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LETTER DATED 14 JANUARY 2000 FROM THE SECRETARY-GENERAL
ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

Pursuant to paragraph 9 of Security Council resolution 1281 (1999) of 10 December 1999, I have the honour to submit a detailed list of parts and equipment necessary for the purpose described in paragraph 1 of resolution 1175 (1998).

In order to help prepare the above-mentioned list, I dispatched an expert to Iraq from Saybolt Nederland BV which, under a contract with the United Nations, has been providing independent oil inspection agents since the beginning of the humanitarian programme in Iraq pursuant to resolution 986 (1995). The expert visited Iraq from 15 to 21 December 1999 to review the situation on the ground and, in consultation with the Government of Iraq, to prepare the list of spare parts and equipment necessary to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of resolution 1153 (1998). The report of the expert is attached for your information (annex I).

As stated in my previous reports to the Security Council, the oil industry in Iraq is in a lamentable state. There has been continuing deterioration of the oil facilities in Iraq, which has been adversely affecting the safety of the workers in the oil fields and causing serious environmental damage as well as damaging oil wells - some permanently; details have been provided in my previous reports to the Council (S/1998/330 and Corr.1, S/1998/1233, S/1999/746 and Add.1, S/1999/1053 and S/1999/1162 and Corr.1). The continuing deterioration of the oil facilities may also cause a major breakdown in Iraq's oil production and export capacity, which will have serious repercussions on the implementation of the humanitarian programme.

Accordingly, I should like to reiterate my recommendation, contained in my letter dated 12 October 1999 addressed to the President of the Security Council (S/1999/1053), that the Council approve the request by the Government of Iraq to increase by \$300 million the allocation for oil spare parts and equipment, bringing the total allocation to \$600 million under phase VI of the humanitarian programme. I should also like to inform the Council that the funds for such an increase are available.

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The current conditions of the oil facilities described above call for prompt remedial action. Unless applications for contracts for key items of oil spare parts and equipment are approved expeditiously and are made available and commissioned within a short time, the production of oil is likely to drop, even under a regime of "severe risk management".

For phase VII, the Government of Iraq has proposed an allocation of \$600 million for oil spare parts and equipment, which is twice the amount of \$300 million approved by the Council in resolution 1281 (1999). According to the expert, taking into account the current situation of the oil sector, the proposed allocation of \$600 million would be reasonable.

Without prejudice to the merits of the proposal of the Government of Iraq and the evaluation made by the expert, I should like to keep the matter under further review and await the report of the group of six experts, including oil industry experts, I am dispatching to Iraq from 15 to 31 January 2000 to survey the condition of the Iraqi oil production sector. The recommendations of the group of experts will be taken into account in my report to the Council, pursuant to paragraph 28 of resolution 1284 (1999), on the progress made in meeting the humanitarian needs of the Iraqi people and on the revenues necessary to meet those needs, including recommendations on necessary additions to the current allocation for oil spare parts and equipment.

As at 13 January 2000, the Office of the Iraq Programme has received a total of 1,991 applications for oil spare parts and equipment, with a total value of over \$1.1 billion, of which 1,392, with a total value of \$721 million, have been circulated and 50 declared null and void.

Of the total number of applications circulated, 900, with a total value of \$447 million, have been approved by the Security Council Committee established pursuant to resolution 661 (1990); 438 applications, with a total value of \$217.8 million, have been placed on hold; and 54 applications, valued at \$56.2 million, are pending the Committee's decision. There remain 133 applications, with a total value of \$120.5 million, which have been evaluated by the Office of the Iraq Programme but have not yet been circulated because insufficient information was provided by the applicants. Furthermore, owing to the very high volume of applications for oil spare parts and equipment received since November 1999, there remain 416 applications, with a total value of \$263 million, which are currently under review prior to circulation. The total value of oil spare parts and equipment which have arrived in Iraq, as at 13 January 2000, is \$259.9 million.

In the light of the foregoing, I should like to express the hope that the Security Council Committee will proceed as expeditiously as possible in its consideration and approval of applications for oil spare parts and equipment and to review further all applications placed on hold.

(Signed) Kofi A. ANNAN

Annex I

Report pursuant to paragraph 9 of Security Council
resolution 1281 (1999)

A. Terms of reference

1. In paragraph 9 of its resolution 1281 (1999) of 10 December 1999, the Security Council requested the Secretary-General, in consultation with the Government of Iraq, to submit to the Council no later than 15 January 2000 a detailed list of parts and equipment necessary for the purpose described in paragraph 1 of resolution 1175 (1998).

B. Introduction

2. At the request of the Secretary-General, an expert visited Iraq to ascertain the current requirements for spare parts and equipment in relation to Iraq's ability to sustain its current export capacity of crude oil, and also to review and further assess the potential for increased exports.

3. The visit to Iraq took place from 15 to 21 December 1999. Meetings were held with senior representatives of the Ministry of Oil and of all the operating companies within the Iraqi oil sector, in order to finalize the list of oil spare parts and equipment.

C. Distribution plan for phase VII

4. The distribution plan for phase VII as it relates to oil spare parts and equipment, as submitted by the Government of Iraq, encompasses the following objectives:

Upstream

(a) The completion of 240 wells (40 in the north, 200 in the south), including those for water injection;

(b) The drilling of 160 new wells (70 in the north, 90 in the south), in order to maintain production at 3 million barrels per day, and to move towards 3.3 to 3.4 million barrels per day during 2000 (which was the Iraqi production quota under OPEC in 1990) provided that the timely and complete arrival of spare parts is ensured;

(c) The connection of 120 producing wells (50 in the north, 70 in the south), subject to the availability of necessary flow lines and associated equipment;

(d) The installation of equipment to tackle wet crude problems, especially in the north (Baba and Jambour fields);

(e) Maintaining production via oil field developments in both the north

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and the south, where flow lines and well head valves are very important;

(f) Emphasis on pollution control and environmental damage, particularly with reference to air pollution;

(g) Special emphasis on the production and distribution of gas for the 12 gas-powered power generation plants recently installed.

Downstream

(a) Increasing the quality of products, by refinery improvement and specific plant projects (No. 2 lubrication oil plant at Baiji refinery);

(b) Reducing the use of tetra ethyl lead by bringing in an isomerization plant at Daura and a fluidized catalytic cracking unit at Baiji, resulting in 30 per cent of gasoline production being lead free;

(c) Increasing the efficiency of isomerization units to reduce the sulphur content of gas oil from the current 1.2 per cent to a target of 0.2 per cent;

(d) Targeting specifically the quality of gas effluents from the North and South Gas Companies;

(e) Improving the efficiency of product distribution by increasing the number of gas cylinders available, increasing the number of road tankers and providing increased product storage installations;

(f) The installation of pipelines for both gas and oil to power stations, to replace road haulage;

(g) The rehabilitation of the gas storage installation at Zubair to improve efficiency of distribution and to make gas storage possible when demand is low (rather than flaring), and to provide an export facility.

D. Phase VI production

5. The marginally increased production, and subsequent export volume, during phase VI has been achieved by the connection of previously drilled wells, the impact (short-term) of water injection and the availability of field chemicals (such as demulsifiers) made available under the spare parts programme initiated in phase IV.

E. Present production

6. The Ministry of Oil claims an average production figure for phase VI of 2.75 million barrels per day, with a local consumption figure of 0.6 million barrels per day, thus achieving an export figure of 2.15 million barrels per day. The Ministry of Oil indicated to the expert that this was achieved "under a regime of severe risk management", rather than a "planned programme of good reservoir management".

7. Actual export volumes, over the past three phases, have been monitored at:

Phase IV: 1,712,000 barrels per day
Phase V: 2,009,000 barrels per day
Phase VI: 2,164,600 barrels per day

8. The previous production targets (as of June 1999 = 3 million barrels per day by December 1999, 3.2 million barrels per day by March 2000 and 3.5 million barrels per day by December 2000) have been affected by the delays in approval and delivery of spare parts and equipment.

9. Current predictions for production are therefore very dependent on the approval, arrival and distribution of much-needed spare parts and equipment for the oil industry, and their rapid installation and commissioning. The issue of the impact of spare parts and equipment will be comprehensively addressed during the forthcoming visit of the group of experts, scheduled for January 2000.

10. According to the Ministry of Oil, if all holds were released and subsequent shipments speedily processed and delivered, the target of 3.3 to 3.4 million barrels per day is thought to be realistic; a more likely scenario, as estimated by the Ministry of Oil, would be a reduction in production of some 300,000 barrels per day.

11. Local refinery consumption was estimated to be approximately 540,000 barrels per day, and deliveries to Jordan are between 70,000 and 90,000 barrels per day.

12. Taking the average production of 2.75 million barrels per day during phase VI, and the conservative view that the approval rate and subsequent arrival of spare parts and equipment is not likely to change markedly in the near future, production capacity during phase VII is expected to average in the region of 2.5 to 2.6 million barrels per day. Given similar local refinery consumption and the continuance of crude export to Jordan this would result in overall exports of some 1.95 to 2 million barrels per day, or a similar figure to that achieved in phase VI.

F. Spare parts and equipment for phase VII

13. The list of oil spare parts and equipment for phase VII is submitted in 13 sections, as in previous phases, subdivided into operating companies each with an allocation of funds determined by the Government of Iraq.

14. As in phase VI a number of specific projects are involved and the line item numbering system has been modified to identify each "stand-alone" project. The completion of these projects is dependent on the concurrent arrival of all the line items identified.

15. The total value of the spare parts and equipment as listed exceeds the \$300 million provided for under Security Council resolution 1281 (1999), and from preliminary inspection will exceed \$600 million, should all items be contracted. The expert noted that he had been advised by the Government of Iraq that under phase VI contracts at a value of \$630 million had been signed.

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16. As predicted in previous reports, crude oil production has peaked. Unless key items of spare parts and equipment are made available and are commissioned within a very short time production is likely to drop, even under a regime of "severe risk management". From a technical standpoint (and as previously stated in our report - see S/1999/746) the reversal of this situation would require the allocation of funds for spare parts and equipment under phase VI to be increased. The Government of Iraq's allocation of funds under phase VII taking into account the current situation, therefore, is reasonable.

G. Budget per operating company

North Oil Company - \$135 million

17. The spare parts and equipment submission for the North Oil Company covers repairs and maintenance, as well as the following:

- (a) Drilling of 70 new wells in the Kirkuk, Bai Hasan and Saddam fields;
- (b) Workover of 40 wells in the North Oil Company area;
- (c) Production maintenance of wells in the North Oil Company area;
- (d) Wet crude treatment plants at the Baba and Jambour fields.

South Oil Company - \$230 million

18. This company has by far the largest allocation of funds from the Ministry of Oil, which reflects the problems faced in that region. Major projects include:

- (a) Drilling and completion of 90 new wells in the North and South Rumailah, Luhais and Zubair fields;
- (b) Workover and completion of 200 wells throughout the region;
- (c) Continued rehabilitation of Fao tank farm to enhance storage capacity and export capability;
- (d) Continued development of the West Qurna field;
- (e) Reconstruction of de-gassing stations at South Rumailah;
- (f) Repair and reconstruction of process plants and compressor stations.

Iraqi Drilling Company - \$35 million

19. The spare parts and equipment list for the Iraqi Drilling Company covers requirements for the repair and maintenance of existing drilling and workover rigs, and an application for four new rigs.

Oil Projects Company - \$10 million

20. This application consists mainly of construction equipment requirements, with associated spare parts, consumables, non-destructive testing (x-ray) equipment and necessary office support systems.

Oil Exploration Company - \$10 million

21. This application contains equipment for exploration and production support, site transportation, geological studies and analyses, and a service contract to transcribe existing geological data, which is rapidly deteriorating.

North Refineries Company - \$30 million

22. The phase VII plans for the Baiji refinery are in many cases a repeat of those in phase VI but not ordered (blown asphalt bagging unit, sulphur recovery unit), or only partially ordered (hydro-desulphurization units, lubrication oil plant). New projects in phase VII include:

- (a) Items for boiler water treatment;
- (b) Raw water desalination project;
- (c) Fluidized catalytic cracking unit to improve gasoline quality;
- (d) Equipment to reduce contamination of effluent water.

Midland Refineries Company - \$22.5 million

23. The phase VII plans for the Daura refinery cover general repair and maintenance, automatic boiler operation, and a project for a naphtha isomerization unit to improve the quality of gasoline.

South Refineries Company - \$24.5 million

24. Generalized spare parts and equipment for repair and maintenance are listed, with an automatic tank-gauging control system, and further water treatment units.

North Gas Company - \$10 million

25. This application consists of a wide range of transport requirements, environmental control systems, safety equipment and general consumables.

South Gas Company - \$15 million

26. Apart from routine spare parts and equipment for repairs and maintenance, the plans for the South Gas Company include:

- (a) The repair of the Khor-Zubair natural gas liquefied and liquefied petroleum gas plants to treat and store gas for power station and domestic use, reducing the amount of flaring and subsequent pollution, and also the repair of the Khor-Zubair gas storage and cooling plant;

(b) The repair of the North Rumailah sour gas treatment plant.

Oil Products Distribution Company - \$32 million

27. Spare parts and equipment for the repair and maintenance of the distribution system throughout Iraq, with materials and equipment to build nine storage tanks in the Euphrates area, Mosul and Baghdad, to reduce dependency on vehicular transport.

Oil Pipelines Company - \$41 million

28. Control and internal measurement systems are featured, along with pumping stations for the north area (Mosul), to deliver products to the local power station, and the commencement of repair work - via an intelligent pigging contract - to the North Rumailah-Nassiriya dry gas pipeline. Equipment for the repair of the North Rumailah gas compressor station is also included.

Gas Filling Company - \$25 million

29. As in previous phases, the distribution plan focuses on the replacement of leaking and dangerous liquefied petroleum gas cylinders, with spare parts and equipment for the repair and maintenance of filling plants country-wide.