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**LETTER DATED 22 OCTOBER 1990 FROM THE SECRETARY-GENERAL
ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL**

I should like to refer to your predecessor's letter of 24 September 1990 conveying to me the contents of a special report of the Committee established under Security Council resolution 661 (1990) concerning Jordan (S/21786), and asking me to proceed to implement the recommendations and actions contained in that report.

In light of that report, I requested Mr. Jean Ripert, former Director-General for Development and International Economic Co-operation at the United Nations, to undertake, in co-operation with the Government of Jordan, a full assessment, with suggestions for appropriate remedies, of the problems resulting from measures that Jordan has undertaken to comply with Security Council resolution 661 (1990). Mr. Ripert's findings, which are outlined in the attached report, underscore the urgency with which Jordan's concerns must be addressed.

In this connection and in accordance with the recommendations of the Committee, I am addressing to all Member States an appeal requesting them to provide the necessary immediate assistance to Jordan to mitigate the consequences of the difficulties faced by it as a result of this crisis. Furthermore, I intend to call on the agencies, organs, organizations and bodies of the United Nations system to intensify their programmes of assistance in response to the pressing needs of Jordan.

(Signed) Javier PEREZ DE CUELLAR

Annex

REPORT ON A MISSION TO JORDAN UNDERTAKEN BY THE SPECIAL REPRESENTATIVE
OF THE SECRETARY-GENERAL, MR. JEAN RIPERT, FORMER DIRECTOR-GENERAL FOR
DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION

Letter of transmittal

New York, 17 October 1990

Mr. Secretary-General,

I am pleased to transmit to you, attached herewith, my report on the mission you requested me to undertake in Amman to assess, in co-operation with the Government of Jordan, the problems resulting from measures it has taken to comply with Security Council resolution 661 (1990), including especially the question of supply of petroleum and its derivatives. As requested by you, I have added to this assessment suggestions for possible remedies.

Please do accept, Mr. Secretary-General, the expression of my warmest regards.

(Signed) Jean RIPERT

Introduction

1. At the request of the Secretary-General of the United Nations, I undertook a mission to Jordan to assess as expeditiously as possible, in co-operation with the Government of Jordan, the problems resulting from measures taken to comply with Security Council resolution 661 (1990), including especially the question of supply of petroleum and its derivatives. 1/ I was also asked to make suggestions for appropriate remedies.

2. In preparing the report, I visited Jordan from 10 to 15 October where I held extensive discussions with His Royal Highness Prince Hassan Bin Talal; the Prime Minister, Mr. Mudar Badran; the Minister of Finance, Mr. Basil Jardenah; the Governor of the Central Bank of Jordan, Mr. M. Said Nabulsi; the Minister of Trade and Industry, Mr. Ziad Fariz; the Secretary-General of the Ministry of Planning, Mr. Safwan Tukan; and several other high-level officials. They were all extremely forthcoming and helpful. Indeed, it was only due to the long hours put in by themselves and their staffs that it was possible to complete this report in the short time allotted and yet incorporate the details I felt necessary for a full assessment.

3. I also availed myself of the opportunity to meet with the ambassadors to Jordan of several donor countries and with representatives of the private sector there. I had useful consultations with the staffs of the International Monetary Fund (IMF) and the World Bank and with my former United Nations colleagues, H.E. Sadruddin Aga Khan, the Personal Representative of the Secretary-General for Humanitarian Assistance relating to the Crisis between Iraq and Kuwait, and Mr. M'Hamed Essaafi, the United Nations Disaster Relief Co-ordinator. The United Nations Resident Co-ordinator, Mr. Ali Ahmed Attiga, not only ensured the totally smooth arrangements for every appointment, but was an important source of information and expertise about Jordan as well.

4. I would also like to express my gratitude to my United Nations staff for their very efficient assistance in analysing the data and helping me to elaborate the report. Last, I wish to thank the Secretary-General for according me the honour of being his representative on this sensitive and important issue and to serve once more the Organization I hold so dear.

I. EXECUTIVE SUMMARY

5. My assessment, in brief, is that, owing to Jordan's location, its history and the structure of its economy, it has been placed in an extremely difficult situation by the political crisis in the region and the implementation of Security Council resolution 661 (1990). Jordan's difficulties are further compounded by the interruption of the usual trade and financial relations with Saudi Arabia on which it had come to count. The overall economic burden on Jordan relative to its total economic activity is much larger than that on any other country except Kuwait and comes at a time when the country had only begun to see some recovery from a painful correction of economic imbalances undertaken in 1989. That recovery has since been

overwhelmed by developments in the region and the current economic outlook can only be described as grave. This notwithstanding, I am convinced, based on precise indications from higher levels of the Government of Jordan, that it has the determination to continue implementing the United Nations embargo against Iraq.

6. The situation in Jordan warrants emergency financial assistance from the international community for as long as the Security Council resolution remains in force. 2/ Certain financial pledges have already been made to the Government, as mentioned in a letter from the Jordanian Minister of Finance (see appendix I), but the requisite volume of financial flows and their co-ordination have yet to be arranged. The assistance should be provided through a combination of official bilateral grants, concessional loans, waivers of interest payments due to Governments on civilian and military credits and additional multilateral flows. I also recommend that special trade concessions and assistance be rendered to Jordan to allow it to divert more of its exports to third markets rather than shut down much of the domestic economy that has been struggling in recent years to build up and diversify its export base.

7. The corollary of Jordan fully implementing the embargo against Iraq should be the implementation of a concerted programme of financial support by the international community that goes beyond pledges. As the financial situation in the country is weakening rapidly, some of the international assistance needs to be disbursed immediately. In some cases, ongoing and viable development projects have been placed in jeopardy by the disruption of relatively small flows of highly concessional credits from Kuwait and those projects should be protected (see appendix II).

8. My overall estimate is that Jordan will lose almost \$730 million in 1990 as a result of the embargo set up under resolution 661 (1990) and it would lose almost \$160 million a month in 1991 should the embargo continue. These losses assume that Jordan continues to take its petroleum supplies from Iraq. If it switches to another supplier, its losses rise to almost \$1 billion in 1990 and about \$200 million a month in 1991. Even so, these would not be the full costs to Jordan of the crisis in the Persian Gulf which are estimated at \$1.5 billion in 1990 and up to \$300 million a month in 1991 assuming that purchases of Iraqi oil are discontinued.

9. The discussion to follow explains my basis for these conclusions. Appendix III shows the worksheets underlying the financial assessment so as to facilitate discussion by relevant parties interested in how the estimates were prepared and the assumptions made. Other estimates have already been presented to official bodies on the cost of the situation to Jordan and the cost of enforcing the sanctions contained in Security Council resolution 661 (1990). They differ according to when the estimates were prepared, the items included in the exercises and the assumptions made about future movements of the price of petroleum and other imponderables. Even so, all the estimates are of similar orders of magnitude in that they all indicate that the situation is very serious and that substantial emergency assistance from the international community is required.

II. IMPLEMENTATION BY JORDAN OF SECURITY COUNCIL RESOLUTION 661 (1990)

10. The assessment of the problems resulting for Jordan from its compliance with resolution 661 (1990) required first a review of the measures adopted by the Government and of the implementation of those measures. The Jordanian authorities have readily supplied answers to my questions on this issue, which has become particularly sensitive in recent weeks, apparently as a consequence of an increase in truck traffic on the main road leading to the Iraqi border.

11. The memorandum addressed to me by the Minister of Finance (see appendix I, enclosure) answers the questions I had raised and confirms the indications that have been given orally to me by the Prime Minister himself. These indications complement the documentation addressed by the Government of Jordan to the Security Council in previous communications: what they are adding is a clear renewed affirmation of the determination of Jordan to "implement fully the sanctions ... and not to tolerate any violation" as well as specific indications on the actions taken to achieve these objectives.

12. I wish to add that in the course of my consultations in Amman I did not hear any expression of doubt on the intentions of the Government. The fear was expressed, however, that economic incentives or sharp political feelings could erode the observance by the population of the regulations promulgated by the Government. Such a danger cannot be ignored. But it does not exist exclusively in Jordan. I would like to stress here that, in order to minimize it, it is extremely important to see the international solidarity with Jordan being reflected now in specific measures and not only in general commitments. Compensation for the losses attributable to the embargo must accompany the actions taken by the Government. This concomitance in action is particularly necessary in the case of Jordan, as the losses are very heavy.

III. ECONOMIC IMPACT OF THE EMBARGO AND THE CRISIS ON JORDAN

13. In August 1990, the Government of Jordan submitted to the Security Council two estimates of its losses arising from implementation of resolution 661 (1990): 3/ in September, the World Bank prepared estimates of the effect of the Gulf crisis on a range of countries, including Jordan; the United States Government undertook some estimates that were incorporated into an IMF estimate prepared at the request of the United States in early October; and Jordan prepared a third estimate in September and a fourth in October, after consultations with IMF and the World Bank in Washington.

14. Because several different estimates were thus in the public domain and because the explanatory notes for all these estimates were not always as clear as one might wish, I asked the Jordanian authorities to meet with my team and help them to derive an agreed set of numbers drawn from a set of explicitly detailed assumptions. The result is embodied in table 1 and appendix III, which shows the detailed assumptions and calculations that underlie the table. In all cases, we ended with inputs to the calculations with which the Jordanian authorities concurred. Indeed, they supplied most of them. 4/

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15. The result of this exercise is that, as it now stands, Jordan is estimated to be suffering a foreign exchange loss of almost \$730 million in 1990 that is attributable to the United Nations embargo. Assuming the embargo continues into 1991, the losses would continue at a rate of almost \$160 million a month (see table 1). Jordan is also suffering losses that can be tied to the Gulf crisis, if not directly to implementation of Security Council resolution 661 (1990). These were estimated at almost \$570 million in 1990 and over \$90 million a month thereafter. These losses include official grants to the fiscal budget of Jordan that were firmly anticipated in the view of the Government, as well as disbursements from institutions based in Kuwait that were funding several projects in Jordan (see appendix II).

16. Finally, there is the question of Jordan's oil supplies. Currently these are taken entirely from Iraq in truck deliveries to the Jordanian refinery. Iraq is delivering 41,000 barrels of crude oil a day to Jordan at \$16.40 per barrel and is supplying fuel oil at \$65 per metric ton. In addition, Iraq recently offered Jordan an additional 30,000 barrels of oil per day free of charge. Jordan is not currently paying cash even for the \$16 oil as it is owed money on earlier loans that Jordan had made to Iraq and Iraq is in effect repaying these loans with crude oil. These are highly concessional conditions in today's market and the cost for Jordan of switching its oil supplies to another country would be very high.

17. The cost of switching to oil at commercial terms from other suppliers is shown in table 1 under two assumptions about the price of crude oil and fuel oil and with the assumption that Iraq would not begin servicing its debt in cash if it could no longer do so with oil. 5/ Including the cost of switching oil supplies to another supplier would thus bring the total estimated cost of the crisis to \$1.5 billion in 1990 and about \$300 million per month in 1991.

18. It should be appreciated that these estimates are very large for such a small economy as that of Jordan. For example, the 1990 estimates in table 1 expressed as a share of 1989 gross domestic product (GDP) range from 16 to 35 per cent. 6/ As a share of 1989 foreign exchange earnings, they range from 24 to 51 per cent. This represents vulnerability of a unique order of magnitude that grows out of Jordan's economic relations with its neighbours.

19. The Jordanian economy is a victim of geography and political developments. Jordan's only port is Aqaba and much of the traffic through it has been the transit trade of Iraq. 7/ Trucks bound for Iraq from Aqaba were joined by others carrying domestic products. Iraq was Jordan's largest export market, absorbing over 20 per cent of domestic exports in 1989. Iraq has also been a major source of imports, supplying 17 per cent of the total in 1989. Most crucially, however, Iraq supplied Jordan during the same year with 80 per cent of its energy supply in the form of crude petroleum and fuel oil, the latter needed because the mix of products produced by refining imported crude leaves Jordan short of fuel oil for domestic power needs.

20. Jordan is also heavily dependent on a second neighbouring country, Saudi Arabia. Indeed, although no oil is currently flowing through it, a pipeline runs from Saudi Arabia to Jordan's one refinery. Saudi Arabia has also been Jordan's

Table 1. External financial losses of Jordan arising from implementation of Security Council resolution 661 (1990) and the Middle East crisis

(In millions of dollars)

	1990 total	1991 monthly	1991 annual
<u>Losses attributable to resolution 661 (1990)</u>			
Export-related losses	229	63	756
Losses of earnings from services			
Transportation a/	103	28	340
Workers' remittances	122	26	318
Travel (tourism) b/	274	41	487
Subtotal	728	158	1 901
Potential loss from switching oil supplies			
Higher oil bill c/			
Low variant d/	115	21	257
High variant e/	138	40	479
Iraqi debt not being repaid f/	110	12	145
Total losses attributable to resolution 661 (1990)			
Low variant	952	192	2 303
High variant	975	210	2 525
<u>Other losses associated with the situation</u>			
Additional losses in foreign earnings			
Other Gulf transportation	35	10	115
Other Gulf workers' remittances	91	20	238
Other services	49	11	129
Budgetary losses (foreign exchange)			
Kuwaiti grants not deliverable	75	15	185
Other grants not received	235	35	415
Disbursements from Kuwaiti-based development institutions not received	35	3	40
High Committee for Repatriation of Third-Country Evacuees			
Outstanding expenses	48	-	-
Total other losses	568	93	1 122
Total losses			
Low variant	1 520	285	3 426
High variant	1 543	304	3 648

(Source and footnotes on following page)

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(Source and footnotes to table 1)

Source: Government of Jordan and United Nations Secretariat estimates.

a/ Transit trade with Iraq and Kuwait, Aqaba port, marine, and aviation.

b/ It was not possible to separate losses directly associated with the resolution from losses incurred from the overall deterioration of the security environment in the region. Given Jordan's heavy dependence on tourists from Kuwait and other Gulf countries and vacationing Jordanians living abroad, it was decided to classify this item under direct effects.

c/ The comparator price is \$13/bbl (including Iraqi free crude offer for 11,000 b/d and \$16.40 for 41,000 b/d); fuel oil comparator price is Iraqi price of \$65 per metric ton.

d/ Crude oil price of \$35/bbl in 1990 and \$25/bbl in 1991; fuel oil prices of \$130/metric ton and \$90/metric ton.

e/ Crude oil price of \$40/bbl in 1990 and \$35/bbl in 1991; fuel oil prices of \$145/metric ton and \$130/metric ton.

f/ By allowing Jordan to pay for its oil imports with monies owed to it, Iraq is currently servicing this debt. However, it may be assumed that Iraq would not begin to make cash payments if Jordan stopped importing Iraqi oil.

third largest export market. Again, as in the case of Iraq, the road that takes Jordanian exports to Saudi Arabia also carries transit traffic, this time mainly trucks from the Syrian Arab Republic and Turkey.

21. The economic impact of the Gulf crisis on Jordan first entailed the cut-off of exports and transit trade to Iraq and Kuwait and then as tensions rose with Saudi Arabia, a virtual cut-off of trade with and via that country. A major devaluation of the Jordanian dinar in 1988 had provided the needed stimulus to Jordanian exports: but suddenly in the summer of 1990, farmers and manufacturers were unable to export to these markets. Even pharmaceuticals are in fact no longer flowing, according to the Jordan Trade Association, because "Iraq has no money in the protocol agreement with Jordan". 8/

22. Jordanian importers as well as exporters are experiencing grave difficulties in arranging transport through Aqaba, both because of the high cost of freight and insurance in the current tense situation and because so few ships now come to Aqaba. In the past, trading firms could easily arrange shipments of container loads of Jordanian goods on ships that were carrying mainly Iraqi cargo. That trade no longer exists. Indeed, private sector interlocutors confirmed what Jordanian officials had first told me, that many shipments of goods originally bound for Jordan when the crisis began were instead unloaded in ports ranging from Spain to Port Sudan. 9/

23. As with most other small countries, merchandise trade is important for the Jordanian economy. But Jordan is mainly a service economy and its service sector is also seriously impaired by the situation between Iraq and Kuwait. There are two major components of that sector that have been especially hard hit. Transport is one, including port activities at Aqaba, but also transit trade. The travel industry is the other. It is at a standstill. The hotels and restaurants are virtually empty and the activities mainly catering to the tourist trade are virtually idle. Most clients in hotels are no longer tourists and business travellers, but news reporters and a few official visitors. In the travel sector as in transportation, unemployment is rising.

24. The income of Jordan's 3 million inhabitants is traditionally bolstered by the earnings of Jordanian workers in other countries of the region. Indeed, workers' remittances bring to Jordan roughly the same amount of foreign exchange as all merchandise exports together. Yet, what Jordan is witnessing today is a massive repatriation of a large part of its labour force. Not only are the repatriated earnings of these workers no longer available to the Jordanian economy, but the people must be reintegrated into the productive economy, at least until the situation in the Gulf reverts to normal.

25. The number of returnees is not known at this time, but the Government estimates from the jump in school enrolments that over 100,000 people have returned in the two months since the crisis broke out. Jordan will need assistance in providing basic social and economic services to the returnees and in providing the training and associated costs of job creation. 10/ Indeed, as the Crown Prince himself noted to me, some of the expenses that Jordan has been meeting in the Palestinian refugee camps are very difficult to sustain in the current financial

and economic crisis. They could not be increased to meet an influx of Palestinian refugees.

26. In addition to these major losses to output and employment, the Government budget was also thrown into disarray. The loss of economic activity will be reflected in lost tax revenue, in addition to which, important budgetary support firmly expected from Kuwait and Saudi Arabia has failed to materialize. ^{11/} The Government sector is a major employer and provider of services and so, in the absence of new revenue sources, government expenditure and thus employment will have to be severely curtailed.

27. The only alternative would be to finance a huge deficit out of inflationary increases in Government borrowing from the central bank. As it is, the Government was making progress in reducing inflation through its macro-economic adjustment programme, albeit at the cost of two years of falling output. ^{12/} The consumer price index had largely stabilized by March 1990, remaining virtually unchanged through July, although the disturbances since August would undoubtedly begin to have an impact. In this environment, the last thing Jordan needs to do is to set off a new inflationary spiral through excessive money creation.

28. Another part of the losses that greatly troubles Jordanian authorities is the freezing of financial assets, especially personal bank accounts, in Kuwaiti banks and conversion of these accounts into Iraqi dinar deposits. If the crisis is resolved soon and the funds in these accounts are returned to their owners in hard currency, the problem will have only been the temporary loss of liquidity. The great fear in Jordan, however, is that the crisis may be a protracted one and many Jordanian people may lose savings accumulated over many years of work in the Gulf.

29. When the various components of the economic situation in Jordan are put together, the picture is a disconcerting one. In the agricultural sector, in particular among the vegetable growers, there is an atmosphere of uncertainty and by and large a disincentive to proceed with regular occupations. A number of other population groups, such as truck drivers or small-scale owners are working far under their normal capacity, adding to the number of the partially unemployed. Aged Jordanian families that depend on relatives' remittances are also severely affected by the crisis, although traditional extended family relationships generally serve to protect them, as well as the returnees, from outright destitution, at least in the short run.

30. In sum, the Jordanian economy has been battered by the crisis in the Gulf region in general and by the United Nations embargo on trade with Iraq in particular. Jordan is not the target of the embargo, but it may be its greatest victim. As it is, the economy will be crippled within a few weeks if emergency financial support is not forthcoming from the international community, beginning immediately. Continuing financial support will be essential for as long as the crisis lasts.

IV. REMEDIES

31. On 20 August 1990, the Deputy Prime Minister and Minister for Foreign Affairs of Jordan wrote a letter to the Security Council which concluded as follows:

"Motivated on the one hand by their wish to carry out their Charter obligations in good faith, and conscious at the same time of the excessive onerousness for Jordan arising from compliance with resolution 661, my Government hereby officially requests to enter into consultations, on an urgent basis, with the Security Council with regard to finding a solution to the problems that will arise from the carrying out of measures under Chapter VII." 13/

It is my finding, as reflected in the previous section, that the request of Jordan for assistance indeed requires prompt international action. The Security Council should make every effort to see that these embargo-related losses are compensated in full in order to avoid destabilizing the economy and the country.

A. Financial assistance

32. When the situation arose, Jordan was struggling through difficult economic adjustment programmes designed in conjunction with IMF and the World Bank. Those programmes have to be reformulated in light of the new situation. As I left Amman at the close of my visit, the Government was preparing for missions of the Fund and the Bank. In the weeks to come, a new package of policy measures and multilateral financing may well emerge.

33. Unfortunately, IMF and the World Bank are not able to reduce significantly the financing gap with the resources under their control. Additional bilateral assistance will be needed to supplement these resources and it will have to be provided on highly concessional terms, which neither the Fund nor the Bank can supply to Jordan under current arrangements. If oil prices stay up, Jordan's requirements, like those of other energy-importing countries, may need to be addressed through a new multilateral facility. For the time being, in any event, owing to borrowing from IMF in 1989, relatively little additional credit is available to Jordan from the Fund. Its financial role is now more of a catalytic one, providing access to other forms of finance, including the Paris Club. But significant bilateral assistance is also needed from industrial and developing countries in a position to contribute.

34. Jordan has received much assistance from other Arab States in the past, most recently as a result of the Baghdad Summit in May 1990, but the current crisis has disrupted the flow. Not only has assistance from Kuwait been discontinued, but current relations with other Governments in the Gulf have led them to restrict their financial support. Yet, it is difficult to conceive of a solution to Jordan's problems that does not include appropriate arrangements with neighbouring Arab States. I cannot withhold comment while looking straight at a very major humanitarian problem. Jordan is now absorbing hundreds of thousands of Jordanians and Palestinians who were living and working in Iraq and Kuwait. Jordan is a small country with very limited resources and this is a very large number of people.

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B. Debt relief

35. Despite rescheduling its debts in 1989 in the Paris and London Clubs, Jordan has to make large interest payments on its civilian and military debts totalling \$585 million this year. Coupled with principal payments, this accounts for 30 per cent of 1990 GDP, according to the Jordanian authorities. For 1991, for which a debt rescheduling has not yet taken place, debt servicing is expected to absorb 43 per cent of GDP.

36. The Paris Club has responded to the Houston Summit call for improved terms for certain groups of countries and would accord those terms to Jordan at its next rescheduling exercise. Those terms do not, however, include relief on interest due on rescheduled debt payments (what in Paris Club terminology is called "moratorium interest"). For Jordan, at least, this is not enough. But an emergency meeting of official creditors could provide Jordan with a large measure of relief to its international cash flow if it produced an agreement to forgo interest payments on debt to bilateral creditors for the duration of the sanctions against Iraq.

37. According to the Ministry of Finance, Jordan has to pay \$184 million in 1991 in interest on military debt alone and it has identified cancellation of interest on military loans as well as reduction of official debt as areas in which it seeks assistance. I support this suggestion. It could be argued that the interest payments on military debt (or civilian debt, for that matter) should be capitalized in order to provide immediate cash-flow relief. But since Jordan's obligations are already beyond its debt-carrying capacity, adding to them will not solve the problem.

C. Urgent cash infusion

38. Taking account of the delays common in arranging assistance efforts of the type being discussed here, there is also a need to take some immediate measures for Jordan to prevent serious difficulties from erupting. One is an emergency cash infusion so Jordan's foreign exchange reserves are not exhausted and confidence in the currency is not disrupted. It could be arranged in various ways. One is to advance a portion of the funds from what is known will be a substantial assistance programme for Jordan, the details of which will take time to work out. A second way is advancing disbursements out of existing commitments to ongoing projects and programmes. Bilateral and multilateral donors should examine their portfolios to see where such disbursements might be arranged. A third way could be to open a line of credit at a financial institution of the donor country on which Jordan would be permitted to draw quickly.

D. Protecting ongoing projects

39. It is my understanding from discussions with the Jordanian Government that work on some development projects may have to be stopped very soon. In some of these projects, expenditures have been incurred and the Government has applied to the donor institutions, which are based in Kuwait, for funds with which to pay its

obligations. The funds have not been received. In other cases, work has been done and payment is rapidly falling due but there is little hope of receiving the disbursements with which to make the payments. Donors should be encouraged to consider taking over the disbursements on these projects for 1990 and 1991 or even to make longer-run commitments so that contractors and others will be able to continue working on the projects. A list of the projects at risk and the as yet undisbursed amounts of the loans from Kuwaiti institutions is appended in appendix II.

E. Outstanding evacuee expenses

40. Over the past two months or so, 800,000 people from Iraq and Kuwait were evacuated through Jordan, almost all of whom had already left the country by the time of my own departure. Although it is not strictly within the mandate of my mission, I want to report the universal praise that I heard from the ambassadors to Jordan of donor countries and from United Nations agency representatives about how efficiently and humanely the Jordanian Government and the Jordanian people handled the evacuee problem.

41. A High Committee for Repatriation of Third-Country Evacuees was established to co-ordinate the effort and, as of my visit to Jordan, \$48 million of the Government's expenses had not been covered by international assistance. The uncovered financial outlays were exceptionally debited against regular lines in the national budget, which were already under excessive strain. A special appeal has been launched to cover these outstanding expenses so that essential government services can be maintained. This appeal should be answered with the utmost speed and gratitude to Jordan.

F. International trade

42. The cash-flow estimates in table 1 were based on an assessment of the current situation and short-term prospects for foreign exchange earnings. One difficulty was in identifying alternative markets for merchandise exports. This is a problem in particular for the current harvest of vegetables and fruits. There is at least one new market, however, accessible by air and undoubtedly supplied by air, that would last as long as the crisis, namely, the military forces massed in Saudi Arabia. I suggest that the appropriate authorities investigate whether or not at least some of this market could not be opened to Jordanian exports. It also warrants investigation whether other markets, say, in Eastern or Western Europe, might not be opened more, even on a temporary basis, so as to provide encouragement to Jordan's farmers to plant their next crop in the hope of having a market in which to sell the next harvest.

G. Co-ordinating assistance

43. The international community needs to ensure that it has the ways and means to answer Jordan's appeal for assistance with speed and efficiency. As with every

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special international effort made for a country, there will be a need to co-ordinate the one for Jordan. The Security Council broached the issue in the report that called for my investigation (S/21786, para. 8). It is a well known experience that each donor - bilateral and multilateral - has its own priorities and the overlap with the priorities of the recipient is usually less than perfect. Aid co-ordination has been a perennial topic among donors and at the United Nations and one needs to be realistic about its limitations.

44. However, as this is a special situation, there is great urgency to ensure that funds flow adequately and that reciprocal confidence between donors and recipient is maintained. To that effect, it is not necessary to establish any new permanent machinery. But at an appropriate time, I think it will be useful to convoke an ad hoc meeting of donors that would be chaired by an appropriate authority of the Jordanian Government. The meeting would be assisted by the staff of the World Bank, IMF and the United Nations in their respective areas of competence. The object would be to ensure that the funds mobilized were appropriate to the tasks assigned them. It could be a forum for a wide-ranging review that would attend to the requisite financial flexibility, while being sensitive to the urgency of the political mandate.

Notes

1/ The mandate derived from paragraph 4 of the observations and recommendations in the special report of the Security Council Committee established by resolution 661 (1990) (S/21786).

2/ Jordan was in the midst of a programme of macro-economic and structural adjustment when the crisis erupted. Supplementary international adjustment assistance will now be needed. Indeed, missions were scheduled to arrive in Jordan from IMF and the World Bank in the coming days to assess the situation in that regard.

3/ See S/21620, transmitting a letter dated 20 August 1990 and S/21786, annex, containing a letter dated 27 August 1990.

4/ For most elements in the calculations, the losses were measured relative to the targets established in Jordan's economic programme with IMF. In the opinion of Fund staff, although the IMF programme had lapsed, the targets in the current account of the balance of payments remained a reasonable basis for comparison with subsequent developments. In the case of financial flows to Jordan, the loss was measured against firmly expected levels of assistance. For additional details, see appendix III.

5/ One additional cost built into the calculation follows from the assumption currently made that Saudi Arabian oil would not be made available on a secure basis through the Tapline pipeline. Jordan switched to taking large deliveries through the pipeline in September 1990, but after three weeks it was discontinued by the Saudis in a dispute. The calculations detailed in appendix III thus include the cost of leasing an oil tanker to act as a floating storage tank to

Notes (continued)

receive shipments of oil, from where they would be transferred to trucks and taken to the refinery.

6/ These estimates are comparable to the estimate of the World Bank in September 1990 that some 30 per cent of Jordan's gross national product (GNP) was lost. By way of comparison, the Bank estimated that the country with the second largest impact expressed as a share of GNP was Egypt: it lost 4 per cent.

7/ Transit trade was 40 per cent of total trade through Aqaba and 71 per cent of imports by volume in 1989 (Central Bank of Jordan, Monthly Statistical Bulletin).

8/ Letter to the Minister of Industry and Trade from S. T. Darwazah, Chairman, Jordan Trade Association, 14 October 1990.

9/ According to the Government, these specific goods have now been disposed of so it is not a matter of trying to move them to Jordan. It is rather to indicate the barrier Jordan now faces in trading with other countries.

10/ The United States Government in its assessment of the impact of the crisis in Jordan estimated the cost of expatriate subsistence and job creation to be \$200 million in 1990 and \$520 million in 1991. These estimates did not originate with the Jordanian Government and are noted here only for reference.

11/ The magnitude of the problem may be appreciated by the fact that in 1989 foreign grants comprised over one third of government revenues and accounted for 12 per cent of GDP. These proportions had been smaller in previous years, but Jordan was being supported in a major new economic adjustment programme with resources from the Gulf States that had recently begun to recover following the rise in oil prices.

12/ GDP fell 2 per cent in 1988 and 4 per cent in 1989 (Central Bank of Jordan, Monthly Statistical Bulletin, July 1990). Meanwhile, population grew by 4 per cent a year.

13/ S/21620, annex.

Appendix I

Letter dated 15 October 1990 from the Minister of Finance of Jordan
to the Special Representative of the Secretary-General

As per your request, I enclose herewith a memorandum that outlines the current situation with regard to the measures that we have taken to implement Security Council resolution 661 (1990).

I take this opportunity to confirm to you again the strong commitment the Prime Minister of Jordan made to you during your meeting with him on 13 October 1990, in which he confirmed strongly that the Government of Jordan:

(a) Is implementing fully the sanctions as called for in Security Council resolution 661 (1990);

(b) Will not tolerate any violation in the implementation of the sanctions;

(c) Has recently established two additional check-points at the Iraqi boundaries to ensure that there is no flow of goods moving from Jordan to Iraq other than pharmaceutical preparations and medical products;

(d) Should it discover any violation, it will take the necessary measures to stop such violations and undertake effective measures against the parties that are breaking the sanctions.

In the meantime I would like to point out the following with regard to this matter:

(a) It has been brought to my attention that the traffic between Jordan via the Rwaished customs-point which is the customs-point with Iraq has shown recently an increase in traffic. It has also been pointed out that such an increase covered also refrigerated trucks as well as covered trucks. I have personally investigated this matter and I confirm that there has been recently an increase in the traffic and the main reason for this increase is the transport of the furniture of the Jordanian returnees (Jordanians working in Kuwait and returning to Jordan);

(b) As you recall from our discussion with you we estimate that no less than 120,000 Jordanians living in Kuwait have returned to Jordan since the crisis. Many of those who returned started to bring their furniture to Jordan, and Jordanian refrigerated trucks are being used to transport part of this furniture. Also it seems that these trucks, when they go to Kuwait to bring furniture, are covered to protect them from dust;

(c) Trucks that are going from Jordan to Kuwait via Iraq, whether refrigerated or covered, are inspected before they leave by customs officers and then sealed in order to be able to cross Jordanian check-points;

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(d) Due to the large number of returnees who previously arrived in Jordan without bringing their furniture, it is now expected that these people will attempt to bring their furniture; thus traffic will gain momentum and the volume of such traffic will increase further. However, the Government of Jordan is determined to control this operation in a manner to ensure that any flow of goods from Jordan to Iraq is prohibited.

As for commitments with regard to financial support to Jordan, the following are preliminary indications:

(a) The Prime Minister of Japan notified us verbally that they will provide Jordan with a loan of \$US 100 million (30-year period, with 10 years' grace period and at 1 per cent interest) to finance imports of commodities from abroad;

(b) We understand that the German Government has taken a decision to provide Jordan with a grant of DM 200 million and that this decision would require the approval of the German Parliament. The terms of this grant are not clear to us;

(c) Prior to this crisis, we were negotiating with the Japanese Government a co-financing loan with the World Bank amounting to \$US 150 million. The Prime Minister of Japan notified us verbally that differences over the cost of funds have been overcome and this loan will also be made available to Jordan as soon as possible.

It is my worry that disbursements of the above loans will be delayed and this will subject Jordan's balance of payments as well as the budget to serious difficulties.

Enclosure

Memorandum dated 13 October 1990 on measures carried out by the
Government of Jordan to implement sanctions

Jordan has already notified the United Nations that it will abide by resolution 661 and, on 23 August 1990 it advised the United Nations of the measures it has taken to implement this resolution.

These measures were described in the memorandum enclosed herewith, according to which Jordan has undertaken the following:

1. Iraqi imports-exports through Aqaba port:

(a) Jordan has informed Iraq that it will prevent the transport of goods imported for Iraq through the Jordanian port of Aqaba, with the exception of pharmaceutical preparations, medical products and foodstuffs for humanitarian purposes;

(b) Jordan is imposing a ban on the exportation of all goods and products of Iraqi origin through the port of Aqaba, including petroleum and its derivatives;

(c) Jordan is temporarily allowing foodstuffs that arrived by ship at the port of Aqaba before 6 August 1990 to cross its territory to Iraq in Jordanian and foreign trucks.

2. Trade between Jordan and Iraq:

(a) Jordan will no longer issue permits for the exportation of goods and products of Jordanian origin to Iraq and Kuwait, with the exception of pharmaceutical preparations, medical products and humanitarian foodstuffs;

(b) Jordan will no longer issue permits for the importation of goods and products of Iraqi origin to Jordan, with the exception of certain petroleum derivatives as set forth in paragraph 3 below;

(c) Despite the imposition of a ban on Iraqi goods and products, Jordan will continue to import certain petroleum derivatives from Iraq, particularly heavy oil because of the lack of any immediate or foreseeable alternative and in view of Jordan's total dependence on it for the production of energy. Jordan will consider halting such imports if an alternative becomes available.

3. Movement of people and funds:

(a) All movement of funds to Iraq and Kuwait has been strictly prohibited;

(b) Movement of people and their personal belongings are allowed for humanitarian reasons.

Current situation

Instructions have been issued to implement the above arrangements and the situation at present can be summarized as follows:

1. Issuance of licences: On 25 August 1990 the Minister of Industry and Trade issued instructions to cancel all licences issued to export or import goods between Jordan and Iraq.

2. Port of Aqaba activities: The Minister of Transport and Communications issued on 25 August, instructions:

(a) To prohibit unloading of imports of goods destined for Iraq other than pharmaceuticals and medical products and foodstuffs for humanitarian reasons;

(b) To prohibit Iraqi exports including oil and its derivatives. Port authorities are strictly applying these instructions.

3. Customs authorities: Strict directives have been issued to implement the following measures:

(a) Only the following goods may be imported from Iraq:

(i) Oil and heavy fuel oil;

(ii) Hydrochloric acid (small quantities) which is needed for refining crude oil;

(iii) Chlorine (small quantities) for water purification;

(iv) Trucks and cars carrying personal belongings of expatriates;

(b) All exports of Jordanian goods to Iraq are forbidden except for pharmaceuticals and medical supplies;

(c) Empty oil tankers are allowed to return in order to facilitate transport of oil and heavy crude;

(d) Trucks that enter the country carrying personal belongings are allowed to return across the borders empty;

(e) Personal passenger cars are allowed to cross from Iraq to Jordan and vice versa.

As stated above, crude oil and fuel oil are imported from Iraq for the following reasons:

(a) No convenient source of crude oil and fuel oil is available at present;

(b) Iraqi oil is being imported to Jordan on the following conditions:

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(i) Crude oil at a price of \$US 16.40 per barrel CFR Zerqa;

(ii) Fuel oil at \$US 65.00 per ton CFR Aqaba;

(c) The value of imports of crude oil and fuel oil is settled out of Iraqi loans to Jordan and no transfer of funds is being made to Iraq. Should Jordan obtain convenient sources of oil with similar prices and concessionary arrangements, Jordan will be in a position to stop imports of Iraqi oil.

The Customs Authority confirms that it is adhering to these arrangements and there is no traffic whatsoever crossing the Rwaished customs-point other than what has been described above.

Appendix II

Development projects in Jordan with disrupted international funding

Project	Balance of funds to be drawn			
	Arab Fund ^{a/}		Kuwait Fund	
	Percentage of original loan	Amount (Million dollars)	Percentage of original loan	Amount (Million dollars)
A. <u>Ongoing projects</u>				
1. Zarqa-Mafraq Syrian borders highway	29.4	4.1		
2. Mitigation of earthquake risks	51.1	0.8		
3. Aqaba water supply	6.1	0.5		
4. Mid-Ghors irrigation	41.7	8.8		
5. Zarqa basin development (agro)	88.4	15.5	77.7	19.1
6. Telecommunication development	25.4	0.7		
7. Hamad basin development (agro)	93.7	4.9		
8. Shidyia phosphate mines	100.0	28.1	100.0	28.1
9. Zara Ghor Haditha highway	67.5	13.3		
10. Power IV			1.4	0.3
11. Ghor Safi irrigation			17.7	5.0
12. Yutum-South Aqaba highway			30.9	4.7
B. <u>Projects in commitment stage</u>				
1. Support for Bank for Industrial Development	100.0	8.6	100.0	8.6
2. Wehda Dam	100.0	8.6	100.0	8.6

Source: Government of Jordan.

^{a/} Arab Fund for Economic and Social Development.

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Appendix III

Worksheets for calculating external financial costs to Jordan of sanctions provisions of Security Council resolution 661 (1990) and other losses

		Final amounts (Million dollars)	
	1990	1991	
	total	monthly	total monthly
I. LOSS OF MERCHANDISE EXPORTS			
Pre-crisis expected exports, as per IMF document E3S/90/94			
Iraq+Kuwait share of exports, 1989:			(Millions)
But embargo on shipping halted much Aqaba trade, Finance Minister said;			\$103.00
Planning Ministry assumed decline of 40% in other trade. Call it embargo-related.			\$113.33
Embargo applied Sept. 1990			
Total export-related losses			229.07
			63.01
II. LOSS OF SERVICE EXPORTS			
A. <u>Transportation</u>			
Losses on annual basis estimated by Government			
Air traffic + civil aviation			40.00mn dinars
Port and marine (shipping)			33.00
Land transport (transit trade)			201.00
Exchange rate, 1990			1.49 \$/JD
Government estimates all port, marine and air losses are due to Iraq+Kuwait			
Share of Iraq+Kuwait in transit trade, based on 1988 trade data:			65%
=> Total monthly losses			25.78
1990 loss applied for 4 months			
As estimated losses appear relative to pre-crisis levels, assume same revenue growth in 1991 as for exports and same % higher losses =>			
Transportation losses associated with resolution 661:			
NB. Other transport (other Gulf transit)			103.13
Total for other, calculated as above			28.36
			\$8.74/month
			34.94
			9.61

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	Final amounts (Million dollars)			
	1990 total	1991 monthly	1990 total	1991 monthly
<u>B. Workers' remittances</u>				
Pre-crisis expected remittances, as per IMF document EBS/90/94	\$60.83	\$66.17		
Share from Iraq+Kuwait				
Assuming loss in 1990 for 40% 5 months				
Remittance losses associated with resolution 661				
NB. Other remittance losses (other Gulf)			121.67	26.47
Share from other Gulf				
Assuming earnings loss of 60% 50%				
Total for other, calculated as above			91.25	19.85
<u>C. Travel (tourism)</u>				
Pre-crisis expected travel earnings, as per IMF document EBS/90/94	\$54.75	\$58.00		
Assuming loss in 1990 for 5 months				
Total assuming % losses shown (all 661):	100%	70%	273.75	40.60
<u>D. Other services</u>				
A heterogeneous grouping of misc. services; no way to attribute to resolution so classify with other crisis-related services.				
Monthly levels implicit in EBS/90/94, based on central bank "other" group and IMF implicit growth rate	24.42	26.86		
Jordan Government assumed decline of 40%				
Assuming loss in 1990 for 5 months				
Losses on "other" services	48.83			10.74

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	Final amounts (Million dollars)		
	1990 total	1991 monthly	1991 monthly

III. POTENTIAL LOSS FROM THE EMBARGO ON OIL

A. Cost of stopping crude oil flow from Iraq as of mid-October

Volume of crude oil (million barrels)
 Monthly imports, Jan-Sept. 1990 1.42
 + 4th Q increase (seasonality + returnees)
 = Projected monthly imports, rest of 1990 1.60
 Average monthly imports, all 1990 = 1.46
 + annual increase 1991 (growth + more returnees)
 Average monthly imports, all 1991 1.54
 1990 2.5 months if discontinue imports 15 October 4.00
 Price differential for crude oil vs Iraqi offer:

Price (\$/bbl) Amount (1000 b/d)	
16.40	41.00
0.00	11.00
Average offer price: \$12.93 /bbl Price differential	
Alternatives:	
A. Low:	\$35.00
A. Low:	\$25.00
B. High:	\$40.00
B. High:	\$35.00
	\$12.07
	\$27.07
	\$22.07

B. Cost incurred in switching to Saudi oil for 18 days in September

Import volume 0.63 mn barrels
 Cost of delivered crude \$33.20
 Extra cost of this crude vs Iraqi in Sept. = \$10.65 million
 Total extra cost of crude oil (A + B)
 A. Low: 98.97 18.54
 B. High: 118.98 33.89

				Final amounts (Million dollars)	
				1990	1991
				total	monthly
					monthly
<u>C. Oil product imports (only fuel oil significant)</u>					
Volume of products (metric tons)					
Monthly rate based on 9 months 72 640					
+ seasonality/returnees, as above 13%					
= Projected monthly imports 82 083					
Assuming discontinue Iraqi imports 15 Oct=>					
Average monthly import volume, 1990 75 001					
+ annual increase 1991 (growth + more returnees)					
Average monthly import volume, 1991					
Price differential for fuel oil					
compared to Iraqi price of \$65.00/ton					
A. Low: 1990 \$130.00					
A. Low: 1991 \$90.00					
B. High: 1990 \$145.00					
B. High: 1991 \$130.00					
Extra cost of fuel oil					
A. Low:					
B. High:					
D. <u>Cost of leasing a tanker to store delivered</u>					
<u>crude + products at Aqaba</u>					
\$30.00 thousand/day (ignore assoc. costs)					
Total petroleum-related losses					
A. Low:					
B. High:					

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	Final amounts (Million dollars)			
	1990 total	1991 monthly	1990 total	1991 monthly
IV. FINANCIAL RESOURCE LOSSES				
A. Debt repayments due from Iraq, as at 12 October 1990 and not collectible			110.00	12.08
B. Official grants firmly anticipated from Kuwait and not deliverable			75.00	15.42
Other official grants firmly anticipated			235.00	34.58
C. Committed disbursements from Kuwait-based development assistance institutions that are not deliverable			34.71	3.33
D. Jordanian High Committee initial outlays for relief and repatriation of evacuees, as per United Nations Special Appeal, Displaced Persons in Jordan (Amman, undated)			48.00	

Source: United Nations Department of International Economic and Social Affairs.

