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**OIL FOR FOOD AND THE AFTERMATH
THE ALTERNATIVES**

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**Iraq & The Region After The War:
Issues of Economic & Social Reconstruction**
(9 – 11 July 2003, United Nations House, Beirut, Lebanon)

Oil For Food & The Aftermath – The Alternatives

Saadalla Al Fathi

UN Sanctions on Iraq (1)

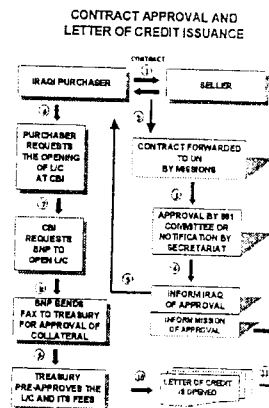
- Resolution 661 of 6 August 1990 ⇒
 - Resolution 687 of 3 April 1991 ⇒
- “The Iraqi people may soon face a further imminent catastrophe, which could include epidemic and famine, if massive life-supporting needs are not rapidly met.”
- The Government of Iraq declined resolutions 706 (1991) and 712 (1991) to resume oil exports.
 - Resolution 986 of 14 April 1995
 - commonly referred to as the ‘Oil-For-Food’ Programme
 - ‘MOU’ between Iraq and UN on 23 May 1996
 - Iraq to sell \$2 billion worth of oil every 180 days
 - oil exports commenced on 10 December 1996
 - first shipments of food arrived in March 1997.
 - Resolution 1153 of 20 February 1998
 - ceiling on Iraqi oil exports was raised to \$5.26 billion every 180 days

UN Sanctions on Iraq (2)

- Resolution 1175 of 19 June 1998
 - authorized Iraq to import \$300 million oil industry spare parts every 180 days
- Resolution 1284 of 17 December 1999
 - ceiling on Iraqi oil exports was removed
- Resolution 1293 of 31 March 2000
 - authorized Iraq to import \$600 million oil industry spare parts every 180 days
- Resolution 1409 of 14 May 2002
 - commonly referred to as 'Smart Sanctions'
 - New procedures for processing and approval of contracts
 - 'Goods Review List' for potential 'dual-use' items
- Resolution 1483 of 22 May 2003
 - lifts economic sanctions

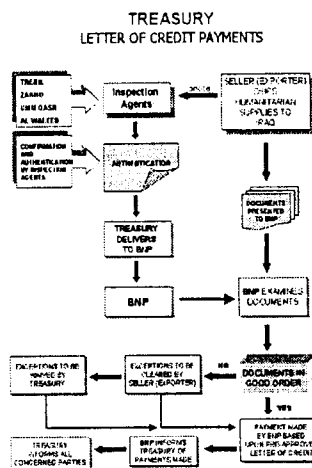
UN Procedures & BNP Payments (1)

- Iraq prepares Distribution Plan
- UN approves Distribution Plan
- Iraqi Purchaser issues tender
- Evaluation of offers
- Contract award ①
- UN approval ②-⑤
- Letter of Credit is opened ⑥-⑩
- Seller ships supplies to Iraq
- UN authentication
- Documents to delivered BNP
- Payment



UN Procedures & BNP Payments (2)

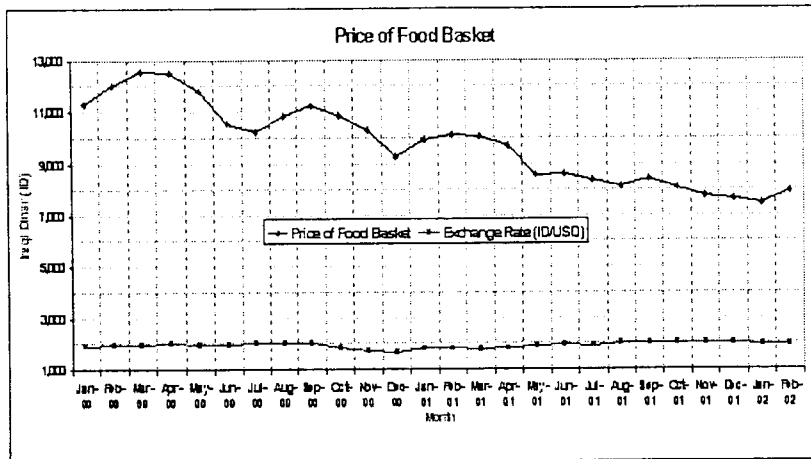
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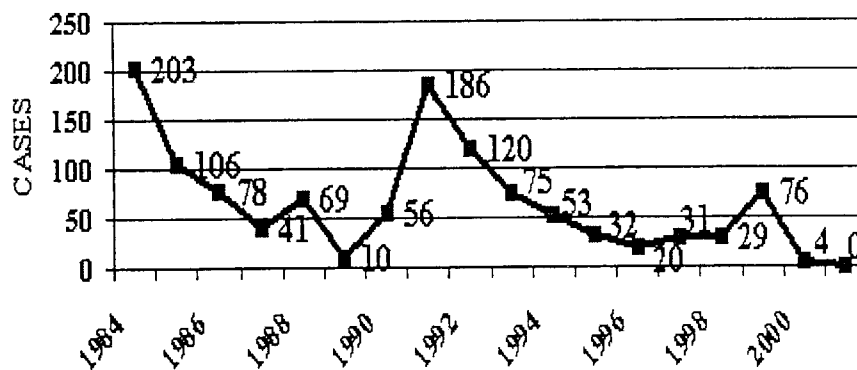
Benefits (1)

- Improved the overall socio-economic conditions and prevented the further degradation of public services and infrastructure
- Increased the nutritional value, 1996 - 2002, from 1,200 to 2,200 kilocalories per person per day.
- Improved the capacity to undertake major surgeries by 40% and laboratory investigations by 25%.
- May 2003 there had been no cases of polio for more than three years.
- By 2002, malnutrition rates among children under the age of five were half those of 1996

Price of Food Basket



Polio Cases



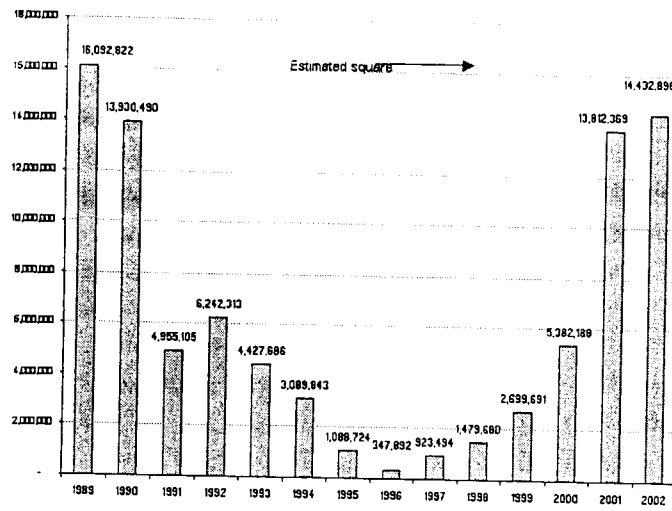
Benefits (2)

- 1996 and 2002, a reduction in the number of underweight children from 23% to 10%.
- Private and public road transport was rehabilitated to varying degrees.
- The deterioration of water facilities was halted.
- Agricultural improvements enabled supplement diet and the production of poultry meat and eggs doubled.
- Electricity supply became more reliable. In the summer of 2002, there were no planned power cuts in Baghdad City. Other cities were less fortunate.

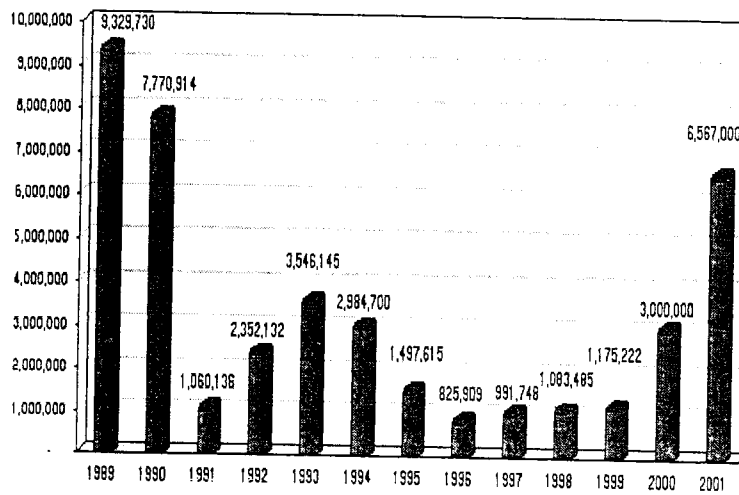
Benefits (3)

- The distribution of 1.2 million school desks met 60% of the needs at primary and secondary schools and increased school attendance substantially. However, the Iraqis were not allowed to manufacture the desks!!!!
- Residential construction in 2002 was expected to reach 14,432,896 square metres, compared with 13,930,490 square meters in 1990 and 347,892 square metres in 1996.
- The water supply deteriorated by 40% in the early 1990s.
- 218 large plants and 1,191 small plants to serve rural areas.
- An assessment of 278 small plants in 2002 determined that Oil-for-Food Program inputs including pumps, chlorinators and generators had increased performance and halted the deterioration of facilities.

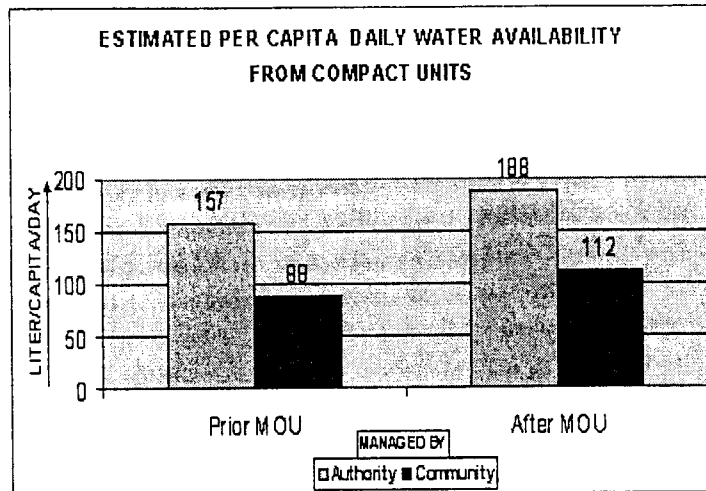
Construction - Residential housing



Cement Production



Water System



Performance under the UN Oil-For-Food Programme (1)

- Often marred by delays and differences.
- Later a "revenue shortfall" .
- Complicated and changing procedures for the processing and review of contracts -1409 (2002), Goods Review List (GRL).
- The Programme, under the insistence of Iraq, was expanded beyond its initial emphasis on food and medicines to include infrastructure rehabilitation and other sectors: such as electricity, agriculture and irrigation, education, transport and telecommunications....etc. But the results were questionable.

Performance under the UN Oil-For-Food Programme (2)

- "Despite its achievements however, the Oil-for-Food Programme was never intended to be a substitute for normal economic activity, and as of 20 March 2003, much remained to be done to improve humanitarian conditions for the Iraqi people".
- However, on 29 May 2003, UNICEF reported that child malnutrition in Iraq almost doubled from 4 per cent to 7.7 percent between 20 March 2003 (the onset of war) and 29 May 2003 .
- The oil for food programme, never allowed fresh investment, curtailed government spending and prevented other exports from Iraq. Therefore, it contributed to the GDP remaining at low level while the population increased.

UN-MOU Supply Contracts by Sector - (59 per cent) account

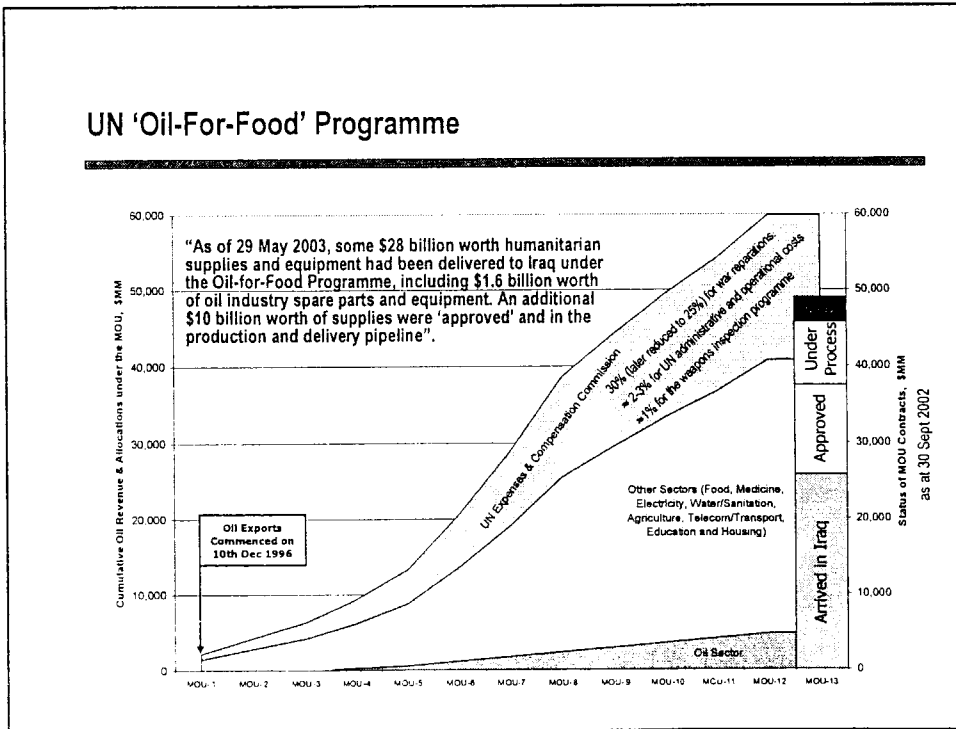
<u>Phases I - XII</u> <u>Sector</u>	<u>Received</u>		<u>Approved</u>		<u>Arrived</u>		Arrival %
	No	Value	No	Value	Value		
Food	4,443	13,557	3,805	13,506	10,760	79.4	
Food Handling	2,172	4,097	1,700	3,312	2,058	60.2	
Health	4,030	3,369	3,430	3,026	2,111	62.7	
Oil Spares	6,845	4,986	5,134	3,636	1,577	31.6	
Electricity	2,091	4,953	1,706	3,539	1,809	36.5	
Water & Sanitation	1,126	2,634	821	2,001	1,141	43.3	
Agriculture	2,489	4,783	1,868	3,733	2,196	46.9	
Education	944	1,503	649	1,147	523	34.8	
Communication/Transportation	1,101	2,820	758	2,016	1,113	39.5	
Housing	1,581	3,027	1,109	2,721	1,535	50.7	
Special Allocation	186	1,001	112	294	32	3.2	
Central Bank of Iraq	1	5	0	0	0	0.0	
Construction	12	10	5	2	0	0.0	
Industry	95	65	67	36	0	0.0	
Justice	7	5	6	5	0	0.0	
Religious Affairs	7	20	3	10	0	0.0	
Total	27,130	46,835	21,173	38,983	24,855	53.1	

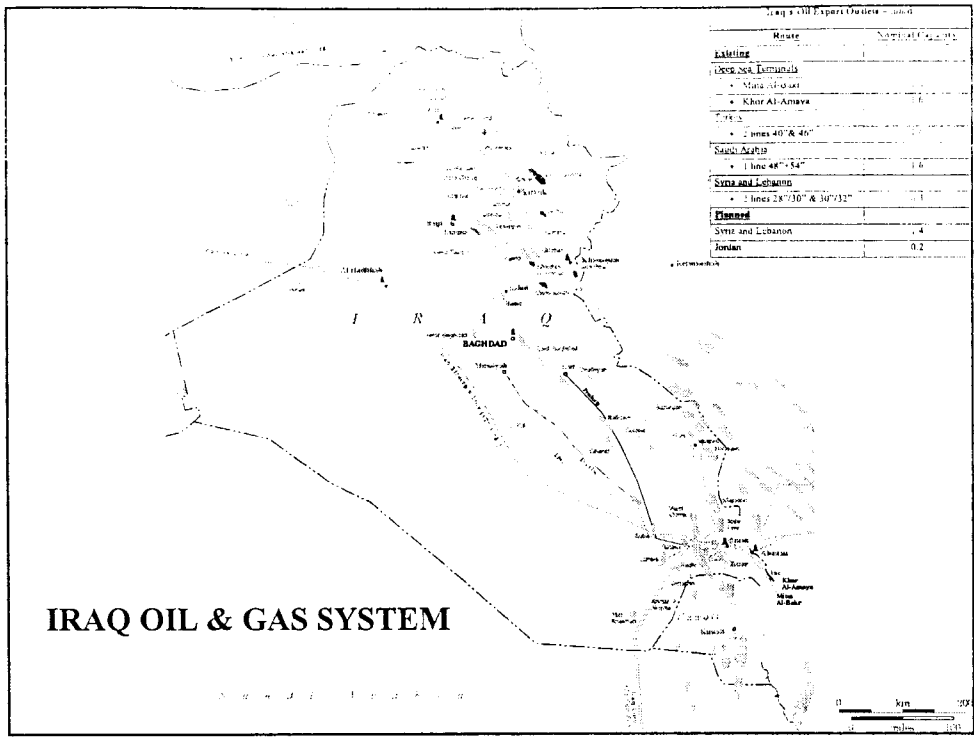
UN 'Oil-For Food' Programme

Phase	Exports (MM bbl)	Oil Price (\$/bbl)	Value of Exports (\$MM)	Humanitarian Programme	Allocation to Oil Sector
One	120	17.9	2,150	~66%	
Two	127	16.7	2,125	~66%	
Three	182	11.5	2,085	~66%	
Four	308	9.8	3,027	~66%	300
Five	361	10.9	3,947	~66%	300
Six	390	19.0	7,402	~66%	600
Seven	343	24.2	8,302	~66%	600
Eight	376	25.4	9,564	~66%	600
Nine	293	19.2	5,638	~72%	600
Ten	300	17.8	5,350	~72%	600
Eleven	226	20.3	4,589	~72%	600
Twelve	233	24.2	5,639	~72%	600
Thirteen	170	20.3	4,589	~72%	600
Total	3,427	18.7	64,231		5,200

Source: <http://www.un.org/Depts/oip/>

UN 'Oil-For-Food' Programme

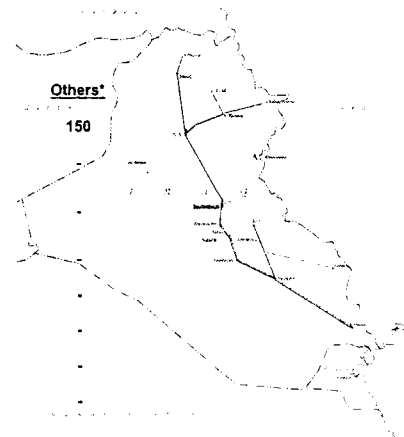




Iraq's Refinery Capacity and Configuration

1,000 bbls / day

<u>Units</u>	<u>Baiji</u>	<u>Basrah</u>	<u>Daura</u>	<u>Others*</u>
Crude Distillation	310	150	100	150
Vacuum Distillation	105	20	20	
Naphtha Reforming	46	16	15	
Hydrotreating	182	70	31	
Hydrocracking	38	-	-	
Lube**	250	100	120	
Asphalt	yes	yes	yes	
Hydrogen	yes	-	-	



* small plants ** 1,000 tons/year

Refinery Production

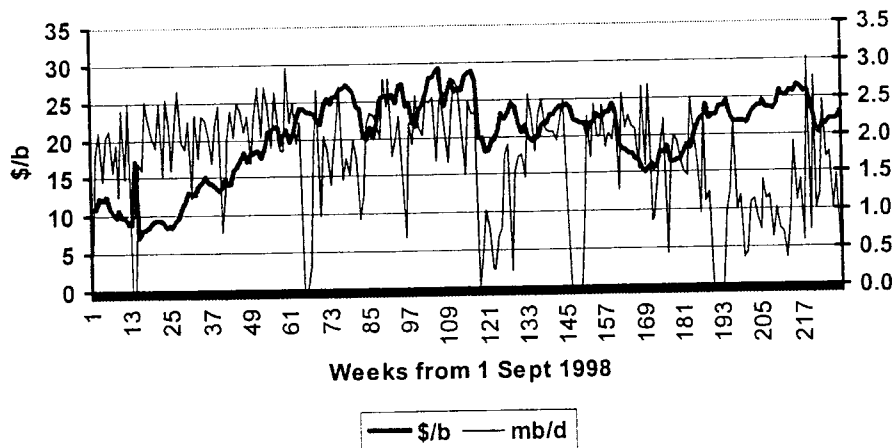
	Daura	Basra	Baiji (1)	Baiji (2)	Total (1)	Total (2)
Capacity	100	150	310	310	560	560
LPG	3	6	7	8	16	17
Gasoline	20	60	81	92	111	112
M. Distillates	28	42	86	103	156	173
Asphalt	9	7	9	26	25	42
Lubes	3	3	3	3	9	9
Fuel Oil	33	57	130	90	220	180

(1) No Hydrocracker (2) With Hydrocracker

Condition of the Refineries

- Refineries were severely damaged as a result of the 1991 war and sanctions.
- Repairs were, to the extent possible, essentially to regain capacity.
- Product specs deteriorated with respect to octane level and sulphur content.
- Loss of storage capacity and planning flexibility.
- Environmental and safety systems are not working to the desired level.
- No new major damage was sustained during the 2003 war.
- The major refineries are building up production with difficulties.
- Electricity supply and disposal of fuel oil product are hindering operations.
- Security problems persist.

Weekly Oil Exports



Oil Sector Contracts under the MOU

Status as at 30 Sept 2002	Number	Value (\$MM)	
Approved by OIP ("fast-track")	1,564	1,303	29.0%
Approved by 661 Committee	3,180	2,072	46.1%
Contracts under Evaluation	1,113	605	13.5%
On "Hold" by 661 Committee	350	517	11.5%
Total Contracts Submitted to UN	6,207	4,497	
Total Goods Received		1,505	33.5%

- 661 Committee has placed many contracts on 'Hold'
- Oil sector equipment & services are usually subject to long lead-times
- UN Secretary General has recommended an additional allocation of € 600 MM per phase for local expenditure ('cash component') approved but never executed.
- \$1,505 MM ~ 25¢ per barrel of oil produced since 1990 (upstream & downstream)

Expected Investment in Iraq's Energy Sector to 2010

<u>Activity</u>	<u>\$ Million</u>
Recovery and maintenance of oil production capacity	2,400
Expansion of oil production capacity	15,000
Investment in associated gas	3,000
Gas export project to Turkey	1,700
Reconstruction & modernization of refineries	1,000
Expansion and construction of new refineries	2,750
Development and the expansion of products distribution	500
New power stations	9,000
Expansion of the petrochemical industry	2,500
TOTAL	37,850

Based on a paper presented by the Ministry of Oil to the 6th Arab Energy Conference in 1998 in Damascus

UN Security Council Resolution 1483 on 22 May 2003

- Lifted economic sanctions on Iraq
- Grants interim governance powers to the Coalition and confers on them the status of an 'occupying power'
- Creates an Iraq Development Fund held by the Central Bank of Iraq
 - Will receive all oil revenue and other designated funds
 - Disbursements will be at the discretion of the Coalition Provisional Authority in consultation with the Iraqi interim administration.
 - International advisory and monitoring board.
- Reduces the oil revenue paid to the UN Compensation Commission to 5%.
- Dismantles the Oil for Food Programme

Conclusions

- Iraq has paid dearly through 13 years of sanctions and another war only for the world to realize that the purported reason for the war is false.
- The UN and the international community should help Iraq to revitalize, reform and modernize its economy, cancel its debts and allow the expansion of its oil industry for the benefit of its people in the way they see fit.
- The attempt to impose certain economic models on Iraq, particularly in the oil industry, will only spell trouble and curtail vitally needed investment.
- Iraq's oil resources, as in the past, can make the major contribution to Iraq's recovery. However, other economic sectors must be developed to reduce gradually dependence on oil and gas.

The Alternatives

- Another oil for food programme?
Certainly not.
- UN Security Council Resolution 1483 - 22 May 2003?
Not likely.
- The current chaos and trial and error of the occupation forces?
Definitely not.
- The deliberate policy of forced unemployment?
A recipe for disaster.

- The only alternative is an end to the occupation, the independence of Iraq, a government of national unity, reconciliation, democracy and elections, the rule of law and respect of human rights.