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Oil-for-Food Background Information

Executive Director Benon V. Sevan details consequences of revenue shortfalls for the oil for food programme

The Executive Director of the Office of the Iraq Programme (OIP), Benon V. Sevan, has written to the Chairman of the Security Council's 661 Committee, Ambassador Peter van Walsum (Netherlands), detailing the reductions in the humanitarian programme as a consequence of the drop in revenues from the sale of Iraqi oil.

The enhanced distribution plan for Phase IV, including an allocation of $300m for oil industry spare parts and equipment, was budgeted at $3.1 billion. In Phase IV gross revenues were just $3.0127 billion - compared to the $5.265 authorized by the Security Council on the basis of the Secretary-General's report in February 1998 setting out the need for a major expansion in order to meet the urgent humanitarian needs of Iraq's people. Under the terms of Security Council resolution 986 Iraq's oil revenues are used for the humanitarian programme (66%), the Compensation Fund (30%), the United Nations costs in administering the programme (2.2%), the administration of the Special Commission (0.8%) and the escrow account (1%).

After the deduction of $113 million to Turkey for the pipeline fee the amount available to fund the purchase of humanitarian supplies and oil sector equipment was $1.9 billion.

Faced with this shortfall of $1.2 billion, the OIP and the Iraqi authorities have consulted extensively since last October to reach agreement on adjusting allocations for the sectors in the oil for food programme, bearing in mind the priority for food, health supplies and oil industry equipment set by the Security Council.

Mr Sevan advised the 661 Chairman that even with successive downward revisions, there was around $500 million dollars worth of approved contracts for which no funding would be available. At the request of the Government of Iraq, the OIP agreed to transfer these contracts to Phase V.

However, the distribution plan for Phase V requires some $2.7 billion - about $950 million more than the revenue expected to be available for humanitarian supplies and oil sector equipment. The Government's revised allocations, submitted on 25 February, still exceed expected revenues unless the current rising trend in the price of Iraqi crude oil continues until the end of Phase V. Phase V runs from 26 November

1998 to 24 May 1999.

In February, Mr Sevan informed the Security Council that the current level of oil revenues and the need to fund oil sector equipment had resulted in the resources available for the humanitarian programme had remained virtually unchanged as compared to the first three phases of the oil for food programme.

The table below indicates the allocations for phases III, IV and V and the reductions forced by the drop in oil prices and the limited production capacity of Iraq's oil industry.

Sector	**DPIII Approvals US$million**	**DP IV Original allocations US$million**	**DP IV - Reduced allocations US$million**	**DPV Original allocations US$million**	**Possible reductions - DPV US$million**
Food*	868.04	1113.00	902.80	1056.00	906.00
Food Equipment	44.69	180.00	52.30	120.00	80.00
Health*	189.62	274.00	169.00	219.00	200.00
Oil Spares		300.00	234.40	300.00	300.00
Water & Sanitation	24.13	174.50	35.30	127.50	90.00
Agriculture	24.30	193.00	97.10	146.00	130.00
Electricity	41.45	287.50	286.80	293.00	250.00
Education	11.12	53.00	22.80	75.00	50.00
Communications				107.30	
Total:	**1203.35**	**2575.00**	**1800.50**	**2443.80**	**2006.00**
Dahuk, Erbil &	109.00	374.50	163.80	283.50	99.70

Sulaymaniyah **					
TOTAL:	**1312.35**	**2949.50**	**1964.30**	**2727.30**	**2105.70**

*includes the bulk purchase by the Government of food and health supplies for the Governorates of Dahuk, Erbil and Sulaymaniyah, where the United Nations implements the programme on behalf of the Government.

** Excludes the allocations for food and health supplies.