

REPORT OF THE SECRETARY-GENERAL
PURSUANT TO PARAGRAPH 5
OF SECURITY COUNCIL RESOLUTION 1330 (2000) OF 5 DECEMBER 2000
(S/2001/186)

Introductory statement by

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Executive Director of the Iraq Programme

at the informal consultations of the Security Council

held on Thursday, 8 March 2001

Mr. President,

I have the honour to introduce the report of the Secretary-General, contained in document S/2001/186, submitted to the Security Council pursuant to paragraph 5 of resolution 1330 (2000) of 5 December 2000.

As the report is comprehensive, it will not be necessary for me to elaborate further, except to draw the attention of the Council to some matters of special concern which require early action by the Council and its Committee established by resolution 661 (1990). I will also provide the Council with an update on the data contained in the report, as the information provided in the report covers the period up to 31 January 2001.

Revenue

Since the start of the implementation of the programme in December 1996, the cumulative total proceeds received and confirmed to be received, as at 28 February 2001, were \$38,307,751,031 and Euros 1,358,415,578. The proceeds have been distributed, pursuant to relevant resolutions of the Security Council as follows:

ESB (59 per cent) account for Central/Southern Iraq	\$19,488,369,816
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1,358,415,578	Euro	
ESC (13 per cent) account for the three northern governorates 4,988,161,480		\$
ESD (2.2 per cent) account for administrative and operational costs		\$ 797,905,976
ESE (UNSCOM/UNMOVIC) 288,162,253		\$
CWA (Compensation Commission) \$11,822,044,908		
RWA (Security Council resolution 778 (1992) escrow account)		\$ 119,500,828
ESF (Transportation costs in Turkey)		\$ 803,605,770

Although the approved distribution plan for phase VIII, ending 5 December 2000, was budgeted at \$7.13 billion, (S/2000/733) and was revised upward during the course of the phase to \$7.8 billion, the total revenue available for the implementation of the programme for phase VIII was only about \$5.68 billion.

The approved distribution plan for phase IX (S/2001/134) is budgeted at \$5.556 billion; however, the total amount required for its implementation may not be available due to the substantial drop in oil exports from Iraq under the programme, since December 2000. During the period under review, the export of oil from Iraq under the programme has proceeded very unevenly.

Since the beginning of phase IX and as at 7 March, the oil overseers and the 661 Committee had reviewed and approved a total of 118 contracts (including 57 contracts from phase VIII extended into phase IX), involving purchasers from 41 countries. The total quantity of oil approved for export under those contracts amounts to approximately 320.7 million barrels with an estimated revenue of Euro 7.5 billion (including pipeline fees, if all contracts are executed at current prices).

As at 5 March 2001, a total of 92.7 million barrels with an estimated value of Euro 2.050 billion had been lifted – 72 million barrels ex Mina al-Bakr (77.7 per cent), and 20.7 million barrels ex Ceyhan (22.3 per cent). The total revenue generated is estimated at Euro 2.050 billion (\$1.908 billion, at current rate of exchange). The rate of exports of oil on average have been as follows: 0.7 million barrels per day in December 2000, one million in January and 1.3 million in February. According to the schedule of liftings for the month of March provided to us, we estimate that the average export of oil may reach 1.8 million barrels per day. The total revenue lost to the programme thus far,

is estimated at Euro 2.4 billion (\$2.2 billion), on the following assumptions based on record of exports during the previous phase:

Normal rate of export of 2.2 million barrels per day for 90 days (since the start of phase IX to 5 March 2001, would total 198 million barrels lifted. Actual exports during the reporting period, however, involved 93 million barrels. The additional 105 million barrels should they had been lifted, at \$21 per barrel, would have brought additional revenue of \$2.2 billion.

Revenue assessment for phase IX. Should the present rate of export of oil continue, the total revenue for phase IX is estimated to reach about Euro 4 to 4.1 billion (about \$3.8 billion). Should the average rate of exports reach 1.3 million barrels a day for the duration of the phase, the estimated revenue may be Euro 4.6 billion (\$4.3 billion). Should it be 1.8 million barrels per day, the revenue may reach Euro 5.7 billion (\$5.3 billion). Under the circumstances, this would be rather optimistic assessment. In the event the total revenue for phase IX is \$4.3 billion, just under \$3 billion will be available for the implementation of the programme under phase IX, after the deductions made pursuant to the relevant resolutions of the Council. We will therefore face a shortfall of about \$2.556 billion.

I therefore would like to reiterate the Secretary-General's recommendation to the Government of Iraq to increase its daily average rate of oil exports under the programme to at least the levels in the previous phase.

Supplies delivered to Iraq

Since the start of the implementation of the programme in December 1996, supplies with a total value of \$10.577 billion were delivered to Iraq, as at 28 February 2001, in complete or partial shipments. Additional quantities of supplies and equipment, already approved, with an estimated value of \$8.79 billion were in the production and delivery pipeline.

Processing and approval of applications

Together with the text of my introductory statement, I am providing the Council with [an updated table on the status of all applications received and processed by the Secretariat, as at 28 February 2001.](#)

I should like, however, to clarify a matter which has been confused by some quarters. Funds in the escrow account are blocked only - that is to say, committed - when

applications are either approved by the 661 Committee or “notified” by the Secretariat, pursuant to the relevant provisions of resolutions 1284 (1999) and 1302 (2000). Such funds are no longer available for alternative expenditure, unless the contracts are cancelled. I do hope this statement clarifies the matter once and for all, because lately there have been some statements made that the Secretariat has been blocking funds even for applications under processing or placed on hold. Such statements are totally misleading.

According to the United Nations Treasury, as at 2 March 2001, there were \$2,865,445,749.53 and Euro 1,542,744,821.15 still available for issuance of additional letters of credit.

Applications placed on hold

I should like to reiterate the Secretary-General’s grave concern over the unacceptably high level of holds placed on applications, the total value of which had reached \$3.333 billion, as at 28 February 2000, involving a total of 1,662 applications. This amounts to 17.08 per cent of all applications circulated to the 661 Committee. This is a matter of grave concern because some essential items required for key sectors such as electricity which has a direct impact on all other sectors, have been placed on hold.

It is regrettable that the 661 Committee has not yet succeeded in reviewing, as urged by the Council in paragraph 13 of resolution 1330 (2000), applications in an expeditious manner, to decrease the level of applications on hold and to continue to improve the approval process of applications. I also would like to express my regret that several proposals submitted by the Office of the Iraq Programme, including those contained in my letter addressed to the Chairman of the Committee on 27 September 2000, have remained just yet another proposal awaiting action by the Committee. In a letter addressed to the Chairman of the Committee on 28 February 2001, I have proposed a schedule of briefings on sectoral activities by the United Nations agencies and programmes. I do hope that the Committee would accept the proposal in order to enable us to provide the necessary clarifications and or additional information which would, hopefully, expedite the lifting of holds.

I should also like to state that the timely submission of additional technical information on applications placed on hold, requested from the suppliers will definitely expedite the review of holds and their release. After four years of experience, all concerned know well the kind of technical information required or requested by some delegations. The sooner such information is provided and, in fact, preferably at the time of the submission of applications, we would notice more positive response in approving applications. While undoubtedly there is no guarantee that all holds could be released, we should do our best to push for the release of the majority of holds. Experience has shown that if the required information is provided there is a good chance to have the holds released.

The suppliers should also comply fully with their contractual obligations. Far too often they are a major cause for the delays experienced in processing and approval of applications because they fail to provide us with the information requested.

In connection with holds placed on applications, I should like to make the following observation. Some items to be provided under applications placed on hold, such as the kind of computers which are utilized in our offices in New York, are readily available in the markets of Baghdad or elsewhere in Iraq. The same applies to a variety of other items. In such cases, what in fact is being placed on hold is authorization to utilize funds under the escrow account to purchase such items under the programme. On behalf of the Secretary-General, I should like to appeal to the delegations concerned to review further their criteria in placing holds on applications with a view to releasing expeditiously holds placed on applications involving humanitarian supplies which would benefit the Iraqi people.

We already have established a satisfactory record in implementing the relevant provisions of resolutions 1284 (1999) and 1302 (2000), whereby the Secretariat has been “notifying” applications, without reference to the 661 Committee. As at 28 February, we had already “notified” the 661 Committee that 1,573 applications, with a total value of \$3.218 billion, were eligible for payment, including 102 applications for oil spare parts and equipment, worth \$63.86 million, which were approved by the group of oil experts. We now have categorized lists of thousands upon thousands of items under all the sectors covered under the distribution plans, except for telecommunications. It is hoped that the Committee will soon approve the list of items submitted by the Secretariat for the electricity sector. We will continue our efforts in expanding the already approved lists of items and I do hope we will receive a prompt and positive response from the 661 Committee.

I should like to reiterate the recommendation of the Secretary-General that the relevant provisions of resolutions 1284 (1999) and 1302 (2000) be applied also to the remaining sectors of the distribution plan. As recommended by the Secretary-General, the already approved lists of item (what has come to be known as the green lists) related to different sectors, should be expanded to include all items, with the exception of those covered under resolution 1051 (1996).

I should like to appeal to the Security Council and its Committee to endorse urgently the recommendation of the Secretary-General in order to strengthen the credibility of the humanitarian objectives of the programme undertaken pursuant to resolution 986 (1996) as well as allowing the programme to be implemented effectively. We have the capacity and the necessary monitoring and observation mechanisms in place to monitor oil spare parts and humanitarian supplies arriving in Iraq to provide the assurances to the Council and its Committee that supplies arriving in Iraq under the programme are indeed being utilized for authorized purposes.

I am pleased to inform the Council that as at 28 February, we had in Iraq 127 observers out of the total of 158 agreed upon between the Government of Iraq and the

United Nations. An additional 24 observers will be arriving by 12 March, bringing the total to 151. The reason for the delay of their arrival has been due to the fact that the Iraqi Embassy in Amman is closed from 1 to 10 March due to the Eid Al-Adha holidays. Another reason for the delay was due to the fact that some recruits opted out recently even though their visas were already issued by Iraq. The remaining 7 observers have already been recruited and by 31 March, at the latest, we will have the full complement of 158 observers. Of the total 158 observers, 76 are with UNOHCI and 82 with United Nations agencies and programmes. In addition to the 158 observers, we have also 6 oil spare parts monitors whose numbers may have to be increased as more oil spare parts and equipment arrive in Iraq.

In considering applications for approval, the Committee should place more faith in our observation capacity. I should like to assure you that if we encounter difficulties in carrying out the tasks entrusted to us, we would immediately bring the matter to the attention of the Committee. The same applies to the conditions placed by members of the Committee regarding end use/user observations and reports thereon. If we cannot undertake the specific observation requested, we will inform the Committee. At the same time, however, the Committee may wish to be more specific in its requests for observations as well as refrain from making demands which may fall outside our purview pursuant to relevant resolutions as well as the memorandum of understanding signed between the Government of Iraq and the United Nations Secretariat.

I should like to inform the Council that since the start of the implementation of the programme, we have carried out over 740,000 observations.

Implementation of the programme in the three northern governorates

Almost \$5 billion have been made available under the ESC (13 per cent) account, since the start of the implementation of the programme in the three northern governorates of Dahuk, Erbil and Sulaymaniyah, by the United Nations on behalf of the Government of Iraq. Undoubtedly, there is a growing resentment by the Government of Iraq to what it considers to be a disproportionate per centage in the allocation of funds to the three northern governorates as well as more flexibility granted by the Security Council and its Committee in approval of applications as well as to our operations in the north. For example, the total value of the four applications placed on hold for the programme in the north was, as at 28 February, \$281,876, which constitutes 0.027 per cent of the total value of applications received (\$1,044,772,066). In addition, local contracting and cash expenditure have been allowed in the three northern governorates.

No one should underestimate the over sensitivity and the difficulties involved in implementing the programme in the three northern governorates. We have been placed in a bind. On the one hand, we are to implement the programme on behalf of the Government of Iraq and, on the other, we have no alternative but to deal with the local authorities in the three northern governorates, which is being increasingly resented by the

Government of Iraq. This has recently become a matter of serious concern, as reflected in increasingly critical statements and allegations made by the Government of Iraq against the Office of the Iraq Programme as well as the United Nations staff members working in the three northern governorates. Another reflection of the Government's displeasure is the delay in issuance of visas to United Nations personnel to work particularly in the three northern governorates. As at 5 March, there were 217 visas outstanding, 212 of which concerned United Nations personnel to be assigned to the three northern governorates, with the majority for electricity (105) and demining (74) projects. The Government has been questioning the "excessive number of expatriates" being employed in the three northern governorates in particular, claiming there were sufficient number of experts in Iraq who could do the job even better.

In as much as we have done our best to employ Iraqi nationals as experts, we have pointed out to the Government that the local authorities in the north have refused to accept experts coming from the center/south of Iraq, even when they were of Kurdish origin. We even experience difficulties in convincing the local authorities in Dahuk and Erbil to accept staff from Sulaymaniyah which also rejects staff coming from Dahuk or Erbil.

The two activities which have been suffering immensely are the electricity and demining projects mainly because we have not received the visas required for our experts. We are being accused by the Government as well as the local authorities for the slow pace of our implementation rate and yet we are denied to receive the visas, as provided for in paragraph 46 of the memorandum of understanding. We are presently reviewing the matter with the Government of Iraq and I do hope that we will be able to resolve our differences expeditiously in order to enable us to implement the programme effectively in the three northern governorates.

A major concern remains the electricity project which mainly involves emergency supply of electricity to the three northern governorates. The Government of Iraq insists that the electricity system in the three northern governorates should be connected to the national grid and all expenses for generation, transmission and distribution should be covered under the 13 per cent account. In fact, the Government wants its own experts to implement the electricity reconnection and all other related works. This has been rejected by the local authorities in the north. While in principle they do agree with reconnection to the national grid, they insist also that current electricity projects undertaken by the programme should be fully implemented. It is regrettable that both sides have been moving the goal posts on a regular basis, with the United Nations caught in between like a yo-yo without a string. The Humanitarian Coordinator in Iraq, Mr. Tun Myat, has had several meetings with both sides. Unfortunately, however, we have been unable to resolve the differences and come to a final conclusion on the subject.

We are presently finalizing a study of the whole matter and it is my intention to submit to the 661 Committee in late March a special report on electricity in the north, containing some options based purely on technical and economic considerations. I do

hope that the Committee will be in a position to take a decision and provide us with the necessary guidance as to how to proceed.

In implementation of the programme, my colleagues and I, both at Headquarters and in Iraq, have been and will continue to perform all the tasks entrusted to us in full compliance with the relevant resolutions and the letter and spirit of the memorandum of understanding. It should be understood by the Government of Iraq that in implementing the humanitarian programme in the three northern governorates we have no alternative but to work closely with the local authorities, confined solely to the implementation of the humanitarian programme.

Mr. President,

In conclusion, I should like to state that the achievements of the programme should not lead us into complacency. It is essential for all parties concerned, including the Government of Iraq, to depoliticize and facilitate the programme's implementation in order to alleviate the continued suffering of the Iraqi people. As stated by the Secretary-General, with increased revenues now available for the implementation of the humanitarian programme, the Government of Iraq is indeed in a position to reduce current malnutrition levels and improve the health status of the Iraqi people. It is also essential that the Security Council and its Committee ensure that all applications for humanitarian supplies are approved promptly without any delays.

The Iraqi people must receive all the assistance which they direly need and deserve.