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NOTE VERBALE DATED 20 DECEMBER 1990 FROM THE CHARGE D'AFFAIRES A.I.
OF THE PERMANENT MISSION OF SEYCHELLES TO THE UNITED NATIONS
ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

The Chargé d'affaires a.i. of the Permanent Mission of Seychelles to the United Nations presents his compliments to the President of the Security Council and has the honour to request that the following presentation made to the Working Group of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait be circulated as a document of the Security Council.

Annex

Presentation made on 17 December 1990 by the Chargé d'Affaires a.i. of Seychelles to the Working Group of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

Seychelles is a geographically remote, sea-locked multi-island developing country with limited resources relying for its economic prosperity on the performance of its principal tourism and fisheries sectors. The economy is, as a result, highly vulnerable to exogenously determined forces.

As a consequence of Seychelles' location, economic structure and concomitant import dependence, it has been placed in an extremely difficult economic position because of the Iraqi annexation of Kuwait and the implementation of Security Council resolution 661 (1990).

The Government of Seychelles has fully complied with the provisions of Security Council resolution 661 (1990), adopted on 6 August 1990, to impose economic sanctions on Iraq.

The observance by Seychelles of the United Nations sanctions régime against Iraq has had significant adverse consequences for the Seychelles economy. Some of those effects have been experienced immediately while other detrimental impacts will be manifested in the coming period owing to the time lags.

This brief, preliminary assessment seeks to show that the Seychelles' situation warrants financial assistance from the international community for as long as Security Council resolution 661 (1990) remains in force.

The immediate impact of the political crisis in the Gulf sharply raised aircraft fuel and insurance premiums, engendering in turn a hike in the cost structure of the tourism industry, the mainstay of the economy. The re-export of oil, mostly as bunker sales to the locally based tuna fishing fleet and to a lesser extent to transiting aircraft, was sharply disrupted. The lucrative oil re-export business, and with it, the foreign exchange margin, which had by and large financed the domestic consumption of petroleum products in recent years, went into a downturn.

Although it may be argued to the contrary that there is an unexpected benefit concerning the re-export of oil, this would be erroneous.

Because of the crisis any increase in bunkering costs has been offset by maintaining very low licensing fees for foreign purse seiners, e.g., the recent agreement between the Seychelles Fishing Authority and Nippon Maru, where the licence fee was held at the same level as at 1986 prices.

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The energy requirements of Seychelles are met through imports of petroleum, which is one of the major commodities significantly affecting the balance of payments. The cost of petroleum imports accounts for more than 25 per cent of the country's import bill or 169 million Seychelles rupees, a/ or $US 30 million (1989).

Therefore the whole economy depends on getting the cheapest possible petroleum at favourable terms of credit and from the closest distance.

Prior to the political crisis in the Gulf region, Seychelles was entirely dependent on Kuwait for oil supplies. Those supplies were transacted under preferential terms and conditions. Kuwaiti oil was purchased on 45 days' credit which permitted Seychelles 15 days extra grace to pay refining costs, instead of the normal 30 days.

The price was based on a five-day arithmetic mean of oil spot prices in the Arab free-on-board market for all products, with the exception of motor gasoline.

Also, because the supply was assured in addition to the extra 15 days' credit, it was necessary for Seychelles to maintain only minimum stocks of all fuel types. Those stocks could be replenished easily because of Kuwait's proximity to Seychelles, being only 10 days' sailing time away. As a consequence of the aforesaid, the country did not experience a bunching of payment or a liquidity problem.

The political crisis in the Gulf and Seychelles' adherence to United Nations sanctions against Iraq effectively severed the country's regular supply of oil and simultaneously resulted in the loss of the Kuwaiti oil financing facility.

Seychelles has been especially affected by the steep rise in the price of oil since it has no alternative sources of energy or oil refineries of its own. In this regard, it will be recalled that the price of refined oil has increased to an even greater extent than that of crude oil.

On 31 July 1990, the country's stock was at the minimum requirement level. Also, two cargo loads of oil were on order from Kuwait in August, amounting to 12,000 tons at pre-crisis prices. As a result of the political situation in the Gulf, that arrangement could not be finalized.

Seychelles was compelled to purchase, in August, on the open Bahrain spot market with only 30 days' credit, instead of 45 days. To meet the situation, the Seychelles Petroleum Company began stockpiling at high cost from August 1990 onwards. This means that, in the last quarter of 1990, Seychelles has spent an extra $2 million.

In addition, the need to make bulk purchases of petroleum products on the spot market gave rise to a liquidity problem and this will be reflected in the balance of payments in 1991.

Given the current situation, provisional estimates for 1991 indicate that the purchase of petroleum imports would result in an additional cost of $12.5 million, giving rise to a loss of $4.1 million.

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The quantification on the balance of payments given below is based on actual performance up to July 1990, and assumes that payments for imports and oil imports will rise by 15 per cent.

The following forecast can be made: based on actual performance up to July 1990, and assuming a 15 per cent rise in the price of imports, the overall balance of payments is expected to post a deficit of SR 36 million ($6.5 million), giving rise to a cumulative deficit of SR 72 million ($13 million) for 1990 and 1991.

Seychelles is almost wholly dependent on tourism earnings. 1988 earnings from tourism were SR 515 million. The gross domestic product (GDP) at current market prices in 1988 was SR 1,523.9 million. Thus, tourist income alone as a percentage of GDP was around 33 per cent at current market prices in 1988. The gross national product (GNP) was SR 1,430.3 million in 1988, indicating tourist earnings as per cent of GNP.

However, the value added to GDP from the tourist sector in the form of transport, hotel services, etc., has not been included in these percentages.

There are other relevant aspects to the tourist industry which must be mentioned here. These aspects are: (a) tourist bookings for 1990 do not give a picture of the impact of the crisis on Seychelles because over 75 per cent of tourist arrivals were pre-booked and planned long before; (b) a large percentage of the remaining 25 per cent is low-budget tourists who spend very little foreign exchange in the country; and (c) around 80 per cent of tourist income is spent on imports, of which imports for the tourist trade stand at a very high percentage. Most of the big hotels have raised their rates from 3 to 8 per cent and the small hotels by 7 per cent.

The impact of the crisis on domestic prices and trade tax as at 5 September 1990 has been estimated as follows:

(a) The price of gasoline is up from SR 5.21 ($0.9) per litre to SR 6.51 ($1.18) per litre;

(b) AV gas is up from SR 5.87 ($1.06) per litre to SR 7.00 ($1.3) per litre;

(c) Jet A-I is up from SR 2.98 ($0.54) per litre to SR 3.77 ($0.68) per litre;

(d) Spirit-type jet fuel is up from SR 5.87 ($1.06) per litre to SR 7.00 ($1.27) per litre.

As at 5 September 1990, trade tax losses, which by the nature of the tax mechanism are exactly equal to the additional foreign exchange cost of domestic fuel consumption, are expected to be SR 11.5 million ($2.0 million) from August to December 1990.

The fiscal effects of trade tax losses and other spill-over effects are expected to add to the total budgetary cost to the Government in the region of SR 8 million to SR 50 million ($2 million-$9 million) in 1990.

The need to pay spot cash for oil as and when necessary is creating and will fuel a liquidity problem which cannot be quantified at this time.

In conclusion, time-lagged detrimental impacts in the future would be exacerbated by possible economic fluctuations in the world economy, such as a recession accompanied with inflation. Thus, the impact on the economy particularly the balance of payments and budget via tourism earnings cannot be fully quantified at this moment in time.

Notes

a/ SR 5.50 = $US 1.00
