I hereby report to the Congress on the developments

since my last report of February

3, 1998, concerning the national emergency

with respect to Iraq that was declared in Executive

Order 12722 of August 2, 1990. This

report is submitted pursuant to section

401(c) of the National Emergencies Act, 50

U.S.C. 1641(c), and section 204(c) of the

International Emergency Economic Powers

Act (IEEPA), 50 U.S.C. 1703(c).

Executive Order 12722 ordered the immediate

blocking of all property and interests

in property of the Government of Iraq (including

the Central Bank of Iraq) then or

thereafter located in the United States or

within the possession or control of a United

States person. That order also prohibited the

importation into the United States of goods

and services of Iraqi origin, as well as the

exportation of goods, services, and technology

from the United States to Iraq. The

order prohibited travel-related transactions

to or from Iraq and the performance of any

contract in support of any industrial, commercial,

or governmental project in Iraq.

United States persons were also prohibited

from granting or extending credit or loans

to the Government of Iraq.

The foregoing prohibitions (as well as the

blocking of Government of Iraq property)

were continued and augmented on August

9, 1990, by Executive Order 12724, which

was issued in order to align the sanctions imposed

by the United States with United Nations

Security Council Resolution (UNSCR)

661 of August 6, 1990.

This report discusses only matters concerning

the national emergency with respect

to Iraq that was declared in Executive Order

12722 and matters relating to Executive Orders

12724 and 12817 (the ‘‘Executive Orders’’).

The report covers events from February

2 through August 1, 1998.

1. In April 1995, the U.N. Security Council

adopted UNSCR 986 authorizing Iraq to export

up to $1 billion in petroleum and petroleum

products every 90 days for a total of

180 days under U.N. supervision in order to

finance the purchase of food, medicine, and

other humanitarian supplies. UNSCR 986 includes

arrangements to ensure equitable distribution

of humanitarian goods purchased

with UNSCR 986 oil revenues to all the people

of Iraq. The resolution also provides for

the payment of compensation to victims of

Iraqi aggression and for the funding of other

U.N. activities with respect to Iraq. On May

20, 1996, a memorandum of understanding

was concluded between the Secretariat of the

United Nations and the Government of Iraq

agreeing on terms for implementing UNSCR

986. On August 8, 1996, the UNSC committee

established pursuant to UNSCR 661

(‘‘the 661 Committee’’) adopted procedures

to be employed in implementation of

UNSCR 986. On December 9, 1996, the

President of the Security Council received

the report prepared by the Secretary General

as requested by paragraph 13 of UNSCR

986, making UNSCR 986 effective as of

12:01 a.m. December 10, 1996.

On June 4, 1997, the U.N. Security Council

adopted UNSCR 1111, renewing for another

180 days the authorization for Iraqi petroleum

sales and purchases of humanitarian

aid contained in UNSCR 986 of April 14,

1995. The Resolution became effective on

June 8, 1997. On September 12, 1997, the

Security Council, noting Iraq’s decision not

to export petroleum and petroleum products

pursuant to UNSCR 1111 during the period

June 8 to August 13, 1997, and deeply concerned

about the resulting humanitarian consequences

for the Iraqi people, adopted

UNSCR 1129. This resolution replaced the

two 90-day quotas with one 120-day quota

and one 60-day quota in order to enable Iraq

to export its full $2 billion quota of oil within

the original 180 days of UNSCR 1111. On

December 4, 1997, the U.N. Security Council

adopted UNSCR 1143, renewing for another

180 days, beginning December 5, 1997,

the authorization for Iraqi petroleum sales

and humanitarian aid purchases contained in

UNSCR 986.

On February 20, 1998, the U.N. Security

Council adopted UNSCR 1153, authorizing

the sale of Iraqi petroleum and petroleum

products and the purchase of humanitarian

aid for a 180-day period beginning with the

date of notification by the President of the

Security Council to the members thereof of

receipt of the report requested in UNSCR

1153. UNSCR 1153 authorized the sale of

$5.256 billion worth of Iraqi petroleum and

petroleum products. On March 25, 1998, the

Security Council, noting the shortfall in revenue

from Iraq’s sale of petroleum and petroleum

products during the first 90-day period

of implementation of UNSCR 1143, due to

the delayed resumption in sales and a serious

decrease in prices, and concerned about the

resulting humanitarian consequences for the

Iraqi people, adopted UNSCR 1158. This

Resolution reaffirmed the authorization for

Iraqi petroleum sales and purchases of humanitarian

aid contained in UNSCR 1143 for

the remainder of the second 90-day period

and set the authorized value during that time

frame to $1.4 billion pending implementation

of UNSCR 1153. The 180-day period

authorized in UNSCR 1153 began on May

30, 1998. On June 19, 1998, the Security

Council adopted UNSCR 1175, authorizing

the expenditure of up to $300 million on

Iraqi oil infrastructure repairs in order to

help Iraq reach the higher export ceiling permitted

under UNSCR 1153. UNSCR 1175

also reaffirmed the Security Council’s endorsement

of the Secretary General’s recommendation

that the ‘‘oil-for-food’’ distribution

plan be ongoing and project-based.

During the period covered by this report, imports

into the United States under the program

totaled about 14.2 million barrels,

bringing total imports since December 10,

1996, to approximately 51.5 million barrels.

2. There have been no amendments to the

Iraqi Sanctions Regulations, 31 C.F.R. Part

575 (the ‘‘ISR’’ or the ‘‘Regulations’’) administered

by the Office of Foreign Assets Control

(OFAC) of the Department of the Treasury

during the reporting period.

As previously reported, the Regulations

were amended on December 10, 1996, to

provide a statement of licensing policy regarding

specific licensing of United States

persons seeking to purchase Iraqi-origin petroleum

and petroleum products from Iraq

(61 *Fed. Reg.* 65312, December 11, 1996).

Statements of licensing policy were also provided

regarding sales of essential parts and

equipment for the Kirkuk-Yumurtalik pipeline

system, and sales of humanitarian goods

to Iraq, pursuant to United Nations approval.

A general license was also added to authorize

dealings in Iraqi-origin petroleum and petroleum

products that have been exported from

Iraq with United Nations and United States

Government approval.

All executory contracts must contain terms

requiring that all proceeds of oil purchases

from the Government of Iraq, including the

State Oil Marketing Organization, must be

placed in the U.N. escrow account at Banque

Nationale de Paris, New York (the ‘‘986 escrow

account’’), and all Iraqi payments for

authorized sales of pipeline parts and equipment,

humanitarian goods, and incidental

transaction costs borne by Iraq will, upon approval

by the 661 Committee and satisfaction

of other conditions established by the United

Nations, be paid or payable out of the 986

escrow account.

3. Investigations of possible violations of

the Iraqi sanctions continue to be pursued

and appropriate enforcement actions taken.

Several cases from prior reporting periods

are continuing, and recent additional allegations

have been referred by OFAC to the

U.S. Customs Service for investigation.

Investigation also continues into the roles

played by various individuals and firms outside

Iraq in the Iraqi government procurement

network. These investigations may lead

to additions to OFAC’s listing of individuals

and organizations determined to be Specially

Designated Nationals (SDNs) of the Government

of Iraq.

Since my last report, OFAC has collected

two civil monetary penalties totaling $9,000

from one company and one individual for

violations of IEEPA and ISR prohibitions

against transactions with Iraq.

4. The Office of Foreign Assets Control

has issued hundreds of licensing determinations

regarding transactions pertaining to

Iraq or Iraqi assets since August 1990. Specific

licenses have been issued for transactions

such as the filing of legal actions

against Iraqi governmental entities, legal representation

of Iraq, and the exportation to

Iraq of donated medicine, medical supplies,

and food intended for humanitarian relief

purposes, sales of humanitarian supplies to

Iraq under UNSCRs 986, 1111, 1143, and

1153, diplomatic transactions, the execution

of powers of attorney relating to the administration

of personal assets and decedents’ estates

in Iraq, and the protection of

preexistent intellectual property rights in

Iraq. Since my last report, 75 specific licenses

have been issued, most with respect to sales

of humanitarian goods.

Since December 10, 1996, OFAC has

issued specific licenses authorizing commercial

sales of humanitarian goods funded by

Iraqi oil sales pursuant to UNSCRs 986,

1111, 1143, and 1153 valued at more than

$324 million. Of that amount, approximately

$298 million represents sales of basic foodstuffs,

$14 million for medicines and medical

supplies, $9.2 million for water testing and

treatment equipment, and nearly $3 million

to fund a variety of United Nations activities

in Iraq. International humanitarian relief in

Iraq is coordinated under the direction of the

United Nations Office of the Humanitarian

Coordinator of Iraq. Assisting U.N. agencies

include the World Food Program, the U.N.

Population Fund, the U.N. Food and Agriculture

Organization, the World Health Organization,

and UNICEF. As of June 29,

1998, OFAC had authorized sales valued at

more than $85 million worth of humanitarian

goods during the current reporting period.

5. The expenses incurred by the Federal

Government in the 6-month period from

February 2 through August 1, 1998, that are

directly attributable to the exercise of powers

and authorities conferred by the declaration

of a national emergency with respect to Iraq,

are reported to be about $1.1 million, most

of which represents wage and salary costs for

Federal personnel. Personnel costs were

largely centered in the Department of the

Treasury (particularly in the Office of Foreign

Assets Control, the U.S. Customs Service,

the Office of the Under Secretary for

Enforcement, and the Office of the General

Counsel), the Department of State (particularly

the Bureau of Economic and Business

Affairs, the Bureau of Near Eastern Affairs,

the Bureau of International Organization Affairs,

the Bureau of Political-Military Affairs,

the Bureau of Intelligence and Research, the

U.S. Mission to the United Nations, and the

Office of the Legal Adviser), and the Department

of Transportation (particularly the U.S.

Coast Guard).

6. The United States imposed economic

sanctions on Iraq in response to Iraq’s illegal

invasion and occupation of Kuwait, a clear

act of brutal aggression. The United States,

together with the international community,

is maintaining economic sanctions against

Iraq because the Iraqi regime has failed to

comply fully with relevant United Nations

Security Council resolutions. Iraqi compliance

with these resolutions is necessary before

the United States will consider lifting

economic sanctions. Security Council resolutions

on Iraq call for the elimination of Iraqi

weapons of mass destruction, Iraqi recognition

of Kuwait and the inviolability of the

Iraq-Kuwait boundary, the release of Kuwaiti

and other third-country nationals, compensation

for victims of Iraqi aggression, long-term

monitoring of weapons of mass destruction

capabilities, the return of Kuwaiti assets stolen

during Iraq’s illegal occupation of Kuwait,

renunciation of terrorism, an end to internal

Iraqi repression of its own civilian population,

and the facilitation of access by international

relief organizations to all those in

need in all parts of Iraq. Eight years after

the invasion, a pattern of defiance persists:

a refusal to account for missing Kuwaiti detainees;

failure to return Kuwaiti property

worth millions of dollars, including military

equipment that was used by Iraq in its movement

of troops to the Kuwaiti border in October

1994; sponsorship of assassinations in

Lebanon and in northern Iraq; incomplete

declarations to weapons inspectors and refusal

to provide immediate, unconditional,

and unrestricted access to sites by these inspectors;

and ongoing widespread human

rights violations. As a result, the U.N. sanctions

remain in place; the United States will

continue to enforce those sanctions under

domestic authority.

The Baghdad government continues to

violate basic human rights of its own citizens

through systematic repression of all forms of

political expression, oppression of minorities,

and denial of humanitarian assistance. The

Government of Iraq has repeatedly said it

will not comply with UNSCR 688 of April

5, 1991. The Iraqi military routinely harasses

residents of the north, and has attempted to

‘‘Arabize’’ the Kurdish, Turkomen, and Assyrian

areas in the north. Iraq has not relented

in its artillery attacks against civilian

population centers in the south, or in its

burning and draining operations in the southern

marshes, which have forced thousands

to flee to neighboring states.

The policies and actions of the Saddam

Hussein regime continue to pose an unusual

and extraordinary threat to the national security

and foreign policy of the United States,

as well as to regional peace and security. The

U.N. resolutions affirm that the Security

Council be assured of Iraq’s peaceful intentions

in judging its compliance with sanctions.

Because of Iraq’s failure to comply

fully with these resolutions, the United States

will continue to apply economic sanctions to

deter it from threatening peace and stability

in the region.