mr. SCHENK. I am not particularly aware of that. I think it is worthwhile, and I would like to take a moment to remind the Committee about what the bank has done as part of its investigation to identify these third-party payments.

Mr. ROHRABACHER. Before you go into that, I mean, because I would like to not be taken off just yet. But we will give you plenty of time to express the fact that your bank is bending over backwards to try to find out all the information and to try to lay out the scenario as you see the honest scenario to be.

This East Star, who is East Star? Who is it? Could you give me a few names on who owns this company and, you know, they are a subsidiary of Pacific InterLink, which again has the right to do all of these other things. But East Star itself is its own company. Who owns East Star? Who runs it? Who is the President of East Star?

Mr. SCHENK. I have to refer here to documents. We have outlined in attachment 2, the interim report that we have provided you, a description of East Star as we understand it. In that report it describes East Star as being incorporated as an affiliate of InterLink. East Star was incorporated in the Cayman Islands in 1990.

Mr. ROHRABACHER. Incorporated in the Cayman Islands in 1990.

Mr. SCHENK. That is what we have entered into the record.

Mr. ROHRABACHER. So we have billions of dollars in this Oil-for-Food Program, and there is all this money flowing—not billions of dollars—but there is all this money we are talking about today flowing to a company that you just know was formed in the Cayman Islands in the 1990s?

Mr. SCHENK. I hate to go back to a point which we discussed in the first hearing, but I do have to emphasize at this moment in time that our client in the Oil-for-Food Program was the U.N.

Mr. ROHRABACHER. Right.

Mr. SCHENK. And, under the U.N., under the 661 Committee, these contracts were approved.

Mr. ROHRABACHER. The payments to East Star?

Mr. SCHENK. Well, we do know that East Star or its affiliates were approved beneficiaries under the program in various phases in the program.

Mr. ROHRABACHER. Were they approved as a recipient for third-party payments?

Mr. SCHENK. East Star or its affiliates were approved as a direct beneficiary. So I am just saying at one point in this program these names have been approved as a direct beneficiary under various phases of the program.

Mr. ROHRABACHER. They are a——

Mr. SCHENK. So the 661 Committee did in fact approve East Star or its affiliates in various phases of the program. And when I misspeak——

Mr. ROHRABACHER. This is very murky. This is incredibly murky.

Mr. DELAHUNT. Let him answer the question.

Mr. ROHRABACHER. I am trying to figure out here who East Star is.

You are telling me these things were approved, but not for East Star; it was approved for the company to which East Star was a subsidiary of. And what you know about East Star is only that it was a company that is incorporated down in the Cayman Islands?

Mr. SCHENK. We provided some detail about East Star and its affiliates in the documents, and I would refer the Committee to those documents. What I am trying to mention is that, in the nature of our relationship from a—if you want, from a KYC (Know Your Customer) point of view, our customer was the United Nations. On that basis, we relied on the contracts that were approved by the United Nations by the 661 Committee. As part of that there are procedures in place which allow the beneficiary under an assignment of proceeds to pay a bank through a bank that may have provided financing. It also——

Mr. ROHRABACHER. This is not a bank that you are paying it to?

Mr. SCHENK. We are paying the payments that have been made, in the case of East Star, through a bank. What we have discovered, based on our investigations—so I am not going to claim to you at the time we made them that we knew this—is that financing arrangements existed for East Star through major international banks, the names of which I think we have provided in the interim report, which confirm that there were financing arrangements and facilities in place for East Star as a supplier to the beneficiary. It is also a representation on our part that East Star or its affiliates were also approved beneficiaries under the letter of credit program through various phases of the program.

Mr. ROHRABACHER. You don't know who owns East Star? Who is Commodities House Investment, Incorporated? Apparently, it owns 100 percent of East Star. Wait a minute. East Star and Pacific InterLink are both owned by Commodities House. Who is that?

Mr. SCHENK. I guess—the extent of our knowledge at this point in terms of the ownership of East Star is outlined in our attachments here. And what we have done here for this Committee is, we have identified those situations where third-party payments may have been made.

As it relates to the third-party payments that we have been able to investigate at this moment in time—and you referred in your opening remarks to some 80 transactions, I think, which are left to be investigated, that represents another 25 companies. Not 80 companies, but 25 companies. And of the investigation that we

have done at this point involving East Star, Al Douh, and another operation called Talfet, we are aware that financing facilities were in place through banks, and that we believe that the payments that we made through those banks for the credit of East Star were related to a financing facility that was in place for East Star at that financial institution.

Mr. ROHRABACHER. But you have already admitted that this was not specifically within the guidelines that you were supposed to be operating and that you felt there was some ambiguity there.

Mr. SCHENK. We set up a procedure so—and as our procedures evolved—that a third-party financing arrangement would not occur. We had some exceptions to that procedure. We have identified those exceptions as of this moment.

You know, I think one of the difficulties here, at a fundamental level, is that we have relied heavily on the U.N. as our client and the 661 Committee associated with the client—the beneficiaries of financing arrangements that were put in place. At this point—and it is a matter of contract interpretation, and my comment stands that I am not an attorney or contract specialist—there is ambiguity about this. But we are aware, based on our review, that supplier financing arrangements, you know—

Mr. ROHRABACHER. I would like to see the document from your company. If you could, we would like to see the internal document in which you ask your legal counsel about that issue so that you could present it to the Committee. Obviously if you decided to move forward even though there was an ambiguity, you had a legal decision within your company. Or, you could determine that that was made by nonlegal counsel, and you could show us that document as well, as to who made that decision to move forward even though it is clearly an ambiguous situation.

[NOTE: The information referred to was not received by the Subcommittee prior to printing.]

Mr. ROHRABACHER. I have so many questions, but we do have to move on. With respect to Al-Riyadh International Flowers, are you aware that it has been charged that this company was actually receiving a 20 percent overpayment for the humanitarian supplies that they provided to the Oil-for-Food Program?

Mr. SCHENK. Actually, right now I am trying to remember. It was brought to my attention that one of the beneficiaries was accused or identified as overcharging. I don't recall right now whether that was Al-Riyadh.

Mr. ROHRABACHER. So just to reacquaint you with the fact that you have this very serious charge that Al-Riyadh International Flowers was charging, let us say, 28 percent more for the humanitarian commodities that was providing Oil-for-Food. That company is the company that then asked you to deliver its money that it was receiving for that overcharging to East Star, which then of course, as we can see now, was owned by Commodities House Investment. Who knows who owns Commodities House Investment?

So we have an overcharging of the Oil-for-Food Program going to a third company under a contract whose rules you admit were, at best, ambiguous, and most of us seem to think it was pretty clear that you were not supposed to deliver these payments to third parties unless they were banks. But you went ahead and delivered it

to that company, which was then owned by some other company in the Cayman Islands. This really smells. This stinks. That an international bank is involved with the United Nations may, you know, may be an excuse. You say, well, we are doing this for the United Nations. But that is no excuse.

Let me ask you this. Your company deals with——

Mr. SCHENK. With all respect, Mr. Chairman, I have to comment about that, with all due respect.

Mr. ROHRABACHER. Okay. Certainly.

Mr. SCHENK. First of all, we have to remind the Members of this Committee that the bank had nothing to do with the approval of the contracts, the terms of the contracts, the pricing, and the commodities involved.

Mr. ROHRABACHER. Who you delivered the money to was up to you.

Mr. SCHENK. But you raised the question here related to price, and frankly, the terms and conditions of the contracts were not something that the bank evaluated or was engaged in. We relied exclusively on the 661 Committee associated with the approval of these contracts. We did not engage in——

Mr. ROHRABACHER. So, you found yourself a den of thieves, and then one of them told you to deliver the money to somebody else even though you knew——

Mr. SCHENK. Well, I am not so sure who the den of thieves is meant to be in this case. We relied on the 661 Committee.

Mr. ROHRABACHER. How about the people who were overcharging the Oil-for-Food Program for 28 percent of the humanitarian supplies. That is obviously who one of the thieves is. Perhaps the other people in the United Nations who were getting their relatives jobs with the various companies are included in this. But we know, at least, that this company was overcharging. Your responsibility was to see companies are paid so that they could be held accountable. Instead of paying that company, you put the money to another company who we cannot identify, and that company is owned by somebody else who you are not familiar with other than that they are from the Cayman Islands.

Mr. SCHENK. You know, I think, again, with all due respect, Mr. Chairman, we did not have any involvement in the approval of the contracts or the pricing under those contracts. It was just not our business. We at this point have looked at the transactions as part of our investigation and have determined that there were financings—supplier financings in place for East Star through a major international bank associated with providing supplies to the beneficiary.

I have to also say that we have in our possession today all of the certificates of arrival, the Notice of Arrival associated with the goods that are involved in any of the identified third-party transactions. And at this moment through the 43,000 transactions that we have investigated, we have identified a group—and you accurately described it as over 400—it is 403 transactions that involve approximately 30 companies. We have evaluated in detail a number of those but specifically three which represent more than 80 percent of the dollar volume. We have 80 left to do. It is not that

we don't know anything about those 80; it is a continuing investigation.

Mr. ROHRABACHER. You are under U.S. banking law, correct?

Mr. SCHENK. Yes, sir.

Mr. ROHRABACHER. Does U.S. banking law require you to be aware of the companies to which you are providing money?

Mr. SCHENK. There is obviously some very specific regulation and law associated with Know Your Customer. In this case——

Mr. ROHRABACHER. In this case, you gave money to——

Mr. SCHENK. We are relying on our customer in this situation, which is the U.N. And we have——

Mr. ROHRABACHER. You are providing money to a company that you don't know anything about that operates out of the Cayman Islands and is owned by another company that you don't know anything about. Now, whether or not you are directed by your customer, that does not exempt you from the U.S. law of knowing who you are doing business with. For all you know, these could be the worst terrorists or drug dealers in the world.

Mr. SCHENK. In this case we had the benefit of an approved beneficiary and a financing arrangement that we believe was in place, and that the KYC customer obligation in this case runs through the nature of our dealings with the United Nations.

Mr. ROHRABACHER. I will not take up all the time here, and I apologize for taking too much time. Mr. Delahunt has been more than——

Mr. DELAHUNT. I have no objection to conceding to you as much time as you may consume.

Mr. ROHRABACHER. You may proceed, and then we will go on to our other Members.

Mr. DELAHUNT. Let me see if I can understand this. All of the goods that were implicated in the so-called third-party payment, we know they were delivered, according to the information that you have before you?

Mr. SCHENK. Yes, sir. We can confirm that we have in our possession Notice of Arrival for all the goods involving the transactions, involving these so-called third-party payments.

Mr. DELAHUNT. So all of the goods arrived?

Mr. SCHENK. Yes, sir.

Mr. DELAHUNT. The stuff got there?

Mr. SCHENK. Yes, sir.

Mr. DELAHUNT. And hopefully benefited the Iraqi people.

Mr. SCHENK. I hope so, as well.

Mr. DELAHUNT. Now, my friend, the Chairman, refers to the 20 percent overpricing on a particular contract involving some company. According to the terms of the contract that you had with the United Nations, did you have the responsibility to determine whether the price itself was fair or not? Was that your responsibility?

Mr. SCHENK. No, sir, it was not.

Mr. DELAHUNT. It was not. Would you repeat that once more so we can be really clear about it?

Mr. SCHENK. The terms of the contracts which were approved by the 661 Committee both in terms of price and quantity and sub-

stance, whatever was involved, we were not involved in any way in the approval process.

Mr. DELAHUNT. Let me interrupt you, Mr. Schenk, because I want to try to be as focused as I can. So it was the responsibility of the 661 Committee?

Mr. SCHENK. Yes, sir.

Mr. DELAHUNT. Who is on the 661 Committee?

Mr. SCHENK. Well, essentially the members of the Security Council.

Mr. DELAHUNT. Does the United States of America have a seat on the Security Council?

Mr. SCHENK. Yes, sir.

Mr. DELAHUNT. That was the point that I was trying to make, Mr. Chairman, in terms of my opening comments. I would like to ask the Administration. I would like to ask the Administration, the head of the U.S. Mission. We have an Acting Ambassador to the United States currently in New York. You and I have met with her. I would hope that she could come down here, or maybe whoever sits on the U.N. desk, the U.N. Reform Desk in the Department of State, because I think it is a very good question.

I think you are correct, but you are posing the question to the individual that had no responsibility for it. The oversight was the Security Council, the 661 Committee. That is the oversight.

Mr. ROHRABACHER. Are we referring to the Committee that was kept in the dark, as we have found in our investigation here?

Mr. DELAHUNT. No.

Mr. ROHRABACHER. Is this the one—

Mr. DELAHUNT. Reclaiming my time here, Mr. Chairman. Thank you. No, I am talking about the 661 Committee that was notified about 70 contracts. Okay? Seventy contracts by the United Nations, I presume, the folks on the ground, that there was overpricing and that no action was taken. That is the 661 Committee that I am referring to. We are posing these questions to Mr. Schenk, and of course he doesn't know the answers.

Now, I agree with you. You know, you acted in terms of, it would appear, based upon the bank's customary practices in terms of trade finance.

Do we have a copy of the contract, by the way? Does the staff? Okay. I think Mr. Royce has it. You know, I am sure my colleague will share it with me afterwards. I think it comes down to a question of the interpretation of the language that you describe as ambiguous. But just to reassure myself again, all of the beneficiaries that received payments under the Humanitarian Letter of Credit were approved beneficiaries by the 661 Committee?

Mr. SCHENK. Yes, sir.

Mr. DELAHUNT. Okay. And the 661 Committee includes the Security Council?

Mr. SCHENK. Yes, sir.

Mr. DELAHUNT. Which includes the United States Government?

Mr. SCHENK. Yes, sir.

Mr. DELAHUNT. So as far as you knew, the people that you were dealing with were good guys?

Mr. SCHENK. That is what we understood. Yes, sir.

Mr. DELAHUNT. Okay. So purportedly, or presumably, the 661 Committee, the Security Council of the United States—of the United Nations, rather, would have done its homework and vetted these people so that a conclusion would be reached as to their legitimacy in terms of the Oil-for-Food Program. Is that a fair statement?

Mr. SCHENK. Yes, sir.

Mr. DELAHUNT. Okay. Earlier my friend, the Chairman, indicated that you are the bank for Iraq. You know—

Mr. ROHRABACHER. That was at another hearing.

Mr. DELAHUNT. Well, at another hearing he asked the question or suggested that you were the bank for Saddam, you were presumably his personal banker. But can you tell me the relationship of a correspondent bank in Europe with a government? What does that mean? And, if you know, how long did the relationship—if it in fact existed—last between your bank or any of its affiliates with the Government of Saddam Hussein or Saddam himself?

Mr. SCHENK. I am going to make a couple of comments about the bank's business in Iraq and then I will speak specifically to that point.

The bank did have an office in Iraq until 1963. At that point, the Ba'ath Party took over the bank, arrested our branch manager, we were thrown out of the country, and we have not had an operation in Iraq since 1963.

Mr. DELAHUNT. You weren't there during the course of the 1980s?

Mr. SCHENK. No, sir.

Mr. DELAHUNT. You couldn't have visited the U.S. Embassy then in Baghdad during the 1980s that existed there up until 1990?

Mr. SCHENK. You are outside my sphere of knowledge here. I would—you asked a couple of other questions, and here I want to comment on one thing. The answer is, given the extraordinary sensitivity to Saddam Hussein and his position in the world these days, we make an exception, frankly, for this Committee associated with bank privacy and confidentiality laws. And I want to confirm to this Committee that we do not have an account with Saddam Hussein. But I also want to—

Mr. DELAHUNT. Well, I have to—did you ever have an account, that you are aware of, with Saddam Hussein post-1963?

Mr. SCHENK. I personally am not aware of any. But I don't—I am not personally aware of that.

Mr. DELAHUNT. Okay.

Mr. SCHENK. What I can say now, and now I am—I want to make a comment as it relates to other customer relationships or relationships that the bank might have or have had, that—I want to repeat the notion that we are in good standing in the countries in which we operate, including the United States, and, to the best of my knowledge, that we are in compliance with all the sanction laws and regulations in all the jurisdictions that we operate. But on advice of my counsel, frankly, that I—and because of privacy laws and confidentiality issues, I should not identify customers of the bank in a public forum. And I would offer to you or staff that, if they want to give me the names of individuals or organizations

that you are interested in, we will provide the information in executive session unless we are prohibited by law from doing so.

Mr. DELAHUNT. I welcome that offer, and I would ask the Chairman that, if he has particular questions as it would apply, that only he and I receive that information. Not staff. Obviously other Members.

Mr. ROHRABACHER. We will submit some questions to you in writing, and then the Ranking Member and myself will go over that and/or meet with you and go over your answers.

Mr. SCHENK. Okay. On advice of counsel, I am told that that is a procedure that will work for us.

Mr. DELAHUNT. I want to make it very clear that I do not want there to be staff present. Myself and the Chairman. That would be fine.

Mr. ROHRABACHER. Let me be very clear. The U.S. law says that you are supposed to know exactly who you are dealing with. U.S. law is trying to protect the United States and the people of the United States from having money go to criminal elements in the world or gangsters—

Mr. DELAHUNT. Reclaiming my time, Mr. Chairman. It is my time.

Mr. ROHRABACHER. I thought that you had given up your time.

Mr. DELAHUNT. No, I had not given up my time.

Mr. ROHRABACHER. Then I will be happy to—

Mr. DELAHUNT. There is no indication that the implicit inference in your question is even appropriate in terms of what we have heard here from Mr. Schenk. He is not giving money away to criminal elements.

Mr. ROHRABACHER. We have money being transferred to a company in the Cayman Islands that nobody even knows about.

Mr. DELAHUNT. I found very interesting—again, reclaiming my time. I find it very interesting the Cayman Islands, because I can remember raising the issue about Halliburton Corporation having a place of business in the Cayman Islands, in Dubai, and I don't hear you talking about—

Mr. ROHRABACHER. And you should be really concerned.

Mr. DELAHUNT. Well, then let us conduct an investigation into that. Let us do that. Let us get Halliburton up here and find out.

Mr. ROHRABACHER. That may be coming, but we shouldn't pooh-pooh it right now.

Mr. DELAHUNT. Well, I am not pooh-poohing it right now. But, I mean, come on.

Mr. SCHENK. I think on that point, Mr. Chairman, if I could just—in my opening remarks I did mention that all of the third party payees that we have identified were not, are not on any OFAC (Office of Foreign Assets Control) list or listed as an SDN (Specially Designated Nationals). And that includes up to currently. So it is not at the time but it also is true today through the OFAC list. So in terms of identification of bad guys, which I think is the point that you alluded to, the third-party payees that we have provided on that list are not on any current list, and that includes whether the payments were made a while ago or in the last 2 or 3 years. So—

Mr. ROHRABACHER. Can we proceed? Mr. Royce, you may proceed.

Mr. ROYCE. Going back to one of your points, Mr. Schenk, the Iraqi Central Bank at least has a different view of the previous commercial relationship between Banque Nationale de Paris and the New York branch. I think that they have communicated, at least to our staff, that that previous relationship did exist, and that is why the Iraqi Government at the time desired the selection of that particular bank. At least that is the assertion of their Central Bank.

Mr. SCHENK. I don't want to be—maybe it is a misunderstanding of my comments. My comment was that we have not been physically present in Iraq since 1963.

Mr. ROYCE. I understood that.

Mr. SCHENK. And that I—as it relates to the nature of our relationships, I am not going further in this committee forum about the client relations that we have had. So I didn't say we didn't; I am just saying that I am not going further on that subject.

Mr. ROYCE. Okay. I just wanted to point out that, at least from the standpoint of the Iraqi Central Bank, they felt they picked this bank because of prior relationships which Saddam Hussein's Government had with this particular bank. That is the bank that they chose.

Now, we knew at the time that there were bad actors in the process, and that is why the 661 Committee was set up in the United Nations; it was expressly set up with the idea that they, the U.N., would be able to monitor the companies on the list. As you know, over time the U.N. had to take companies off the list because companies can be bought, companies can be basically obtained by some of the bad actors. So companies actually were transferred off the list. But the specific desire, as I understand it, on the part of the United Nations with this agreement with your bank was to narrowly confine the transactions to those specific companies. So we have the Agreement for Banking Services between the United Nations and the Banque Nationale de Paris. And in that specific agreement, as we turn to the issue specifically of letters of credit:

“The Central Bank of Iraq will forward to the bank requests from the appropriate Iraqi Government entities to open irrevocable, nontransferrable, non-assignable, except to the supplier's bank for the repayment of financing for the purchase of the humanitarian supplies, letters of credit for the account of the Iraqi purchaser in favor of the supplier. Only the United Nations has the authority to give binding instructions to the bank concerning such letters of credit. When the bank receives such a request, it shall immediately forward it to the Deputy Treasurer of the United Nations for approval.”

So, inasmuch as U.S. banking law says, under Know Your Customer, that you have to check out those companies that you deal with, and inasmuch as you are in that jurisdiction, you are dealing with this particular program in which this contract is fairly defined, and now you have the letters of credit being assigned to other entities—and this is not a normal commercial practice system that you are in—I just thought I would try to explore, and maybe

with you, Mr. Lehmann, who gave you the direction to sign off? Because the statements appear "As Per Harold" in terms of these assignments. I wanted to ask if this was the only method by which reassignments were performed? Why was no formal process undertaken to authorize the reassignments? And did you permit other such reassignments? And, if so, was it done in a verbal method like this?

Mr. LEHMANN. Yes. I am not familiar with the term "reassignment." I am familiar with the term "assignment of proceeds."

Mr. ROYCE. Okay.

Mr. LEHMANN. This is what we did.

Mr. ROYCE. Okay.

Mr. LEHMANN. We don't assign a letter of credit; we assign the proceeds to an entity. And, as you just read from the contract, I believe—

Mr. ROYCE. Yes.

Mr. LEHMANN [continuing]. That the letters of credit were assignable only to the bank providing the financing for the—to the supplier.

Mr. ROYCE. Well, as we begin to ask the question, then, what kind of security checks were applied to the company when it was requested by Al-Riyadh International Flowers that the letters of credit were to be assigned or reassigned to East Star? Maybe I could explore that question.

Mr. LEHMANN. Well, we would receive a standard form from any of the beneficiaries that they are assigning their proceeds to this bank, which would be the case in these letters of credit. Subsequent to that, we would have a documentary presentation. And if the documents were in compliance with the letter of credit, including a notice of the arrival of the goods in Iraq, we would proceed to make payment under the letter of credit.

Mr. ROYCE. The question I have is: Why were those transactions allowed to be cleared when it appears this kind of transaction was not permitted in BNP's contract with the U.N.? Why wouldn't you go to the U.N.? You know, as I read the conditions here on letters of credit: "Only the United Nations has the authority to give binding instructions to the bank concerning such letters of credit. When the bank receives such a request, it shall immediately forward it to the Deputy Treasurer of the United Nations for the U.N.'s approval."

And that is what I am—

Mr. LEHMANN. That is referring to the request to issue the letter of credit, where they are giving us the binding instructions, the Central Bank of Iraq is contacting us with an application, if you will, for the letter of credit. We are providing to the United Nations that message and awaiting their approval to issue the letter of credit. That is what that is referring to.

As far as the payment, when we receive documents from a beneficiary, they will have a cover letter perhaps, or perhaps it is a presenting bank overseas, and they will have payment instructions on how to remit proceeds to them. In these cases, the payment instructions would be the same as on the assignment of proceeds, pay such and such a bank; and, as is customary, to a specific account number on the bank's books.

So these were not felt by us to be inconsistent with each other nor with what the assignment itself allowed; that we were in fact paying a financing institution who has confirmed to us that they, in fact, financed the goods covered by that letter of credit.

Mr. ROYCE. And the assertion that, under U.S. banking law, you have to check those companies—

Mr. LEHMANN. Correct.

Mr. ROYCE [continuing]. That you are dealing with, under law, and determine—you have to know your customer. Arguably with this labyrinth of ownership as we go through the particular company we are discussing right now, it would appear that you certainly didn't know that customer. I am not sure we still have figured out who that customer is.

Mr. LEHMANN. We certainly did perform two checks on every party in every payment. First it was a check in the letter of credit department, a manual check against the OFAC list. The second check would occur automatically in a filter in the payment system of the automated payment. So every party in the payment under these letters of credit has been verified twice not to be on the OFAC list. Every single payment.

Mr. ROYCE. Let us see. Did you check this one: Commodities House Investment Limited?

Mr. LEHMANN. If their name had appeared as a party being paid on the letter of credit, we would have checked the name.

Mr. ROYCE. Well, I guess—the reason the Know Your Customer law is important is because you need to know the customer. In this case, East Star is, in fact, owned by Commodities House Investment, Limited. And—

Mr. LEHMANN. That is something unknown to us.

Mr. ROYCE. Well, it is unknown to you because you didn't know this customer. I am just trying to point that out.

Mr. LEHMANN. Our customer was the United Nations.

Mr. ROYCE. Well, under banking law your customer is not just the United Nations. You are supposed to know the companies that you are dealing with, at least in U.S. jurisdictions, and you are in a U.S. jurisdiction.

Mr. LEHMANN. Well, again, from the stated names that were in front of us in these transactions—we only know of these names as they appear in the paperwork, and these are the only names we know of, the only names that we could check.

Mr. ROYCE. Well, but indeed that is why we have evolved this law, Know Your Customer, so that you do find out who is behind the transactions, and in this case it is a different entity.

Mr. ROHRBACHER. Thank you, Mr. Royce.

Mr. Berman.

Mr. BERMAN. Well, I don't want this to be the main thrust of my comments. But Mr. Royce's point is an interesting one. If someone on the OFAC list creates a subsidiary or an affiliate that doesn't have that name, then you can check against the OFAC list all you want and the entity designated on the letter of credit will never appear. So, is your obligation to go beyond simply the literal matching of the name on the letter of credit with the OFAC list? Or is it OFAC's responsibility to update their list constantly to see if dummy companies and names are being created by OFAC list enti-

ties? In other words, I am not even clear who the customer is in this case. But you are doing business with somebody; you are providing financing to some entity. To assert that they are not on the OFAC list when they could simply be a dummy affiliate of somebody who is on the OFAC list doesn't give a lot of credit.

I think it would be very wrong to try to indict you at the public hearing for things you are not responsible for. I certainly have no particular interest in defending you as an entity. You have an obstacle to overcome if it is in fact true that the Iraq regime wanted you to play the role you played here. But I have also been to the Cayman Islands and I am not a crook. In and of itself, it doesn't convict you to say that the Iraq regime wanted you. I would think you would want to explain, because I bet you there are all kinds of explanations made for why that regime might have wanted you as the bank. That don't necessarily mean you did anything wrong or corrupt.

There was a time in the 1980s, against my wishes, that the United States was selling dual-use equipment, that France was involved in all kinds of transactions with Iraq, that we thought Saddam was the buffer against the Ayatollah, and we developed all kinds of relationships that in retrospect were clearly wrong. But hindsight is wonderful.

What I am confused about most of all is your testimony, Mr. Schenk, you apologized for something. But it seemed like the Chairman took what you said and extrapolated it into something much more than you were apologizing for. So could you sort of simply state what is it that, in retrospect, based on your report, you thought you did that you probably now, in hindsight, wished you hadn't done? Let us get that clear.

Mr. SCHENK. Well, I think the issue, in that regard specifically—

Mr. BERMAN. I don't know if you apologized, but you expressed some remorse or something.

Mr. SCHENK. We, in fact, did admit to making some mistakes as it relates to the procedures that we had in place, and the procedures that we had in place were meant to identify those situations where there was not an assignment of proceeds in place. It was a procedural issue for us. It was not—

Mr. BERMAN. What does that mean, that there was not an assignment of proceeds in place?

Mr. SCHENK. We have two issues here on trade finance, someone can set up an assignment of proceeds in advance of the letter of credit being issued and paid, and I yield here to Harold, when I make a mistake. We also have a situation where one can have financing arrangements which are established at a bank on behalf of a supplier.

In this case, those are the situations that we are talking about. Here are third-party payments where, in fact, the payment from us would have gone to the bank in satisfaction for the benefit of, let us say, East Star, but it was in an account which was part of a financing facility that had been put in place by that bank on behalf of East Star, as East Star was providing goods to the beneficiary.

I note, in normal trade, that third-party financing arrangement, that financing facility, would be treated similarly to an assignment of proceeds.

In the situation that we are talking about, from a procedural matter we probably—we shouldn't have made those payments. Those payments that were made on that basis are outlined.

Mr. BERMAN. Is that because—those payments were made because—

Mr. SCHENK. Of a procedure that we established internally, which was more strict than we believe is embedded in the underlying Banking Services Agreement.

Mr. BERMAN. I get it. So what you are saying is, the agreement was ambiguous, but you would set up an interim procedure that was both stricter and clearer than the agreement. You, in some cases, didn't comply with your own internal procedure.

Mr. SCHENK. Yes, sir. Thank you for that clarification.

Mr. BERMAN. You are not conceding at this point, I take it, that you violated the agreement.

Mr. SCHENK. We are not conceding that, no, sir.

Mr. BERMAN. All right. Now, that is it.

Mr. ROHRABACHER. Well, thank you very much. I think that what we will do now is just call this meeting to an end, and I just—let me just suggest again that this is a very special favor that we are doing for the Ranking Member here, and he said he would be brief. He has asked for just two more questions, if you would be very brief.

Mr. DELAHUNT. I will. Let me just pose both of them. In terms of the contract itself, are you in communication with the United Nations relative to your performance under the contract? I mean, has the U.N. discussed with the bank or expressed their concern about your performance under the contract as your client in this case?

Mr. SCHENK. Well, throughout the life of the program you might imagine that we had—

Mr. DELAHUNT. But subsequent. At this point, many of these questions are being posed by this Committee and others in Congress. Have you heard—has the U.N. expressed the same concerns to you?

Mr. SCHENK. No, sir, they have not, to my knowledge.

Mr. DELAHUNT. Has the United States Mission to the United Nations engaged you in discussions about your performance pursuant to the U.N., to the contract you had?

Mr. SCHENK. To my knowledge, no, sir.

Mr. DELAHUNT. Okay. Thank you, that is it.

Mr. ROHRABACHER. Well, then the Chairman will also ask just a couple more questions.

When we are talking about these third-party assignments, did your bank ever file a SAR (Suspicious Activity Report) for any of these requests to make these third-party payments?

Mr. SCHENK. I know that my good attorney, Mr. Bennett, is going to advise me that I am really not at liberty to make any comment about a SAR filing.

Mr. ROHRABACHER. Well, that is pretty telling. Maybe your lawyer isn't the one that should be making the decisions on all of these things if you are—

Mr. SCHENK. No, I am following—this is U.S. regulation, sir, this is banking law.

Mr. ROHRABACHER. There is banking law that you have to operate on, and we have already gone through the fact that, at least from my perspective, it is very questionable whether or not you followed the banking law. I am not someone who is a lawyer and can know all the details, but it seems to me you did not know who you were doing business with in the end. In the sense of who the money ended up with, you have no idea who that someone was.

But if you are required by law to file a Suspicious Action Report and someone has asked you to make a payment to a third party, and that third party happens to be a bank owned by a company that is incorporated out of the Cayman Islands, and that is the only thing you know about it, that seems suspicious.

We will leave that with the American people and with the people who are reporting this to whether they think that is suspicious. Let us give you 60 seconds to say anything you want. You will have the final word.

Mr. SCHENK. Okay. Since you finished along the point that you did, I would like to continue along that line of reasoning.

Mr. ROHRABACHER. Yes, sir, you have the final word.

Mr. SCHENK. I would just like to say that in the situations we have described as third-party payments, we are making those payments to banks under what we understand are financing agreements in place or suppliers. We are not making the payment to the third party. It is under a financing agreement. So the payment is to the bank, and the payees are not the bank's customers.

So in this case we have relied on the bank. As I have indicated, those banks are substantial international institutions and they are named in the interim report.

So we believe that payments that we have made are made based on financing arrangements that those suppliers, financing facility, those suppliers had in place, and that has been confirmed to us—and I can't say in all cases, but in most cases that the financing arrangement in place at those banks was for these suppliers.

The other point I want to make is that in all cases we have Certificates of Arrival. These are good assurances, in terms of the product out there, being delivered. We have no evidence of anything in our investigation which would see any cause or effect for any corruption in the program. So I mean, in terms of our own sense—and we continue, and I want to assure, as my last 10 or 15 seconds here, that we are continuing our investigation.

We have another 13,000 payments to go through. We have these 80 third-party payments to identify. As a result of that, we may have some additional third-party payments identified. I can't tell you that we won't, and those 80 really represent about 25 more counterparties.

But at this point, the other comment that I would make is that we believe that in all cases, for all the payments under the program, that we will be able to assure this Committee that we have Certificates of Arrival for all the goods involved.

Mr. ROHRABACHER. Do you want to make any general statement at all specifically? Anything else you would like to say?

Mr. SCHENK. Well, we want to continue to cooperate. We are doing the best we can, and we are providing you with that information as we get it. I guess to the extent that there is additional information that this Committee would like to have, you obviously know where we are, so we will respond as best we can to that inquiry. I think as it relates to some of your opening remarks, hopefully we have clarified some of those issues for you.

Mr. ROHRABACHER. Well, thank you very much. I would like to again compliment your bank for being cooperative, for being here today. I would like to compliment you as a witness and your backup here. You have been forthright. This has been a great exchange of information, and I appreciate that. I think that is something we just can't take for granted.

We may have some disagreements here. As you can see, there are even some disagreements up here, but we do appreciate this exchange.

With that said, I call this hearing to adjournment. Thank you. [Whereupon, at 4:25 p.m., the Subcommittee was adjourned.]

