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**Security Council Committee established by resolution 661 (1990)
concerning the situation between Iraq and Kuwait**

Provisional summary record of the 200th meeting (closed)

Held at Headquarters, New York, on Monday, 15 May 2000 at 2.30 p.m.

Chairman: Mr. van Wallsum (Netherlands)

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The meeting was called to order at 2.45 p.m.

Adoption of the agenda

The agenda was adopted.

Briefing by the Department of Management (S/AC.25/1999/COMM.94)

1. **The Chairman** reminded the Committee that the Under-Secretary-General for Management, Mr. Connor, had written to him on 12 November 1999 bringing to the Committee's attention the over-concentration of funds in the United Nations Iraq account at BNP-Paribas. As a result of that letter, it had been proposed that the Department of Management should brief the Committee on the management of the Iraq account.

The Chairman invited Ms. Bishopric (Treasurer) to brief the Committee on the management of the Iraq account.

2. **Ms. Bishopric** (Treasurer), speaking on behalf of the Under-Secretary-General for Management, gave a slide demonstration showing the position of the Iraq account in the light of the criteria laid down in paragraph 7 of Security Council resolution 986 (1995), under which the Secretary-General was requested to establish an escrow account and to appoint independent and certified public accountants to audit it. The account had been audited semi-annually, although usually United Nations accounts were audited biannually. The Government of Iraq had been kept fully informed of the situation and, since the opening of the account in 1997, the Treasury had sent Iraq a weekly statement. The Treasury now issued daily statements of which all members of the Committee would receive a copy.

3. Paragraph 1 (b) of resolution 986 (1995) provided for the direct payment by the purchaser in the State concerned of the full amount of each purchase of Iraqi petroleum and petroleum products into the escrow account. Accordingly, when the petroleum companies opened letters of credit payable to the escrow account the amounts involved were to be paid directly into that account.

4. The Department of Management reviewed the unsettled letters of credit periodically in order to determine when the funds would be deposited. The payments were to be made within 30 days following the date of the announcement. Once the letter of credit

was opened, the Treasury could determine exactly when the payments would be made.

5. She emphasized that all the funds in the Iraq account had been invested. Initially, the amounts deposited into the account had been insufficient to cover humanitarian needs but the current balances had increased considerably. The purpose of the Iraq account was also to pay the suppliers of humanitarian products by means of letters of credit. The Treasury was responsible for monitoring all the letters of credit opened in order to ensure that every supplier was paid.

6. The increase in petroleum sales had led to an increase in the sums deposited into the Iraq account. Doubts had been expressed with regard to the provision of guarantees for the letters of credit; it was the Treasury's belief that the procedure was essential because, in view of the situation of Iraq with respect to credit and the contracts with suppliers, it was the only way to ensure payment of the suppliers. On 12 May 2000, the total amount deposited had come to more than \$7.8 billion, of which \$4.1 billion served as collateral for the letters of credit.

7. As the letter of the Under-Secretary-General for Management noted, a very large amount was deposited in a single bank, and the Department of Management would continue to consult with the Government of Iraq on possible ways to diversify the deposits.

8. **Mr. Mauriès** (France) said that his delegation had never received the daily statements of the status of the escrow account referred to in paragraph 23 of Security Council resolution 1284 (1999). He asked for information on the amount of interest paid on the deposits and whether that interest was added to the account for the benefit of the Iraqi population.

9. He would also like information on the progress of the consultations with the Government of Iraq concerning the matter. It was his understanding that there had been contacts between the Treasurer and the BNP, which had previously made proposals concerning the diversification of the deposits. What were those proposals? Had they been renewed? Had other proposals been put forward? Was the question of diversification about to be settled, and if so how?

10. **Ms. Bishopric** (Treasurer) expressed surprise that the statements, which had been distributed daily for the past six months, had not reached all delegations. That was deplorable, and measures would be taken to

remedy the situation. On the question of interest, she said that it exceeded \$200 million since the launching of the "oil-for-food" programme. It had been decided, after consideration of the question by the Council, that the interest would be used in the same way as the account itself and would be added to the Iraq account in order to finance the purchase of humanitarian goods. Regarding consultations with the Government of Iraq, the Treasury had met some months earlier with the directors of the BNP, who had recently made several proposals concerning diversification of the funds not used to collateralize payment. In April, the Bank had proposed a form of investment which was inappropriate, the issuance of paper certificates of deposit. Only 5 per cent of the banks the United Nations dealt with still used certificates of deposit in that form, and that kind of investment was ill-adapted to the computer age. The Bank had made a new proposal, which the Council would have to consider, in order to ensure that the funds were protected by the privileges and immunities of the United Nations and used in the interest of the Iraqi population.

11. **Mr. McGurgan** (United Kingdom) said it was important to ensure the safety of the funds and to maximize the amount available for the programme. He asked whether the Iraqi authorities knew that depositing all of the funds in the same account involved risks and whether the United Nations had clearly informed them that the practice was dangerous. In connection with the \$200 million in interest, he wondered whether more diversified investments would have yielded a better return.

12. **Ms. Bishopric** (Treasurer) said that the Treasury had clearly explained the risks involved to the Government of Iraq. It was aware that the yield would have been larger if the investments had been diversified, as was shown by the 85 other funds managed by the United Nations Treasury, which took advantage of the best rates of interest offered by various banks. But the problem with the Iraq account at present was that the Treasury could not take advantage of those rates.

13. **Mr. Young** (United States of America) asked whether the proposals recently made by the BNP met the need for diversification, considering that it was the same institution which would offer other instruments, and whether other options existed. He would also like to know how the funds had been invested and at what rates of interest. Those rates seemed really low.

14. In connection with the letters of credit issued for products supplied to Iraq under the "oil-for-food" programme, he asked whether those letters of credit were issued as the contracts were approved or a different procedure was followed. For which contracts were priority letters of credit opened?

15. **Ms. Bishopric** (Treasurer) said that it would be possible to consider other methods of diversification but reminded the Committee that the Iraq account was not an ordinary financial account. The need to provide guarantees limited the possibility of doing away with the system of letters of credit. In any case, the existing machinery worked and therefore did not need fixing. The present goal was to invest \$4 billion in various banks as a first step and then to consider taking other steps.

16. With regard to the rates of interest, which the previous speaker considered low, she noted that they had yielded approximately \$230 million by the end of 1999. In fact, interest had accumulated only during the previous few months since at the beginning of the "oil-for-food" programme the funds had been used to purchase foodstuffs.

17. With respect to the letter of credit, she said that when the contracts were approved, the Department notified the Bank that it could issue letters of credit.

18. **Mr. Mauriès** (France), referring to the question of investments and rates of interest, asked who gave the order to make a specific investment: was it the BNP alone which decided or did it follow the directives of the Secretariat or the Treasury? With regard to the discussions in progress between the Bank and the Treasury, he understood that the BNP proposals concerned the diversification of the investments and did not deal with the processing of letters of credit or the exclusive management of those letters of credit.

19. **Ms. Bishopric** (Treasurer) said that it was the United Nations Treasury which decided on the sums to be invested and also examined the account balances, checked the amounts to be paid to the suppliers and established the available net balances. The investments were made on the basis of orders given solely by the BNP. It must also be taken into account that most of the goods purchased under the "oil-for-food" programme had to be paid for within six to eight weeks. Long-term investments could not be made with short-term funds. The money was invested for an average term of 30

90 days and the suppliers were paid immediately on presentation of the required documents.

20. With respect to the decision as to the most profitable investments, the procedure was different from that adopted for the other 80 accounts managed by the United Nations Treasury, for which it chose the best offer for each time period. With regard to the United Nations Iraq account, only the offers made by the BNP could be accepted. She noted that various comments had been made with regard to the discussions between the Under-Secretary-General for Management, herself and the BNP concerning possible solutions to the question of the over-concentration of funds in that Bank and emphasized that the arrangements currently being considered would not affect those in use for letters of credit.

21. Diversification of the investments would make it possible to preserve the capital and patrimony of the Iraqi population and to increase its income. It must be understood that the United Nations Iraq account was managed prudently; there could be no question of speculating by using instruments offered by Wall Street; the Treasury made use primarily of certificates of deposit and similar instruments.

22. **Mr. McGurgan** (United Kingdom) asked for further information on the subject of compensation for the services provided by the BNP. He understood that those sums were not necessarily drawn from the 2.2 per cent account.

23. **Ms. Bishopric** (Treasurer) said that the BNP sent the Treasury a letter containing a list of the sums due each month and the Treasury checked that list before authorizing deduction of the amounts from the 53 per cent account. Those deductions were reimbursed by withdrawals from the 2.2 per cent account.

24. **Mr. Young** (United States of America), noting that no solution seemed to be in sight at the present stage, proposed that the Treasurer should be invited to return in about a month to brief the Committee on the situation at that time.

25. **Mr. Krokmal** (Ukraine) said that the information provided by the Treasurer was very useful and asked whether the Bank carried out any commercial transactions other than the letters of credit.

26. **Ms. Bishopric** (Treasurer) said that the only commercial transactions carried out with the BNP in connection with the United Nations Iraq account were

for the payment of suppliers by means of letters of credit, in conformity with Security Council resolution 986 (1995). The expenditures relating to the use of the Kirkuz-Yumurtalik pipeline were also paid through the Bank, but they were paid on presentation of a bill and not by letter of credit.

27. **Mr. Lalani** (Canada) supported the proposal by the United States representative that the Treasurer should be invited to report on the situation again in about a month.

28. **The Chairman**, speaking as both the representative of the Netherlands and the Chairman, asked what the Government of Iraq thought of the over-concentration of funds in a single bank.

29. **Ms. Bishopric** (Treasurer) said that the Government of Iraq had stated in writing that it wanted the funds in the United Nations Iraq account to be diversified.

30. **Mr. McGurgan** (United Kingdom) said that he did not understand what the obstacles were to a settlement of the question if Iraq and the United Nations were in agreement on that point.

31. **Ms. Bishopric** (Treasurer) explained that the letter concerning Iraq's position had reached the Treasury only on the previous Friday.

32. **Mr. Young** (United States of America) asked whether the Committee would receive a copy of that letter.

33. **Ms. Bishopric** (Treasurer) replied that the letter was not an official communication and therefore there were no plans to make it available to the Committee. If, however, the Treasury received an official document, it would send a copy of it to the Committee.

34. **Mr. Mauriès** (France) asked for further clarification of the chronology of events. He understood that Iraq had sent a letter to the Secretariat on the previous Friday concerning the diversification of the funds, that discussions had been going on with the BNP since January and had been resumed in April, and that proposals had been exchanged. Since Iraq's position was now clear, there seemed to be no further obstacle to a settlement of the question, as the United Kingdom representative had already observed.

35. **Ms. Bishopric** (Treasurer) noted that the chronology went back to June 1997; the Under-Secretary-General for Management had sent a letter to

the Government of Iraq on diversification of the funds, and other letters had been exchanged periodically since that time. The last communication received from Iraq was unsigned; the Treasury did not know whether or not it was an official letter, but it expressed the position of the Iraqi authorities clearly. At the same time, consultations with the BNP in order to work out an appropriate mechanism had been in progress since January.

36. **Mr. Mauriès** (France) asked whether the BNP had made any proposals before January 2000.

37. **Ms. Bishopric** (Treasurer) said that the discussions with the BNP had begun in 1997 following an increase in the financing of the "oil-for-food" programme in excess of what had been foreseen when the Bank's services had been requested.

38. **The Chairman** took note of the fact that the Committee wished the Treasurer to report on the situation again in about a month.

Letter dated 3 May 2000 from the Treasurer (S/AC.25/2000/COMM.53)

39. **Ms. Bishopric** (Treasurer) said that the Treasury had recently learned from the news media that a number of countries had auctioned Iraqi oil from ships intercepted by the Multinational Interception Force and Iran. It had been surprised by the number of sales and, after checking the bank records, it had learned that only the Shell Oil Company had deposited a sum of \$2 million in April 2000. It did not know what had happened to the receipts from the sale of the cargoes of the other ships seized by the Force and by Iran.

40. **Mr. Rani** (Malaysia) said that he supported the demand for the rapid transfer of proceeds from the sale of seized Iraqi oil into the escrow account. He was, however, surprised, at the way in which sanctions violations were dealt with. A fine amounting to \$2 million, the value of the oil seized, had been imposed on the Shell Oil Company, but the ship had been allowed to continue its voyage. Yet the Committee had received information on the need for more vigorous action in order to put an end to the smuggling in the Gulf. The incident could only encourage other traffickers to continue their activities.

41. **Ms. Bishopric** (Treasurer) pointed out that paragraph 2 of Security Council resolution 778 (1992) applied only to petroleum and petroleum products

which were to be bought or sold at their fair market price and that the resolution in no way authorized the seizure of ships. Moreover, the use of the term "fine" by the media was inappropriate, as what was involved was not a fine but simply the amount corresponding to the value of the petroleum products aboard the ship.

42. **Mr. Mauriès** (France) said that the Treasurer's letter raised a number of problems. The Committee received only fragmentary information on the account established under resolution 778 (1992) and did not receive daily financial statements. It would be useful to obtain information on the amounts deposited into the account and on the use of the funds. It should also be noted that resolution 778 (1992) did not refer to the management of the account. The Treasurer had referred to a difference in the behaviour of some States which had carried out sales of oil in the Gulf and the Shell Oil Company. That difference in fact raised a larger problem, which was the ignorance in which the Committee was kept with regard to what was actually happening in the region as well as the activities of the Multinational Interception Force.

43. It was true that the amount paid by Shell was not a fine but rather an indemnification. The question that arose was how the amount had been determined. The Committee had learned from the press that there had been contacts between the Multinational Interception Force and Shell in order to establish the value of the cargo in question. He wondered how it had been possible to establish that one fifth of the cargo had been illegal and where the remaining four fifths had originated.

44. He considered that it would be useful for the Force to transmit written reports to the Committee on the ships seized, the amount of petroleum seized and the destination of the ships on a more regular basis. He suggested that a letter should be sent to the Commander of the Force requesting him to provide periodic information on what was happening in the Gulf and on the activities of the Force.

45. **The Chairman** said that the Committee would continue its consideration of the question.

Other matters

46. **Mr. Young** (United States of America) asked what was the status of the report on the activities carried out by the United Nations Office for Project

Services in implementation of paragraph 24 of Security Council resolution 1284 (1999).

47. **The Chairman** said that the question would be taken up at the following meeting.

48. **Mr. Li Junhua** (China) drew the Committee's attention to the two letters from the Permanent Representative of Iraq requesting that his country's contribution to the United Nations should be made from the escrow account.

49. **The Chairman** said that that question too would be taken up at the following meeting.

The meeting rose at 4 p.m.