



## COALITION PROVISIONAL AUTHORITY

BAGHDAD

### OVERVIEW

*NOTE: This document is provided to 661 Committee members in order to help clarify questions raised in prior discussions. Ambassador Steven Mann will present a comprehensive briefing to the Committee on 17 November. This informal document is intended to help frame the upcoming, detailed briefing by Ambassador Mann.*

The Coalition Provisional Authority (CPA) continues to put in place the necessary processes and controls to manage effectively the transfer of operational responsibility for the Oil For Food (OFF) programme on 21 November per UNSCR 1483 (2003). Significant effort and resources have been devoted to the transition by Iraqi officials, UN agencies and Coalition members.

The top priorities for smooth logistical flow include: food, medicine, and essential spare parts. Food constitutes the most important issue. We take seriously the need to ensure an uninterrupted food pipeline. The CPA has established a coordination center to track and facilitate the flow of these and other goods throughout the country. Finally, the CPA intends to purchase a one-month buffer stock of food.

In the North, the CPA has prepared a transition process that will shift 99 projects worth nearly USD 750 million from UN administration to Iraqi hands. This transfer will result in real responsibility for administration and project management to be driven primarily by Iraqis.

### MAJOR ISSUES

**WFP follow-on role:** The World Food Programme (WFP) has previously worked successfully to maintain the long chain between foreign suppliers and Iraqi distributors; we have asked WFP to continue their work in this area. Between November 2-4, CPA and Ministry of Trade (MoT) representatives met with the WFP in Amman to discuss arrangements for a smooth transition for the food distribution after 21 November. Specific details are being negotiated for a timely agreement on a tripartite memorandum of understanding (MOU).

CPA believes WFP can play a vital role regarding arrangements for transport of some of the goods to be delivered under renegotiated OFF contracts (the expected total is 3.1 million MT). WFP will also be asked to procure a one-month buffer stock to help ensure a sufficient back-up reserve in the food pipeline.

### **Ministry of Trade functions:**

- **Distribution:** continue to manage the distribution of commodities at a national, Governorate and regional level;
- **Procurement:** review and revise procurement procedures in preparation for future procurement of commodities and;
- **Coordination:** coordinate closely with WFP and CPA, both in Amman and Baghdad, to ensure close coordination for what will be a major logistical operation.

In a related area, CPA has been working with the MoT and WFP to ensure that the commodities contained in the Public Distribution System (PDS) food pipeline are sufficiently stocked with supplies through mid-2004 with an additional three-month commodity reserve. The Iraqis, through the tripartite process, sent forward more than 500 OFF contracts to accomplish this goal. The MoT has also been involved in contacting suppliers and requesting delivery dates of goods be moved forward as much as possible. The urgent starting point for this reserve is to procure a one-month buffer stock immediately. The CPA is identifying budget resources that will ensure that this vitally important element of addressing the needs of the Iraqi people is set in motion.

### **SHIPMENT ISSUES**

To allay suppliers' concerns regarding the flow of OFF-contracted goods, we have created a **Coordination Center** in Baghdad to provide oversight of the movement of OFF goods both inside and outside Iraq. The comprehensive center will contain Iraqi and CPA experts in transportation/logistics, communication, and security. It will correspond on a daily basis with border authentication points, foreign trans-shipment and staging locations. Staff will also be trained to help "trouble-shoot" potential problems and be equipped with equipment (computers, internet access, phone/fax communication, etc). Iraqi ministries receiving OFF goods will be represented in the center, as well as have staff located at each designated OFF border point. Approximately 40 personnel, including key Iraqi Ministry employees, will work in the center – which will, in effect, act as a centralized hub for all OFF-related issues post-21 November. Coordination with relevant Iraqi Ministries will be conducted via the Coordination Center.

**Security:** It is of paramount importance to the Iraqis, the CPA, the UN and suppliers that OFF goods arrive safely at their destinations in order to meet the urgent humanitarian needs of the Iraqi people. To address security concerns, the CPA has approved funding for a security contractor whose personnel will integrate with currently existing Iraqi and CPA security assets. Their main task will be to provide additional security coverage along the convoy routes and to liaise with relevant Coalition military officials.

### **UN FOLLOW-ON**

On 21 November, UN agencies are due to cease their activities under the OFF program. Most continued UN involvement in Iraq would come under UNAMI or as part

of an individual country program, as circumstances permit. Under current circumstances, the CPA envisions UN agencies playing a follow-on role in three focused areas: *food, medicine and logistics*.

- WFP will manage transport of goods and procurement.
- The World Health Organisation (WHO) will manage the facility in Amman, where OFF medicines are stored, and transport them into Iraq.
- The UN and CPA are reviewing a possible role for the UNJLC to assist with non-food humanitarian goods.

### **IRAQI PARTICIPATION**

The former Government of Iraq coordinated OFF goods shipments for seven years; the CPA's goal is to utilize those proper, established supplier relationships and expertise -- while augmenting Iraqi capacity. In many cases, this means improving some operational aspects and providing broad management and planning assistance at key points. The CPA's objective will be to ensure that Iraq can utilize these methods and apply them to a period following the termination of the OFF programme, when "normal" commercial practices will apply.

The OFF programme in the three Northern Governorates consisted of programmes and projects executed by the UN. Following the transfer of assets (fixed and non-fixed) by the UN and its various agencies to the CPA, authority for these programmes and assets will in turn be transferred to the Iraqis on 21 November.

In some instances, it has been identified that local capacities do not exist to a sufficient degree for local authorities to accept full responsibility for the ongoing management and planning of particular projects. Where a modest capacity exists, the CPA will provide sectoral and technical advisors within the Iraqi ministries, as well as within the administrative unit that will manage the projects (the Office of Program Coordination -- OPC). These advisors will help ensure a smooth continuation of key infrastructure projects and public services.

The OPC will be based in Erbil and be empowered by the Governing Council to administer programmes and projects that are transferred by the United Nations to the CPA before 21 November. The CPA is disappointed that we still requires project dossier information from the WHO and UNESCO. This will have a significant bearing on the CPA's ability to accept responsibility for projects in these sectors.

Also in the North, the CPA has catalogued, verified, and begun the transfer of tangible assets contracts under the 13% account. Transfer of contracts is well underway in Iraq and in Amman (for international contracts). We have had extensive discussions with the authorities on the structure of the transfer and subsequent management. The CPA will insist on a robust audit capability in administering the projects.

There are more than 2600 Iraqi UN employees whose expertise will greatly support the future administration of the programs. An Iraqi-CPA-UN working group has identified these employees and made plans for the transfer of most to local government or

retention on personal services contract. The role currently performed by WFP in the three northern Governorates will continue but in an advisory role, providing assistance in warehouse and food distribution management to local authorities.

### **CONTRACTS UPDATE/PRIORITIZATION**

At this time 99.6% of the approved and funded contracts have been reviewed for relative utility. Of the contracts sent for re-negotiation, UN agencies have completed 89% of their processing task. The CPA expects UN agencies to continue the re-negotiation process until 21 November.

In the event that a small number of contracts still require re-negotiation, the Coalition will direct contracting and legal officers to work on them. As CPA representatives said in the Security Council on 28 October, *the CPA will continue to honor the fulfillment of all prioritized contracts that are not re-negotiated by the UN agencies by 21 November.* The financing of these contracts will come from funds currently held in the UN escrow account and the Letters of Credit (LCs) currently/previously assigned to those contracts.

Contract prioritization resulted from detailed exchanges among the parties involved in the tripartite review process – Iraqi Ministries, UN agencies and the CPA. Iraqis were at the centre of decisions made in the tripartite review process. Meeting urgent Iraqi reconstruction needs – as advanced by them – served as the sole criterion throughout the process. The CPA believes that attempts to establish prioritization “criteria” is clearly beyond the scope of UNSCR 1483; such an effort would also inevitably lead to unnecessary controversy among suppliers. While some delegations have expressed a desire for determining prioritization criteria -- or, in effect, a set of formal tripartite justifications -- there remains no common Committee position on the matter. It is worth noting, in this regard, that roughly 80% of the contracts considered for prioritization were included in the final prioritized lists that went forward to UN agencies for amendment.

### **ADDRESSING SUPPLIER CONCERNS WHILE MEETING IRAQI NEEDS**

- **Payment:** We recognize that some suppliers remain unsure of the procedures that will guarantee payment and have thus voiced reluctance to ship. CPA will provide continuity in payment mechanism by employing the same system and process used prior to the conflict.
- **Security:** We recognize that the security situation in Iraq represents a concern. The CPA will provide convoy security through a privately contracted firm. The Ministry of the Interior will provide security at Iraq's borders with warehouse security to be handled by individual Ministry Facility Protection Service. Route security will include a “Command and Control” team located in the Coordination Center. Additional teams will be located at the four OFF supply entry points. The new security arrangements will enable armed security patrols to monitor up to 12 convoys per day; additional satellite tracking will be available for 30 more convoys per day.

- **Port capacity:** Backlogs at Umm Qasr cause unwanted demurrage fees. The Coordination Center will address these issues in conjunction with strategic shipping resources from WFP for food shipments. We expect the flow of goods from the port to become smoother as improved communication links are established and Iraqi and CPA staff are supplemented. (NOTE: Ambassador Mann and Major-General Figgures, Deputy Commander of Coalition forces, will travel to Umm Qasr to ensure that the measures in place are sufficient for the task at hand.)
- **Communication with recipients:** Suppliers currently have been communicating directly with the UN agencies. The CPA will provide information to suppliers, through its web site, on how suppliers can re-establish the system whereby they contacted the Iraqi recipients directly. This will clarify lines of communication and facilitate goods delivery. Information on this will be communicated to Sanctions Committee members in due course.

To maintain the flow of goods to Iraq by ensuring that suppliers will receive payment, CPA continues discussions with Cotecna representatives. We anticipate that a final agreement will be reached soon. Continuity and re-assurance for suppliers of OFF goods remains a top CPA priority. Once negotiations are concluded, we will be in a position to inform all interested parties about the follow-on Cotecna contract. CPA will cover the costs until 31 December 2003. After that date, a new contract would be offered that would likely include some modifications to the scope of work. The CPA will share with the Committee all relevant information that will flow from the discussion with Cotecna once ongoing discussions are concluded.

#### **AUTHENTICATION OF OFF-RELATED SERVICES CONDUCTED PRIOR TO THE CONFLICT**

The CPA, in conjunction with relevant Iraqi Ministries, has attempted to ascertain whether services notified to the Office of the Iraq Programme as having been completed have indeed been performed. In some instances it became clear, following investigations by Iraqi Ministry officials, that the services had not been performed. Therefore confirmation/authentication could not take place as requested. The CPA and Iraqi Ministry officials continue to investigate the remaining cases notified by OIP. This time consuming process will continue up to 21 November and beyond.

Where it is possible to authenticate services, the CPA will, as stated earlier, honor its commitment to fulfill contracts. Payment for outstanding services related to contracts will be processed by the UN Treasury, which in turn will notify BNP-Paribas to allow payment to be made. This process, however, would only occur after the CPA and Iraqi Ministry officials are satisfied that services have been performed and can be verified to meet contract requirements. It would be improper, and indeed inconsistent with Security Council resolution 1483 and its demands for proper financial controls, simply to authorize payments from the UN escrow account without proper authentication.

## PAYMENT MECHANISMS POST 21 NOVEMBER

As stated above, the CPA is in contractual discussions with Cotecna to extend their authentication services up to 31 December and possibly beyond. Linked to this will be the question of how suppliers will be able to receive payment for the delivery of their goods. The CPA's overriding principle throughout this process has been to minimize disruptions to suppliers. A key element is maintaining, to the extent possible, the current authentication system. But the reality on 22 November will be that the Office of the Iraq Programme (OIP) will not exist and therefore unable to perform its current role in the authentication process. Any new procedure will need to acknowledge the absence of OIP in the post 21 November payment arrangements.

In this instance, the CPA envisages a process whereby once Cotecna have successfully authenticated the arrival of OFF supplies, the UN Treasury would be notified as such by Cotecna. Upon receipt from Cotecna that the goods have arrived, as per the Letter of Credit and Terms and Conditions of the contract, the UN Treasury would notify BNP Paribas accordingly. This would allow payment to be made to the supplier.

The summary process set out above will mirror the existing procedure with the exception of the involvement of OIP. To the greatest extent possible, both Cotecna and the UN Treasury would use existing procedures for authentication and payment to suppliers.

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*The CPA appreciates the constructive comments and questions raised by 661 Committee members, both via Committee meetings as well as in the Security Council's October 28 meeting. We hope this document helps answer them. The end of the Program marks an important moment for the Committee, for the United Nations as a whole and, most crucially, for all Iraqis. Keeping the transition on track with the UNSCR 1483-mandated timeline has required close cooperation among all parties, sometimes under trying circumstances. We have especially appreciated the hard work and expertise of Under-Secretary-General Benon Sevan and his staff in the Office of the Iraq Programme. Both the Committee's and OIP's able stewardship of the Program in the past has helped lay the groundwork now for a more optimistic economic future in Iraq. A successful transition will represent this shared effort – and shared credit will be due – as Iraqis begin to move from Programme dependency to economic self-sufficiency.*