

26 February 2002

**Oil-for-Food
Background
Information**

STATEMENT BY

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PROGRAMME**

**AT THE INFORMAL CONSULTATIONS OF THE
SECURITY COUNCIL**

TUESDAY, 26 FEBRUARY 2002

Mr. President,

I should like to thank the members of the Security Council for their agreement to accept, in lieu of a written 90-day report pursuant to paragraph 1 of resolution 1382 (2001), an oral report, including a briefing on my recent visit to Iraq from 14 January to 10 February 2002. The purpose of my visit was not only to review the implementation of the humanitarian programme in Iraq pursuant to resolution 986 (1995), but also to resolve a number of difficulties encountered in that regard, both within the United Nations system as well as with the Government of Iraq, and with the local authorities in the three northern governorates of Dahuk, Erbil and Sulaymaniyah where the United Nations has been implementing the programme on behalf of the Government of Iraq.

Regarding information on programme implementation, I should like to state that having the Secretary-General's latest comprehensive 150-day report submitted to the Security Council in late November 2001 (S/2001/1089) and the distribution plan for phase XI approved on 3 January 2002, a month after the start of that phase (S/2002/19, annex III), it is too early at this stage to add more in that regard. The next 180-day report of the Secretary-General pursuant to resolution 1382 (2001) will provide comprehensive information on programme implementation under the various sectors. In the meantime, we would continue submitting our monthly reports to the Committee, providing information on programme implementation, among others.

In Baghdad, I had a rather hectic round of working meetings, including a meeting with H.E. Mr. Taha Yasin Ramadan, Vice President

of the Republic of Iraq; two meetings with H.E. Dr. Naji Sabri Ahmed, Minister of Foreign Affairs; three meetings with H.E. General Amer Mohammed Rashid, Minister of Oil; two meetings with H.E. Dr. Mahdi Mohammad Salah, Minister of Trade; as well as meetings with H.E. Mr. Abdullah Mohammed Saleh, Minister of Agriculture; H.E. Dr. Omid Midhat Mubarak, Minister of Health; H.E. Dr. Humam Abdul Khaliq A. Ghafour, Minister of Higher Education and Scientific Research; H.E. Mr. Mahmoud Diyab Al-Ahmad, Minister of the Interior; and H.E. Dr. Sahban Faisal Mahjoub, Commissioner of Electricity. In addition, I had nine working meetings with H.E. Dr. Saeed Hasan Al-Mosawi, Head of the International Organizations and Conferences Department, Ministry of Foreign Affairs, and his senior colleagues, with a view to resolving a number of difficulties being encountered in our operations in Iraq. H.E. Dr. Mohammed Al-Douri, Permanent Representative of Iraq to the United Nations, also participated in many of the meetings.

From 22 to 28 January, I visited the three northern governorates of Dahuk, Erbil and Sulaymaniyah. I reviewed the programme implementation with the local authorities, including with H.E. Masood Barzani, H.E. Mr. Jalal Talabani, H.E. Mr. Nechervan Barzani, H.E. Dr. Barham Saleh and their senior associates, and visited also some of our project sites, including hospitals, health facilities, electricity generation plants, water and sanitation plants as well as camps for the internally displaced persons and the “returnees”.

In addition to meetings held with heads of the UN agencies and programmes, I chaired several interagency meetings and took a number of decisions with a view to further improving our performance and accelerating our implementation rates.

Mr. President,

At the outset of my statement, I should like to state without any hesitation that, irrespective of all the complaints and/or criticisms leveled against it, the programme has indeed made, and continues to make, a considerable difference in the day-to-day life of the Iraqi people all over the country. My recent visit to Iraq was my fourth since I was appointed as the Executive Director of the Iraq Programme on 15 October 1997. There is an ocean of difference from what I witnessed during my first visit in November 1997 and now. Notwithstanding certain constraints and difficulties experienced in the effective implementation of the programme, considerable achievements have been made in several sectors such as agriculture, food, health and nutrition, electricity as well as housing, among others, which have arrested the decline in the living conditions of the average Iraqi citizen, and have, in fact, improved the nutritional status of the population, particularly in the three northern

governorates.

As at 15 February 2002, the total value of humanitarian supplies and equipment, which had been delivered to Iraq, was over \$19 billion, including \$1.1 billion worth of oil industry equipment. An additional \$12.6 billion worth of supplies and equipment, including over \$1.7 billion for the oil industry, under already approved applications, were in the production and delivery pipeline.

Notwithstanding the considerable achievements made in ameliorating the humanitarian situation in Iraq, we should not become complacent. With all the oil resources of Iraq as well as the resilience of the Iraqi people, they definitely deserve a far better standard of living. However, as long as the sanctions imposed by the Security Council continue, there is no alternative to the programme. It is therefore incumbent on all parties concerned to fully cooperate and to make a concerted and determined effort in order to maximize the benefits of the programme for the Iraqi people and mitigate, to the extent possible, the unintended consequences of the sanctions on the daily life of the average Iraqi citizen.

Revenue generation

It may come as a surprise to some of you that despite all the billions of dollars we have been talking about, the programme implementation is increasingly facing a financial crisis due to the substantial drop in revenues received from Iraqi oil exports under the programme. As at 15 February 2002, there were 699 approved applications for humanitarian supplies with a total value of \$1.6 billion, waiting to be funded. The amount of just over \$1.9 billion still available in the escrow account is earmarked for oil spare parts and equipment (\$1.34 billion) and for the purchase of supplies under the special allocation (\$584 million) included in the distribution plan.

While we have been making an all out effort to expedite the release of holds placed on applications, if all the holds, with a total value of \$5.32 billion were lifted, we would have a shortfall of \$6.9 billion.

The United Nations accounts pertaining to the Iraq programme are divided into seven separate funds pursuant to paragraph 8 (a) to (g) of Security Council resolution 986 (1995). As at 13 February 2002, 1.09 billion euros had been deposited into the account for phase XI, as authorised under Council resolutions 1284 (1999), 1330 (2000), 1360 (2001) and 1382 (2001), bringing the total oil sale revenue since the inception of the programme to \$37.33 billion and 15.25 billion euros. The United Nations Iraq Account term investments have been placed

with five different credit-worthy banks. The allocation of total oil revenue among the various funds and corresponding expenditures, are reported in [annex I](#) to the text of my present statement; the number and value of letters of credit pertaining to oil proceeds and humanitarian supplies are reported in [annex II](#).

As at 29 January 2002, the United Nations Treasury had received the final bids from banks invited to provide proposals for banking services. The proposals have been analyzed and, consequently, letters of intent to enter into further negotiations were issued on 7 February 2002 to four banks for the issuance of humanitarian letters of credit and two banks for the confirmation of oil letters of credit. A plan for the implementation of the diversification of banking services will be drawn upon completion of negotiations.

Oil production and sale of petroleum and petroleum products

Since the beginning of phase XI, and as at 15 February 2002, the oil overseers and the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait, hereinafter referred to as the Committee, have reviewed and approved a total of 124 contracts (including 30 contracts from previous phases extended into phase XI), involving purchasers from 32 countries*.

The total quantity of oil approved for export under those contracts corresponds to approximately 300 million barrels, with an estimated value of 6 billion euros (\$5.2 billion at current rate of exchange). However, in order to export this volume before the phase expires, an average export level of 1.7 million barrels per day would be required. If the average export level remains at a current reduced rate of 1.4 million barrels a day, this would lead to a lower revenue level of approximately 1 billion euros (at current prices and the current rate of exchange).

The export of petroleum from Iraq under the current phase has thus far been some 35 per cent lower than the assumed sustainable rate of export of 2.1 million barrels per day. Although the oil depots in Ceyhan, Turkey, were filled to the capacity, no oil was lifted for about a week until 22 February. As at 15 February 2002, a total of 68 loadings (36 loadings through Mina al-Bakr and 32 loadings through Ceyhan), comprising 110 million barrels (65 million barrels through Mina al-Bakr and 45 million barrels through Ceyhan), with an estimated value of 2.067 billion euros (\$1.8 billion, at the current rate of exchange), have been

completed.

Based on an estimated revenue, and after the required deductions are applied pursuant to the relevant resolutions, approximately \$3.64 billion will be available for programme implementation during the present phase. The distribution plan for phase XI (S/2002/19, annex III), submitted by the Government of Iraq was budgeted at \$4.43 and revised recently to \$4.6 billion. Hence, should the current situation continue, a revenue shortfall of close to one billion dollars is expected for programme implementation, which is further compounded by the fact that over \$1.6 billion worth of already approved applications are waiting to be funded.

The revenue shortfall is attributable to the sharp decline in oil market prices, reduced level of Iraqi oil exports under the programme, as well as the uncertainties regarding the price of oil exports from Iraq due to the yet unresolved serious difficulties encountered with regard to the pricing mechanism whereby the price of Iraqi crude oil continues to be approved retroactively. The reduced level of Iraqi crude oil exports under the programme is most likely a consequence of retroactive pricing imposed by the Committee since October 2001, in combination with the insistence on excessive profits by Iraqi crude oil contract-holders. Retroactive pricing has made it much more difficult for contract-holders to receive an abnormally high premium for Iraqi crude oil and, rather than the latter being satisfied with more reasonable premia, export levels have been negatively affected. Accordingly, a number of contractors have been either reluctant to enter into new contracts for oil and/or to lift the oil contracted by postponing and/or cancelling their contracts to lift the oil.

Everyone is fully aware of the reasons as well as the intentions behind the retroactive pricing for crude oil exports from Iraq. I should like to appeal to all parties, including the Government of Iraq, to make a determined effort to resolve the difficulties encountered and reach a satisfactory arrangement for pricing Iraqi crude oil exports in order to avoid the disruption of oil exports from Iraq, which is the sole source of the revenues available to the programme.

**Letter dated 6 June 2001 from the Secretary-General
addressed to the President of the Security Council
(S/2001/566)**

Mr. President,

Pursuant to paragraph 15 of resolution 1330 (2000) of 5

December 2000, the Secretary-General submitted to the Council, on 6 June 2001, a report containing his proposed arrangements for the utilization of up to 600 million euros from the escrow account for the cost of installation and maintenance, including training services, of equipment and spare parts for the oil industry which have been funded under the programme (S/2001/566).

In a letter addressed to me on 17 October 2001, the Chairman of the Security Council Committee established by resolution 661 (1990) stated, *inter alia*, that the Committee members agreed, in principle, with the approach and direction taken in the Report, and wished to underline that they were keen to see an oil cash component, as agreed in resolution 1330 (2000), implemented as soon as possible. Annexed to the letter was a list of points that the Committee wished me to address in my discussions with the Government of Iraq, which concerned banking, auditing, monitoring as well as financial arrangements (S/AC.25/2001/OC.440).

The Secretary-General's proposed arrangements, together with the points raised by the Committee, were discussed at three meetings held with the Minister of Oil. A senior official from the UN Treasury and a representative of Saybolt were also present at the meetings. Additional meetings were also held with officials of the Ministry and the Central Bank of Iraq. At present in Iraq, there are seven official exchange rates, ranging from ID 0.31/US\$1 - which was the open market exchange rate prior to the embargo, presently used by the Governmental departments for internal depreciation charges - to ID 1,200/US\$1, for charging external agencies as well as embassies, for utilities, insurance costs, hotels and for international telephone calls, as well as the present open market rate of about ID1, 900/US\$1. I was informed that a main concern of the Government was to avoid placing of 600 million euros in hard currency into Iraq at the open market rate, which would create a significant inflation in Iraq, thus placing a strain on the economy of Iraq.

In terms of monitoring arrangements, I remain optimistic that we would be able to put in place a credible monitoring mechanism, satisfactory to all parties concerned. I also remain optimistic with regard to the necessary banking arrangements. On the question of auditing, however, I see some serious difficulties ahead because the Government is not prepared to accept external auditing. In that regard, a number of alternatives are presently under consideration in order to satisfy the concerns expressed by members of the Committee.

I will soon brief the members of the Committee on my discussions held on the subject.

Processing of applications received under the ESB (59 per cent) account

During my visit to Iraq, I emphasized that with all the uncertainties regarding the final level of revenues received at the end of a given phase, which have created gross disparity between planning figures given in the distribution plan and the actual funds made available to the programme, it was essential to keep under constant review revenues received from oil exports in order to ensure that all sectors receive their fair share of the funds allocated to the programme. Experience has shown thus far that the more pro-active ministries would utilize their allocations up to the maximum level of the distribution plan budget, while those sectors for which applications for contracts are usually submitted much later in a phase, suffer severely from under-funding due to the shortfall in the projected funds, compounded with the necessity to fund substantial number of approved applications from previous phases.

As at 15 February 2002, the total amount made available to the ESB (59 per cent) account was \$19.64 billion and 8.73 billion euros, against which the Secretariat had received a total of 21,917 applications signed by the Government of Iraq, with a total value just over \$39 billion. The Committee and the Secretariat had approved and/or notified a total of 16,792 applications, with a total value of \$30.7 billion, in fact far above the amount allocated thus far to the 59 per cent account. The total value of applications placed on hold, as at 15 February, was \$5.32 billion.

I am providing the Council with further details on the status of all applications received by the Secretariat, under both ESC (13 per cent) and ESB (59 per cent) accounts, [in annex III](#).

Delays in opening Letters of Credit

In Baghdad, extensive discussions were conducted between my colleague from the United Nations Treasury and the Central Bank of Iraq in order to resolve the difficulties encountered by the Central Bank of Iraq in submitting its requests to BNP Paribas to open the letters of credit. There were two reasons that were identified in those discussions: 1) priorities set by the Iraqi buyers and 2) lack of funds.

With regard to the priorities set by the Iraqi buyers, as at 10 January 2002, there were 698 applications for contracts, worth approximately \$1.1 billion, that had approval letters issued by the Office of the Iraq Programme for which the Central Bank of Iraq/buyer had not sent the request for the opening of the letters of credit to BNP Paribas. Funds to cover the cost of such contracts are available in the escrow

account, as we segregate the necessary funds for each contract application as soon as the relevant approval letters are issued.

I am pleased to inform that the Central Bank of Iraq is working with the buyers in order to process the requests for the opening of the letters of credit in an expeditious manner. I am also pleased that, at my request, the authorities have likewise started to take action on the list of numerous approved applications, with a total value of over \$1 billion, for which approval letters were issued prior to end of December 2000, without any shipments recorded to date. I encouraged the authorities to review the delivery dates included in the contracts concerned and to cancel, as appropriate, those contracts with the suppliers who had failed to meet the delivery dates, particularly those concerned with commodities, in order to release the funds segregated in the escrow account for covering the cost of other approved applications. Regrettably, very often suppliers of commodities have failed to ship the supplies, such as sugar, when the price for the commodities concerned is not in their favour. I am pleased to inform you that the Office of the Iraq Programme has started receiving requests from the Government of Iraq to cancel such applications, which would free funds to be used for financing some of the 699 applications, with a total value of \$1.6 billion, for which the Office of the Iraq Programme could not issue approval letters for lack of funds, mainly due to sectoral allocations and/or shortfall in revenue.

While the Office of the Iraq Programme is continuing to process all applications and has been informing the missions concerned if an approval letter cannot be issued due to shortage of funds available for humanitarian and other supplies, the time has come to consider seriously whether we should in fact continue this practice. Unless the situation with regard to revenue improves considerably, it may be necessary to halt temporarily the approval of applications for contracts. This is a matter I intend to take up with the Committee.

Authentication and commercial protection

It is truly regrettable that while Iraq is authorized to import billions of dollars worth of humanitarian supplies and equipment, it is denied the right to include in contracts any provision for established commercial protection clauses, including performance bonds. The present procedures in place provide protection only to the suppliers. They get paid immediately after the arrival and authentication of the supplies and equipment into Iraq, even before all the crates or boxes have been opened, let alone testing whether the equipment and/or spare parts received are operational or not. As a result, there are numerous defective items sitting idle in warehouses, useless for any purpose. This is a

matter, which requires the urgent attention of the Council and its Committee.

On the other hand, however, commercial protection clauses, including performance bonds, are allowed to be included in contracts submitted by the UN agencies and programmes under the ESC (13 per cent) account for the three northern governorates.

I very much regret that the proposals submitted by the Office of Iraq Programme to the Committee in July 1999, concerning the inclusion of commercial protection provisions in contracts submitted under the ESB (59 per cent) account, have remained in the dead file of the Committee, despite our efforts to revive the matter in September 2000 and in February last year. The Iraqi buyers must be allowed to include in their respective contracts the well-established provisions for commercial protection, including performance bonds, which is a common practice all over the world.

The Office of the Iraq Programme will soon elaborate further on this point to the Committee. I do hope that we will finally have a positive response in that regard.

The Iraqi authorities concerned should also take up all necessary measures to expedite their own inspection of supplies and equipment at Umm Qasr. They should likewise ensure that the port fees asked for the discharge of goods are “reasonable” and not the 10 per cent of the contract value, which has been requested from some suppliers who have brought the matter to the attention of the Office of the Iraq Programme.

Holds placed on applications submitted under the ESB (59 per cent) account

It is a matter of grave concern that, instead of improvement, there has been a further increase in the number and value of applications placed on hold. As at 15 February 2002, there were 2,089 applications on hold, with a total value of \$5.32 billion. Such holds continue to affect adversely the effective implementation of the programme.

While we have made good progress in encouraging the suppliers to respond expeditiously to the clarifications and/or additional information sought, there has been a surge in the number and value of applications on hold despite the fact that the information requested by the holding mission(s) had been provided for more than 60 days. The figures for applications on hold for which information was provided to the holding mission(s) had gone up, from 377 applications, with a total value of \$1.32 billion on 7 January, to 616 applications, with a total

value of \$1.86 billion, with no feedback from the holding mission(s) as at 15 February.

I am afraid I will be stating the obvious and would be revealing no secrets when I say that many of the items such as computers placed on hold are readily available in the markets and shops of Baghdad, as well as elsewhere in Iraq. If Iraq wants to have any item, it can have it with no difficulty. In fact, the only reason why the trucks carrying supplies and equipment purchased under the humanitarian programme stop at the border gate where our independent inspection agents are stationed, is because if they do not stop for inspection, the suppliers will not get paid.

In brief, what is being placed on hold is the utilization of funds from the escrow account.

We have reviewed all the applications on hold and we will soon submit to the Committee, for each sector, a list of the 10 to 15 highest priority applications on hold, which would require the urgent attention of the Committee. I should like to appeal to the Committee to have a well-focused review of each of the holds and their impact within the context of the developments in the sector concerned. We will also provide information on developments in each of the sectors concerned.

United Nations observation mechanism

United Nations observation visits continue to focus on commodities requiring end-use/user verifications by the Committee, as well as cross-sectoral activities and comprehensive tracking and assessments to highlight the efficiency, equity and adequacy of the programme and its impact on the humanitarian situation in Iraq. Information on sectoral observations, for the period 1 November 2001 to 31 January 2002, are provided in [annex IV](#) to the text of the present statement.

The sectoral working groups and their Government counterparts have prepared comprehensive assessment reports to provide Committee members with a better understanding on the most pressing civilian needs in the country. In addition, the Committee has been given sectoral briefings by staff from the observation mechanism on these needs and on the effects of contracts remaining on hold.

Overall, we have been carrying out the tasks entrusted to us in a satisfactory manner. Undoubtedly, with thousands upon thousands of observation visits, we have at times experienced difficulties in certain sectors, particularly in electricity, higher education and water and sanitation. During my recent visit, I was given assurances by the

Ministers concerned that they would address the difficulties encountered, as requested.

I also emphasized to the authorities that it was essential to ensure the necessary observation visits without the present limitations being imposed on the number and frequency of our observations, to provide us in a timely manner the escorts to our observers, who should also refrain from interfering in the work of the observers, and to provide us, as well in a timely manner, the information promised by the authorities concerned. We should also be allowed to carry out our assessments on a regular basis. I was given assurances that all concerned would provide the necessary cooperation.

The Ministries concerned stated, however, that irrespective of what additional information they provided, as requested by some Committee members, further additional questions were asked and contracts continued to remain on hold. They did not see any reciprocity either in the rate of approvals of and/or lifting of holds placed on applications, irrespective of the Government's cooperation to facilitate observations and monitoring on our part.

Cross-sectoral considerations

ESC (13 per cent) and ESD (2.2 per cent) accounts

The Government of Iraq complained that, in addition to the already disproportionate allocation of revenues to the three northern governorates, the United Nations was expending most of the funds available under the ESD (2.2 per cent) account for its activities in the three northern governorates, particularly in regard of personnel and equipment costs for the implementation of projects. In their view, the costs of implementing the programme in the north should be charged to the ESC (13 per cent) account, and that expenditures under the ESD (2.2 per cent) account should be proportionate on the same basis as the ESB (59 per cent) and ESC (13 per cent) account, respectively, of revenues provided for the implementation of the programme in the center/south and the three northern governorates.

I drew the attention of the authorities concerned that pursuant to paragraph 8 (d) of resolution 986 (1995), the ESD (2.2 per cent) account was established to cover the United Nations administrative and operational expenses, both at Headquarters and in Iraq, including the costs of the UN inspection agents, the certified public accountants and activities associated with the implementation of the resolution. It did not provide a breakdown of that account among the various activities undertaken in support of the implementation of the resolution. A proportionate link to the humanitarian operations in the center/south and in the three northern governorates did not necessarily exist.

Mr. President,

The UN operations in the center/south are of a different nature entirely than those in the three northern governorates. In the center/south, the core responsibility of the United Nations is that of observation of the implementation of the humanitarian programme, as implemented by the Government of Iraq. Additionally, the United Nations coordination entities for the entire United Nations operations in Iraq are located in Baghdad.

In the three northern governorates, the United Nations is implementing the programme on behalf of the Government of Iraq, as well as providing coordination of implementation of the programme specifically for the three northern governorates.

As a result, the UN operations (and related costs) in the three northern governorates are much more elaborate than those in the center/south. Any attempt to link the proportion of the ESD (2.2 per cent) account funds being spent in the various parts of Iraq, to the proportion of humanitarian assistance in those parts, would, therefore, be highly misleading.

As directed by the Secretary-General we have been doing our best to bring economies in our operations, irrespective of the amounts transferred to the ESD (2.2 per cent) account. I drew their attention to the fact that immediately after the close of phase X, on 5 December 2001, we transferred \$84 million in savings from the ESD (2.2 per cent) account to the ESB (59 per cent) account pursuant to paragraph 8 of resolution 1360 (2001), bringing the total of such amounts transferred thus far to \$211 million.

Having stated the above, however, I should like to assure all concerned that I am in consultation with the UN Controller with a view to improving overall budgetary overview and control, in order to ensure that costs for our operations in the three northern governorates are charged to the relevant accounts, as appropriate. For example, costs for the implementation of specific projects, including costs of personnel solely employed for the execution of a given project, should be charged to the project under the ESC (13 per cent) account. I remain confident that we would soon reach an appropriate understanding to the satisfaction of all parties concerned.

Keeping the Government informed on our operations in the three northern governorates

I am pleased to inform the Council that during my recent visit we reached an understanding regarding the Government's request for information on contracts signed by the United Nations and its agencies and programmes concerning activities undertaken in the north. While, in conformity with the established policy of the United Nations, we do not provide copies of the actual contracts, we did reach an understanding as to how – including the format – we would keep the Government informed on our contractual expenditures. In fact, prior to my departure, I did provide the information requested to the Ministry of Foreign Affairs.

As we are implementing the programme in the north on behalf of the Government, it is only natural that we should keep the Government informed on our

activities. I see no difficulty in that regard and we will continue to keep the Government informed accordingly.

We have indeed kept the Government informed regularly on our activities in the three northern governorates. There are no secrets in our operations. We have provided regular briefings by the United Nations Humanitarian Coordinator in Iraq, Mr. Tun Myat, and the representatives of the United Nations agencies and programmes to the relevant technical ministries on our activities undertaken under all the sectors covered in the distribution plan. We have also arranged for our visiting experts to meet with the officials of the relevant technical Ministries both, before they start their work in Iraq, and also to brief them at the end of their visit.

Delays in entry visas for programme staff

As at 21 February 2002, the total number of UN international personnel was 835, including 99 Cotecna and Saybolt inspection agents. The total number of national staff was 3,051.

The total number of international personnel in the center/south of Iraq was 347, plus 886 national staff.

The total number of international personnel in the three northern governorates was 488, plus 2,165 national staff.

In his latest report to the Council, the Secretary-General referred to the difficulties encountered in connection with the issuance of visas to United Nations personnel, consultants and contractors, as well as the delays in the clearance of imports of essential supplies and equipment, particularly in the electricity sector and for demining projects in the three northern governorates, which continued to disrupt the effective implementation of the programme in those governorates, despite the relevant provisions of the memorandum of understanding signed between the UN Secretariat and the Government of Iraq (S/2001/1089, paras.120 to 123).

During my discussions held in Baghdad, the Government's position was that since about 900 UN international personnel were already working in Iraq under the programme, that figure should be capped at that level, or, preferably, reduced. Furthermore, considering the high cost of international personnel, the tasks carried out by such personnel could in fact be performed by Iraqi national experts.

I responded that we could not agree to "a ceiling" on the total number of international staff required for our operations due to the fact that we could not predict what additional responsibilities the Council might request us to undertake.

Mr. President,

I should like to reiterate what I said to the authorities in Baghdad repeatedly, namely, that the local authorities in the three northern governorates continue to be reluctant, if not totally opposed, to accepting national experts from the center/south of Iraq, particularly in certain sectors. That position was restated to me at the highest levels during my recent visit to the northern governorates.

We have no objection to the employment of experts from the center/south of Iraq, subject to acceptance by the local authorities. However, the United Nations can not be held responsible for the safety and security of such experts employed in the north.

My interlocutors in Baghdad told me, however, that the representatives from the north had told them that they should not believe “what they hear from Sevan and associates”. On the contrary, they had informed the authorities in Baghdad that they would accept national experts from the center/south. I told my interlocutors in Baghdad that I did not doubt the veracity of their statement. I wished to assure them, however, over the veracity of my statement as well. Unfortunately, this is the kind of atmosphere my colleagues and I have to operate in, caught between different sides.

In as much as I fully understand the position taken by the Government of Iraq, given the magnitude of the programme inputs and the projects to be implemented in the three northern governorates, the number of international personnel is the bare minimum, particularly because there is insufficient local expertise available in the three northern governorates.

I should like to assure all concerned, including the Government of Iraq, that as directed by the Secretary-General, we have kept the numbers of international UN personnel in Iraq to the minimum, proportionate to our requirements to carry out the tasks entrusted to us by the Council. We will continue our efforts to further minimize our requirements to the extent possible. I should also like to assure all concerned, including the Government of Iraq, that the fact that there is no longer a ceiling on revenues earned from oil exports has not turned us into irresponsible officials “squandering Iraqi money” available under the ESD (2.2 per cent) account, as some of my friends in Baghdad accuse us. As directed by the Secretary-General, we have spared no effort to reduce our expenditures to the minimum.

The Government’s reasons given for the inordinate delays and/or refusal to grant the required visas could be summarized as follows: there were already too many international staff present in Iraq; disagreement with the United Nations over the account to which the expenditures were being charged, whether it should be charged to the ESC (13 per cent) account or to the ESD (2.2 per cent) account; demand to receive copies of contracts signed under the ESC (13 per cent) account; questioning the professional qualifications of some of the candidates being employed by the United Nations, while, in the Government’s view, there were better qualified national candidates in abundance, at far lower cost; as well as security considerations, among others.

I also drew the attention of my interlocutors to the fact that, in addition to the need to comply fully with the provisions of paragraph 46 of the Memorandum of Understanding (S/1996/356), it was also essential to take into account the substantial costs incurred as a consequence of the delays in and/or rejection of granting the visas requested, as we had to cancel a number of contracts and pay compensation also to those we intended to engage. It has also forced us to curtail or delay implementation of some of the projects intended for the three northern governorates.

Mr. President,

After a series of intensive and, indeed, very difficult discussions on the subject, I am pleased to inform the Council that during the meeting held with the Vice President of the Republic of Iraq, H.E. Mr. Taha Yasin Ramadan, early morning just prior to my departure for Amman on 10 February, we reached an understanding with regard to the issuance of visas. A total of 105 additional visas would be granted for international personnel arriving in Iraq to occupy newly established posts - over and above the 10, which were granted since the start of my discussions held in Iraq in January - excluding visas for replacement staff, as well as visas required for independent inspection agents provided by Cotecna and Saybolt and visas required for short-term consultants and visiting Headquarters personnel posted for eight weeks or less. Of the 105 visas to be granted, 82 were for the electricity sector, 23 visas for various purposes.

I am pleased to inform the Council that the total number of visas pending, which stood at 241, as at 7 February, had already dropped to a total of 198, as at 20 February, 123 of which concern visas for personnel who would occupy new posts, which are covered under the understanding reached with His Excellency the Vice President. The rest of the visas pending concern replacement staff (33), consultants (25) and visitors from the headquarters of agencies and programmes (17). I am also pleased to inform the Council that the Ministry of Foreign Affairs has promised to process the new visas by working through the Eid al Adha holidays over the weekend.

It was also agreed that the total number of international staff present in Iraq at any given time would be divided into three categories: those who are permanently assigned to work in Iraq; short-term visitors from the headquarters of the organizations concerned; and short-term consultants present in Iraq for periods of up to the maximum of two months. This approach will provide better information on the number of international staff present in Iraq.

Furthermore, we have agreed that we will provide the Government with a more informative and precise chart of our staff resource requirements, by listing the number of staff required in a Gantt chart. While, for example, we may need up to 50 international personnel to complete a project, not all of them are required at one and the same time. We should therefore be more specific in our requests. Wherever possible, we should also consider employment of qualified national experts, subject to the agreement of the local authorities in the north. This being said, the Government agreed that the final decision for employment of any staff rests with the United Nations.

Local technical capacity

Common Roof arrangements

In connection with the employment of national staff in our operations in the three northern governorates, I have repeatedly expressed concern regarding the “brain drain” within the governorates because those with expertise, such as doctors, engineers etc., prefer to join the United Nations as a result of the considerably higher salaries offered. Together with the agencies and programmes concerned we are considering a number of options on how to use the locally available expertise with appropriate compensations without disrupting the departments and/or offices where they are employed at the local level.

For example, the United Nations Development Programme – Electricity Network Rehabilitation Programme (UNDP-ENRP) from the beginning has required the use of local technical human resources for our electricity projects in the north. Local technical capacity, however, is limited in the three northern governorates of Iraq, especially within local counterpart authorities. In the first stages of the programme, ENRP perpetuated the problem by hiring for its projects, through public announcements and quite unintentionally, the most qualified Local Electricity Authority (LEA) technical staff. This inevitably depleted the relatively limited technical human resources that the LEAs had. To address the consequences of this initial approach, ENRP took on to bring LEA staff into projects on a rotational basis for limited periods of time. This solution also proved ineffective as it impeded continuity of project implementation.

Given the current structure and capacities of the LEAs, however, there is high risk that the new infrastructure might deteriorate through incorrect or inappropriate operation and maintenance. To ensure sustainability and reliability of the investment that is being put in place, it was decided to take measures to improve LEA capacities. For that purpose, ENRP has included an element building local technical capacity for LEA staff in all its projects, and capacity-building was identified as a crosscutting theme in the programme.

In response to both the human resources requirements of ENRP and the capacity-building needs of the LEAs, the concept of ‘common roof’ was introduced. Accordingly, all ENRP projects today are implemented through common roof arrangements, whereby LEA staff share premises with ENRP international project staff, and take part in the full cycle of project conceptualization, design, implementation, operation and maintenance. This arrangement not only allows for an initial level of knowledge, expertise and technology transfer to the LEA staff but also for ENRP to benefit from LEA support to project implementation.

At present, there are over 400 LEA staff working in the three governorates alongside ENRP technical project personnel under the common roof arrangements. They are not under UNDP contract but are only provided incentives in return for the services they provide to the projects. Incentives are paid on the basis of full attendance and satisfactory performance. Accordingly, staff attendance is monitored and performance is evaluated regularly to ensure that LEA staff are kept on board as long as the projects need them and as long as they are performing.

Currently, all ENRP projects are implemented under common roof arrangements although not all have yet moved into the final 'common roof' premises, which will house all ENRP projects being implemented in a given governorate. Rehabilitation and refurbishment work of the buildings is expected to finish in mid-2002 when the move will be completed.

We plan to introduce similar schemes in our operations under other sectors.

Delays in import permits and customs clearance of essential supplies and equipment

Pursuant to paragraph 47 of the Memorandum of Understanding (S/1996/356), it is understood that the United Nations and its specialized agencies shall enjoy freedom of entry into and exit from Iraq without delay or hindrance of supplies, equipment and means of surface transport required for the implementation of the programme and that the Government of Iraq agrees to allow them to, temporarily, import such equipment free of customs or other duties.

Programme implementation in the three northern governorates continued to be constrained by import clearance difficulties. I am pleased to inform that the delays associated with the clearing of programme cargo at Faida (Ibrahim Khalil) customs check points experienced on introduction of the notification process have largely been overcome. As a result of earlier delays associated with the introduction of the notification procedure, United Nations agencies and programmes have accrued truck demurrage costs of about \$2 million, which has to be charged to the ESC (13 per cent) account. Recently, the Government has taken the position that import of new computers or equipment is contingent on the transfer of the older models to the Government.

I should like to express my optimism that in light of the discussions held in Baghdad, we will avoid further difficulties encountered with respect to imports of essential supplies and equipment for our operations.

Disposal of old equipment and vehicles

While indeed we do have established UN procedures to write off equipment, in light of the special arrangements regarding the implementation of the humanitarian programme in Iraq financed solely through revenues received from Iraqi oil exports, we need an alternative arrangement regarding the disposal of equipment purchased under the programme.

Accordingly, I have requested UNOHCI and the representatives of all the agencies and programmes to prepare an inventory of all the equipment to be disposed of. After consultation with the Office of Legal Affairs, we plan to submit the list for the consideration and approval of the Committee. Once the approval is given, equipment concerned would be turned over to the relevant ministries of the Government of Iraq.

Likewise, I believe such equipment located in the northern governorates, once approved by the Committee, should also be transferred to the relevant departments in the north, subject to monitoring by the United Nations.

The United Nations Inter-Agency Programme in the three northern governorates

It may be recalled that in paragraph 106 of his report to the Security Council (S/2001/919), the Secretary-General indicated that the implementation of the programme in the three northern governorates, which is carried out by the United Nations on behalf of the Government of Iraq, has been facing “considerable difficulties”. The Secretary-General noted that the programme covered the rehabilitation and reconstruction of infrastructure in a whole array of sectors of increasing size, scope and complexity, and that the United Nations was involved in implementing projects that were similar to those covered under regular development programmes and that the local authorities had difficulties in paying salaries of civil servants, teachers and other local officials, and in covering the costs of maintenance and operation of capital assets provided under the programme. In the light of the above, the Secretary-General requested me, in full consultation with United Nations Humanitarian Coordinator in Iraq and the agencies and programmes concerned, to review the situation and submit a report thereon as soon as possible.

Originally intended, and designed to cover the provision, for a limited duration, of basic humanitarian needs of food and medicines to the population in the three northern governorates, the programme has expanded in magnitude and complexity, well beyond what was originally envisaged. In brief, the three broad areas of concern which need to be addressed are the implications of ownership/custodianship of equipment, facilities, and infrastructure financed under the ESC (13 per cent) account; the restrictions on financial support to the local authorities and entities for recurring personnel and other costs; and the inability to procure local agricultural produce currently regulated by the agreement on bulk procurement.

The report requested by the Secretary-General will review the framework within which the programme operates and will be submitted to the Committee.

I should like to add the following comment on our implementation of the programme in the three northern governorates. While we have repeatedly brought to the attention of the Council the relative limitations in “the absorptive capacity” of the three northern governorates, during my recent visit to Iraq I drew attention to the fact that we, too, had to recognize the limitations in the absorptive capacity of some of the United Nations agencies and programmes involved in the implementation of large projects, in particular with regard to construction works. In fact, in some areas, there has been zero progress made in even starting to implement some large-scale projects. We are considering this matter very urgently. We need to take some hard decisions in that regard. I have brought the matter to the attention of the Secretary-General.

We also need to look into the overall implementation rates in order to ensure that projects undertaken are completed in a timely manner before getting involved in additional projects. We will keep the Council and its Committee informed on the decisions taken.

Resettlement and emergency relief

During my visit to the three northern governorates I also visited a number of camps for the internally displaced persons and the “returnees”. I stressed that it was most essential for the local authorities and the United Nations system to move most expeditiously in meeting the dire needs of the internally displaced persons (IDP) and the “returnees” who live in highly crowded and most dismal conditions, in abject poverty. It is also essential to expedite the implementation of resettlement projects by the United Nations and provide job opportunities, schools, and health facilities in order to get the most unfortunate residents of the camps out of those most miserable living conditions.

Since the last report of the Secretary-General to the Security Council in November 2001, we have completed 2,358 housing units, and another 6,800 units are under construction. We are making steady progress towards meeting the target of building 15,000 housing units per year. It is now forecast that between 10,000 to 12,000 housing units will be completed in 2002.

We also provided emergency winter relief items such as tents, heaters, stoves, blankets, and kerosene lamps to 553 IDP families made up of 2,746 persons in Dahuk; 3,724 families comprising of 18,780 persons in Erbil; and 837 families with 4,623 persons in Sulaymaniyah.

Much more is required to meet the enormous needs, including assistance to the fast growing urban poor, who live in overcrowded premises, in abject poverty. We are presently reviewing the additional requirements.

Safety and security of United Nations personnel

In my additional capacity as the United Nations Security Coordinator, I also reviewed measures concerning the safety and security of my colleagues in Iraq. I am satisfied that we have taken all necessary measures in that regard and we are keeping the situation under constant review in order to make the necessary adjustments. The Government of Iraq has also been helpful in providing, on their part, the measures required from a host government. We also enjoy good cooperation on the part of the local authorities in the three northern governorates. It is regrettable, however, that the report of the Government’s investigation of the incident at FAO offices in Baghdad, in June 2000, involving the death of two FAO staff members and injuries caused to others, was not provided, as requested by the Secretary-General and the Security Council in paragraph 20 of resolution 1330 (2000).

During my discussions and contacts with colleagues working in Iraq, I noted considerable anxiety over international media reports on developments concerning the region, particularly Iraq. In fact, some of my colleagues would like to leave their posts, and others who were interested in assignments to Iraq, have now indicated their hesitation to accept an assignment in Iraq. Similarly, we have received notification from potential contractors that they were no longer interested in getting involved in our operations in the three northern governorates, specifically stating security concerns.

Payment of Iraq's contribution to the budget of the United Nations

During my recent visit to Iraq, the senior officials of the Ministry of Foreign Affairs reiterated that Iraq had made numerous proposals concerning the payment of the arrears in its contributions to the regular budget of the Organization out of the revenues from the sale of Iraqi oil under the Memorandum of Understanding and the oil-for-food programme.

It may be recalled that in paragraph 8 of its resolution 1330 (2000), the Security Council expressed its readiness to consider, in the light of the cooperation of the Government of Iraq in implementing all the resolutions of the Council, allowing a sum of \$15 million drawn from the escrow account to be used for the payment of the arrears in Iraq's contribution to the budget of the United Nations, and considered that that sum should be transferred from the account created pursuant to paragraph 8 (d) of resolution 986 (1995).

Concluding remarks

Mr. President,

The programme was established by Security Council resolution 986 (1995) as a temporary measure to provide for the humanitarian needs of the Iraqi people until the fulfillment by Iraq of the relevant Security Council resolutions, including notably resolution 687 (1991) of 3 April 1991.

Although "a temporary measure", the humanitarian programme pursuant to resolution 986 (1995), which started to be implemented in December 1996, has entered its sixth year and its eleventh phase and, despite the enormous change in the nature of the programme, both in terms of level of funding and scope, we still continue to operate pursuant to procedures and regulations established initially for the delivery of supplies mostly of food and medicine. We are now involved in major projects of rehabilitation of infrastructure, including the oil industry.

The work of the Security Council Committee has bogged down almost to a standstill; one could say - without any hesitation - that the work of the Committee is paralyzed with numerous issues awaiting action for long periods of time. There is a need for a serious review of the workings of the Committee in order to bring about the necessary adjustments commensurate with the challenges to be met in ensuring the

effective implementation of the programme. Unless this is carried out, and carried out most urgently, the effective implementation of the programme may grind to a halt. We already are witnessing major cracks in our capacity to implement the programme effectively, with so many political and procedural hurdles, compounded by substantial drop in revenues available for programme implementation.

I should like to appeal to all concerned to safeguard the distinct humanitarian identity of the programme which has, unfortunately, been over-politicized and increasingly overshadowed by, as well as embroiled in the current political atmosphere. It is essential for all to bear in mind that whatever decisions are taken, they will have major implications on the daily lives of the civilian population of Iraq.

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I should like to take this opportunity to express my sincere thanks and appreciation to all members of the Council and its Committee for their support of our work both at the headquarters level and in the field. I should also like to express my sincere thanks to H.E. Ole Peter Kolby of Norway, Chairman of the Committee, and his delegation for their close cooperation and support with the Office of the Iraq Programme.

* Algeria (1); Belarus (1); China (5); Cyprus (5); Denmark (1); Egypt (3); France (7); Greece (1); Indonesia (1); Italy (1); Jordan (7); Kenya (1); Lebanon (3); Liechtenstein (6); Malaysia (1); Nigeria (1); Oman (1); Pakistan (8); Panama (2); Qatar (2); Russian Federation (24); Spain (1); Switzerland (5); Syria (6); Thailand (1); Tunisia (2); Turkey (5); Ukraine (8); United Arab Emirates (7); United Kingdom (2); Viet Nam (3) and Yemen (2).
