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October 29, 2001

VIA FACSIMILE

Mr. Benon V. Sevan
Under-Secretary-General
Executive Director
Office of the Iraq Programme
United Nations
New York, NY 10017

Re: Trafigura Beheer B.V. — Urgent Guidance Requested Regarding *t/t Berge Odel*

Dear Mr. Sevan:

I received your October 27, 2001 letter and thank you for your prompt response. I understand that a meeting of the 661 Sanctions Committee is scheduled to take place early next week to review the matter and we will assist the Committee in any way we can. To that end, I am in the process of drafting a letter explaining my client Trafigura's understanding of the chronology of the liftings in question aboard the *t/t Essex*.

I am writing for your further assistance regarding the vessel *t/t Berge Odel*, which Trafigura chartered some time ago to load a cargo of approximately 1.8 million barrels of Basrah light crude under contract to purchase from Ibex (which we are told by Ibex is covered by Ibex's 7 million barrel Basrah light allocation). The vessel was en route to the Persian Gulf when Trafigura learned of the problems regarding the *Essex*, and was supposed to arrive at Mina Al-Bakr this past weekend. Trafigura has instructed the vessel to sit at anchorage and postpone proceeding to the SOMO terminal for lifting by Ibex in order to first obtain assurances from all appropriate UN authorities that the lifting is in compliance with all 661 Sanctions Committee procedures, and will be continuously supervised by the UN or its contractors so as to prevent any issues as have occurred with the *t/t Essex*.

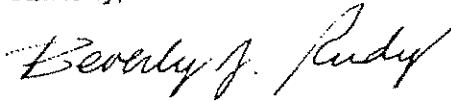
Trafigura's bank, BNP Paribas (Suisse), has posted a letter of credit for the entire volume of the loading to the BNP Paribas, New York Branch, Euro Sub Account, Account Number 0200-201752-002-05. BNP Paribas also is concerned about compliance with UN procedures at the loadport and we understand that the bank has contacted the United Nations as well.

The vessel is now accruing demurrage of over USD \$40,000 per day, and Trafigura must decide very shortly whether to cancel the charter party, notwithstanding a potential risk of incurring

Mr. Benon V. Sevan
October 29, 2001
Page 2 of 2

damages to the vessel owner for breach. I would greatly appreciate it if the UN could give us some definitive guidance in writing as to whether it will allow Ibex to lift this parcel of 1.8 million barrels, or whether such remaining portion of Ibex's allocation will be cancelled. Given the experience with the *Essex*, I also would appreciate if you could inform me what written authorizations that the UN can provide us so that we know that Ibex is authorized to procure the entire cargo from SOMO, and that the cargo has been properly loaded and approved by the United Nations.

Sincerely,



Beverly J. Rudy
Counsel to Trafigura Beheer B.V.

cc: Steven Katz, Esq.

M/C. M. MBS,


United Nations Nations Unies
 INTEROFFICE MEMORANDUM MEMORANDUM INTERIEUR

TO: The Oil Overseers

DATE: 5 November 2001

AS:
and

Mr. Teklay Afeworki, Senior Finance Officer,
Treasury

REFERENCE:

THROUGH:

S/C DE:

FROM: Ms. Vicien-Milburn, Deputy Director
DE: In charge of the General Legal Division, OLA

SUBJECT: Stand-by letter of credit opened by Trafigura
OBJET:

URGENT

1. I refer to a memorandum from Mr. Afeworki of 2 November 2001 to the Oil Overseers. Attached to that memorandum is a copy of a "stand-by letter of credit" opened by Trafigura Beheer B.V. in favour of the UN, for an amount of EUR 6,438,930.99. The letter of credit is styled as a "stand-by" letter of credit, and purports to cover 271,669 barrels of Basrah light crude. It was apparently transmitted by Trafigura's bank to BNP-Paribas which, in turn, forwarded it to Treasury under cover of a BNP-Paribas memorandum of 2 November 2001. Mr. Afeworki's memorandum listed this Office as a "cc" addressee, and contained a request that we provide advice with respect to the letter of credit.
2. In its cover memorandum, BNP-Paribas notes that the letter of credit does not follow the required standard format of letters of credit for the purchase of Iraqi oil under Security Council resolution 986 (1995). BNP-Paribas further states that, as the letter of credit gives no destination, it cannot confirm the dollar value of the letter of credit. Further, BNP-Paribas states that it cannot add its confirmation to the letter of credit.
3. It appears that this letter of credit may relate to the matter of 229,756 barrels of oil loaded onto the vessel "Essex", which Mr. Sevan has brought to the attention of the 661 Committee in his letter of 24 October 2001 to the Chairman of the Committee. From information previously provided to us

concerning this matter, including a fax dated 21 September 2001 from the master of that vessel to the UN, the loading of this oil might not have been monitored or verified by the UN independent inspection agents, as required by the 661 Committee Procedures, paragraph 15, and the MOU between the UN Secretariat and the Government of Iraq, Annex II, paragraph 4. We also understand that payment for the oil has not been made into the UN Iraq Account.

5. From the information provided to us, we understand that this portion of oil may be covered by an approved contract between Ibex and SOMO, and that Trafigura has agreed to purchase this oil from Ibex. We further understand that, even though this oil was allegedly loaded in violation of the procedures referred to above, Trafigura has provided the "stand-by letter of credit" as a means of guaranteeing payment for the oil in the event that it is not otherwise paid for, e.g., by Ibex. Thus, the "stand-by letter of credit" provides that it is payable against presentation of a letter signed by the UN Treasurer stating that the payment of the oil covered by the letter of credit has not been made within 180 days from the issuance of the letter of credit, and that no third party has by that date either irrevocably committed to pay the amount or provided other security allowing the Treasurer to confirm that such funds will be received.

6. We understand that the Committee is scheduled to meet on Tuesday, 6 November 2001, to discuss this matter. Accordingly, we suggest that the letter of credit and the correspondence from BNP-Paribas be brought to the attention of the Committee for that meeting, and that the Oil Overseers, which are to report any irregularities to the Committee (see 661 Committee Procedures, paragraph 15), be prepared to inform the Committee of the relevant facts relating to this loading and shipment, including, *inter alia*, information as to any other letters of credit issued or payments made for the oil in question.

7. If the Committee determines that the loading of the oil was not in conformity with applicable requirements and procedures under Security Council resolution 986 (1995), the 661 Committee Procedures or the MOU, the export of the oil would be a violation of the sanctions regime against Iraq. Pursuant to Security Council resolution 778 (1992), paragraph 2, the oil should be sold at fair market value and the proceeds paid into the escrow account provided for in Security Council resolution 706 (1991) and 712 (1991). Conceivably, such oil could be sold to Trafigura. However, it would have to be determined whether

the amount of the "stand-by letter of credit" presented by Trafigura represents fair market value for the oil in question. The Oil Overseers should be prepared to advise the 661 Committee in this regard. Moreover, it should be pointed out that, if the "stand-by letter of credit" were accepted as payment for the oil, funds would not be received until at least 180 days after the date of its issuance, which was 1 November 2001.

cc: Mr. Golitsyn

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November 2, 2001

VIA FACSIMILE

Mr. Benon V. Sevan
Under-Secretary-General
Executive Director
Office of the Iraq Programme
United Nations
New York, NY 10017

Re: **Trafigura Beheer B.V. — t/t Essex**

Dear Mr. Sevan:

In further reference to your letter dated October 27, 2001, I am writing to provide you and the Security Council Committee established by Resolution 661 concerning the situation between Iraq and Kuwait ("Sanctions Committee") with information presently available to my client, Trafigura Beheer B.V. ("Trafigura"), regarding the loading of Basrah light crude oil at Mina Al-Bakr on the vessel t/t *Essex*. The information is current to the best of our knowledge, as of the date of this letter.

We would appreciate it if you would pass this letter on to the members of the Sanctions Committee in advance of their meeting to review this matter.

1. General Background

Established in 1993, Trafigura is an oil and metals trading company incorporated in the Netherlands, with offices in Amsterdam and Lucerne, Switzerland. The parent company Trafigura Beheer trades worldwide through a network of offices managed by its Lucerne headquarters. Trafigura AG, a Swiss company affiliate based in Lucerne and with a branch office in Stamford, Connecticut, focuses on trading with U.S. counterparts. Trafigura Beheer's oil operations principally are managed and operated out of the London office of Trafigura Ltd, another affiliate.

Over the past few years, Trafigura regularly has purchased Iraqi crude oil from third parties who hold contracts with SOMO under the Oil for Food Programme and has sold many cargoes to U.S. refiners. Until this latest cargo loaded on the t/t *Essex*, it was not aware of and did not encounter

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Atlanta ■ Austin ■ New York ■ Tallahassee ■ Washington, DC

Mr. Benon V. Sevan
 November 2, 2001
 Page 2 of 8

any problems with its suppliers, and in particular with Ibex Energy France ("Ibex"), or with Ibex's compliance with the procedures for oil purchases established by the Sanctions Committee. Trafigura has entered into several purchase and sale contracts with Ibex France since 1997, including two contracts to purchase Kirkuk in 1999, without incurring any commercial or legal difficulties.

2. The First Essex Cargo

In April 2001, Ibex France offered Trafigura a cargo of approximately 1.8 million barrels of Basrah light crude, FOB Mina Al-Bakr, and provided it with a copy of its allocation, UN Ref. S/AC.25/2001/OIL/1330/COMM.81, Contract No. M/09/81. The cargo was sold by Ibex's affiliate, Ibex Energy (Bermuda) Ltd. It would have been standard industry practice for Trafigura to pay Ibex through a letter of credit, as Ibex is the contract holder liable for remitting the funds to the UN. However, as Ibex did not have the credit facility to post such a large letter of credit, it asked Trafigura to arrange for the letter of credit payable to the UN on its behalf.

Ibex then asked Trafigura if it would subcharter space on the vessel for a top-off parcel of 200,000 to 300,000 barrels, which Ibex wanted to sell to a U.S. buyer on its own. Trafigura agreed, but shortly thereafter Ibex informed Trafigura that it had found it difficult to locate a U.S. buyer and needed Trafigura to purchase the parcel. Trafigura agreed to do so but preferred to take the extra oil on a delivered outturn basis so that it would not assume the risk of in-transit cargo loss (which has been excessive for Mina Al-Bakr liftings destined for the United States). However, for credit security and insurance reasons, Trafigura wanted to acquire title to the crude oil and thus agreed to a purchase the oil FOB, adjusted for outturn volume.

2nd delivery
 from same date
 part?
 FOB

Ibex executed a detailed warranty to Trafigura that the second parcel was covered by the UN allocation, that it had complied with all UN and national regulations and that all proceeds would be paid into the UN account. The language of this warranty is similar to those customarily used in U.S. contracts to purchase Iraqi-origin crude oil from both contract holders and downstream third-party purchasers.

Ibex was able to finance the purchase of the smaller parcel from SOMO based on its own credit and requested that Trafigura pay it directly and post as security a standby letter of credit for the payment with its bank, Credit Agricole Indosuez, Geneva Branch. This bank also is one of Trafigura's major banks. To avoid a conflict of interest, Trafigura's policy is not to instruct a bank to open a letter of credit that is at the same time the supplier's bank to receive the letter of credit payment. Additionally, Swiss banking law provides an automatic right of offset without prior notice to the account holder. Thus, Roundhead, Inc., a wholly-owned Trafigura subsidiary domiciled in the Bahamas (which does not have an account at Credit Agricole Indosuez Geneva), made the purchase of the second parcel and resold it in a back-to-back transaction to Trafigura. A different branch of Credit Agricole Indosuez opened the standby letter of credit for Roundhead. Trafigura explicitly informed the bank that the standby letter of credit requested by Ibex is to be issued under the full risk and responsibility of Trafigura Beheer.

Mr. Benon V. Sevan
November 2, 2001
Page 3 of 8

UN Notification → 1.798.385 !

UN Notification letter ?!

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The vessel completed loading on May 16, 2001 with 2,027,622 net U.S. barrels of cargo (based on ship's figures) and sailed for the United States. Trafigura received copies of the customary shipping documents required by its contract with Ibex for payment, and the bank issuing the letter of credit to the UN received copies of the documents required for presentment in the letter of credit. The full cargo was paid for 30 days after bill of lading date. The cargo was discharged partially at the Louisiana Offshore Oil Port and purchased by Marathon Ashland Petroleum LLC and partially via two lighter vessels sold to Koch Petroleum Group LP ("Koch") at Corpus Christi, Texas.

3. The Second Essex Cargo

3.1 Contracts and Loading

On 24/7 there was initially a commitment for 2000,000 U.S. Companies
In late July, Ibex offered Trafigura another cargo of Basrah light and provided a copy of its SOMO allocation for seven million barrels, dated July 13, 2001. Trafigura entered into a contract to purchase approximately 1.8 million barrels. Ibex represented to Trafigura that the oil would be covered by its approved allocation, and the contract between the parties provides that the crude oil is "to be lifted under contract number M/10/08, UN Ref: S/AC/25/2001/OIL/1360/COMM.08."

Ibex then asked Trafigura whether it would purchase another approximately 200,000 to 300,000 barrels on a delivered outturn basis to top off the ship, as with the prior Essex cargo. Ibex did not ask that Trafigura transport the cargo for it with the view toward selling the cargo itself, but Trafigura did not think that this was unusual as it is customary in the industry for smaller oil companies to purchase part cargoes in order to establish a good credit history. The separate contract for this parcel (in the name of Roundhead, Inc.) likewise provided that the crude oil is "to be lifted under contract number M/10/08, UN Ref: S/AC/25/2001/OIL/1360/COMM.08." Trafigura had no reason to believe that anything was amiss with the purchase or unauthorized by the UN. For both parcels, Trafigura paid Ibex the official selling price in effect at the time of loading, plus a premium.

UN Notification letter ?

The vessel began to load at the terminal on August 25, 2001. Trafigura received two bills of lading endorsed by SOMO, one for 1,787,407 barrels and one for 271,669 barrels. Trafigura paid for the large parcel by setting up a letter of credit on Ibex's behalf in favor of the UN account at BNP-Paribas. As explained, Trafigura assumed that Ibex did not have its own credit to do this. Trafigura paid Ibex for the second parcel directly at Ibex's direction as with the first cargo.

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Trafigura obtained the customary shipping documents, including (1) two separate bills of lading issued and endorsed by the vessel Master, Captain Chiladakis Theophanis and (2) an ullage report signed by the vessel Master and the SOMO Terminal representative present at the loading, with typewritten dates and times. After the vessel sailed, Trafigura obtained a reconciliation of the total quantity loaded on the vessel based on the combined bills of lading, the ullage report and a verbal verification from Captain Manoulis Manoussaki, Trafigura's on-site loss control

UN Notification

Mr. Benon V. Sevan
 November 2, 2001
 Page 4 of 8

representative, who attended the loading of the *t/t Essex*. Trafigura appointed Captain Manoussaki to attend the loading because historically there have been substantial unexplained losses on cargoes loaded from the Mina Al-Bakr terminal of around 10,000 barrels between the vessel figures and discharge figures into receivers' facilities in the United States.

*
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 Captain Manoussaki informs us that the vessel berthed at Al-Bakr on August 25 and that the port authorities, the SOMO representative and Saybolt surveyors boarded at the same time. The loading commenced on August 25 and was interrupted by the Terminal on August 27. Both the Saybolt surveyor and the SOMO representative boarded the vessel to measure the cargo loaded onboard by that time. When these measurements were completed a short while later, the loading resumed for another seven hours until the Terminal gave a stop load order to the vessel Master.

untrue acc to team leader

On completion of loading on August 28 of both parcels, the Saybolt surveyor and the SOMO representative boarded the vessel again and prepared ullage reports for the total cargo onboard, which were signed by the SOMO representative and the vessel Master. The SOMO representative presented the two sets of bills of lading, which the vessel Master signed. To ensure that the entire cargo complied with UN procedures, Captain Manoussaki asked the SOMO representative to issue a letter verifying the total quantity onboard. This letter was signed by the SOMO representative and Captain Manoussaki. Given these official documents and verbal confirmation from Captain Manoussaki, Trafigura could only surmise that both parcels were within Ibex's allocation and were properly authorized by the Saybolt inspector to load; it had no reason to believe otherwise.

Notification letter

3.2 Payment Information

Trafigura arranged for payment for the first parcel, 1,787,407 net U.S. barrels at the official selling price per barrel of 23.701 Euro, directly to the UN account, Euro sub account number 0200-201752-002-05 with BNP Paribas, New York Branch in the total amount of 42,363,333.31 Euro (USD equivalent \$39,211,501.31). Trafigura instructed its bank, the Basel branch of BNP Paribas (Suisse) S.A., to issue an irrevocable documentary letter of credit, Ref. LCIM 5181892/GROG, by order of Ibex Energy France in favor of The United Nations. The letter of credit was paid on September 25, 2001 through BNP Paribas, Paris to BNP Paribas, New York into the referenced Euro sub account of the UN Account.

Ibex requested that Trafigura pay it for the second cargo of 271,669 U.S. net barrels directly and asked that Trafigura post a standby letter of credit in favor of Ibex Service & Equipment Ltd, Tortola, BVI, which had purchased the product from its parent Ibex Energy. For the credit and banking reasons explained above, Trafigura paid Ibex Service and Equipment Ltd from Trafigura's Euro account with Credit Agricole Indosuez, London Branch, into Ibex Service's account with Credit Agricole Indosuez (Suisse) S.A.

Mr. Benon V. Sevan
November 2, 2001
Page 5 of 8

3.3 *Sale to Koch*

Trafigura sold one million barrels of the oil loaded onto the *Essex* to Koch for delivery to its facility in Corpus Christi, Texas and one million barrels to a Petroleos de Venezuela affiliate, Petromar, S.A. (hereinafter "PDVSA"), for delivery to its refinery in Curaçao, Refineria ISLA (Curazao) S.A. The *Essex* arrived at Corpus Christi anchorage on October 14. By October 18, 516,990.55 barrels was discharged into the first lighter vessel *m/t Aldebaran*, and approximately 525,000 barrels onto the second lighter vessel *m/t Bornes* (shore figures are not yet available because the lighter vessel has not yet discharged). Title to the oil passed to Koch as the oil crossed the outgoing vessel flange. Ullage reports provided to Trafigura show that after the second lighter, 1,002,660 U.S. net barrels remained on the vessel.

The product lightered onto the *Aldebaran* was discharged into Koch's tankage at the Ingleside terminal. Before the *Bornes* could discharge, Koch received information from PDVSA that there could be a problem with some of the oil not being covered by the UN Oil for Food Programme. PDVSA had been informed through the U.S. Embassy in Caracas and had received communications from Mr. E. M. Rosenda, the inspector of import duties and excises in Curaçao. We understand that the U.S. government did not and has not contacted Koch. Koch then contacted Trafigura. This was the first time that Trafigura learned that authorities were questioning whether some of the oil might not have been sold or paid through the Oil for Food Programme.

Koch refuses to let the second lightering vessel discharge and will not pay Trafigura for any of the oil (even the oil that was discharged) because it fears that the Treasury Department's Office of Foreign Assets Control ("OFAC") will accuse it of sanctions violations. The second lightering vessel is sitting in the port at Corpus Christi and is costing over \$35,000 a day in demurrage. The shipowner is insisting that Trafigura return the vessel. Koch has sought guidance from OFAC and permission to import the cargo and pay Trafigura.

3.4 *Sale to PDVSA and Disposition of Cargo on *vt Essex**

The *Essex* arrived at Curaçao on Wednesday morning, October 24, with approximately one million barrels onboard. The ship's agent in Curaçao tells us that the following four persons boarded the vessel on her arrival: Mr. H.A. Windevelde (Coast Guard), Messrs. E. AJ Sambo and S.J. Nicia (Customs) and Mr. Fitzroy A. Dorant (United Nations). These individuals are reported to have measured the cargo, taken ullages, obtained copies of the vessel's cargo documents, log book, oil record book and obtained the original vessel Certificate of Registry and Tonnage Certificate (presumably so that the vessel could not sail).

On Friday, October 26, Mr. H. de Jong, a Curaçao Public Prosecutor, advised the vessel owner's representative that the vessel was cleared insofar as his jurisdiction was concerned and could proceed with berthing and discharge, if PDVSA agreed. The Prosecutor has returned to the vessel its original Certificate of Registry and Tonnage Certificate. The vessel owner is waiting for Trafigura to give discharge instructions, but Trafigura is unable to do so as PDVSA has not

Mr. Benon V. Sevan
 November 2, 2001
 Page 6 of 8

yet authorized discharge. PDVSA will not allow discharge of the oil until approved it by the Curaçao government and the United Nations oil overseers or other UN authorities, and also will not pay Trafigura for the oil. PDVSA also has informed Trafigura that it will hold Trafigura liable for all consequential losses, including demurrage, sustained as a result of the uncertified oil.

Trafigura's counsel in Curaçao, the Spigthoff law firm, has been working with the Curaçao Public Prosecutors, Messrs. H. de Jong and G. Joubert, as well as Mr. H.C.R.M. Wijkerslooth, who is director of the Cabinet of the Governor of the Netherlands Antilles, and his colleague Mr. Benschop, to achieve a speedy resolution of this matter. Although it is an innocent party in the matter and has already paid for the unauthorized oil, in order to seek the expeditious governmental approval of the discharge and sale of the entire cargo of oil Trafigura has posted a letter of credit guaranteeing payment of almost USD \$6 million to the UN account, which represents the official selling price of the second parcel at the time of loading.

Upon receipt of the letter of credit (which was issued and confirmed yesterday), the Attorney General of the Netherlands Antilles confirmed in writing that there will be no further prosecution proceedings in Curaçao. A copy of the letter is attached. He also has requested from the Bureau of Foreign Affairs of the Netherlands Antilles and the Ministry of the Foreign Affairs of the Netherlands written confirmation of their approval. We understand that this written approval will be issued on Monday, November 5.

As noted, PDVSA refuses to accept the cargo unless it receives written approval from the United Nations. Meanwhile, the vessel owner has notified Trafigura that it will hold it accountable for all demurrage and other expenses attendant the delay. The cost of demurrage is in excess of USD \$40,000 per day. We do not know how long the vessel will be permitted to sit at anchorage at Curaçao.

4. **Consequences to Trafigura and Other Purchasers of Iraqi Crude under the Oil for Food Programme**

Given the facts known to us, it appears that Ibex, with the complicity of several parties, simply purchased the second parcel outside of its allocation and did not remit the funds to the UN Account. Trafigura purchased the oil with customary assurances from its supplier that the entire cargo was approved under the UN Oil for Food Programme and received customary documentation supporting that fact. There would not have been any way to know that Ibex had lifted oil outside of the Oil for Food Programme.

The cost to Trafigura is potentially enormous. Trafigura has paid over USD \$45 million for the oil, and it must obtain payment from Koch and PDVSA soon or its banks may force it to cease business. In addition, to obtain release of the oil, Trafigura has assumed the obligation to make a second payment of USD \$6 million for the value of the unauthorized oil. Trafigura also may be liable for demurrage on the *Essex*, the Koch lighter vessel and on a vessel *Berge Odel*—a vessel that it had chartered for lifting of another cargo from Ibex but which it cancelled given the

Mr. Benon V. Sevan
 November 2, 2001
 Page 7 of 8

absence of UN assurances that the Ibex lifting would be authorized. Now Trafigura faces the costs of cancellation of the charter party. The total cost to Trafigura of this debacle could exceed USD \$9 million, exclusive of the cost of attempting to recover its losses from the various parties involved.

We are mindful that the Sanctions Committee does not ordinarily communicate with private oil companies. However, this is an unprecedented situation, and we believe that the Sanctions Committee should be aware of how an innocent party can be defrauded and how SOMO is able to cheat the system. Although we are not privy to all the facts and the appropriate officials need to complete their investigation, the complicity or inaction of various parties likely contributed to this situation.

First, the vessel Master signed all the bills of lading and shipping documents. The originals of the bills of lading should have been remitted to SOMO and Saybolt, the UN inspector, for presentation under the letter of credit opened in favor of the UN Iraq Account. The master kept the full set of the bills of lading of the 271,000 barrels onboard and when he disembarked from the vessel while it was en route, he kept one of the original bills of lading.

Second, all of the shipping and loading documents were endorsed by the SOMO terminal representative and had to have involved the active participation of SOMO and the loading terminal.

Third, Ibex lifted oil outside its allocation and failed to pay the UN Account. This could not have been done without it organizing the scheme, the banking channels and the loading and documentary instructions.

Fourth, if Ibex's bank was aware that the payment received through the letter of credit was covering Iraqi oil, no payment should have been authorized other than to the UN account with BNP Paribas.

5 * Fifth, a vessel of this size cannot load significant volumes of oil without the knowledge of the UN-appointed inspector. According to Trafigura's loss control representative onboard the vessel, it took seven hours to load the 271,000 barrels. This loss control representative confirms that Saybolt came onboard after completion of the full loading of both parcels, and all required documents were then signed. We do not think it credible that a vessel can remain on the berth with pipes connected for seven hours without question or knowledge of the UN-appointed inspectors. *loading arms were disconnected at 19:50 27/0*

time logs show different

Without changes to the procedures, other purchasers of Iraqi crude easily could find themselves in Trafigura's position. The cost of recovering the resulting losses is sure to be significant and with uncertain success given that, at present, the allocation holders are small companies whose assets are difficult to reach. We know of no SOMO account outside of Iraq except the controlled UN account. In any event, the liability of other parties will be difficult to prove absent a finding of criminal wrongdoing.

Page 1

CHILADAKIS THEOFANIS
IRINIS 27-29, tel: (01) 6392097
AYIA PARASKEVI 153.41
ATHENS, GREECE

To,
UNITED NATIONS
1 UN PLAZA, DC1-1572
NEW YORK, NY 10017
U.S.A.

ATHENS
SEPTEMBER 21ST 2001

Attention: Mr Morten Buur Jensen

Subject : T/T ESSEX, Loading at AL BAKR Oil Terminal IRAQ, ignoring UN
loading instructions.

Companies involved :

- A. TRAFIGURA LONDON, CHARTERERS/TRADERS
TLX: 921187/9222166
- B. ELKA LONDON, OWNERS OF T/T ESSEX
TEL: 44 171 258 3537 FAX: 44 171 724 1390
- C. SOMO LONDON, IRAQI OIL COMPANY, TLX : 212198
- D. EUROPEAN NAVIGATION, ATHENS, OPERATORS FOR T/T ESSEX
TEL: (01) 8981581, FAX : (01) 8981588
- E. FALCON NAVIGATION, ATHENS, REPRESENTATIVES OF TRAFIGURA
TEL: (01) 9607230 FAX: (01) 9616801

FIRST LOADING MAY 16TH 2001 (U.N. code : missing)

The above named vessel (T/T ESSEX) was fixed by TRAFIGURA to load at AL BAKR oil terminal IRAQ, a cargo of 1,800,000 bbls Basrah light crude oil. As per attached doc 1, vessel loaded 1,800,000 bbls Basrah light crude oil, Ullage report (doc 1) signed by Master and Terminal manager, B/L (doc 2) issued and signed by Master verifying the quantity the vessel was fixed to load 1,800,000 bbls or 247,847.80 metric tons.

After the completion of loading of 1,800,000 bbls and all the documents signed the UN cargo inspectors left the vessel.

Loading resumed after about one hour without informing the UN cargo inspectors and was completed when the vessel loaded the additional 229756 bbls.

Ullage report (doc 3) was signed by Master and Terminal Representative, B/L (doc 4) was issued and signed by Master, (doc 5) was signed by Terminal Representative and by FALCON representative cpt Manoussakis Manolis verifying the additional quantity was loaded on top of the quantity which was allowed by letter of credit issued by U.N.

After loading vessel proceeded to LOOP where she discharged part of her cargo and then proceeded to South Sabine where she discharged the balance of cargo. On arrival at the LOOP the vessel was measured by charterer's cargo inspector (doc 6) as well as by SGS receiver's cargo inspector (doc 6a) and the total quantity of cargo the vessel has on board found to be 2,034,358.00 bbls or 280,121.07 metric tons, thus more than the letter of credit about 229756 bbls.

SECOND LOADING AUG 27TH 2001 (U.N.code: S/AC25/2001/OIL/1360/LC23)

The vessel T/T ESSEX was fixed by TRAFIGURA to load a cargo of 1,800,000 bbls Basrah light crude oil from Al Bakr oil terminal, IRAQ. The same procedure as the first loading was followed.

As per (doc 1) and (doc 2) vessel loaded 1,788,820.00 bbls equal to 246,475.319 metric tons.

As per (doc 4) vessel loaded additional 271,884.00 bbls or 37,461.957 metric tons which was over the U.N. letter of credit.

Vessel is proceeding to U.S. GULF (South Sabine) to discharge and she is expected to arrive there on or about October 14th 2001.

Attachments

first loading : doc 1, doc 2, doc 3, doc 4, doc 5, doc 6, doc 6a.

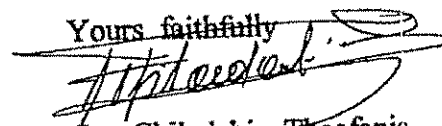
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Page 3

I will be very glad if I can be helpful to any additional information and or clarifications required concerning the above.

Thanking you, I remain,

Yours faithfully



Cpt Chiladakis-Theofanis

cc: AMERICAN EMBASSY
Vassilissis Sophias 91
Athens, Greece

cc: U.S. Coast Guard
MSO Houston-Galveston
P.O.Box 446
Galena Park, tx 77547-0446

913-671-559

SOMO

PONCO1160501

MASTER'S COPY NOT NEGOTIABLE

BILL OF LADING

doc 2

BBL/3113

Shipped in apparent good order and condition by **SOMO** in the S/S - M/T called the
 "ESSEX" Whereof CAPT. CHILADAKIS, THEOPHILIS
 is Master for this present voyage now lying at the Port of AL-BADR TERMINAL, IRAQ.
IRAQ CRUDE OIL (BASRAH LIGHT) In Bulk

	Cubic Meters	U.S. Barrels	Long Tons	Metric Tons
Gross	286134.468	1799735	243936.08	247851.254
Net	285919.836	1798385	243725.28	247637.071

and to be delivered (subject to the undermentioned conditions and exceptions) in like good order and condition at the Port of BUSAN or as near thereto as she may safely get (always afloat) unto order SHIP PARTIES, PARIS

to their assigns upon payment of freight as per charter party, all conditions and exceptions of which charter party, including the negligence clause, are deemed to be incorporated in this Bill of Lading.

The Ship has liberty before or after proceeding on the voyage to proceed to and stay at any port or ports in any order for any purpose and notwithstanding that same may be out of the direct route to the port of discharge, with liberty to sail without pilots, and to tow or be towed and to tow and assist vessels in distress or otherwise in all positions, and to deviate for the purpose of saving life or property.


In witness whereof the Master of the said ship has affirmed to THREE Bills of Lading, all of this tenor and date, one of which being accomplished the others to stand void.

"CLEAN ON BOARD"

"FREIGHT PAYABLE BY BUYER AS ARRANGED"

Dated at AL-BADR TERMINAL this SIXTEENTH day of MAY 2001



Ullage Statement					OPS/13
	EUROPEAN NAVIGATION INC.	Issue No.	Effective Date	Issued By	Approved
		01	1/10/1997	DPA	By G.M
					Page No.
					1 of 1

doc 3

SHIPS NAME **T/T "ESSEX"**

1st Copy to be kept on board with the 2nd Copy to be sent to the Company's Operation Department

PORT OF	AL BAKR
Cargo Name	BASRAH LIGHT
Dens or A.P.I.	31.51
Terminal	AL BAKR

**AFTER
LOADING**

DATE & Time	16.05.01
Voyage No	13 TH
Tables Used	6A
Berth No.	1


Draft Fwd	19.58	Draft Aft	19.58	Draft Mid	19.58
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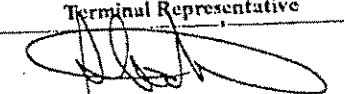
TANK No.	ULLAGE		T.O.V Barrels	FREE WATER		G.O.V Barrels	TEMP F	V.C.F. 6A	G.S.V Barrels
	Obs	Corr		Dip	Volume				
1C	1.60	1.16	96,190	0.09	235	95,955	96.9	0.9832	94,343.02
2C	1.59	1.15	290,224	0.08	811	289,413	99.5	0.9820	284,203.97
3C	1.51	1.07	72,389	0.01	13	72,376	97.5	0.9829	71,138.79
4C	1.63	1.19	144,886	0.03	156	144,730	98.7	0.9824	142,182.53
5C	1.63	1.19	144,886	0.03	156	144,730	99.7	0.9819	142,110.16
6C	3.86	3.42	199,620	0.00		199,620	98.2	0.9826	196,146.32
7C	1.82	1.38	214,979	0.00		214,979	99.0	0.9822	211,152.78
8C	1.60	1.16	144,615	0.08	336	144,280	97.9	0.9827	141,783.67
1P	2.24	1.80	72,113	0.08	91	72,022	96.6	0.9833	70,818.91
S	1.54	1.10	74,245	0.00		74,245	96.1	0.9836	73,027.30
3P	5.99	5.55	78,258	0.05	163	78,095	96.8	0.9832	76,782.82
S	6.19	5.75	77,604	0.03	97	77,507	96.7	0.9833	76,212.31
5P	1.67	1.23	92,341	0.04	115	92,226	96.8	0.9832	90,676.31
S	1.67	1.23	92,341	0.03	86	92,254	96.8	0.9832	90,704.60
7P	2.18	1.74	90,422	0.00		90,422	95.9	0.9836	88,939.38
S	1.59	1.15	92,265	0.00		92,265	96.3	0.9835	90,742.85
9P	5.44	5.00	48,060	0.00		48,060	95.9	0.9836	47,272.25
S	5.41	4.97	31,272	0.00		31,272	97.7	0.9828	30,733.80
SI P	2.91	2.47	13,336	0.42	94	13,242	96.3	0.9835	13,023.17
10S	0.00	-0.44							
Lines			1,574			1,574	96.8	0.9832	1,547.27
TOTALS			2,071,619		2,353	2,069,267	97.9		2,033,542.22

Total Observed Volume (bbl)	2,071,619.37
Less Free Water	2,353
Gross Observed Volume (bbl)	2,069,266.54
Gross Standard Volume (bbl)	2,033,542.22
Less O.B.Q. & Slops	0
Long Tons	274,939.56

Weight Factor (Tbl 13)	0.13770
Trim Correct. Applied	N/A
List correct. Applied	N/A
OBQ	1557.7
Net Standard Vol	2,031,985
V.C.F. = 1.0014	2,029,144
Metric Tons	275,403.14

Chief Officer's Signature



Terminal Representative


Surveyor's Signature

SOMO

PONCO2160501

BILL OF LADING

Joe H

BEL/3113

Shipped in apparent good order and condition by SOMO in the SS - MT called the
ESSEX Whereof CAPT. CHILADAKIS, THEOFANTIS

is Master for this present voyage now lying at the Port of AL BAKR TERMINAL, IRAQ
IRAQ CRUDE OIL (BASRAH LIGHT) in Bulk

	Cubic Meters	U.S. Barrels	Long Tons	Metric Tons
GROSS:	36,473.094	229,409	31,094.10	31,593.16
NET:	36,445.703	229,237	31,067.20	31,565.83

and to be delivered (subject to the undermentioned conditions and exceptions) in like good order and condition at the Port of "USA" or as near thereto as she may safely get (always afloat) unto order ROUNDHEAD, INC. or to their assigns upon payment of freight as per charter party. all conditions and exceptions of which charter party, including the negligence clause, are deemed to be incorporated in this Bill of Lading.

The Ship has liberty before or after proceeding on the voyage to proceed to and stay at any port or ports in any order for any purpose and not withstanding that same may be out of the direct route to the port of discharge, with liberty to sail without pilots, and to tow or be towed and to tow and assist vessels in distress or otherwise in all positions, and to deviate for the purpose of saving life or property.

In witness whereof the Master of the said ship has affirmed to THREE Bills of Lading, all of this tenor and date one of which being accomplished the others to stand void.

"CLEAN ON BOARD"

"FREIGHT PAYABLE BY BUYER AS ARRANGED"

Dated at AL BAKR TERMINAL this SIXTEENTH day of MAY 2001

Theofantis
Master
MONROVIA

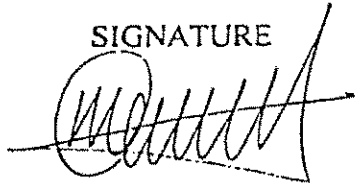
doc 5

TOTAL QUANTITY ON BOARD

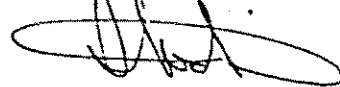
TOTAL QUANTITY LOADED ON BOARD VESSEL *ESSEX*
ON (*1/6/5/2001*) AS FOLLOWS:-

	<u>GROSS</u>	<u>NET</u>
CUBIC METERS :	322,607.517	- 322,365.539
U.S. BBLs :	2,029,144	- 2,027,622
LONG TONS :	275,030.178	- 274,792.48
METRIC TONS :	279,444.412	- 279,202.892

SIGNATURE



SIGNATURE



Nov 22, 2001

You will no doubt all be aware of the alleged illegal loadings from Mina al-Bakr involving the vessel "Essex", and the revised procedures that have been instituted at both Ceyhan and Mina al-Bakr to prevent the possibility of such occurrences in the future.

Bearing in mind that the Saybolt monitoring operations at Ceyhan and Mina al-Bakr are under the closest scrutiny from the United Nations, it is particularly disappointing to have to advise you that the quality of reporting to this office and to the UN Oil Overseers has, of late, significantly deteriorated.

Examples, in no particular order of merit, are:

- 1) Time logs with no completion, or sailing, times
- 2) Sailing wires with incorrect Bill of Lading dates, and incorrect notification of barrels loaded. The Office of the Iraq Program of the United Nations has written to Saybolt on this matter.

I do not have to labour the point that this level of performance is unacceptable.

We are a professional company appointed by a major humanitarian concern to carry out an important task. If we are not seen to act professionally, especially so soon after alleged illegal activities have taken place under our very noses, then we will all suffer the consequences.

In our monitoring function we are the "eyes and ears" of the United Nations, and the quality and content of our reporting function is the only benchmark by which the United Nations can judge our performance. Once discredited, confidence is hard to rebuild.

Since the inception of the "Oil for Food" program in late 1996 Saybolt has done a tremendous amount of good work. Unfortunately it is only our mistakes that are noticed, and of late there have been too many. Mistakes and omissions will not be tolerated.

THE FOLLOWING ACTIONS WILL NOW BE TAKEN:

A) As from receipt of this message, both the Ceyhan and Mina al-Bakr operations will advise, as part of the daily report, comprehensive time log activities per vessel covering at minimum the following times, split over a number of daily entries as they occur. I expect to see all these times reported; further pertinent details regarding de-ballasting etc can be added as appropriate:

END OF SEA PASSAGE/ARRIVAL AT ANCHORAGE
NOTICE OF READINESS TENDERED
PILOTS ON BOARD
LEFT ANCHORAGE
FIRST LINE ASHORE
ALL FAST BERTH No ?
NOTICE OF READINESS RECEIVED
GANGWAY IN POSITION

FREE PRATIQUE GRANTED
OBQ SURVEY COMPLETED
LOADING ARMS/FLEXES CONNECTED
COMMENCED LOADING
COMPLETED LOADING
LOADING ARMS/HOSES DISCONNECTED
ULLAGES AND SAMPLES COMPLETED
DOCS ON BOARD
VESSEL SAILED

B) As from receipt of this message, the sailing wire to the UN Oil Overseers MUST be counter-checked by at least one other member of the monitoring team before despatch.

C) The sailing wire will now be signed by two members of the Saybolt monitoring team, as follows:

- C.1) The inspector who prepares it, and,
- C.2) The inspector who checks it.

D) Whenever you have a problem, need advice, or require guidance on any matter, call. I, or Peter Boks, are always available; we need to know about, and react to, problems BEFORE they happen, rather than after.

For the record, my contact numbers are:

Office	44-207-222-0171
Mobile	31-653-975896
Home	44-1707-271794
E-mail	graham_brett@saybolt.nl

We have an important job to do, and we must all ensure we work together as a team to provide the level of professional service expected of us.

Thank you,

Graham Brett

MINA AL - BAKR AUDIT
NOV 27 2002

Saybolt UN Iraq. Mina Al Bakr.

Report .

Following Report based on observations from field trip to Mina Al Bakr; November 27th to 30th, 2002.

General Observations.

Saybolt Monitors Areas.

The office space appears tidy and well organized with all reference notices and files to hand. Working space remains limited. Storage space shows signs of the increased number of files produced over the year. Suggest steps are taken to organize the archive files and have these sent to Baghdad for storage.

Office equipment;

Toshiba laptop 2520 CDS (external screen used due to breakdown of attached screen).

Operates as main unit – SRS Reports, All communications (nb13), All office filing.

Toshiba laptop. 4000 CDT. Back up unit. SRS Reporting system and Outlook express. Programs were checked but should be run to ensure successful operation.

Toshiba 205CDS. Used for observers purposes.

Thrane and Thrane satcom.

Canon LBP800 B&W Lazer printer.

Canon B100e Facsimile unit.

2 Motorola Handset VHF Radio units. (Batteries operational but will need renewal for full performance time.)

All equipment in operational order.

New desktop unit is under order in Baghdad.

Staff accommodation maintained at 5 accommodation cabins, 1 office cabin, Dayroom, Kitchen and storeroom.

General Accommodation Areas and facilities.

Considerable renovation work has been carried out since last report (12/01). Significant improvement in the condition of walkways and platform due to the delivery of hydraulic seals and 'o' rings for the hydraulic valves. Walkways were found free of hydraulic oil films normally apparent, improving safety and cleanliness concerns. Terminal fabric has recently undergone extensive sandblasting against corrosion and will be repainted with recent MOU delivery of specialist epoxy paints.

Water supply is still restricted due to the breakdown of the 2nd 'Jubail' RO unit. Supply of the necessary spare part is presenting problems. A third RO unit is now operational but can only supply approximately 20 M3 per day, approximately half the terminal requirement. Water is available for the kitchen and is rationed for accommodation areas, to approximately 30 minutes per day in the evening, including limited hot water.

Good supply of fresh fruit and drinking water was evident during the visit period, though Saybolt staff took all meals on board visiting ships during the visit period.

Transportation.

Access to the terminal remains unsafe and unreliable due to the poor condition of available marine transport. Particularly in event of poor weather conditions. If the crew boat is out of service, transport by available tug is further restricted by tide. This continues to pose significant additional danger in the necessary event of emergency medical evacuation.

Terminal observations.

Walkways are considerably improved as noted above. Safety rails remain absent in a number of areas. General housekeeping showed an improvement, though sections of damaged structures remain on walkways. The davits for the escape boats are still in the process of being rigged outside the accommodation area.

- **Observations on Office Procedures.**

Notice boards are well utilized and presented for easy reference as required.

Team leader commented of lack of electronic archiving of SRP reports which is now being addressed. It was discussed to have a CD burner installed with the new computer unit for archiving procedure for report back up purposes, which will become an integral part of the report procedure.

Procedure for removal of archive files to Baghdad will be implemented.

Review of documentation produced and kept on file per loading includes the following;

- **Ship Loading Report. Hard Copy File Report.**

Saybolt / UN Mina Al Bakr Documents.

Shipment Report Cover Sheet. (Contains document checklist).
Gross & Nett calculations for Bill of Lading. (Total & B/L splits)
UN Letter of Credit. (Shipment details).
UN Resolution 986 – Sailing Information Advice.
UN Notification Letter.
UN Letter – VEF.

Saybolt Report Documents;

Loading Summary Report.
Ullage Report, Loadport.
OBQ Report.
Vessel Experience Report (VEFL).
Time Log.
Quality Certificate
Meter Report, Uncompensated.

Saybolt Field Reports.

Vessel's Measurement Report.
Vessel Time Sheet.
Bunker Report. Fuel Oil. (Handwritten Reference copy only).
Bunker Report. Diesel Oil. (Handwritten Reference copy only).

Ships Documents (Reference Copies).

Ship Measurement Report. (Tnk ref hts; OBQ; Ullage, etc).
Ship Experience Factor Log.
Ship's Particulars Data. Including Ships Cargo Tank Capacities.
Ships Cargo Tank Capacities (Separate document).

Optional Documents.

Idle/Void Space Report (In event deadfreight space).
Ship's Crew List.

Summary comment.

In contrast to the previous visit and report, where specific issues required addressing, a more general overview of the teams activities, reporting and conditions was made.

Since the previous visit, 6 copies of API Chapter 17.1 and 17.2 have been provided to Mina Al Bakr.

General observations indicated that all necessary reporting requirements are covered, though a number of the specific issues raised in the previous report remain necessary to highlight as certain inconsistencies remain. It was stressed to staff that source data needs to be clearly recorded, particularly in view of the staff rotation' where staff not associated with an inquiry may need to report

or clarify issues. This includes the laboratory analysis notebook, showing clear development of calculations to results as well as ship deck notes.

Inspection on vessels immediate arrival is being performed. (Cases where vessels berth but await instructions to load).

The fixing of seals to both Port and Stbd manifolds prior to tank measurement was noted. The procedure being to check the integrity of the seals prior to the vessel sailing, particularly in cases where the vessel has remained alongside for some hours.

It was noted that staff currently have only one glass thermometer for use on deck. More to be ordered with next equipment consignment. No Saybolt tank measurement equipment is available on the terminal. One MMC tape remains in storage, out of service. (This should be sent to Saybolt Fujairah for repair. My preference would be to replace with a calibrated steel tape and glass thermometer.)

The laboratory is well maintained and equipment in good order. No results are published on Pour point and hence no testing is currently performed. I am not aware at this time of when these tests ceased or on what basis.

Relations with the Iraq terminal personnel are satisfactory. No problems were advised or noted.

In a final meeting with the Saybolt Mina Al Bakr staff, prior my departure the above points were raised in general discussion. Staff were asked to comment on any terminal work or conditions related problems, difficulties experienced. No specific issues were raised. It was noted in the discussion that conditions at the terminal remain difficult, due to the lack of available water and food supplies, as well as the general living conditions and isolation of the terminal.

My thanks to Jan-Erik Simonsen, Rogerio DeSouza, Danny Singson, Heiki Uuema, Sergey Akulov and Martin Groen for their kind hospitality and co-operation.

Richard Barnes
Saybolt Baghdad.
2/12/02.

VISIT TO BOTAS TERMINAL, CEYHAN
AUGUST 27 – 30, 2002

STAFF ON-SITE DURING VISIT:

Gijs Snoeij	Acting Team Leader
Pedro Goncalves	
Valeriy Poudov	
Gerhard van der Veen	Chemist
Vladimir Pitsik	

During this visit I:

1. Took part in discussions with Gijs Snoeij on a "one-to-one" basis.
2. Took part in discussions with the whole team.
3. Visited with senior staff members of the Botas terminal.
4. Visited the ships agency, Boutros, at Iskenderun
5. Toured the Botas Terminal, the jetty and control rooms, and inspected the automatic sampling systems (Jiskoot, one per shore line), the metering systems (Daniel), and the Saybolt laboratory.
6. Met with SOMO officials based at Botas.

For ease of reference I will follow the headings established by Paul Edwards (PE) in his de-briefing report on departure from Ceyhan, commenting as necessary.

CARS:

When Gijs Snoeij (GS) handed over the operation to PE, he passed on a note regarding the fact that the cars needed servicing, and that the tyres were in poor condition. Both cars are approaching 3 years of age and have covered 90,000 and 95,000 kilometres respectively. They lead a hard life and will probably need replacing within the next 18 months should the "O4F" contract still be running. GS agrees that the servicing and tyres should have been undertaken during the recent slack period. The following items have been attended to:

- The flame arrestor missing from one vehicle has been re-fitted.
- The very poor condition of the tyres reported by PE, and not denied by GS, resulted from the fact that on this vehicle's previous service, although new tyres were requested, they had not been fitted. All worn tyres have now been replaced.
- The cars were, and are, washed weekly when they are re-fuelled. Even a short journey on the poor roads results in a thick coating of dust.
- The servicing will be carried out as per manufacturer's schedules and, when considered necessary by resident team leader, I recommend should be serviced at more regular intervals.

OFFICE SPACE & FURNITURE:

PE's comments on the conditions he noted on arrival were no doubt correct, and have been confirmed by team members; the action he took has resulted in an acceptable office work environment.

- PE has made a written request to Botas regarding office refurbishment and replacement floor covering, dated 19/08/02. We await further action.
- The request regarding the repair to chairs had already been delivered prior to PE's arrival, and has already been acted upon.

The staff room adjoining the office, although small, is the only recreational area available to our team and is therefore constantly in use; the TV/Video is situated there. Nevertheless, the resident team leader must ensure the office area is kept in a clean and tidy condition.

OFFICE TOOLS:

Further on the notes from PE:

- The desk-top "HUIB" (inherited from Petrak) is used for daily reports to London/Rotterdam, and the creation of SRS reports.

- The desk-top "GJS" is used for shore tank calculations and other routine monitoring and office administration operations.
- The lockable petty cash box will now be kept in the team leader's room, rather than in the office.
- The weekly/monthly "back-up" of the office computer (on ZIP drive) will be kept in the team leader's room.
- The old notebook computer (no screen, needs a monitor to operate) is used to run simple programs such as calculation of shore tank quantities; the local opinion is that it is not worthwhile repairing.

OFFICE ADMINISTRATION:

PE has arranged the boxing up, labelling and storage of old hard copy files stored in the second office in a neat and professional manner.

- The new ZIP filing system is used to back up the SRS reports and the contract details currently (10 ships a month) on a monthly basis.
- When busy (30 ships a month) this should revert to a weekly back up.
- The ZIP drive should be kept in the team leaders room (ie separate from the office).

LABORATORY:

The benching, which was previously tiled, is currently under replacement with marble-topped benching by Botas, who have also replaced the windows and doors making the two rooms weather-proof, and improved the electrical wiring, power sockets and lighting.

As to PE's comments:

- The calibration certificates for the thermometers have been located.
- Even though the MMC tape is only used once a month for temperature checks of the Enraf system, the spares have been ordered via Rotterdam office and will be fitted on arrival, thus making the tape fully functional again.

I have reviewed the comment made by PE on the desirability of an air-conditioning unit for the laboratory with Gerhard van der Veen, the resident chemist. I concur with the recommendation as the Pour Point apparatus has difficulty in reaching -18°C in ambient temperatures of $30/40^{\circ}\text{C}$. However, as this situation has existed for the past six years it seems foolish to rush into Saybolt expenditure in view of the fluid political situation. The team leader will therefore request Botas, now that the necessary repairs to the windows and doors are complete, to consider installing a suitably sized wall air-conditioning unit for one of the two rooms. If they agree, all well and good. If not we should consider this a longer-term Saybolt requirement if the "O4F" scheme continues through another summer.

ITEMS THAT REMAIN TO BE ADDRESSED:

Auto sampler:

- It appears that the newly-installed Jiskoot auto-samplers do not always fill the 18 litre sample vessels, thus creating doubts about the sample integrity.
- I have mentioned this to the Terminal Manager who has promised to investigate and make available the sample report printouts from the control room.
- I visited the jetty control room and the technician present did not know how to achieve this, nor did he fully understand the importance of setting the sample "grab-size" to ensure a complete sample. Casual inspection suggests that all that is required is to input the sample control computer with the intended loading volume, and the software will adapt the sample "grab-size" to create an 18 litre overall sample. There seems to be a massive educational shortfall with the terminal staff very few of whom know any English whatsoever.
- The team leader/chemist should ensure that the sample vessel is full after each loading; if not the Botas management should be advised in writing.

VEF Letter to vessels:

- Under review by CGB/PB, and until further notice not to be issued. CGB to advise Mina al-Bakr accordingly.

Incorporation of Excel documents into SRS:

- Not immediately necessary, and subject to what happens to SRS system under review by management.

Botas costs for food/accommodation.

- Best left to local discussions between Catoni Persa and Botas (see later as well).

Air conditioning in laboratory:

- Discussed above.

Uniforms:

- Discussed with team, uniforms to be worn when working and on-call in terminal.
- As staff are mainly resident on the terminal, reasonable dress code is to be observed within terminal boundaries, notwithstanding dress code adopted by local Botas staff. The fact that they choose to wear T-shirts and flip-flops, and are not reprimanded, (whereas we are) does not mean we should follow their poor example.

Safety:

- Medical kits are considered superfluous; there is a well-equipped hospital on the Botas terminal available to our staff.
- Fire equipment can only be supplied by Botas.

BOTAS MANAGEMENT:

On 28/08/02 I had an appointment to meet with the new manager, Mr Recep Arslantay. I was accompanied to his office by Mr Adam Malci (tank farm manager), met Mr Metin Bekmez (ITP chief engineer) and then introduced to Mr Ata Ezici (deputy GM and technical manager) who advised Mr Arslantay had gone on holiday! No apologies were offered.

Mr Ezici speaks absolutely no English, and was most obviously not best pleased at being interrupted. A Botas loading master was summoned to act as interpreter. We discussed:

- In-line sampler. Ezici promised to revert with solutions before my departure. (This, not unexpectedly, did not transpire and will need to be followed up by the team leader)
- Metering. Ezici states system "nearly" ready for use on Bill of Lading calculations. I reminded him that the prover loop would need to be calibrated by an international inspection agent before fiscalisation use, and any change from the present system would have to be discussed and approved by the 661 Committee. He was not impressed.
- Letters to Saybolt regarding Rules and Regulations". Ezici says that the same letters are sent to all contractors and staff on the site and that we are not be singled out for special treatment. Additionally, he states he is only carrying out instructions received from Ankara.

As noted by PE, and fortified by above, the attitude of the Botas management and staff seems to be hostile towards the Saybolt team, and is certainly interpreted as such by our people who nevertheless try as far as possible to ignore the perceived injustices

SOMO:

Met with Mr Salim (ex NOC), Mr Zia and Mr Jalal all of whom I know from SOMO, Baghdad and from previous visits to the North.

- Their major concern is with the retroactive pricing and the (apparent) effect on sales.
- They are more than happy with the service provided by Saybolt in Ceyhan.
- They would like to know when permission will be given to use Khor al-Amaya; interesting discussion ensued.

CONCLUSION:

I will report under separate cover on a number of the issues that I have discussed locally with Gijs Snoeij and the team.

Certainly PE's recommendation that regular visits are made by management should be acted on. In the meantime I would add that, taking PE's comments in the light in which they were made, he is in many respects correct in that an air of complacency has developed in the Ceyhan operation. I have voiced this opinion to Gijs Snoeij who, out of loyalty to his team leader, deigns to comment further than to say that "this is the man's nature". I have told GS that things must improve, and that I/you will state the same to Huib de Bruin. Only a repeat visit can ascertain whether things have improved.

I would recommend this is done before the end of this year.

C G Brett
August 30th, 2002

MINA AL-BAKR AUDIT
DEL 16 2001

From: "Richard Barnes" <richard_barnes@saybolt.com> on 05/12/2004 07:52 PM
To: "Graham Brett" <graham_brett@saybolt.com>
cc:

Subject: MAB Reports

Dear Graham,

Please find attached, 2 most recent reports from MAB. Earlier ones are only on hard copy. (My computer does not go back that far.

Kind regards,
Richard

SAYBOLT - FAST TO THE POINT.

If you are satisfied with our services do tell others. If you are NOT satisfied, please do tell us;
<http://www.saybolt.com/complaint.nsf/>

All our activities are carried out under our general terms and conditions and in accordance with our code of practice. The general conditions can be consulted at <http://www.saybolt.com/>, and will be sent upon request free of charge.

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Any data or results included in this message or an attachment contains original information that may not be modified or altered in any way that would change the content or the original information.

From: "Richard Barnes" <richard_barnes@saybolt.nl>
To: <Peter_Boks@saybolt.nl>, <Graham_Brett@saybolt.nl>
Subject: MAB Report1201
Date: Fri, 21 Dec 2001 12:43:15 -0000
MIME-Version: 1.0
X-Priority: 3
X-MSMail-Priority: Normal
X-Mailer: Microsoft Outlook Express 5.00.2919.6600
X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2919.6600
Content-Type: multipart/alternative;
boundary="-----_NextPart_000_0000_01C18A1D.0F6BEB20"

Saybolt UN Iraq. Mina Al Bakr.

Report 19.12.01.

Following Report based on observations from field trip to Mina Al Bakr; December 16th to 18th, 2001.

General Observations. Saybolt Monitors Areas.

It was impressive to see the improvements to Saybolt staff common areas, raising the standard of accommodation facilities in the Kitchen and Day room areas.

The office space is also better utilised allowing for more workspace. All these areas were found tidy and well organised.

Whilst the dayroom offers good space for the current team of 6 staff, the kitchen/dinning area remains cramped for this number. The office space and two staff cabins are without heating. The dayroom airconditioning is currently out of order.

General Accommodation Area.

Terminal facilities remain adequate though in poor condition, with continuing concerns over safety facilities and procedures. The 2 'RO' units currently supply sufficient water, though the quality can be poor in appearance, likely due to lack of cleaning of the storage tank. Hot water supply is inadequate, with little available over the period of visit; Dec 16th to 19th.

The general standard of housekeeping at the terminal has improved with recent painting of internal and external accommodation areas. The general level of cleanliness in the accommodation areas has improved. Also staff kitchen and Dinning area.

Food storage areas remain a concern due to poor condition of surfaces and cooling equipment, fresh vegetables, fruits etc spoil quickly. Supplies are only replenished on a weekly basis which leaves little food of any quality available in the latter part of the week.

Transportation.

Access to the terminal is still provided by tug boat, often with a mid trip boat change. This remains an unreliable procedure due to restrictions of tide vs. tug draft requirements. Boarding the tug boats remains dangerous, with no gangway access at any point of transfer. (Particularly so in bad weather conditions).

Terminal observations.

Walkways remain dangerously slippery due to constant film of hydraulic oil in evidence. Areas around the loading arms are additionally hazardous from both hydraulic and crude oil spills. High humidity in the summer and rain in the winter months compounds this danger.

General housekeeping showed an improvement, though sections of damaged structures remain on walkways, fire extinguishers were noted in poor condition and without proper fixings/check labelling.

The davits for the escape boats are in the process of being rigged outside the accommodation area, though

delayed due to the failure of the barge crane, currently in Umm Qasr for repair.

A new gangway access has been provided on berth 3, replacing the previously damaged unit.

- **Observations on Office Procedures.**

All new procedures are documented and the individual instructions are posted on various notice boards in the office. It is recommended that the various instructions are compiled in a less fragmented way, to form a checklist for use on each loading. This is underway and will also form a convenient basis should further updates / instructions be forthcoming.

The practice of overwriting previously sent messages should stop. Templates for all regular communications should be developed in either 'Word' or 'Excel'.

A full Office checklist of requirements for each loading should be developed with reference to 'template' documents involved. This should be sequential and commence with L/C vs. Contract check to final transmission of Sailing Advice / Loading Report.

Review of documentation produced and kept on file per loading includes the following;

- **Ship Loading Report. Hard Copy File Report.**

Saybolt / UN Mina Al Bakr Documents.

Shipment Report Cover Sheet.

Gross & Nett calculations for Bill of Lading. (Total & B/L splits)

UN Letter of Credit. (Shipment details).

UN Resolution 986 – Sailing Information Advice.

UN Notification Letter.

UN Letter – VEF.

Saybolt Report Documents;

Loading Summary Report.

Ullage Report, Loadport.

OBQ Report.

Vessel Experience Report (VEFL).

Ceyhan MAT
Aug 2002

Attention Graham Brett, Saybolt London on behalf of the United Nation

Dear Sirs,

We attended two consecutive loading at Botas-Ceyhan, in august 2002, the M/T "Kronviken" and the M/T "Bergina".
On both occasion the use the VEF used was questionable.

For the "Kronviken" the VEF as calculated by us and your representative was not taken into account on the fact that the vessel did not load a cargo equal to a minimum of 90% of the vessel capacity. As per ASTM/IP/ISO standards there is so far no mention of a minimum capacity loaded to be taken into account for the validity of a VEF.

Although the subject was brought up during the last PML4 meeting, it was confirmed then on the IFIA technical bulletin 02-1 that API chapter 17-1, IP PMM part XVI and ISO 13740 should apply; which means that no limitation in volume loaded against vessel capacity should be taken into consideration.

For the "Bergina" this vessel usually loaded in the North Sea as she was designed and built for that purpose.

As you know in the North Sea Bill of Lading are based on meters (which is acceptable) and due to access limitation and the heavy rolling vessels are never checked after loading and therefore no ship's figures after loading are available.

At disport of course independent surveyors measure vessels and ship's figures on arrival are known. As a comparison between B/L and load-port ship's figures cannot be done, we do strongly believe that no VEF can be used as, as per ASTM/IP/ISO standards a VEF can be considered as acceptable only if we compare either the B/L and the load-port ship's figures or the Outturn and the disport ship's figures (LVEF - DVEF).

On this particular case you instructed your representative to compare the B/L against the DVEF, which is not understandable by the loss control department of TOTALFINAELEF.

This came after the first vessel we attended at Botas-Ceyhan (Georgios S on October 2001) where the VEF was used when the vessel was only on her fifth voyage were 5 qualified voyages could not be found and the VEF therefore not applicable.

We are surprised that a world well established company as Saybolt (this is partly why you won the bid to be the U N representative on the oil for food program we guess) do not follow the establish rules in the oil market and we wonder about your impartiality.

No need to mention that the "loss" was substantial, on the 3 cases, for our company.

Best regards

Jean Cadinot

(Handwritten circle around "Kronviken")

(Handwritten circle around "5 qualified voyages")

(Handwritten circle around "03/10/01")

Handwritten notes: "Total Finaelef" and a signature.

Handwritten notes: "58.4" and a signature.

Handwritten notes: "Sept 2001", "Oct 2001", "Oct 2001" with arrows pointing to the text.

De-briefing report

Dear Graham,

Rather than spend too much time on expensive phone calls I think it may be more expedient to write you some debriefing notes first so that we have something to refer to when we speak. By so doing you will also have some guidelines to refer to during your visit.

1) Cars. As already fully described in recent messages. Both were in a very unsafe condition and not properly cleaned or taken care of. Bodywork damage can be seen on them as evidence from minor accidents.

In addition 34 YG 742 had not been fitted with a flame arrestor to the end of the exhaust pipe. This is a local Botas safety regulation; the Team Leader had been advised by letter from Botas Management on 11 Nov 2001 (No.11628) to do so.

Action Taken

Renewals and repairs carried out to bring cars back to a safe and roadworthy condition (refer to messages already sent)

Flame arrestor fitted.

Car cleaning routine established. — weekly —

Saybolt Company “Logos” stuck on the car for clear representation and identification purposes.

*8/11/02
34 YG 742
11 Nov 2001*

*How far
Tore
replaced*

was fitted, curve A.

2) Office Spaces and furniture. In an absolutely disgusting and deplorable condition. There was the “coffee bar” actually in the office. The Carpet was stained, oily, burnt by cigarette ends and generally dirty.

All four office chairs were broken and in poor condition.

Walls are marked. The office Notice board was full of out of date notices.

On the doors were incorrect Saybolt Logos and signs that dated back to 1997.

Action Taken.

The coffee bar was moved immediately to the TV lounge area and out of the office.

The photocopier that was in the lounge area was bought back into the office.

Floors carpets cleaned and scrubbed twice. Unfortunately not all the stains and burns could be removed because of being so ingrained they still look dirty. Renewal is the only alternative.

Botas Staff repaired all chairs upon a simple written request.

Door rugs and rubber mats were bought.

A cleaning routine has been established with the contract cleaning staff.

The result now offers a somewhat more pleasing and professional view.

There is still a lot of room for improvement although to achieve the desired effect, a complete redecoration and refurbishment would be required.

A request by letter has been made to Botas management for office refurbishment. ✓

*210
lounge*

3) Office Tools There are two desktop computers in the office and one “notebook” kept as a spare.

Both computers were very dirty on the outside and festooned with old notes and bits of sticky tape. The keyboards were really dirty and full of tobacco bits and cigarette



SAYBOLT NB_07 at
 SAYNLRDM@ccmail
 08/30/1998 07:37 PM

To: Graham Brett at SAYNLRDM@ccmail, Peter Boks at
 Saybolt@ccmail, SAYBOLT NB_02 at SAYNLRDM@ccmail
 cc:
 Subject: Station Review - Ceyhan.

Date : August 30, 1998
 To : Mr Peter Boks
 : Mr Graham Brett
 : Team Leader. Mr Heinz Schunko. Saybolt UN. Ceyhan.
 Subject : Station Review - Saybolt UN. CEYHAN

Dear Peter,
 Between August 17 and August 21 I visited Saybolt UN. in Ceyhan.
 The following is the report of my review whilst I was there.

Operations
 =====

Export shipments.

Marine Vessels:
 ++++++

There is a regular loading programme going on at this present time.
 Shipments are mainly within the 1,000,000 bbls range. This means on
 average at least 1 ship per day is being loaded and at least one ship
 per day is arriving on the berth.
 Upon my arrival at Ceyhan Port on August 18 there were three ships
 alongside all at various stages of loading. Time alongside for each
 ship averages about 24 hours. All loading is done by gravity, no pumps
 are required.

Our team is carrying out full inspections on each ship. Shore tanks are
 also measured before and after use in order to have a comparison back
 up. Bill of lading figures are based upon ships figures with Vessel
 Experience Factor applied when applicable. This method is in accordance
 with the agreement made between the UN and with SOMO.

It was noted that very little measurement or Bill of Lading calculation
 is being carried out by Terminal staff who are relying solely upon the
 figures as determined and advised by the UN Monitors.
 No official papers are being passed in any shape or form between
 Saybolt UN and the Terminal or with Saybolt UN and SOMO.

Although this is contrary to the terms as laid out in the Contract with
 the UN it is an evolved solution to ensure that everything runs
 smoothly and efficiently. At the present time there is simply not the
 expertise amongst the terminal staff to carry out any coherent
 procedure to determine Bill of Lading quantities.
 The terminal operations manager states that in the future it may be
 possible for them to issue Bills of Lading in accordance with
 Internationally recognised Metering procedures.

Only one UN Monitor is in attendance on board the ship at the end of
 loading. Ship's tanks strappings are not being double checked by
 another of our staff before leaving the ship. This procedure is
 contrary to what has already been requested by myself.

Transfer to Turkish Tanks (Kirikale)
 ++++++

All tanks on the location of Ceyhan (13 off) belong to Iraq. Just
 outside the Terminal perimeter fence are three tanks that belong to
 Turkey which feed the Kirikale refinery.
 Regular transfers are being made each month from Ceyhan tanks to
 Kirikale tanks. Saybolt UN team is monitoring these transfers, exported
 quantities are determined from shore tank measurements carried out on

the Ceyhan Tanks only.
No comparison is made from Kirikale tanks which are being inspected and measured by the Caleb Brett Inspection Company.

Import from Iraq.

There is a regular reception of between 900,000 and 1000,000 barrels per day to Ceyhan Tanks.
Of the 13 tanks in the complex 12 are in service being filled and emptied as required. The average size of each tank is about 650,000 bbls.

Monitoring the amount imported from Iraq is carried out by manual inspection of tanks by the UN Team members.

On some occasions, due to the present demand for exporting the oil much more quickly than before, it can be difficult to demand the required 24 hours settling before measurement takes place. Terminal Operators do their best to comply with this requirement.

Filing Systems :

A comprehensive filing system is in place in the office.
All day to day messages and correspondence are filed.
Files are kept with regards Crude imported and exported together with daily, weekly, and monthly comparisons.

All SIP reports from the beginning of the Food for Oil programme have been retained on file.

SIP Reporting :

A full SIP report is completed for each shipment(SIP DOS Version).
A briefer report, concerning only the ship side of the inspection is sent to Holland for onward distribution to the UN. These reports are discarded at regular intervals.

Investigation reveals that the ship reports are calculated in one computer and the shore tanks reports in the other. Therefore to date no permanent records have been kept as a back up on diskettes.

All UN staff present were fully experienced and conversant with the SIP programme.

Terminal Relations:

Appear to be on the whole very good and a regular exchange of information takes place.

Perhaps the greatest barrier that exists is language. Amongst the Turkish staff there are very few who can understand or speak the English language. This can cause minor problems, particularly at 'operator level'.

Most local communication takes place with the Pilots who also act as the loading Masters. All the Pilots speak English and have a good relationship with Saybolt UN. They do, however, sometimes forget that the Team members are UN Monitors and not Inspectors.
This has caused misunderstandings when information and documents are requested which we are not at liberty to release to them.

SOMO Relations:

Relationship with SOMO and the Iraq North Oil Company staff remains extremely good. Once again they are relying on the UN Team a lot to supply them with information. However this is not a serious problem once our situation is clarified to them.

Code of conduct:

=====

With the present UN Team on the terminal the Code of Conduct has been kept fairly well. Uniform is worn during the working day and when Staff are attending ships. There is no evidence of any person on the terminal being upset with our staff's conduct, in fact quite the opposite.

Conditions :

=====

Living conditions are reasonable. All staff live in a Hotel type of building on the terminal. The building is over ten years old, each room is spacious and air-conditioned with a balcony.

It is noted that furniture and carpets look old although in a reasonable state of repair.

All meals are consumed on the terminal at a special restaurant in a separate building. Meals served are reasonable although the service can be very erratic.

The office space is in another separate building which is together with the Turkish Operations staff, the Pilots and SOMO.

Therefore communication can be kept at a very personal level.

For recreation there is a small club which also serves various alcoholic beverages. There is also a fully equipped private beach, complete with a small cafe. The beach has its own staff for safety and cleaning. It is kept open to all installation staff and their families.

Installation staff live in various types of accommodation all over the terminal, it is estimated that a total of about 500 men, women and children live in the Terminal.

Housekeeping :

=====

Hotel rooms are cleaned daily. There is also a laundry service which is not at all reliable, most of the UN staff were hand washing there own laundry except for items that required ironing, this service could be improved considerably.

Restaurant service and menu is not up to standard. Often menu items are not available and I witnessed myself the very slow service for the evening meal. It took almost two hours to serve and consume three courses. None of the waiters or service staff can speak a word of English which exaggerates the problem.

I have suggested that the Team Leader makes sure that all complaints are made known to the local Catoni Persa manager and to ensure that he explains everything to the Terminal management BEFORE he pays any bills.

It also appears that there are no copies of invoices for payment of accommodation, meals etc., with the Team Leader. All bills are in Turkish which the Catoni Manger interprets to the Team Leader and asks for his signature before this person pays the bills. understand that Catoni Persa then forwards their own invoice to Saybolt International in Holland. There is no copy whatever on the terminal for reference or cross checking.

I suggest this is changed in order that a better control is maintained. Interpreted receipts should be in the Team Leader's possession for reference.

The Terminal Management should be made more aware that the Team Leader is responsible for Team welfare and expenditures. For all I know the terminal may even be thinking that Catoni is paying the UN Team's bills

out of their own pocket and that they are responsible.

Computers:

=====

It is noted that both computers originally supplied to Ceyhan in 1996 have been replaced by Toshiba 'Satellite' computers with 'Windows 95' as the disk operating system. This is different from other Saybolt UN locations where Windows 3.11 is still in use. Any Team member assigned to Ceyhan has to first familiarise himself with a different system before he can work.

The contents and operation of both computers were investigated. The Team Leader's computer had problems with the SIP programme, these were solved. In the CC Mail programme it was found that the address book was well out of date. It was also noted in the Lotus Notes programme that the Vessel Data base has never been updated mainly because past and present staff were unaware that this database existed.

On the computer designated for the Monitor's use there are larger and more complicated problems. The task bar items in Windows 95 appear in red instead of blue indicating an incorrectly installed system. It is difficult to start up the programme since many 'netware' items exist in the boot directory, this also indicates poor installation and simply copying from another computer. The keyboard is not operating properly. The CC mail address book is the complete Saybolt address book of each and every client we have. When switching to operating the computer in Microsoft DOS it cannot operate the DOS programmes and the FAT directory appears to be at fault. Additionally there are some problems with the SIP programmes which cannot be easily solved by known procedures. This computer needs urgent investigation and correction before further corruption takes place.

It was also noted that no 'back up' procedure was taking place on either computer. None of our staff were aware that there was a back up program in Windows 95 or, for that matter the hard disk management programs that exist. I would suggest that a text book on the Microsoft Windows 95 program would be extremely useful.

With regards to copies of the original programs, none exist on site. Copies of Windows 95, CCmail, SIP, Lotus 123, Lotus notes are needed.

I would suggest that a full back up of the Team Leaders computer is made once a month and that full standby computer programs are supplied. For this purpose the supply a back up tape streamer and program would be very useful.

Equipment.

=====

The MMC tape is in constant use by the team every day. There are insufficient spares on site. To my mind minimum required is one complete MMC plus two spare tapes.

Recently a replacement MMC was ordered from Holland and sent by DHL Courier. On August 21 it was still with DHL in Turkey awaiting Customs clearance.

Delays such as above only highlights the need for spares to be on site.

I would also suggest that an "AVTEMP" thermoprobe is kept on site as a back up in case the MMC equipment breaks down.

A comprehensive inventory of all Saybolt Office and Laboratory equipment was not available. This must be made as soon as possible for the good order and reference of each Team Leader.

Handing Over to relieving Team Leaders.

=====

There is no notes or procedures in place with regards to a relieving Team Leader. Full reliance has been placed simply upon a hand over period without any backup in writing. This is not a good procedure since important items can be easily forgotten.

Helpful notes should be compiled. In addition the Laboratory and Equipment inventory should be checked and signed over in writing to the succeeding Team Leader.

The Laboratory Inventory should also be checked and signed over each time the Laboratory person is changed.

By implementing the above a better continuity can be maintained and controlled.

Conclusion

=====

I feel that my visit was well justified useful. I would now like to implement the procedure of making regular visits every three months to review the station condition and to keep myself familiar with everything that is going on.

Action items:

=====

- 1) Each SIP shipment report to be copied to diskette.
Action : Team Leader
- 2) 'Back ups' of each computer to be made every month (Back UP streamer is and program is required to be ordered from Holland)
Action : Team Leader and Computer Department.
- 3) 'UN Monitors' computer to be sent back to Holland for investigation. (a replacement will be required before the computer is returned)
Action : Team Leader and Computer Department.
- 4) A text book in the English Language explaining Microsoft 'Windows 95' to be purchased and kept available on station.
Action : Team Leader
- 5) Laundry service to be improved (Complaints to be interpreted by local Catoni Persa Manager)
Action : Team Leader and Catoni Persa Management.
- 6) Restaurant waiter service to be improved (Complaints as above)
Action : Team Leader and Catoni Persa.
- 7) Interpreted copies of all invoices to be kept by Team Leader. Action : Team Leader and Catoni Persa.
- 8) Order following equipment.
Two MMC tapes.
One AVTEMP thermoprobe.
Consumable stores such as water finding paste, torches, etc., Action : Team Leader and Stores department.
- 9) Inventory of all Office and Inspection equipment and consumable stores to be made and kept up to date. To be checked signed over whenever the Team Leader is changed
Action : Team Leader.
- 10) Inventory of all Laboratory Equipment and consumable to be made and kept up to date. To be checked and signed over whenever the Laboratory person is changed and whenever the Team Leader is changed.
Action : Team Leader and Laboratory Staff.
- 11) Prepare handing over notes. Start a proper handing over procedure to the relieving Team Leader and discharge the responsibility in the correct manner.
Action : Team Leader
- 12) Operating manuals for all equipment to be checked if available in the English language on the station. Order manuals as necessary and keep them in the office for future reference.

Action : Team Leader and Rotterdam Office.

- 13) Start the double checking procedure by another UN Monitor of ship's calibration tables against ullages measured. Please refer to my message and request sent during 1997.

Paul Edwards. August 30. 1998.

notebook :- work, used for shore teams calculations.

De-briefing report

ash, even to touch the keys felt "sticky". The Team Leaders' computer keyboard was faulty and with broken keys and spacebar.

There was only one printer in service, which was actually the Fax/Scanner/Printer. This was connected by a switchbox to either computer. There was no back up to this system in the event of a breakdown.

There was no place to keep the office cash locked up safely. Apparently it appears that each successive Team Leader has been either carrying the cash with him or keeping the cash in his room.

For computer back-ups, sole reliance was maintained on keeping up a floppy disk system. This method was both time-consuming and somewhat unreliable.

Action Taken.

Everything was given a good clean. A serviceable spare replaced one keyboard.

Keyboards were wrapped in "Clingfilm" to keep them clean and working order.

Another inkjet printer was brought for a cost of about \$78,00. This printer is also compatible with the ink cartridges for the existing system, so duplication is unnecessary when purchasing replacement cartridges.

A metal cash box with both a key and a lock code was bought for about \$20. All cash is now kept locked in the box and kept in the Team Leaders draw in the office. The office is always kept locked when unattended.

A zip file apparatus was supplied from Rotterdam Office. This system is excellent, fast and user friendly. Archive zip-disks have been made. Regular back-up zip disks are being kept updated.

4) Office Administration Very mediocre, The "Archives" consisted of old ships reports bundled up together with string binding and then stored in no apparent order in a large filing cabinet. The same went for all the old tank history files and report files. To find any single file was a nightmare, because nothing was clearly marked and it was all mixed up.

Daily filing was not so bad. But finding instructions, bills or even claims was very haphazard. The "Library of Dutch Paperbacks" was kept in the Team Leaders draw for some reason.

You know already about the "VEF Letter" being issued to each shipmaster. Awaiting further instructions.

5) Computer filing was poor. Most documents and archives in the Team Leaders' computer (nomenclature "HUIB") were in "Word" format. Very neat, but of little use to anybody, except for reading. The filing system adopted was unwieldy and inflexible.

The Monitors' computer (nomenclature "GIJS") was much better, sensible use of Excel format files had been made and there are some excellent "home made" programs in daily use to assist in the work. Filing is logical and flexible and can be used in a variety of ways.

✓
zip
disk

redraw
zip disk
Team
headed

as
BOV agreed
this computer folder
is agreed

notebook :- work, used for shore tasks calculations.

Project - Saybolt UN. Ceyhan

CONFIDENTIAL

De-briefing report

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zip out


redw
zip dir
Team
headed

BOV agreed
this computer tasks
green duff

22

*Forward
mail
at 9.30.*

To: Mr. J. Stephanides
Dy. Director (DPA)
UNHQ/NY
Room - 3-7878
From: HB Pandit
Team Leader, External Auditor
Room No. C-480
Tele: 963-1353
Fax No.: 212-963-9311



Date: 11th Oct. 1997
Subject: CHECK OF OIL CONTRACTS
Ref: UNAUDIT/ESCROW/1

TO BE REPLIED: WITHIN 2 DAYS.
NO. OF PAGES 13.

During our test check of records related to sale of Iraqi oil, we noted that in all 51 contracts (in some contracts repeat loadings effected and separate LOCS opened for each shipment) signed between SOWO and various oil companies had been approved by SC Committee 661 in between 12 Dec. 95 and 8 May 97 during the initial 180 days of the programme.

We noted that the general scheme & procedures laid down in UNSCR 985 (1995) for approval of oil contracts including advising SC Committee 661 on the pricing mechanism were in place as also reported by the Secretary General in his report of 2 June 97 to the Security Council.

Pursuant to the SCR 985 (1995) the sum of proceeds from sale of Iraqi oil including financial and other transactions directly related to it was not to exceed a total of one billion United States Dollars 90 days and this provision was to remain in force for an initial period of 180 days. Pipe line tariff charges for the transport of Iraqi petrol and petroleum products in Turkey were covered by sale of an additional amount of oil.

we note from accounts that the total proceeds from sale of Iraqi oil during initial 180 days period amounted to 2.011 Billion US\$ and the proceeds from sale of additional oil to meet pipe line fee amounted to 138 million US\$.

The pricing mechanism is related to the crude and the destination and is adjusted up or down during the period of contract in the same direction and magnitude cent for cent per barrel as the changes in the published price for Arab light Crude Oil as announced by the producer applicable for the same destination and month of loading. The prices are related to the quotations as published in the PLATTS Crude oil Marketwire.

1002

BOARD OF ADDRESS INDIA

10/27/97 MON 11:34 FAX 212 963 8083

21

We noted in the test check that there was by and large no inconsistency in the pricing mechanics.

As per Article 6 of Section one of the sale contract the LOC is to be established, confirmed and accepted at least seven days prior to loading date. We noted that this requirement had not been observed in all cases. In response to our observation we were informed that no loading had been permitted without a confirmed LOC.

During our discussion with the officers of the SOMO at Bagdad, they were critical of the LOC procedures. Their analysis had revealed that 80 per cent delays in shipments of oil were due to delay in confirmation of LOCs.

We feel that time is the essence of this provision. We recommend that the LOCs be established, confirmed and accepted at least seven days prior to loading date in accordance with the provisions of the sale contract.

We were informed that two claims, details here below, had been made against SOMO.

Claim of Trafigura Ltd. - LC # 705531

The loading of the above vessel at Ceyhan was completed on 26 March 97 for the account of Trafigura Beheer BV, Amsterdam against contract # M/01/13 and LC # L705531. In the absence of metering system the vessel figure of 986,182 Barrels was taken as loaded quantity and invoiced by SOMO. Vessel quantity on arrival at port of destination was reported as 990,151 barrels. Trafigura Ltd., however, claimed to have been overcharged by 28,000 barrels approx. valuing US\$ 1,000,000.

We note that the Treasurer had on 18 April 97 suggested reservation of US\$ 1,000,000 till the claim was resolved. This had not however been done. We were informed that the inspection agents vis. SAYBOLT had reached an agreement on the exact quantity of oil shifted and therefore, there was no need to reserve funds as suggested earlier.

We note from the oil overseers letters dtd. 25 April 97 that the claim was to be settled by SOMO and Trafigura and feel that till such settlement the reservation of US\$ 1,000,000 should have been made. We recommend that the anticipated liability be provided in accounts.

We further note from the overseer's letter dtd. 25 April 97 that the Inspecting Agents vis. SAYBOLT work at the same time for the UN and the buyer. While giving their views, the Legal Division opined on 16 May 97 that for SAYBOLT to act as Inspection Agent for both the UN and the purchaser creates a conflict of interest which cannot be permitted. This was more important as the contract with SAYBOLT, SCR 985 and the MOU described the Inspection Agents as 'independent' and representing the purchaser violates that status. They further considered that such activities contravened the provisions of the

general terms and conditions of contract which requires the contractor to refrain from any action which may adversely affect the UN and to fulfil its commitments with the fullest regard to the interest of the UN. the Legal Division had further recommended to get a written confirmation from Saybolt that they would comply with the requirement of not representing purchasers.

We may be informed of the action taken by the UN Sectt. in this regard.

To our understating also, action of Saybolt to act as an agent for both the seller and the buyer is not consistent with the normal commercial practices.

2. Shell International Trading and Shipping Co. - Nikolcos loading at Ceyhan

We were informed that the loading of contained Cargo belonging to Turkish State Oil Co. (TUPRAS) was noticed by the buyer during the course of loading in March 97. Nearly full cargo load had to be pumped back ashore and the vessel reloaded. This involved additional time and use of additional bunkers throughout the pumping operation. For the detention of vessel at the loading port the buyer had lodged on 9 May 97 a claim of 90,473 US\$ with the UN. We note from the Oil Overseer's letter dated 28 May 97 that the claim was not entertained by the UN, not being a party to the oil sales. The company was however, advised to address the claim to the seller.

In view of the responsibilities of SAYBOLT mentioned in Article 4 of the contract between the UN and the SAYBOLT, they are required to monitor the export of Iraqi oil.

We fail to understand how a different crude was loaded with the Inspection Agents stationed to monitor on site the movement of oil. This may be clarified to us.

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Saybolt International B.V. - Rotterdam



Telefax

Fax number receiver : 00 1 212 963 1300
To : United Nations Headquarters, New York
Attention : Mr. Steve Avedon
From : Saybolt International B.V.

Subject : UN Audit reply
Date : October 27, 1997

Dear Steve,

In reply to your fax dated 24 October 1997, we would like to comment as follows;

Which of the two figures is closer to the actual quantity?

In view of the non-functional metering system, it is, as you know our procedure to measure:

1. The storage tanks before and after loading of a cargo (for reference and check).
2. The vessel is measured after loading, whereas the vessel's measurements are adjusted by Vessel's Experience Factor (VEF) and On Board Quantities (OBQ).

The measurements described under point 1. serve as reference and check, and the figures are recorded, and archived, against possible future requirement but owing to the relatively long time span since the storage tanks were independently calibrated the control mechanism described under point 2. is considered the more accurate determination, in the absence of accurate metering facilities, for monitoring purposes.

The difference of 26,851 barrels GSV can in our opinion be attributed to the loading of the T.v. "Histrina Prestige". This vessel arrived in Ceyhan after an extended period in dry dock during which alterations were made to the deck ullage points to allow use of MMC-type measuring apparatus. The vessel's calibration charts, as presented, were not adjusted for this structural alteration.

On completion of loading there was an apparent difference between the vessels figures (by reference to calibration charts) and shore figure, as follows: -

Vessel	986,182 barrels
Shore	958,106 barrels

Which equates to 28,076 barrels or 2.85 %.

How has the difference been adjusted?

After consultations with the UN Oil overseers and local SOMO representatives it was decided not to deviate from the procedure and that on establishment of the outturn of the vessel an adjustment with the client would be made. (Either by volume on a future lifting, or financially.



This adjustment is in view of the difference (26,851 barrels) over the entire period in our opinion justified.

The adjustment has however as far as we know not yet been made.

Did not the buyers claim refund?

Obviously the buyers are, as a rule not involved in the measurements that are done for reference/check by Saybolt in conjunction with their tasks as UN observers. Moreover the bill of lading is based on the vessel's measurements adjusted by Vessel's Experience Factor (VEF) and On Board Quantities (OBQ).

However in the case of T.V. "Histria Prestige" the buyer has claimed refund, as they noticed consistent with the differences observed in loadport, an outturn loss at the discharge port.

Why difference arose?

Explanation is given earlier.

Could Saybolt have prevented this difference?

Separate from the acceptable differences which will always occur, in view of the relatively long time span since the storage tanks were independently calibrated or measurement errors with temperature readings or soundings, the difference in the case of T.V. "Histria Prestige" exceeded the acceptable difference and it was brought to the attention of all parties concerned. Subsequently it was decided not to deviate from the procedure.

It is therefore that Saybolt can not be blamed for this difference.

Steve, I trust this answers the queries, please contact me in case you need some clarification.

Best regards,

Peter Boks

UNITED NATIONS



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OFFICE OF THE IRAQ PROGRAMME

FACSIMILE

To: Mr. Peter Boks Saybolt Nederland B.V. P.O. Box 151 3000 AD Rotterdam Nederland	Fax: 31 10 4601 299 (Off)
From: Stephani L. Scheer Chief of Office/Special Assistant to the Executive Director	Fax: + 1 212 963 1984 Tel: + 1 212 963 6550
Subject: Lack of measurement devices	
Date: 23 November 1998	Number of pages (including cover page): 1

Please find attached copies of three memoranda dated 10 November, 14 November and 16 November 1998 from the auditors requesting information on the work of Saybolt in Iraq.

In the two memoranda dated 10 November and 16 November, the auditors inquire about the lack of an acceptable measurement system in the loading facilities. It would be appreciated if you could provide your comments, particularly as to your discussions with SOMO in this matter, and the reaction of the Government of Iraq. It is our understanding that it is the responsibility of the Government to ensure that such measuring devices are in place. On the question of facilities in Mina Al-Bakr, I have received Graham Brett's e-mail and will make this available to the auditors.

In the memo dated 14 November, the auditors raise the issue of the incident in which Saybolt was providing services to both the United Nations and a buyer of Iraq oil. The auditors indicate in the second paragraph of this memorandum that Saybolt was requested to refund charges. It would be appreciated if you could inform me as to what the final outcome was in this matter.

In view of the fact that I will meet the auditors on Friday, I would appreciate it if you could provide me with the information by Thursday, 26 November 1998. As Thursday is a holiday here, if you have any questions concerning this matter please contact me by mobile phone (917) 742-2246.

Your assistance in this matter is very much appreciated.

Room 5-2112B, New York, NY 10017 • Tel: +1 212 963 6550 • Fax: +1 212 963 1984 • www.un.org/Deptz/olp

Stephani L. Scheer

98 21:09 FAX 212 963 0577

11/12/98 11:53 FAX 212 963 5947

11/16/98 TUE 17:43 FAX 212 963 6882

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4. In the said report, the Monitors have intimated that the Storage tanks have Hraf level indication (automatic tank gauging system) but it is unreliable and is not acceptable for calculation of vessel's loaded quantities, or for quantities delivered by the ITP from Iraq. All these measurements are therefore effected by hand measurement.
5. In this connection Audit is of the view that though the meter provers were re-calibrated at the commencement of the "Oil for Food" programme the Metering system is still not functioning, thus, hampering the smooth running of the programme.

Remarks of the management may kindly be communicated within two days

also mean that 50 per cent of all Phase III liftings have been made manually casting doubt over the accuracy of the measurement of oil lifted.

11. In Appendix I to the afore-mentioned letter, Ms Saybolt have highlighted that there are currently no internationally acceptable measurement systems operating in either of the loading facilities involved in the "Oil for Food" contract and that, therefore, the exported quantities are consequently being ascertained by reference to the loading vessel's calibration charts. Thus, as per the Agents themselves, the measurement of crude petroleum is not being carried out internationally to recognised public standards. Even with regard to calibration, Ms Saybolt have stated that there are no accurate and "in calibration" metering systems operating at Ceyhan or Mina Al-Bakr, or accurate tank calibration charts at Ceyhan. This is not allowing for accurate comparison between loaded and discharged volumes for fiscalisation and loss control activities. As Iraqi oil is sold to different countries, it is necessary in the interests of transparency and equity that the measurement of crude petroleum is carried out to recognised public standards. Further, as SCR 986 and related Resolutions have limited 90 - days sales of oil to a specific sum, it would be incumbent on the seller to ensure that there is an internationally accepted mechanism for accurate comparison between loaded and discharged volumes for fiscalisation and loss control activities. Even though the Iraq Oil for Food Programme is currently in the final month of the fourth Phase, these aspects have not as yet been resolved.

Specifically with regard to facilities, Ms Saybolt have mentioned that :

(i) Ceyhan A. Measurement

Here the storage tanks have automatic tank gauging system but it is unreliable and is not acceptable:

- > for calculation of vessel's loaded quantities or
- > for calculation of quantities delivered by the ITP from Iraq.

Ms Saybolt have reiterated that the metering system is not functioning, although the meter provers have been re-calibrated at

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the commencement of the "Oil for Food" Programme.

B. Loading Facilities

The in - line sampling apparatus is not efficient and needs replaced. For this reason, manual line samples have to be drawn by the independent oil inspector every 10 per cent of the loading. 55 per cent of the liftings are made from Ceyhan, the task invt would be unnecessarily voluminous and time consuming.

(ii) Mina A. General
AJ
Bakr

- > The Terminal consisting of two loading platforms, viz, "A" and "B" is rehabilitated and suffers from inadequacies.

B. Loading Arrangements

- > The "Walker" automatic sampling device on Platform is old and relies only upon pre - set grab settings and therefore is not accurate when loading rates are fluctuating as much as they do on this terminal. Also this device is not time/rate/flow/proportional.
- > There are no automatic sampling devices at any other berth.
- > Sampling each shipment is carried out by drawing from a sampling pipe on the main crude line at each berth at predetermined intervals which has been considered by Saybolt themselves as far from ideal or accurate.

(iii) A. General
Zakho:

It is the metering station situated close to the border between Northern Iraq and Turkey and is therefore most suitable as the point at which the exported volumes from Iraq are ascertained.

- > The bigger of its two pipelines running from Iraq into Turkey is not used and has no current metering facilities in operation.

B. 40" Kirkuk Crude Oil Metering Station

- > The fourth flow meter/computer combination and summator (Danscan - which is faulty) cannot be used owing to lack of spare parts and this system according to Saybolt is currently

mechanically isolated from the pipeline flow.

- The original telecommunications and data acquisition system (SCADA) have been destroyed and the operators are working blind with no pumping/pressure data with respect to up/downstream pumping operations.

C. 46" Kirkuk/Basrah Crude Oil Metering Station

- The metering station is mechanically isolated (spaded off) from the main pipeline and is non - operational.

As the Iraq Oil for Food Programme is currently in the final month of the fourth phase, Board recommends that these problems be resolved expeditiously.

11. Board have observed from the Weekly reports sent by M/s Saybolt to Overseers that various operational difficulties persist despite the experience gained by the authorities implementing the Oil for Food Programme which commenced way back in December 1996. Some of these are discussed below:

- As per report of 5-12-1997 no Pilot boats were available at Min Al - Bakr for berthing of "ANDROS GEORGIOS". There was no improvement in Service launchers and transportation. Transportation to Shore required at least 15 hours with one change of boats each time. Gangway No 1 was reported to be under repairs.
- As per report of 12-12-97 only one Mooring boat was available at Minal Al Bakr which too was stated to be unreliable. Also, transport to/from Basra was reported to be worse. Tugboat was reported to be at sea awaiting repairs and delivery of parts from Umm Qasr.
- In its report of 13-2-98 the inspectors intimated that no Mooring Boats were on Station at Min Al - Bakr and were reported to be under repairs. It was pointed out that for the last 3 Weeks mooring was done without use of

Mooring boats. This situation, however continued till 20-3-98 when one boat was made available.

- > In its report of 27-3-98 no Motor launch service was reported functional from Umm Qasr. Journey time was considerably extended and was far from satisfactory.
- > As per report of 22 May 1998 the oil inspectors pointed out that power cuts were occurring several times a day and night. No generators were operating for an hour or more. Power was reported to have been sustained only by Emergency generator. This was reported to be not a safe situation as in the event of any incident of fire or breakdown there would have had no power to run machinery or supply illumination.
- > In Mina-Al-Bakr , the power situation was reported to be badly deteriorated in its report of 5-6-98. Numerous power cuts were reported every day and night for periods upto three hours. The main generators are reported to be operating only occasionally with the result that only Emergency generator was being used continuously which could be hardly a safe procedure.

5.1 Board recommends that necessary steps be taken to improve facilities in the loading ports in the interest of generation of revenue by sale of Oil to the extent mandated.

5. Board noted in connection with the vulnerability of infrastructure that a group of experts accompanied by two United Nations Oil Overseers visited Iraq from 12 to 22 March 1998 to observe the condition of the production and transportation facilities necessary for the export of petroleum and petroleum products. After physical inspection of the various facilities, on - site discussions and on the basis of information supplied by various Iraq Government Agencies and analysis of historical data, the group of experts had concluded in their report that without rapid and

adequate investment in spare parts and repair of production wells, as well as the development of a number of smaller fields, the gap between the existing decline and the projected increment in crude oil production would grow wider for each month that financing was delay. The recommendations made by in the Report of this Expert Group, and the action taken item - wise on each recommendation made in this Report, may kindly be sent to Audit.

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It is requested that remarks of the Management may please be communicated within two days.

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11/16/98 17:42 FAX 212 963 5947

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inspectors for monitoring will also expand and clear terms of reference, including a list of tasks to be performed will be included in the new contract. However, the contract has been extended through 28 November, 1998 no such recommendations as agreed with appears to have been taken note of. Any specific reason for this needs to be intimated to Audit.

UN BOARD OF AUDITORS
AUDIT OBSERVATION NO:12

TO:
Mr. NEETA TOLANI,
EXECUTIVE OFFICER,
OIP

FROM:
P. SESH KUMAR
TEAM LEADER
IRAQ ESCROW ACCOUNT AUDIT
TELE NO. : 3-8867, 3- 2782
FAX NO: 3-8892
ROOM NO:3-C-400
DATE:12.04.1998

Office of the
Iraq Programme

APR 12 1999

	Action	Info
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File:

SUBJECT : Vulnerability of Infrastructure

To improve facilities in the loading ports in the interest of generation of revenue by sale of oil to the extent mandated by SCR 986 and other related regulations, Board had recommended that adequate attention be paid to the issue of vulnerability of the infrastructure by way of development of automatic measuring devices in Ceyhan instead of resorting to manual measurement.

M/s Saybolt had intimated (May, 1998) not only of the non-availability of internationally acceptable measurement system in general, but also of the in accurate and 'uncalibration' metering system operating at Ceyhan and Mina Al Bakr or in accurate tank calibration charts at Ceyhan. Board had also recommended that a note be made of M/s Saybolt's recommendations about the need for repairs to, and upgrading of metering systems and that subsequent calibration be carried out simultaneously at the two loading ports in consultation with Turkish authorities and the Government of Iraq.

M/s Saybolt had further stated that metering station situated in Zakho close to the border between Northern Iraq and Turkey is the most suitable point at which the exported volume from Iraq could be ascertained and that the bigger of the two pipelines running from Iraq into Turkey was not used because of non operational metering facilities. In addition to lack of spare parts for running crude oil, meter/ Computer combination and Summaster, M/s Saybolt had intimated about non functioning of original telecommunication and Data acquisition system in Zakho.

Action taken by OIP in streamlining the infrastructure deficiency at loading ports on the recommendations of the Board flowing from M/s Saybolt's report has not been found in records produced to audit.

Remarks of the Administration may kindly be furnished within two days of the receipt of this communication.

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OFFICE OF THE IRAQ PROGRAMME – BUREAU CHARGE DU PROGRAMME IRAQ

COMMENTS ON
THE AUDIT OF THE MANAGEMENT OF THE OIL INSPECTION SERVICES
CONTRACT

An audit of the management of the oil inspection contract was conducted by OIOS from March through August 2001. A draft report (AF2001/30/6), dated 7 December 2001, with findings and recommendations, as well as, a request for time schedule for the implementation of accepted recommendation, was forwarded to Mr. Sevan, under cover of memorandum reference number AUD-7-1:31 (1753/01), of same date.

Following the Security Council resolution 986 (1995) and the MOU, Saybolt Eastern Hemisphere BV, (Saybolt) was awarded Contract PTD/127/0065-96, in August 1996, to provide the services of 14 individuals with "particular experience and qualifications to assist in monitoring the export of petroleum and petroleum products from Iraq". The contract was for an initial term of six (six) months, with an option of renewal for up to three (3) successive periods of six (6) months, on the same terms and conditions. Contract PTD/127/0065-96 was subsequently amended several times to provide for additional inspectors for oil spare parts, and groups of oil experts that undertook special assignment at the behest of the Security Council. Contract number PD/CO114/00 executed in June 2000 succeeded contract PTD/127/0065-96. Under the new contract, which is for one year, with an option of renewal for three (3) successive terms on the same terms and conditions, Saybolt would provide 20 inspection agents; 14 to monitor the oil exports and 6 for spare parts and equipment. The contract has been amended to provide for an increase in the number of oil spare parts inspectors from 6 to 8, bringing the total number of agents to 22.

The audit objectives as stated in the draft report are, *inter alia*, to assess OIP's management of the contract, determine if the contractor provides the required services in an economical, efficient and effective manner, and review the management of other services being provided by the contractor. A review of the draft audit report, against the stated objectives of the audit, would have to take into consideration the context in which the contracts were executed and administered.

Contracts are not executed in a vacuum. As indicated above, this particular contract is being carried out within a sanctions regime and managed in a politically sensitive environment. Any realistic assessment of the management of the contract would have to factor in these considerations. Yet, it would appear from the draft report that the audit was conducted without taking cognizance, either of the legal or political context of the contract which in turn influence its management. For example, the introductory paragraph of the Executive Summary state that "OIP should have considered utilizing UN staff to perform the oil inspection service as an alternative to hiring a contractor, which would have resulted in substantial savings." An action by OIP in this regard would not have been consistent with the Security Council resolution

986(1995) and the Memorandum of Understanding between the Secretariat of the United Nations and the Government of Iraq on the implementation of the Security Council resolution 986(1995) (MOU). Annex II, paragraph 4, of the MOU expressly provides for *independent inspection agents* to monitor Iraqi oil exports.

Various amendments of the contract were undertaken in response to the requests of the Security Council and its Committee established by resolution 661 (1990) that required urgent action. Fortuitously, the experience of the Government of Iraq with Saybolt presented the United Nations with a considerable advantage, one that cannot be cost evaluated, and which rendered the missions much more expeditious and effective.

The decision to manage the contract from OIP rather than UNOHCI was in order not to unduly compromise the latter's mandate. To the extent possible, efforts have been made by OIP to institute appropriate procedures that would ensure that the contractor fully discharges its contractual responsibilities. It is realistic, however, to acknowledge that political actions may affect the manner in which the contractor discharges its responsibilities. For example, it is common knowledge that oil exports are interrupted periodically. The contractor, who has complained that the Government has refused to allow any additional contractor staff on a permanent basis, therefore occasionally deploys more staff to cope with peak periods of work.

The auditors failed to avail themselves of vital consultations that would have been useful to them in their work. Thus the audit objectives were carried out without a proper understanding of the background to the contract, the contract itself and its management.

Although the auditors undertook site visits to some of the locations where the independent inspection agents are located, they did not visit Mina Al Bakr to witness first hand the very difficult conditions under which the independent inspection agents operate. In addition, there was no consultation between the auditors and OIP officials, nor with Saybolt (the contractor) headquarters that would have helped clarify for the auditors some of the contentious issues. An exit conference might also have helped had one been held.

Comments on specific audit findings and recommendations are proffered hereunder:

A: Monitoring of invoice payments and financial matters

Procedures have not been implemented to monitor invoice payments:

Paragraph 8 of the draft report stated, *inter alia*, that the "number of inspectors, whether for oil or spare parts, is the only measurable parameter by which the UN authorized payment to the contractor. Hence an accurate attendance record is essential to support the monthly invoices submitted by the contractor."

The real parameter to measure the performance of the inspectors, whether for the export of oil or the monitoring of spare parts, are the detailed reports of all activities under Saybolt's area of contractual responsibility which come to OIP daily, weekly, and in special cases, as required. It should also be noted that through Amendment number 1 to Contract number PD/COI 14/00, the

spare parts

spare parts

number of oil inspectors was increased from six to eight. Paragraph has the total number of inspectors as twenty. This error is significant as it influenced the subsequent findings and recommendations.

Paragraph 9(i) stated that "a review of 19 monthly invoices and supporting documents found "deficiencies". Among the deficiencies stated is ambiguity of the attendance record which reflected "from arrival to departure Amman". In the view of the auditors, payments should only be made for manning the locations in Iraq and Turkey.

Contract number PTD/127/0065-96 (the initial contract) determined the number of inspectors required at particular locations in Iraq and Turkey, and Article 7.1 provides for full payment for complete and satisfactory performance by the contractor of his obligations under the contract. As has been noted above, the contractor has on site more oil inspection agents than required under the contract, and is not being paid for the excess number. In that regard, it could be argued that once the requirement of satisfactory performance is met, the "deficiency" in the attendance record becomes a non-issue. Nonetheless, since December 2000 the attendance record has shown "Personnel Attendance on Location, from arrival to departure".

The draft report also illustrates that the auditors do not have a good understanding of the contract and the method used in the preparation of invoices by Saybolt. This misunderstanding led to a significant error in 'finding' that Saybolt overcharged some \$370,000 for services provided during the period 29 May 1999 to 28 June 2001. The auditors confused the billing mechanism, seemingly thinking that Saybolt's billing was based on contracted staff levels and not on staff on site. And, on that matter, the auditors confused the contracted number of Inspectors for oil spare parts and equipment. This is eight and not six as stated in paragraph 8 of the draft report.

There is a historical precedent in the preparation of invoices in line with the commencement date of the current contract. The invoice always covers the period between the 28th day of the previous month until the 29th day of the month the invoice is prepared. Thus, the invoice prepared at the end of June covers the last few days of May until the 28th of June inclusive. Reference is made in this regard to Amendment No. 8 to contract PTD/CON/127/0065/9, which covered the period 29th of May 1999 through 28th of November 1999, after which this invoicing scheme was implemented. A review of all invoices found one incorrect invoice issued for the month June 1999. This irregularity does not appear in any of the other invoices. No over billing occurred as a result of this split-month billing, except for the July 1999 bill that included "31 June 1999". This overcharge (17 Man days) will be deducted from a future payment. That the irregularity was not queried by OIP was because OIP understood the billing mechanism, which the auditors did not.

The lump sum payment method provided for in Contract PTD/127/0065-96 (the initial contract) was discontinued with effect from 28^{May} 1999 in the successor contract. Since June 1999, invoices have been accompanied by an attendance sheet.

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Overpayment of monthly invoices needs to be recovered

Paragraph 10 of the draft report stated that the contractor had overcharged by approximately \$370,000, on short and excess stationing of staff. Except for the 1999 invoice where Saybolt billed for 31 June 1999, there did not appear to be any evidence of over billing. The invoices were in line with the attendance records. It would seem that the auditors only indicated the first 28 days of the month shown on the attendance record, and ignored the 29th, 30th and 31st day of the previous month, in determining the days of attendance. The other billing errors found were for December 2001, where Saybolt billed for 421 days for Oil Inspectors against 422 shown on the attendance sheet, so undercharging by one day, and June 1999, where a wrong code was used on the attendance sheet, although this did not have a financial consequence.

Regarding the short stationing of staff, as the invoices (since 29 May 1999) were based on staff as per the attendance sheet, no adjustment was required to the invoice for contracted staff that were not on duty, as the invoice did not include any charge for an absent Saybolt staff. As noted above, irrespective of the maximum allowed spare parts inspectors, during the initial stages of this work the contractor only deployed sufficient staff to effectively carry out the requirements of the 661 Committee, as there is an obvious time delay in ordering and physical arrival of spare parts and equipment. It would, thus, appear that the auditors did not differentiate between Saybolt's responsibilities.

Communication charges by the Contractor have been excessive

Paragraphs 11 and 12 stated that the tariff structure of the contract include communication expenses which is about 21 per cent of the total contract amount and that the Contract did not provide for any requirement to justify the expenses incurred through the use of a satellite communication system (Satcoms). The draft report also stated that the "UN did not consider alternative options such as using the UN telecommunication system, which would have reduced the communication expenses significantly, apart from being transparent in terms of identification of all calls including personal ones....."

The auditors did not seem to take into consideration the geography of Iraq, the location of the sites where the independent inspection agents are stationed, the logistics that would have been involved in extending the UN telecommunication system to the various locations and also the political environment.

It must be noted that time is essential and the independent inspection agents have to transmit their reports from the location where they are based, using communication not limited to the various Satcom units alone. There is also daily on-line time from Saybolt's headquarters to the various locations in the field, to transmit data such as the authorization documentation for crude oil loadings. It should also be noted that "on-line-" costs was renegotiated in the current contract, PD/COI 14/00, resulting in substantial savings on communication costs.

OIP needs to recover personal phone calls made by the Contractor's staff

Paragraph 14 stated that Saybolt's "internal policy is to allow each of its staff members free private telephone calls totaling up to 45 minutes per month. In Turkey, it was ascertained that staff members were not charged at all for personal calls, as these were not substantial in the Contractor's view. Since the total communications cost is included in the man-day cost structure, private telephone calls of the Contractor staff members are being charged to OIP."

The auditors seem to have confused the cost structure with the agreed billing procedure. As the contract is all-inclusive daily fee, the only mechanism for charging would be attendance on site of the contracted personnel and satisfactory performance of their duties.

The contract was awarded to Saybolt based on competitive tender and there is no evidence that alleged communication costs for private calls are charged to OIP. It must also be mentioned that the State Oil Marketing Organization (SOMO) has relied for quite some time upon Saybolt's communication systems after the military action in 1998. All costs involved amounting to USD 6,000., per month were absorbed by the contractor (Saybolt).

However, the points raised in the draft report regarding the cost structure could be utilized in the negotiations for the next contract. 7

Accommodation and local transportation charges included in man-day billing rate have been excessive

Paragraphs 16 and 17 stated, *inter alia* that at Zakho and Mina-al-bakr, the Government of Iraq had provided accommodation for the Contractor's staff, and at Zakho, SOMO had also provided two cars for local transportation.

With regard to questions related to costs for accommodation, transportation, communications, etc., in Iraq, it is a well-known fact that these types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements being made by the contractors, not just Saybolt, to ensure that these services, etc., would be provided.

Transport costs provided for in the Contract have been charged

Paragraph 18 stated that "notwithstanding specific provisions in the Contract to the contrary, amendment number three provided for computer equipment for two spare parts inspectors at a cost of \$17,800. Furthermore, as per the proposal of the Contractor, dated 19 September 2000, the cost of vehicles for spare parts inspectors was also authorized at \$39,000. In this regard, we note that the man-day rate provides for transportation costs of 2.85 per cent. In our opinion, adequate provision was made in the Contract for transportation and no justification was given for amending the Contract to provide additional transport. This arrangement was not transparent and appeared to double charge the UN for these costs".

To facilitate the execution of the contract, it was decided that Saybolt could purchase three vehicles and operate them independently and the vehicles would remain the property of the

United Nations. Because of the urgency of the need, it was further decided to purchase vehicles that were immediately available, that happened to have different colors and prices.

Non-expendable equipment purchased by the Contractor had not been adequately accounted for

Paragraph 20 stated that "the UN had authorized the Contractor to purchase equipment including vehicles, and communication equipment like satcoms, computers and software. We found that the equipment paid for by the UN did not have any UN asset number affixed and had never been inspected by the UN. Furthermore, the equipment was not entered into OIP's inventory system, and there had been no periodic checks on these assets as required by UN financial rules".

Due to the political environment in which the contract is executed, it is not feasible to conduct physical inventory of the vehicles and equipment at site locations. However, OIP maintains a record of what has been purchased by Saybolt under the 2.2% account, and does not necessarily wish to cause unnecessary friction with the Government of Iraq.

Charges for additional services provided by the Contractor have been excessive and inadequately monitored

Paragraphs 21 to 25 stated, *inter alia*, that OIP accepted cost proposals from the contractor for additional services "without any evidence of price negotiations or tests of reasonableness. Moreover, payment for these services had been made without documentation to support the invoicing such as original bills for purchases, tickets, vouchers, etc"

The auditors seem not to have a clear understanding of the nature of the work of OIP and the very sensitive and often urgent requests by the Security Council and its Committee established by resolution 661 (1990). The proposals referred to by the auditors relate to specific survey missions that were undertaken at the request of the Security Council within a tight timeframe. The proposals by the contractors are "all-in", i.e., including all relevant personnel for technical activities and analysis, as well as for ancillary services, such as report writing, presentations to the Security Council Committee, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of any contractor, and the Government's experience with Saybolt presented the United Nations with a considerable advantage - one that cannot be cost evaluated - and rendered the missions much more expeditious and effective.

It is also an erroneous assumption that OIP does not maintain comparative information to determine the "reasonableness" of proposals. OIP has always kept such information and has maintained on-going contact with professional societies and industrial organizations, and has thus been able to discuss quickly with experts whether technical and financial proposals were reasonable.

Regarding the comments on the round-trip from Amman-Baghdad-Amman, it is conceded that the charges were overstated. Consequently OIP is arranging a deduction of the

overcharge. But again it should be noted that the auditors seem not to have taken into consideration the question of the time factor, in that Saybolt was able to provide experts immediately from their rosters who were specialized in the areas necessary to undertake these missions, as well as having great technical familiarity with both Iraq and other countries in the region. And regarding the comments specifically on Paragraphs 24 and 25 on the reasonableness of the charges, it is essential to keep in mind that the contract was based on an "all-in" cost proposal.

The Contractor had not conducted "audit visits" as provided for in the Contract

Paragraph 26 stated that although the Contractor's proposal dated June 1996, provided for a coordinator from Rotterdam to "audit" their operation in Iraq every six weeks, no audit had been conducted. On the assumption that the costs of the visits would have been included in the overall price proposed by the Contractor, the auditors consequently calculated 36 such missed visits.

The assumption is incorrect, as the technical head of the Iraq team for Saybolt, Mr. Graham Brett, regularly undertakes missions to Iraq and the cost of these visits is included in the overall price of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for the oil sector, as well customs experts and the Oil Overseers. It should also be pointed out that it is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for auditing functions on an on-going basis of review and action, than only periodic "audit" visits, which are after all *post facto*.

Services provided by UNOHCI have not been adequately charged to the Contractor

Paragraphs 27 and 28 have been duly noted.

B: Monitoring Contractor's performance

OIP officials charged with monitoring the Contract had not made inspection visits to Iraq

Regarding the comments on paragraphs 29 and 30, it should be noted that the contract is being executed in a politically sensitive environment. As has been already stated, in order not to compromise UNOHCI's mandate, it was decided to administer the contract from headquarters. OIP maintains oversight of the activities of Saybolt on a daily basis through reporting as well as daily consultations with Saybolt, the Oil Overseers, as well as the group of experts on oil spare parts.

Need for reduction in contract payment during "no work" periods

In paragraphs 31 and 32, the auditors opine that during times when oil is not being exported from Iraq, the contractors should not be paid. In this connection, it would be truly difficult to imagine any professional company of this type that would agree to such conditions in its contract with the United Nations. There is no way to know in advance when there will be a disruption in the oil exports, and it is illogical to expect that ships will wait until the

inspectors are back in place before they can load. To move inspectors in and out of Iraq on that kind of assumption would render the United Nations incapable of fulfilling its mandate in regard to monitoring of oil exports. The requirements of the Security Council and the Security Council Committee demand that a full time presence of inspectors be maintained in the designated sites.

Need to separate the cost of Contractor's equipment from the man-day fee structure

In paragraphs 33 to 35, and the auditors' corresponding recommendations, the report discusses the cost of equipment purchased under the contract with Saybolt. While the comments are too vague to constitute a valid finding, it is clear that the auditors did not take into consideration the ongoing maintenance, repair and replacement costs that are factored into the contract as well, when they speak of onetime costs for equipment and recommend reimbursement by Saybolt.

Scrutiny of CVs of Contract personnel have been ineffective

It would seem that the auditors did not understand the background of the issue of early pensioners. It was originally foreseen that the contractor would identify overseers. That idea was subsequently cast aside. In the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the sometimes, arduous conditions in Iraq.

It is also not correct that that CVs of contractor personnel are not reviewed. Whenever Saybolt sent a recommendation, it was reviewed by the appropriate staff at OIP and then forwarded to the Oil Overseers for their comments. OIP has at times questioned the selection of candidates for various reasons, including experience, language skills, and geographical distribution. This was all discussed during the daily contacts between Saybolt and OIP. Candidates were withdrawn by Saybolt from time to time following these discussions, and so there was no need for "rejection" by OIP.

In-house versus outsourcing of services

As was stated in the introductory comments, the Memorandum of Understanding between the Secretariat of the United Nations and the and Government of Iraq on the implementation of the Security Council resolution 986 (1995), Annex II, paragraph 4, provides that the "sale of petroleum and petroleum products originating in Iraq will be monitored by United Nations independent oil experts appointed by the Secretary- General of the United Nations to assist the 661 Committee. The monitoring of oil exports will be carried out by independent inspection agents at the loading facilities at Ceyhan and Mina al-Bakr and, if the 661 Committee so decides, at the pipeline metering station at the Iraq-Turkey border, and would include quality and quantity verification. They would authorize the loading, after they receive the information from the United Nations oil experts that the relevant contract has been approved, and report to the United Nations".

It would therefore not be consistent with the above quoted provisions were the OIP to replace the independent inspection agents with United Nations personnel. It should also be pointed

out that nowhere in the United Nations is there an occupational group for petroleum engineers, experts or technicians. To create such an occupational group and 20 posts at the P-4 level for a temporary programme, and then subject those posts to the normal United Nations recruitment and placement procedures, would not be feasible. There is also the related cost of deploying these 20 P-4 staff members, i.e., transportation, accommodation, communication, etc.

In regard to the recommendations by the auditors, the memorandum forwarding the draft audit report stated, *inter alia*, that OIOS considered recommendations 3, 4, 6, 8, 9, 16, 17, 21, and 23 contained therein as being of critical importance. In light of the introductory remarks above, as well as the comments on specific paragraphs, it will be necessary to review each of the recommendations as stated hereunder:

Recommendation 3: Establish a contract management unit in Iraq whose functions should include reviewing invoices' supporting documentation, verifying Contractor's attendance records, monitoring additional requests for equipment and services by the Contractor and providing input for evaluation of the services provided (AF01/30/6/003).

This recommendation fails to take into consideration the fact that this would require additional resources and staffing, which are extraneous to UNOHCI's mandate and would not necessarily be agreed to by the Government of Iraq.

(i) **Recommendation 4:** OIP management should recover the overpayment of \$370,000 as indicated in Annex I, from the Contractor in subsequent billings (AF01/30/6/004)

This recommendation should be reviewed by OIOS. The \$370,000 seems to be significantly overstated. Ironically, Saybolt's review of its invoices revealed undercharging that may cancel any overcharging.

Recommendation 6: OIP management should in future contracts with the Contractor (or any other contractor) separate the communication expenses from the man-day tariff structure and reimburse these on presentation of detailed documentation (e.g. invoices from service providers) (AF01/30/6/006)

The recommendation is noted for the negotiation of future contract proposals.

Recommendation 8: OIP management should take steps to stop payment of personal telephone calls of the Contractor staff and recover the amounts overpaid which is estimated at \$109,000 for the first nine phases of the programme (AF01/30/6/008).

The contract is an all-inclusive, and there is no evidence that the contractor has separately charged OIP for private calls. Further, it would be contrary to the terms of the contract to demand such reimbursement.

Recommendation 9: OIP management should recover overpayments for accommodation and transportation of approximately \$471,000 from the Contractor (AF01/30/6/009)

The contract is all-inclusive, therefore under the terms of the contract, there is no reimbursement due.

(i) **Recommendation 16:** Implement procedures for procuring urgently required services, which should include: obtaining quotations from other suppliers; checking the reasonableness of quotations based on actual costs; and negotiating costs with the selected supplier (AF01/30/6/016).

As stated above, OIP maintains constant contact with professional societies and industrial organizations and is, therefore, current on the costs of services. However, the recommendation is noted.

Recommendation 17: OIP management should obtain details of "audit visits" undertaken by the Contractor and if no such visits have taken place, recover an estimated amount of \$270,000 for 36 such required visits up to phase nine (AF01/30/6/017).

It is more effective and efficient to have an overall team leader positioned within Iraq that have total responsibility for auditing functions on an on-going basis of review and action, rather than only periodic "audit" visits, which are after all *post facto*. In this regard, OIP does not consider that any recovery is due.

Recommendation 21: OIP management should negotiate with the Contractor to recover approximately \$1 million paid for equipment in excess of its actual cost and to stop further payments for the equipment cost component in the current Contract (AF01/30/6/021).

This recommendation is rejected. OIP is bound by the terms of contract between Saybolt and the United Nations. However, the recommendation will be considered for future negotiations of contract proposals.

Recommendation 23: OIP management should consider the option of engaging UN staff members at the appropriate level, which is clearly a much more economical alternative to contracting

for oil inspection services keeping in mind the relevant SCRs and MOU with the GOI (AF01/30/6/023).

This recommendation is inconsistent with the relevant Security Council resolutions and the MOU.

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NOTE TO MR. SEVAN

**RE: OIOS AUDIT NO. AF2001/30/6: AUDIT OF THE MANAGEMENT
 OF THE OIL INSPECTION SERVICES CONTRACT**

I refer to the memorandum of 29 November 2001 from Ms. Esther Stern, addressed to you, entitled OIOS AUDIT NO. AF2001/30/6: AUDIT OF THE MANAGEMENT OF THE OIL INSPECTION SERVICES CONTRACT. In this connection, as discussed, I have had extensive consultations with Mr. Peter Boks, Managing Director of Saybolt Nederland, B.V. Mr. Boks has provided extensive and comprehensive comments on relevant portions of the audit report. A copy of Mr. Boks's memorandum is attached. Mr. Boks has provided responses in copious detail, in particular in the annex under the analysis of Saybolt invoices. With regard to all questions related to specific charges covered by invoices submitted by Saybolt, you may wish to cross check these responses with the OIP Executive Office.

Further to this, I would like to offer some additional comments. I would first stress that it is very clear from the audit report that there was a lack of general understanding regarding the responsibilities of Saybolt. This would have been avoided had the auditors followed all of our advice and consulted with Saybolt at their headquarters and with OIP at Headquarters, in particular with myself. For our part, we certainly should have held a comprehensive exit conference, which would also have avoided allowing OIOS to prepare this report in a vacuum.

With regard to specific comments, I would like to address the following.

In the OIOS report under "Audit Findings and Recommendations," the auditors state, "The number of inspectors, whether for oil or spare parts, is the only measurable parameter by which the UN authorized payment to the Contractor. Hence, an accurate attendance record is essential to support the monthly invoices submitted by the Contractor. Our review of procedures found however, that they were lacking basic financial checks and balances, resulting in a number of incorrect payments." What the auditors failed to recognize is that the real parameter to measure the performance of the inspectors, whether for the export of oil or the monitoring of spare parts, in fact comes to OIP daily, weekly, and in special cases as required in the form of detailed reports of all activities under Saybolt's area of contractual responsibility.

Under paragraph 9, while Mr. Boks has addressed subparagraph (iv), you may wish to discuss the first three items with the Executive Office. With regard to recommendations 1 and 2, you may wish to discuss this also with the Executive Office, as this would be a forward-looking action. As to number 3, this is very unclear since later in the report the auditors indicate that under paragraph 27 there is a focal point assigned by UNOHCI for Saybolt activities. The recommendation to establish a contract management unit in UNOHCI fails to take into consideration the fact that this would require additional resources and staffing, which

are extraneous to UNOHCI's mandate and would not necessarily be agreed to by the Government of Iraq.

As of paragraph 10, it appears that OIOS switches to the question of monitoring spare parts, although, as previously indicated, it was unclear as to whether OIOS was able to differentiate between Saybolt's responsibilities.

With regard to paragraph 16 and to questions related to costs for accommodation, transportation, communications, etc., in Iraq, it is a well known fact that these types of expenses to be incurred in Iraq would have to be compensated, but under the restrictions of sanctions, no payments could be made within Iraq in any other currency but Iraqi dinars. This has led to special arrangements being made by the contractors - all of them - to ensure that these services, etc., would be provided. As long as the arrangements did not violate sanctions, they were not a matter of concern for us. This has been the subject of correspondence with the Legal Counsel, and you may wish to obtain additional information on this matter from OLA.

With regard to paragraph 20 and the auditors' comments related to the contractors' purchasing of equipment such as vehicles, computers and communications equipment by the contractors, unfortunately the auditors were not made aware of the long-standing issue of the ownership of equipment purchased under the 2.2% account. In this connection, I am attaching relevant communication between OLA and OIP on this issue. The auditors should have been made aware of the overall political sensitivity of bringing vehicles in under the 2.2% account. OIP maintains a record of what has been purchased by Saybolt under the 2.2% account, and does not necessarily wish to cause unnecessary friction with the Government of Iraq. You may wish to obtain additional information from OLA on this matter as well.

In addition, as the Saybolt contract is administered in New York by OIP, the recommendation by the auditors that UNOHCI be responsible for Saybolt inventory again would create work for UNOHCI that is extraneous to its mandate.

With regard to paragraph 21, the auditors refer to proposals by the contractor for additional services. The contract indicates that these proposals were accepted without any negotiations or test of "reasonableness," etc. The auditors yet again failed to understand the nature of the work of OIP and the very sensitive and often urgent requests by the Security Council and its Committee established by resolution 661 (1990). The proposals referred to by the auditors relate to specific survey missions that were undertaken by the request of the Security Council within a tight timeframe. The proposals by the contractors are "all-in", i.e., including all relevant personnel for technical activities and analysis, as well as for ancillary services, such as report writing, presentations to the Security Council Committee, etc. In addition to the demands by the Security Council, the Government of Iraq would also have had to agree to the presence of any contractor, and the Government's experience with Saybolt presented the United Nations with a considerable advantage - one that cannot be cost evaluated - and rendered the missions much more expeditious and effective. Finally, it is a fallacious

assumption that OIP does not maintain comparative information to determine the "reasonableness" of proposals. OIP has always kept such information and has maintained on-going contact with professional societies and industrial organizations, and has thus been able to discuss quickly with experts whether technical and financial proposals were reasonable.

Under paragraph 22, it is impossible to comment without a definition from OIOS as to the phrase "authorized standards."

Paragraph 23 relates also to paragraph 21 and again fails to take into consideration the questions of the time factor in that Saybolt was able to provide experts immediately from their rosters who were specialized in the areas necessary to undertake these missions, as well as having great technical familiarity with both Iraq and other countries in the region.

Paragraphs 24 and 25 again relate to the comments in the above paragraphs and failed to realize that it was essential to contract Saybolt based on an "all-in" cost proposal.

In paragraph 26, the auditors are incorrect in their statement as the technical head of the Iraq team for Saybolt, Mr. Graham Brett, regularly undertakes missions to Iraq and the cost of these visits is included in the overall price of the contract. In addition, regular "audit" visits are undertaken by OIP experts, particularly those involved in spare parts and equipment for the oil sector, as well customs experts and the Oil Overseers.

With regard to paragraphs 27 and 28, the auditors failed to understand again the difficult and sensitive situation in Iraq. OIP is very grateful to UNOHCI for its assistance, but it is unclear why all such assistance would be subject to reimbursement. Therefore, in order to address this issue more thoroughly, the auditors would have to make much more clear what they would consider reimbursable vis-a-vis the Saybolt contract. The auditors should also provide clear evidence of the charges to which they refer.

Regarding paragraphs 29 and 30, the auditors again tried to force contract administration to UNOHCI on the misunderstanding that there was no oversight by OIP. This is completely inaccurate, as all of the activities of Saybolt were overseen on a daily basis through reporting as well as daily consultations between OIP and Saybolt, namely with myself as the focal point, with the Oil Overseers, as well as the group of experts on oil spare parts.

In paragraphs 31 and 32, the auditors opine that during times when oil is not being exported from Iraq, the contractors should not be paid. In this connection, it would be truly difficult to imagine any professional company of this type that would agree to such conditions in its contract with the United Nations. There is no way to know in advance when the Government of Iraq will or will not export oil, and we cannot expect that ships will wait until the inspectors are back in place before they can load. To move inspectors in and out of Iraq on that kind of assumption would render the United Nations incapable of fulfilling its mandate in regard to monitoring of oil exports. The requirements of the Security Council and the Security

Council Committee demand that a full time presence of inspectors be maintained in the designated sites.

In paragraphs 33 to 35, and the auditors' corresponding recommendations, the report discusses the cost of equipment purchased under the contract with Saybolt. While the comments are too vague to constitute a valid finding, it is clear that while they speak of one-time costs for equipment and recommend reimbursement by Saybolt, they have failed to take into consideration the on-going maintenance, repair and replacement costs that are factored into the contract as well.

Paragraphs 36 and 37 indicate a confusion on the part of the auditors related to the original considerations in 1995-1996 regarding Oil Overseers. It was originally foreseen that the contractor would identify overseers. That idea was subsequently cast aside.

The auditors then proceed to criticize the manner in which OIP reviewed Saybolt recommended candidates for Iraq. They state that none of the candidates had ever been rejected. This is not accurate. Whenever Saybolt sent a recommendation, I reviewed it first, before sending the documents to the Oil Overseers for their comments. At times, I questioned candidates for various reasons including experience, language skills, and when we seemed to be moving away from geographical distribution. This was all discussed during the daily contacts between Saybolt and myself. Candidates were withdrawn by Saybolt from time to time following these discussions - and so there was no need for "rejection" by OIP.

Finally, paragraphs 38 and 39, with corresponding recommendation, truly surprise me. The reason why a contractor was engaged in the first place was that nowhere in the United Nations is there an occupational group for petroleum engineers, experts or technicians. To create such an occupational group and 20 posts at the P-4 level for a temporary programme, and then subject those posts to the normal United Nations recruitment and placement procedures, is an idea that is thoroughly unreasonable and clearly detrimental to the work of the programme. In addition, the auditors in making this recommendation forgot completely about the related costs of deploying these 20 P-4 staff members, i.e., transportation, accommodation, communication, etc. Perhaps if they had cost-estimated these, their recommendation would have been shelved.

Stephani L. Scheer
12 February 2002

Memorandum

To : Office of the Iraq Programme
Attention : Mr. B. Sevan
Cc : Ms. Stephani Scheer
From : Peter W.G. Boks

Subject : OIOS Audit No. AF2001/30/6: Audit of the management of the oil
inspection services Contract.

Date : July 12, 2002

We refer to the draft audit reports as mentioned above, which we received on December 13, 2001. Although you mention in the covering note that the auditors spoke to us in Rotterdam, this is not the case. We only provided some information to our team-leader in Baghdad, in response to questions addressed to him. At that time, we encouraged through our team-leader the auditors to contact us in Rotterdam. Unfortunately this never occurred.

Given the fact that the Executive Summary is overlapping the main body of the document, we will limit ourselves to the latter.

I. Introduction

In the introduction reference is made to our current contract, mentioning the present staffing levels. It should however be noted that Amendment No. 1 to Contract No. PD/CO114/01/00 allows us to deploy two additional spare parts inspectors. Given the fact that the GOI has refused to allow any additional staff on a permanent basis, we occasionally deploy more staff when considered absolutely essential to cope with peak periods of work. It must be underlined that under present circumstances the current requirements significantly exceed the allowed number of spare parts inspectors.

III. Audit Scope

Although we noticed that the auditors undertook site visits to some of the locations where our staff are located, they unfortunately did not visit Mina Al Bakr to witness first hand the very difficult conditions under which our staff are forced to operate, which we will refer to later. In addition, we underline that our Headquarters have not been directly contacted to discuss any of the contentious matters referred to in their report.

IV. Audit Findings and Recommendations

9 (i) Saybolt maintains throughout the year the following staff on site:

Ceyhan – Turkey	:	5 Staff members
Mina Al Bakr – Iraq	:	6 Staff members
Zakho – Iraq	:	3 Staff members
Baghdad – Iraq:		6 – 8 Staff members

- (ii) Given the fact that there is a historical precedent in charging, the invoice covers always the period between the 28th day of the previous month until the 29th day of the month the invoice is prepared. Thus the invoice prepared at the end of June covers the last few days of May until the 28th of June inclusive. After review of all invoices, we found one incorrect invoice, issued for the month June 1999. This irregularity does not appear in any of the other invoices reviewed.
- 10 (i) A review per invoice is attached for your reference.
- (ii) Irrespective of the maximum allowed spare parts inspectors, during the initial stages of this work we only deployed sufficient staff to effectively carry out the requirements of the 661 Committee, as there is an obvious time delay in ordering and physical arrival of spare parts and equipment.
 - (iii) We refer to our review per invoice.
- 12 It must be noted that given the fact that time is essential, that our inspectors have to transmit their reports from the location where they are based. We are unaware that there are options to link in to the UN telecommunication system from locations such as Mina Al Bakr. In addition to that communication is not limited to the use of the various satcom units alone. There is also daily on-line time from our HQ in Rotterdam to the various locations in the field, to transmit data such as the authorisation documentation for crude oil loadings.
14. Essentially we feel that our contract has been awarded on the basis of a competitive tender.
16. OIP is well aware that Saybolt has subcontracted the services for transportation and accommodation within Iraq. Initially this was done directly with the Ministry of Oil, which was proven to be in contravention with UN regulations. It was then decided to subcontract this service through a company in Jordan, which to date still is the case.
17. For good order's sake there is no free transportation and/or accommodation within this contract.
18. The auditors refer to the provision of transportation to the spare parts monitors, which was originally arranged through UNOCHI and taken into consideration in our fee structure. When the United Nations concluded that this was proven an ineffective solution, it was decided that Saybolt could purchase three vehicles and operate them independently. The vehicles will remain the property of the United Nations. Saybolt has never quoted for the provision of transportation of the spare parts monitors.
20. A side-remark is that equipment purchased under this arrangement have in numerous cases been replaced by Saybolt. Are there any guidelines as to how we should cope with this?

26. Given the importance of this contract, it was decided that it would be more effective and efficient to appoint an overall team leader positioned within Iraq to have total responsibility for auditing functions on an on-going basis of review and action. In addition to that, visits were made by Executives from Rotterdam as and when required.
33. Essentially we feel that our contract has been awarded on the basis of a competitive tender. Side-remark is that equipment is an ongoing expenditure, such as laboratory consumables, replacing laboratory equipment, medical equipment, upgrading communication equipment and/or computers, gear for new staff etc. etc.
36. It would seem that the auditors did not understand the background of the issue of early-pensioners. This approach was chosen, when the proposal had to contain the provision of oil overseers as well. This requirement was however deleted, and therefore is irrelevant. In the selection of staff assigned to monitor the crude oil exports from Iraq, one clearly needs experienced and motivated individuals capable of working efficiently in the sometimes-arduous conditions in Iraq.
38. Again a side-remark: The United Nations in promulgating the UNSCR 986 decided to subcontract the monitoring of Crude Oil exports from Iraq, to a Worldwide independent specialised company. The appointment of the successful bidder was by competitive tender. In addition to the 20 inspectors on-site, a much larger pool of staff is needed to maintain the 7 day's per week 24 hours a day operation, which is common practice in the oil business. It goes without saying that conditions at Mina Al Bakr are far from ideal. This is illustrated in virtually every weekly report, which is published to the United Nations. Accordingly, it is not realistic to assume that staff is prepared to work at this platform on the conditions mentioned by the auditors.
Additionally, a specialised team of 4 full time employees is involved in the ongoing management of the project, and in giving advice and guidance to the OIP on all matters pertaining to the Oil Industry in Iraq.