

**Testimony of John Denson, Saybolt General Counsel,**  
**Before the Senate Committee on Homeland Security and Governmental Affairs,**  
**Permanent Subcommittee on Investigations**  
**February 15, 2005**

Mr. Chairman, distinguished members of the Subcommittee,

Thank you for inviting me to speak before the Subcommittee today on the role of Saybolt Eastern Hemisphere B.V. and its affiliates and subsidiaries (“Saybolt”) in the administration of the United Nations Oil-for-Food Program (the “Program”). As the general counsel to Saybolt, I am familiar with our role in the Program, which included monitoring the export of oil from specified locations in Iraq and, to a lesser extent, monitoring spare parts and equipment imported into Iraq for use in the oil industry. In addition, Saybolt coordinated studies that oil industry experts conducted on Iraqi oil production and infrastructure.

Saybolt is proud of the role it played in the U.N. Oil-for-Food Program, monitoring more than 2700 loadings of oil at three authorized export locations over a period of almost 80 months. Saybolt’s work was performed by dozens of oil inspectors who were rotated in and out of remote locations and required to work under circumstances that were frequently difficult. Moreover, many Iraqi officials with whom Saybolt necessarily interacted were resistant or hostile to the Program, and the on-site monitoring equipment that was available to Saybolt was, as Saybolt noted from the outset, often defective, inoperative, or altogether unavailable. Nonetheless, the irregularities that occurred over several years were very few, and those that did occur were reported and corrected as they became known.

I will focus my remarks on the topics your invitation asked me to address. They include: the selection of Saybolt as a contractor for the Oil-for-Food Program; the performance of the contract, including Saybolt’s relationship with the United Nations and the Maritime Intervention Force (the “MIF”); irregularities within the Oil-for-Food Program, including the two Essex “topping off” incidents in 2001; and the audit of Saybolt by the U.N. Office of Internal Oversight Services (“OIOS”).

## **I. SELECTION OF SAYBOLT FOR THE OIL-FOR-FOOD PROGRAM**

Saybolt was selected as the independent oil inspection agent of the United Nations through a competitive bid process that was initiated by a U.N. request-for-proposal (“RFP”). The sixth paragraph of U.N. Security Council Resolution 986 (1995) directed the U.N. Secretary General to appoint agents to assist the Committee established by U.N. Security Council Resolution 661 (the “661 Committee”) with the task of monitoring the quantity and quality of exports of Iraqi oil under the U.N. Oil-for-Food Program. Pursuant to that authority, on June 11, 1996, the Commodity Procurement Section of the U.N. Procurement and Transportation Division issued the RFP, which included a request for provision of independent oil inspection agents.

Saybolt viewed the U.N. RFP as a good business opportunity to apply our almost 100 years of experience in inspection and analytical testing of petroleum products to a prestigious

international project. We were also pleased that we would be contributing our know-how to a major program designed to serve the urgent humanitarian needs of the Iraqi people. Accordingly, on June 17, 1996, we submitted our Proposal to provide oil export inspection services.

We are aware that the U.N. Independent Inquiry Committee's Interim Report, issued on February 3, 2005, sets forth allegations that one or more individuals within the United Nations may have violated U.N. procurement policies during the negotiation process. No procurement policies of the U.N. were ever provided to Saybolt, and they were not publicly available insofar as we are aware. Indeed, the only procurement policy of which we were aware at the time was the one contained in the RFP, in which the "UN reserve[d] the right ... to negotiate with any of the proposers or other firms in any manner deemed to be in the best interest of the UN." It was Saybolt's understanding during the procurement process that the United Nations viewed Saybolt as the most qualified bidder to handle the job. Saybolt, unlike its principal competitor in the bidding process, specialized in *oil* inspections, rather than all types of inspections. We also offered inspectors with no connections to the region, which was desirable to the United Nations. During the bid process, the United Nations pressed Saybolt for a lower price, which is not uncommon in our industry when negotiating for a contract, and Saybolt did lower its bid based in part on clarifications to the contract requirements that the U.N. provided.

On August 16, 1996, Saybolt and the United Nations entered into a contract (the "First Contract" or "1996 Contract") with an initial term of six months, subject to extensions of six-months each, at the sole discretion of the United Nations. After the First Contract was extended for a total of slightly more than three years, another RFP process was initiated. In that process, Saybolt submitted a Proposal on February 11, 2000, and on May 29, 2000, the United Nations formally accepted that proposal and entered into a new contract with Saybolt that governed Phases VII through XIII of the Program (the "Second Contract" or "2000 Contract").

## **II. PERFORMANCE OF THE CONTRACT**

You have also asked us to comment on the execution of the contract. Saybolt performed two functions in the Program. First, we acted as a monitor. This monitoring role initially applied only to exports of crude oil from two export points authorized under the Program. Our monitoring responsibilities were later extended to include monitoring of imports of oil industry spare parts. Second, we coordinated three studies of the Iraqi oil industry by a group of experts called for under resolutions of the U.N. Security Council.

Saybolt was responsible for monitoring the quantity and quality of Iraqi crude oil loaded onto vessels from the Mina Al-Bakr offshore terminal in southern Iraq and from the port of Ceyhan in Turkey. These two locations were the only locations where we were asked to monitor the export of Iraqi oil to buyers, and they were the only authorized ports for export of oil under the Program. Saybolt was also responsible for monitoring the flow of oil near Zakho, along the Iraq-Turkey pipeline by which Iraqi oil was delivered to the Ceyhan port. We began monitoring in 1996, after receiving a Request to Commence Mobilization from the United Nations dated November 29, 1996.

Beginning in 1998, Saybolt agreed to coordinate the preparation of expert reports on the Iraqi oil industry called for by U.N. Security Council resolutions. The United Nations hired Saybolt to coordinate a study by a group of experts under U.N. Security Council Resolution 1153 (1998). The purpose of this study was to assess Iraqi oil production and transportation capacity, and necessary monitoring. In 2000, Saybolt was hired to coordinate another group of experts study, as called for under U.N. Security Council Resolution 1284 (1999). The purpose of this study was to review the status of Iraqi oil production and transportation capacity. In 2001, Saybolt was hired a third time to coordinate a study of the Iraqi oil industry by a group of experts under U.N. Security Council Resolution 1330 (2000). The purpose of this study was to evaluate in further detail proposed expenditures on equipment and spare parts for the Iraqi oil industry.

Almost a year-and-a-half after we began monitoring oil exports from the two designated exports points and following the first group of experts Report, the United Nations awarded Saybolt a contract for additional inspection work related to the Program. We were asked to submit a proposal to monitor the storage, delivery, and utilization of spare parts that Iraq began to import for the purpose of maintaining and developing the Iraqi oil industry. Our proposal was accepted in a June 1998 amendment to the First Contract.

In 2003, following the overthrow of Saddam Hussein, the oil monitoring program ended. At that point, Saybolt had acted as the United Nations monitor for almost seven years, and had monitored more than 2700 loadings totaling approximately 3.4 billion barrels of oil over the life of the Program. As the program was being dismantled, the Second Contract was partially suspended on April 17, 2003, and was formally terminated by the United Nations on June 4, 2003.

#### *U.N. Contact Points*

During its performance as a contractor, Saybolt was in constant communication with the United Nations. Throughout the Program, Saybolt, like the United Nations, utilized a commercially-available electronic online database to ensure that each vessel loading was supported by a contract and a letter of credit that were approved by the Oil Overseers of the United Nations. Through this database, we provided information to the United Nations regarding each loading on a real-time basis. Saybolt exchanged information with the Office of Iraq Programme (“OIP”) and the U.N. Overseers on a daily basis.

Saybolt was also in contact with the United Nations regularly regarding staffing. Our inspectors were experienced in monitoring, and they received special training designed to assist them in carrying out their duties as inspectors for the United Nations. As required by contract, individuals nominated to work as inspectors for Saybolt were approved by the U.N. Overseers.

In addition to frequent contact with the United Nations, Saybolt also had regular contact with the MIF. The MIF was copied on reports to the United Nations regarding vessel loadings at Mina Al-Bakr. This enabled the MIF to monitor vessel movements in the Gulf. In addition, we exchanged information with the MIF immediately before the Coalition invasion of Iraq. The MIF assisted in the evacuation of our inspectors, and we provided information to the MIF regarding the layout of the oil facilities in Iraq so that they could be secured more efficiently.

### *Facing Operational Difficulties Within Iraq*

In performing their duties, Saybolt's inspectors were often subjected to personal risks. Nearby military operations and violent attacks were not uncommon. As we have all seen in news reports from that time, Iraq did not always welcome the United Nations or its contractors. Iraq initially resisted the very idea of an Oil-for-Food Program. This political friction between Iraq and the outside world made our task especially delicate, because we were associated with the United Nations in the eyes of Iraqis. Coping with these physically and mentally challenging working conditions required courage and professionalism on the part of inspectors.

Difficult living conditions in Iraq often made performing daily tasks quite a challenge. The state of the Iraqi infrastructure was far worse than even we expected from our preliminary fact-finding missions. At the isolated, remote locations where our inspectors carried out their mission, it was often difficult to obtain the basic necessities — food, electricity, water, transportation, and housing. Telecommunications equipment was primitive. Some days, we had neither electricity nor water at the Mina Al-Bakr terminal. The harsh conditions in Iraq were noted in the reports to the United Nations and were confirmed by a United Nations Iraq-Kuwait Observation Mission (“UNIKOM”) safety audit of the Mina Al-Bakr operations in April 1999. On some occasions, our inspectors at Mina Al-Bakr were stranded at the terminal without electricity and without water. Mina Al-Bakr also had frequent air conditioning outages, leaving inspectors exposed to heat that sometimes reached 130 degrees for long periods at a time. Because of the high cost of placing telephone calls from Iraq, communications between our inspectors and their families were limited.

On the subject of difficulties we encountered in Iraq, I should note that we also struggled to arrange reliable, affordable transportation to and from the Mina Al-Bakr terminal, as we were dependent on aged transportation vessels to go to and from that terminal. Standard tasks became complex because we were operating in an environment subject to multilateral sanctions. It was not a simple process to obtain travel visas for our personnel going into Iraq, to clear our equipment through customs without unreasonable delay, to provide transportation within Iraq, or to arrange the means for our employees to pay for their basic living expenses while in Iraq.

### *Development of Method to Verify Loading Quantities In Absence of Reliable Meters*

The poor state of the Iraqi infrastructure not only had an impact on our employees, but it also had an impact on our monitoring methods. As explained above, Saybolt's principal responsibility was to monitor the quality and quantity of oil loaded onto vessels at Mina Al-Bakr and Ceyhan. From the very beginning of the Program, we encountered difficulties in persuading the Iraqis to install and repair metering equipment at the Ceyhan and Mina Al-Bakr sites. When we arrived in Iraq, neither location had metering equipment calibrated to accurately measure how much oil was loaded onto the vessels. We informed the United Nations of this problem even before the Program began through our preliminary fact-finding report.

In the absence of metering equipment at Mina Al-Bakr, Saybolt applied the best alternative method. This method, which is commonly used within the industry, used the capacity

and calibration charts of the vessel in order to determine how much oil was loaded into the vessel. To determine how much oil was loaded onto a vessel, a Saybolt inspector would, prior to loading, measure the on-board quantity (“OBQ”) of the vessel. Then, after loading, we would measure the ullage (the amount by which the vessel tank falls short of being full) and the temperature of the oil. Our inspectors compared this data with the calibration charts to determine how much oil had been loaded onto the vessel.

The vessel calibration charts, however, sometimes were not precise. For example, if a vessel hull had been scraped and dented inwards, the overall capacity of the vessel would be reduced. Repairs to the vessel could likewise change the overall capacity of the vessel. In addition, vessels sometimes accumulate residue from previous loadings, which changes the capacity of the vessel.

Saybolt used a standard methodology to identify and correct any imprecision in the vessel calibration charts. Each vessel keeps a record of the variances from its calibration charts, when compared with the volume measured when the oil was offloaded. This record becomes the “vessel experience factor” (“VEF”). The VEF for a vessel is based on the average comparison between ship measurement and shore measurement for the last 10 voyages. The use of a vessel calibration chart and the VEF is an internationally recognized method for determining the quantity of oil loaded onto a vessel in the absence of calibrated shore tanks and/or meters. We followed the procedures set forth by the American Petroleum Institute and the Institute of Petroleum.

In January 1999, following discussion with the United Nations, Saybolt also instituted a procedure to attempt to address potential inaccuracies in the VEF based measurement system. The master of each vessel was required to sign a statement certifying the accuracy of the records provided to Saybolt. The United Nations was informed of this procedure and supported its implementation. A weakness in using the calibration charts and the VEF of a vessel, however, is that inspectors must rely on the records provided by the master of each vessel. Such records could possibly be manipulated without the knowledge of the inspectors.

At Ceyhan, any significant manipulation of the system was detectable because of the ability to compare the shore-tank measurement with the amount of oil reportedly loaded onto the vessel. Although the shore-tank measurements were not sufficiently accurate to be used as the primary means of measurement, they were a cross-check making it possible to uncover major inaccuracies.

At Mina Al-Bakr, however, the infrastructure deficiencies made it more difficult to detect manipulation. Shore tank measurements were not available. The shore tanks were severely damaged during the Iran-Iraq War, and then further damaged during the first Gulf War. The shore tanks that existed were not re-calibrated. The metering system at the loading site was not repaired sufficiently to ensure accurate measurements. Therefore, the inspectors were necessarily dependent upon the calibration tables and VEF data provided by vessel masters.

Saybolt attempted to address this problem in several ways. When the contract with the United Nations was first negotiated, we recommended that the volume of oil loaded onto vessels

be measured with reference to the volume of oil measured at the port of discharge in addition to the loading port. This suggestion was not implemented. In addition, at the outset of the Program, we requested that the metering facilities at Ceyhan and Mina Al-Bakr be repaired and recalibrated. However, the meters, which were owned by the Iraqis, were not recalibrated. The contract between the United Nations and Saybolt specified the method of using the alternative method described above in order to determine the measurements, which, as noted, is the industry standard for measuring loadings of oil in the absence of calibrated metering equipment and/or shore tanks.

### **III. IRREGULARITIES IN THE OIL-FOR-FOOD PROGRAM**

#### *Illegal Payments by Oil Companies*

You have asked us for information regarding illegal payments made by oil companies. Saybolt was not involved with, nor did we have any special knowledge regarding, any illegal payments made by oil companies. Saybolt monitored oil, not money.

One area about which Saybolt had some knowledge, however, was port charges. It was well known that the Iraqi government sought to collect port charges during the Program from companies who were purchasing oil through the Oil-for-Food Program. The port charges were also widely reported in the press, including by Reuters in September 2000. During the Program, Stephani Scheer of the OIP asked Peter Boks of Saybolt about the port charges. Mr. Boks provided what information he had regarding the surcharges, which he had learned from oil companies. On another occasion, when the International Association of Independent Tank Owners (“INTERTANKO”) inquired about the legality of port charges, we informed the association that they had been verbally advised by the United Nations that such fees would be in violation of the U.N. sanctions.

#### *Sale of Oil Outside the Program*

Through its work, Saybolt also became aware of instances of the smuggling of oil outside the Oil-for-Food Program. We reported those instances to the United Nations verbally and, on occasion, in writing. In November 2000, Saybolt informed the United Nations of rumors that the pipeline to Syria had been put into operation. In March 2001, Saybolt informed the United Nations that there was smuggling to Turkey. In addition, we informed both the United Nations and the MIF about illegal loadings that were taking place at Khor Al Amaya, a terminal 10 kilometers to the north of Mina Al-Bakr. Saybolt’s mandate was not to inspect all of Iraq, and it was not to act as a police force. However, we sought to assist in the enforcement of sanctions by providing information to the responsible parties.

#### *The Essex Incidents*

As noted above, the absence of meters at Mina Al-Bakr was one of the most significant challenges Saybolt faced during the Program, making it harder to detect measurement discrepancies or unauthorized loadings at those locations. Despite our continuous monitoring of oil exports at Mina Al-Bakr, in early October 2001, we learned from the United Nations that the captain of the vessel Essex had reported to U.N. and U.S. authorities that there had been two

incidents of “topping off” of the Essex at the Mina Al-Bakr terminal. Documents subsequently provided to Saybolt by the United Nations and others indicate that in May and August 2001, the State Oil Marketing Organization of Iraq (“SOMO”) arranged to load on board the Essex vessel approximately 500,000 barrels of oil above and beyond that which had been approved by the United Nations.

Saybolt immediately investigated what happened and why. We conducted extensive interviews of our staff, including the Team Leader on the Mina Al-Bakr Platform, and reviewed all available documentation relating to the loadings of the vessel. The investigation found no evidence that any Saybolt employees were aware that the Essex was being “topped off” in May or August 2001. The available evidence indicated that the vessel had coordinated with the SOMO personnel on the Mina Al-Bakr platform to secretly load this additional oil, while Saybolt inspectors were either at another end of the platform in the rest quarters or attending to other vessels.

We detailed our findings and the bases for our conclusions in a report presented to the 661 Committee in October 2001, within days of learning of the incidents. That report is included in the documents previously provided to this Subcommittee. For all of the reasons detailed in our report, we concluded that it was extremely unlikely that there were other incidents of topping off.

Nonetheless, as described in the report to the 661 Committee, Saybolt put into place additional procedures designed to prevent topping off. These included having all team members at Mina Al-Bakr remain on board vessels after the loading amount had been certified until the vessels left port, to ensure there were no additional loadings. For any vessel that did not leave the port immediately after loading, Saybolt placed numbered seals on the vessel loading valves after the loading amount was certified. Before the vessel left the port, our inspectors returned to the vessel to ensure that the seal was still in place, with the same number. We are unaware of any topping off incidents occurring after we instituted these additional procedures.

#### *Allegation that Iraq Attempted to Pay a Bribe to a Saybolt Inspector*

Over the past year, Saybolt has learned of allegations that Iraq made efforts to pay approximately \$105,000 to one of its inspectors on the Mina Al-Bakr Platform in order to facilitate the topping off of the Essex. When we learned of this allegation, we immediately investigated it. I have personally overseen that investigation, through which we have made persistent efforts on a global scale to ascertain whether, in fact, Iraqi officials compromised this otherwise well-qualified, U.N.-approved inspector and whether he violated his commitment to act ethically in accordance with Saybolt’s code of conduct.

The evidence obtained through these efforts is still being analyzed, and we have kept Subcommittee staff apprised of the status of this ongoing investigation. Saybolt does not take allegations of bribery of company employees lightly. If we determine there is credible evidence that Iraq bribed one of our inspectors, we will take appropriate action. In that regard, we understand from Subcommittee staff that the Subcommittee will be placing on the record certain documents obtained from Iraq after the fall of Saddam Hussein that reportedly detail specific

efforts by Iraq to deliver payment to this inspector. Again, we will closely examine these documents and take all appropriate action.

#### **IV. U.N. OVERSIGHT OF SAYBOLT**

As described in Part II above, the Saybolt contract with the United Nations was subjected to several layers of external oversight: the United Nations reviewed data supplied by Saybolt, communicated with Saybolt regarding implementation issues that arose in the collection of that data, and audited management of the contract.

##### *Review of Data Supplied by Saybolt and Dialogue on Implementation Issues*

Through the use of a commercially-available electronic online database, Saybolt supplied U.N. offices with real-time data on loading of oil onto tankers at Ceyhan and Mina Al-Bakr, on the flows of oil through the Iraq-Turkey pipeline at the Zakho station, and on the monitoring of oil industry spare parts imported into Iraq. We also supplied daily and weekly reports to the United Nations Oil Overseers. The 661 Committee also reviewed special reports Saybolt prepared, such as our expert studies on the Iraqi oil industry.

As the United Nations received and digested this information, it often replied to Saybolt, engaging in a dialogue on issues that arose in the course of contract performance. We regularly communicated with the OIP regarding implementation issues, as well as with the Department of Political Affairs (“DPA”), during the initial phases of our monitoring contract. As part of these communications, Saybolt and the United Nations carried on an open dialogue about problems with Iraqi infrastructure, and in particular a lack of fully functioning meters at monitoring stations, which required Saybolt to resort to an alternative method of measuring oil exports.

##### *U.N. OIOS Auditing of Management of Saybolt Contract*

The invitation to this hearing indicates that the Subcommittee may want to discuss findings expressed in a certain U.N. Office of Internal Oversight Services (“OIOS”) audit report of Saybolt recently made public by the U.N. Independent Inquiry Committee (“IIC”). Saybolt welcomes the release of this and other reports. We have always been, and will continue to be, in favor of more transparency in the investigation of the Program rather than less.

Although the IIC released the OIOS audit report, it did not release the rebuttal comments of Saybolt and the U.N. OIP. As those rebuttals make clear, the OIOS audit relies upon the mistaken assumption that if Saybolt costs turned out to be lower than anticipated, the United Nations could recover the difference. That assumption is wrong. The risk that actual costs would be higher was borne by Saybolt and the risk that actual costs would be lower was borne by the United Nations. What the auditors failed to grasp was that the United Nations had entered into a fixed-price contract with Saybolt, rather than a “cost plus” contract. Saybolt has produced its rebuttal comments to this Subcommittee and would encourage their public release.

Thank you for your important work and the opportunity to address you today.