U.S. Eased Law On Terrorism To Aid Oil Firm

Exemption Let Occidental Seek Major Deal in Sudan

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Four months after President Clinton signed a law last year barring financial transactions between American corporations and countries accused of supporting terrorism, the administration quietly exempted one such country—Sudan—where a U.S. oil company was seeking a stake in a $930 million oil deal, according to federal officials and documents.

The August exemption to the 1996 Antiterrorism Act, which Clinton had signed with much fanfare in April, cleared the way for California-based Occidental Petroleum Corp. to negotiate with the Khartoum government despite the administration's avowed policy of restricting U.S. commerce with the seven nations blacklisted by the State Department for allegedly supporting terrorists. Two years ago, for example, Clinton forbade any U.S. oil company transactions with Iran.

Administration officials had long described Sudan as second only to Iran as a staging ground for Islamic extremists involved in subverting neighboring pro-U.S. governments. The U.S. government accused Sudan of involvement in an attempt to assassinate Egyptian President Hosni Mubarak in 1995 and has pressed for tougher U.N. sanctions against Khartoum.

A State Department official, who spoke only on condition of anonymity, insisted that the exemption for Sudan—and a similar exemption for Syria, also put into effect in August—does not undercut the Antiterrorism Act. Section 321 of the law bars U.S. citizens and companies from financial dealings with terror-sanctioning countries; violators are subject to up to 10 years in prison. However, the law also permits the Treasury Department to grant exemptions, which occurred in the case of Sudan and Syria on Aug. 23.

Officials said the Syrian exemption was intended to encourage participation by Damascus in the Middle East peace process, although

See SUDAN, A25, Col. 2

SUDAN, From A1

Rep. Benjamin A. Gilman (R-N.Y.), chairman of the House Committee on International Relations, protested the "special loophole" in a letter to Clinton last fall and urged equal treatment for all "rogue regimes."

As for Sudan, the sequence of events leading to the exemption remains unclear. State Department officials acknowledge discussing the issue last summer with both Occidental Petroleum and its potential partner in the Sudan deal, Canada's Arakis Energy Corp. Occidental, founded in 1920 and taken over by industrialist Armand Hammer in 1956, is an $18 billion corporation that moved into the front rank of world oil giants after exploiting a huge, risky field in Libya in the 1960s.

Occidental has long been active in local and national politics; Federal Election Commission records show the company and its political action committees donated more than $600,000 to national political parties in the past two years, almost evenly divided between the Democratic and Republican parties, including a $100,000 donation to the Democrats last March 29. Senior company executives also donated nearly $100,000 to candidates, parties and political action committees in the past two years, according to federal records.

The exemption allowed Occidental to join Arakis in pursuing the development of a promising but abandoned oil field in southern Sudan containing an estimated 3.5 billion barrels. The anticipated yield of 150,000 barrels a day by 1999 is expected to provide a cash windfall for the radical Muslim regime in one of the world's poorest countries, according to industry analysts.

But Occidental's hopes of tapping the Sudanese oil field suffered a setback in late November, when the Khartoum government abruptly excluded the U.S. company from the development consortium, according to oil industry and U.S. government sources. The government reportedly was angered by a disclosure in The Washington Post that the Clinton administration was providing military assistance to three African nations supporting Sudanese rebels, the sources added.

Southern Sudan has been wracked

by sporadic but seemingly intractable warfare for much of the past four decades. Rebel guerrilla forces drawn from the region's mostly black and Christian or animist population have been fighting for autonomy or outright independence from the Khartoum government, which is controlled by the Muslim Arabs who predominate in northern Sudan. Since 1972, when the war resumed after a decade of peace, more than a million lives have been lost to fighting and famine.

Despite repeated calls to the company's California headquarters and Washington office, Occidental officials declined to comment. National Security Council officials also did not respond to repeated requests for comment. A spokeswoman for the Democratic National Committee said: "Occidental has a long history of giving to Democrats. Our people had no knowledge of the [antiterrorism] legislation."

A Treasury Department official had no comment other than to say that the August exemption was supported by the State Department. Stephanie Eicher, a State Department spokeswoman, said last night that the department had "no immediate comment."

Response to Oklahoma

The law signed by Clinton in April—officially called the Antiterrorism and Effective Death Penalty Act—had passed both houses of Congress by overwhelming margins. Drafted partly in response to the April 1995 Oklahoma City bombing, the law also was intended to prevent terror-supporting nations from making payments to U.S. citizens following Libyan leader Moammar Gadhafi's effort a year ago to give $1 billion to Nation of Islam leader Louis Farrakhan. Libya is on the State Department's "terrorism list" along with Iran, Sudan, Syria, Cuba, North Korea and Iraq.

The August exemption explicitly authorized "all financial transactions with a terrorism list government" not already barred by other U.S. sanctions, such as those against dealings with Iraq, Iran, Libya, Cuba and North Korea. The exemption continues to prohibit U.S. citizens or companies from accepting "donations" offered by any country on the terrorism list.

State Department officials said the administration concluded that Congress had not intended to impose sweeping economic sanctions against Sudan under the 1996 Antiterrorism Act the way it had earlier in separate legislation against Iran and other nations on the list.

Rep. Bill McCollum (R-Fla.), chairman of the House crime subcommittee that handled the Antiterrorism Act, said he was unaware of Occidental's negotiations in Sudan and was disappointed at the administration's broad interpretation of the Antiterrorism Act. Allowing U.S. companies to invest in Sudan "appears to be something that violates our intent . . . and sets a precedent," McCollum added. "It was our intent that [U.S. companies] would not do business as usual."

John McLeod, chief executive of Arakis, said he flew to Washington early last summer in an effort to convince administration officials that the Sudanese government had moderated its support for terrorist groups. State Department officials displayed "a very neutral reaction" when told that Arakis wanted an American partner to help develop the Sudan field, McLeod said in a telephone interview from his company's headquarters in Calgary, Alberta.

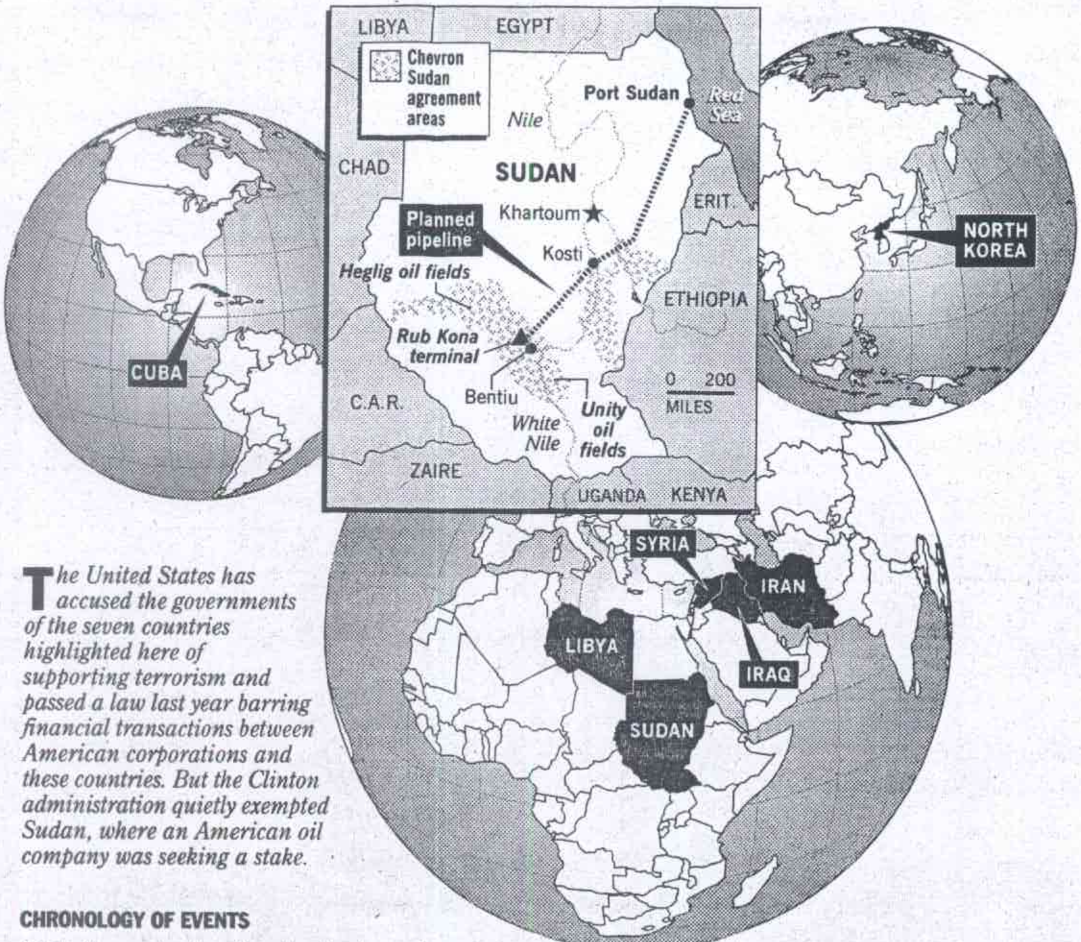
"You're big boys. . . . We can't stop you from going there," McLeod quoted one U.S. official as telling him. The exemption, he added, "essentially opened up Sudan for investment."

An American oil firm, Chevron, had spent more than $1 billion developing the Sudanese field starting in the late 1970s but ended all operations in 1984 after rebels killed four employees at one of its installations. In June 1992, Chevron sold its production and exploration rights in a 42-million-acre tract to a Sudanese company, reportedly for $125 million.

Arakis gained control of the concession in 1994 and began putting together an international consortium to provide the cash and technical knowledge to begin drilling and to build a 950-mile pipeline to a Red Sea port. Occidental, according to McLeod, was considered Arakis's foremost candidate for partnership—if the Antiterrorism Act prohibition could be finessed.

Precedents during the Clinton administration were not encouraging, however. In March 1995, Clinton issued an executive order forcing Conoco Inc. to scuttle an agreement with the Iranian government under

A LOOPHOLE FOR SUDAN



The United States has accused the governments of the seven countries highlighted here of supporting terrorism and passed a law last year barring financial transactions between American corporations and these countries. But the Clinton administration quietly exempted Sudan, where an American oil company was seeking a stake.

CHRONOLOGY OF EVENTS

1974: Chevron begins oil exploration in south central Sudan.

1978–'79: Chevron discovers oil in the Muglad basin and begins developing the Unity and Heglig oil fields.

1984: Chevron suspends operations after four employees are killed in a rebel attack on a base camp at Rub Kona.

1992: Chevron sells its exploration and production rights to Concorp International, a Sudanese company. Sudanese government awards Chevron's old concession to the State Petroleum Corp., a private Sudanese firm with close ties to the government and a partner of the Canadian oil company Arakis Energy Corp.

1993: Sudanese government signs 25-year production sharing agreement with Arakis.

1994: Arakis acquires State Petroleum Corp.

1995: President Clinton issues an executive order forcing Conoco Inc. to break an agreement with the Iranian government to invest in the expansion of two Iranian oil and gas fields. Clinton cites Iran's support of international terrorism and efforts to undermine Middle East peace process as main reasons for his action.

1996

April: Clinton signs into law the Antiterrorism Act; Section 321 bars Americans from engaging in financial transactions with governments on the U.S. list of states accused of supporting terrorism and imposes fines of up to 10 years in prison.

August: Treasury Department issues regulations implementing Section 321, in effect exempting transactions with Sudan and Syria.

November: Sudanese government decides to exclude Occidental Petroleum from the Arakis-led consortium, seeking to develop old Chevron oil fields and build a 950-mile pipeline.

December: Arakis announces it has signed a deal with China National Petroleum Corp; Malaysia's state oil company, Petronas, and the Sudanese government to build the pipeline and produce initially 150,000 barrels daily. Arakis chief executive John McLeod says Sudan excluded Occidental for "political reasons."

BY BRAD WYE AND DITA SMITH—THE WASHINGTON POST which the U.S. oil giant would have invested up to $1 billion in a pair of Iranian oil and gas fields.

But in considering exemptions to the Antiterrorism Act last summer, the administration rejected "simple parallelism" between Conoco's Iran investment and Occidental's ambitions in Sudan, a State Department official said. Circumstances and "the state of our dialogue" with Sudan were "very different" from Iran, the official explained, and "to make use of the economic stick against Sudan gratuitously made no sense at all."

When Occidental executives inquired about operating in Sudan, another State Department official added, they were told, "It's legal."

A Hidden Hand

Precisely who in the government decided to exempt Sudan remains unclear, as does the distinction now being drawn between Sudan and Iran. The two countries are close allies. Both actively support Islamic extremist groups opposed to the Middle East peace process and both allegedly harbor terrorists who have attacked Egypt, Saudi Arabia and other Arab nations friendly to the United States.

The State Department was sufficiently concerned about the safety of U.S. diplomats in Khartoum to order them out of the Sudanese capital a year ago. Last April, the United States expelled a Sudanese diplomat in New York after linking him to an alleged plot to bomb the U.N. headquarters. A spokesman for the State Department's Office for Counter-Terrorism said there has been no discernible change in Sudan's support for international terrorism.

The exemption is all the more puzzling given the administration's decision last fall to provide surplus U.S. military equipment to Ethiopia, Eritrea and Uganda, three African countries supporting Sudanese opposition groups trying to topple the Khartoum government. After Khartoum vetoed Occidental's participation in the oil project—apparently in retaliation against that U.S. move—Arakis announced a partnership in southern Sudan with the state-owned oil companies of China and Malaysia. But oil industry sources said U.S. companies remain interested in doing business in Sudan.

The administration's exemption of Sudan and Syria from Section 321 provisions of the Antiterrorism Act was scarcely noted in Congress. Congressional aides who discussed the exemptions with administration officials said they were not advised of Occidental's interests. Instead, State Department officials expressed concern that the law's rigid language would even preclude U.S. embassies from paying water and electricity bills in countries on the terrorism list, the aides added.

Staff researcher Alice Crites and William Casey, director of computer-assisted reporting, contributed to this article.

FOR MORE INFORMATION

For a profile of Occidental Petroleum Corp. and an overview of the Sudanese oil industry, click on the above symbol on the front page of The Post's site on the World Wide Web at http://www.washingtonpost.com