

STATEMENT BY
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AT THE INFORMAL CONSULTATIONS OF THE SECURITY
COUNCIL
WEDNESDAY, 29 MAY 2002

Mr. President,

I am grateful to the members of the Security Council for having agreed with my suggestion to change somewhat the traditional reporting pattern on the implementation of the humanitarian programme in Iraq, pursuant to paragraph 1 of resolution 1382 (2001). I should like to assure the Council that our intention was not in any way an attempt to shy away from the responsibilities entrusted to us. On the contrary, we wished to provide you in a timely manner, with as much and as comprehensive information as possible, which, in fact, is far more demanding than submitting a report in the traditional manner. As promised, I have already made available to the members of the Council, last Friday, [a Note by the Office of the Iraq Programme \(OIP\)](#), which provides all the relevant information on the implementation of the humanitarian programme in Iraq, since the latest report of the Secretary-General covering the period up to 31 October 2001 (S/2001/1089), as well as, an advance copy of the text of my present statement.

During my briefing today, I will refer to some of the difficulties, which we have been facing in the implementation of the programme, particularly in the three northern governorates, where the United Nations implements the programme on behalf of the Government of Iraq. I will also use this opportunity to provide you with a briefing on the measures taken, thus far, by the Secretariat, together with colleagues from the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) and the International Atomic Energy Agency (IAEA), on the implementation of the relevant provisions of resolution 1409 (2002) of 14 May 2002, including the revised procedures.

Soon after the adoption of resolution 1409 (2002), I organized a joint meeting of the relevant staff members of OIP, UNMOVIC and IAEA, in order to start promptly the coordination of our work on the implementation of the relevant provisions of the resolution. Since then, the group has held three meetings, and we will continue to meet at least once a week. This is essential in order to secure full cooperation and coordination among OIP, UNMOVIC and IAEA, thus ensuring the effective implementation of the measures within our respective purview.

Extensive preparations for the implementation of changes stemming from resolution 1409 (2002) are well under way. These include revision of internal guidelines and procedures; introduction of new procedures, such as, the appeal procedure; changes of outgoing correspondence templates; extensive changes to OIP databases; training of OIP staff, and dissemination of relevant information to the relevant ministries of the Government of Iraq, the submitting permanent and observer missions, the United Nations agencies and programmes, as well as the suppliers. By necessity, the Office of the Iraq Programme will be applying the revised procedures adopted by resolution 1409 (2002) gradually, with a view of having the revised procedures fully put in place no later than 15 July 2002. Although as of 30 May, OIP will accept notifications and or requests for export of goods to Iraq under both the revised and old application form, effective 1 July 2002, only submissions made under the revised new application form shall be accepted, and all applications made under the current format shall be returned to the submitting missions.

On 17 May, we posted on the OIP Web site our first update on the implementation of resolution 1409 (2002), providing basic information and main deadlines for the implementation of the revised procedures. We will update the Web site regularly, providing most recent and accurate information. On 22 May, we sent a note to all permanent and observer missions to the United Nations, as well as, the United Nations agencies and programmes that have applications with OIP, informing them of the changes and new requirements. We will invite all permanent and observer missions as well as the UN agencies and programmes to participate in a workshop to be organized by the Contracts Processing and Monitoring Division of OIP on 24 June 2002, concerning the revised procedures, providing additional information, documentation and further details. The delegations concerned may invite suppliers to accompany them to the workshop. We will issue a formal invitation to the workshop by 3 June 2002.

We have already devised the necessary internal working guidelines for the implementation of paragraph 18 of the revised procedures and have divided the applications currently on hold into two categories. As of 20 May 2002, there were 220 applications in category A to be returned to the submitting missions or the United Nations agencies and the programmes. In the second category, category B, there were 1,916 applications. These are the applications which will be re-circulated by OIP under the revised procedures. We will update daily both lists of applications on hold in categories A and B, in order to reflect the holds lifted from applications as well as any applications placed on hold which have been rendered "null and void", until the end of the 120-day deadline for completion of re-circulation of applications currently on hold – that is 15 September 2001. By Friday, 24 May 2002, OIP had already re-circulated 130 applications from the list of category B to UNMOVIC/IAEA for initial GRL assessment. On average, OIP will continue to re-circulate 20 applications per day to UNMOVIC/IAEA for GRL assessment. I should like to inform members of the Council, however, that full processing of applications in category B found to contain GRL items or require additional information will start only after all procedural and database requirements are in place by 15 July, that is 60 days after the adoption of resolution 1409 (2002) on 14 May. Return of applications under category A to the submitting missions

and the United Nations agencies and programmes will also start 60 days after the adoption of resolution 1409 (2002).

The most complex changes required are those concerning the existing "Oil for Food" and "Oil Spare Parts" databases of the OIP. Phased changes, to include development of a system that would enable us to review individual items rather than complete applications, are being implemented.

I should also like to inform you that UNMOVIC has begun practical arrangements to implement the requirements placed upon it in the revised procedures attached to Security Council resolution 1409 (2002). UNMOVIC is working in close cooperation with OIP and the IAEA to elaborate these arrangements. These include the efficient and accurate transfer of data between different Offices and the development of formats to meet new reporting requirements. Within UNMOVIC, efforts are underway to devise internal procedures which will permit, as far as possible, a uniform and consistent interpretation of the contents of the GRL, as well as the development of guidance for suppliers on technical information to be provided with applications. UNMOVIC has identified and begun the recruitment of additional experts to assist in the short and longer-term, as well as the acquisition of office space and equipment and the construction of the necessary infrastructure. Pursuant to the requirements of paragraph 18 of the procedures, UNMOVIC is developing a system to review some two thousand "category B" contracts which are to be re-circulated. Given the timelines laid down in the procedures, this review will have to be undertaken concurrent with the implementation of the full new system.

Furthermore, in co-operation with UNMOVIC, the IAEA Action Team in Vienna has already reached the point where contracts scanned in New York are transmitted to Vienna on a secure digital link. The Action Team is currently finalizing the development of a dedicated computer environment, which will be fully operational by 30 May. The Action Team is already processing contracts in category B, which are being re-circulated by OIP.

The Action Team is discussing the possibility of OIP and UNMOVIC sharing structured digitized data, simultaneously with the transmittal of contracts to Vienna, in order to optimize the efficiency of the whole process and in particular, take full advantage of trans-Atlantic time differences.

IAEA is in the process of recruiting additional expert staff required for the reviewing of contracts, as appropriate. In the meantime, however, in order to expedite the effective implementation of the revised procedures, the short term needs will be covered by contingency measures and temporary placements.

Mr. President,

In brief, I should like to give assurances to all members of the Council that we are sparing no effort in ensuring the prompt and effective implementation of all the tasks

entrusted to us. I remain fully confident that together with UNMOVIC and IAEA, we will meet the challenge. OIP will ensure the most expeditious review and registration of all applications received within the 10 working days set forth in the revised procedures (No. 3).

Furthermore, pursuant to revised procedure No. 4, UNMOVIC, IAEA and OIP will, as soon as possible, develop a procedure whereby OIP may evaluate and approve applications based on guidance issued by UNMOVIC and IAEA, at their discretion, and subject to the approval of the Committee established by resolution 661(1990).

The Security Council and its Committee, as well as the Government of Iraq, will be kept fully informed on a regular basis on all the steps taken by us in the implementation of the relevant provisions of the resolution and the revised procedures. It is also my intention to keep you informed and seek your guidance with respect to any procedural difficulties which may be encountered.

Revenue generation

During my briefing at the Council's informal consultations held on 26 February this year, I had observed the fact that despite all the billions of dollars we had been talking about, the programme implementation was facing a financial crisis of growing magnitude 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 then in the escrow account was 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.

It is regrettable that an agreement regarding the setting of the price of Iraqi crude oil has remained elusive. Thus, the continuing practice of setting the price of Iraqi crude oil retroactively by the 661 Committee, which, combined with the continued excessive premia demanded by Iraqi crude oil contract-holders, has led to an average reduction in exports of some 500,000 barrels per day or \$1.2 billion in lost revenue since the beginning of phase XI on 1 December 2001. Moreover, Iraq's month-long suspension of its oil exports, starting on 8 April this year, resulted in a further estimated revenue loss of some \$1.2 billion.

With the end of the prolonged consultations on the GRL list and the adoption of resolution 1409 (2002), I do hope that the members of the 661 Committee would spare no effort to resolve the difficulties encountered with regard to the pricing of the Iraqi crude oil. In that regard, the full cooperation of the Government of Iraq is essential. Unless the question of the pricing mechanism for setting the price of Iraqi crude oil is resolved urgently, all other efforts and decisions taken to expedite the approval of humanitarian supplies for Iraq may unfortunately remain academic. Irrespective of improvements in procedures, including those recently adopted by the Council in resolution 1409 (2002),

without the necessary funds available in the escrow account it will be impossible to implement the humanitarian programme effectively.

I am pleased to inform you that the Government of Iraq has responded positively to my suggestion to revise downwards the allocations to the oil sector in various phases, in order to utilize the balance of \$1.1 billion for funding priority applications in other sectors, making \$778 million available for such purposes. However, the same approach cannot be taken with regard to the funds (\$739 million) reserved for the “special allocation” sector, which can be used only for strictly humanitarian projects to address the needs of the most vulnerable groups. Accordingly, as at 24 May, there was a total of 678 approved humanitarian applications awaiting funding, with a total value \$1.75 billion.

As at 22 May, the shortfall in available funds for the purchase of humanitarian supplies was approximately \$1.84 billion. The total of reserved funds for the oil and the “special allocation” sectors was about \$1.07 billion, including \$329 million for the oil sector.

On 10 May 2002, in a letter addressed to the Permanent Representative of Iraq, I reiterated the recommendations made previously on several occasions, that the Government of Iraq may wish to consider, *inter alia*, the following:

- Review with the suppliers concerned the cases of 651 applications worth \$1.24 billion, which were approved over a year ago, but under which no shipments to Iraq had been delivered as at 30 April 2002, and cancel those contract applications, which were unlikely to be fulfilled.

- Review the cases of 238 applications worth \$506 million, which were approved before 31 December 2001, but for which the Central Bank of Iraq had not requested the issuance of letters of credit as at 30 April 2002, and cancel those contract applications which were unlikely to be fulfilled.

We have been informed by the Government of Iraq that each of the concerned ministries would be reviewing all the approved applications submitted under their respective sectors, with a view to identifying those applications which were no longer a priority. Those applications which were not considered to be of sufficient priority to warrant funds at this stage would be cancelled after consultations with the suppliers concerned. The Government of Iraq would also be reviewing the list of approved applications for which letters of credit had been opened but against which no deliveries had been made as at 30 April 2002. Furthermore, a similar review would be undertaken by the ministries concerned with regard to applications placed on hold, taking into account the fact that some applications had been placed on hold for a long period and that the contractors concerned may not wish to continue with their contracts under the same terms as originally contracted.

Programme implementation in the three northern governorates

At the informal consultations held on 26 February this year, I drew the Council's attention to the relative limitations in "the absorptive capacity" of the three northern governorates. I also stated then - and I continue to believe - that we, too, had to recognize the relative limitations in the absorptive capacity of some of the United Nations agencies and programmes involved in the implementation of large-scale projects, particularly with regard to construction works. I very much regret to reiterate that, in fact, in some areas we have made zero progress in even starting to implement some large-scale projects for which commitments had been made over three years ago. As I had informed you on 26 February, we needed to take some hard decisions in that regard and review also the overall implementation rates in order to ensure that projects undertaken are completed in a timely manner before getting involved in additional projects.

Accordingly, it has been decided that during phase XII, starting on 30 May, we should consolidate existing activities undertaken by the United Nations agencies and programmes in the three northern governorates rather than initiate new projects. Priority should be given to recurrent projects, as well as multi-phase ones, such as healthcare facility construction and water and sanitation projects. Additional resources available to the programme in the three northern governorates should be allocated to speed up the implementation and completion of projects already commenced. Where there is a pressing humanitarian need to initiate new projects, the United Nations agency or programme concerned should first confirm that it is in fact in a position to undertake the implementation of a project, with immediate effect. Accordingly, funds should not be allocated for new activities where it is known that the projects concerned will not be programmed in the immediate future. We, therefore, should not undertake additional commitments that we are unable to fulfill. We should recognize the realities on the ground and act accordingly. It is better to be criticized for not doing enough, rather than be criticized for failing to deliver on our commitments.

I fully appreciate and share the frustrations of the local authorities who often take out their frustrations on my colleagues and I. The local authorities are short of funds and often cannot even meet the requirements of their employees, including teachers, doctors, etc. We have been rehabilitating and/or building medical and educational facilities and yet the local authorities are not in a position to pay the salaries of the personnel concerned. It is almost a catch-22 situation. The United Nations cannot pay the salaries of teachers, doctors and medical personnel, nor provide cars for the use of local authorities, etc. However, demands are made on us to provide such assistance because the local authorities simply do not have sufficient funds to meet those requirements, let alone cover recurrent costs of, for example, agro-industrial establishments being rehabilitated by the United Nations in the north. I appeal to all concerned for more cooperation and better understanding of the parameters within which we have to implement the programme in the three northern governorates and the use of the cash funds, in order to ensure the efficient implementation of the programme for the benefit of all the three northern governorates.

I have emphasized to the local authorities that while the United Nations would fully consult and cooperate in formulating the projects there is no room for co-

management, as the United Nations is fully responsible and accountable for the management and implementation of the programme in the three northern governorates on behalf of the Government of Iraq, pursuant to the memorandum of understanding signed between the UN Secretariat and the Government of Iraq.

Increased revenues have led to an expansion of the programme and a still ongoing process to build, rehabilitate and equip hundreds of educational and healthcare facilities, to enlarge, and in some cases, introduce large-scale water and sanitation systems in towns and urban centers, and complete the rehabilitation of the entire electricity and telecommunications networks. However, this also has raised a unique set of problems for the United Nations, namely the ownership/custodianship/insurance of equipment and other infrastructure financed under the ESC (13 per cent) account, as well as the issue of recurrent and other associated costs that arise from the use and management of such infrastructure and/or equipment requiring the use of cash funds. What I have just stated is only a modest account of the problems being faced.

The relatively limited parameters established by the Security Council, within which we have to implement the programme, is increasingly exacerbating the difficulties being encountered, both in the implementation of the programme, as well as, at times our working relationship with the local authorities. As an example of the problems, which need to be addressed urgently by all concerned, is agriculture. In stark contrast to the previous three years, the precipitation during the last winter was high, and in the three northern governorates it was the highest on record. This has had an impact on many sectors. However, the effect of the high rainfall on the agriculture sector has been particularly significant, with a bumper harvest expected countrywide this year. This will have very significant implications for the economy of the country as a whole, particularly in the three northern governorates where agriculture, specifically wheat production, is the primary source of income for many communities.

Estimates are that the wheat crop in Iraq will yield approximately 2.1 million metric tons this season, 1.6 million metric tons in the centre/south and 500,000 metric tons in the north. All food distributed throughout the country under the programme has been imported from abroad. Iraq purchases from overseas some 3.4 million metric tons of wheat per annum at a value of some \$740 million. Wheat is the single largest commodity in the distribution plan. We have informed the Council previously on the adverse effect of these imports on local agricultural production, which has become a disincentive for the farmers to continue cultivating their fields, as they are unable to dispose of their crops at fair prices.

For reasons of sustainability for the agriculture sector, particularly in the three northern governorates, and to optimize the use of funds available in the escrow account, it may be appropriate to consider using local wheat to the extent available for milling into flour for distribution to the population in the monthly food entitlement scheme, provided that an appropriate mechanism can be agreed upon on the modalities for pricing and payment.

We need to work out a solution whereby the farmers can be allowed to market their harvest and draw the well-deserved benefit from the bumper harvest, without violating the provisions of the relevant Security Council resolutions. The situation illustrates clearly the real urgency of arriving at a pragmatic solution to the use of programme funds for local procurement, which has been elusive for so long.

It is my intention to brief the 661 Committee in the immediate future on the difficulties faced by the programme and seek further guidance, as the issues involved require some urgent and concrete decisions at the intergovernmental level. I very much regret to emphasize, however, that unless there is cooperation among all parties concerned, backed by a strong political will, we will fail yet again in succeeding in our efforts to resolve the difficulties encountered. An example in that regard is the cash component for the oil sector on which I am still continuing my efforts to bridge the differences among the parties concerned. I do hope that that issue could also be resolved urgently and may become a model for the introduction of cash component for the other sectors covered in the distribution plans.

The Secretary-General has consistently advocated the easing of procedures for review and approval of all applications for humanitarian supplies and equipment for Iraq. Irrespective of regulations and procedures, if all concerned, including the Government of Iraq, fully cooperate towards the achievement of the main objectives of the humanitarian programme, we can and must be able to improve further the humanitarian situation in Iraq. As stated by the Secretary-General on several occasions, with the improved funding level for the programme, the Government of Iraq is indeed in a position to address the nutritional and health concerns of the Iraqi people, particularly the nutritional status of children. If the stated objectives of resolution 1409 (2002) are implemented both in the letter and spirit by all concerned, including the 661 Committee and the Government of Iraq, we will be in a position to expedite the review and approval of applications, and the speedy arrival of humanitarian supplies and equipment into Iraq.

I should like to appeal to all concerned to bear fully in mind the determination of the Security Council, as stated in resolution 1409 (2002), which is “to improve the humanitarian situation in Iraq.”