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Letter dated 6 June 2001 from the Secretary-General addressed to the President of the Security Council

In paragraph 15 of its resolution 1330 (2000) of 5 December 2000, the Security Council requested the Secretary-General, inter alia, to make the necessary arrangements, subject to the approval of the Council, to allow funds up to 600 million euros deposited in the escrow account established by resolution 986 (1995) to be used for the cost of installation and maintenance, including training services, of the equipment and spare parts for the oil industry which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions, and called upon the Government of Iraq to cooperate in the implementation of all such arrangements.

In order to assist me in developing the necessary arrangements, I established a team of experts, which visited Iraq from 18 March to 1 April 2001. In carrying out its work, the team received the full cooperation of the relevant authorities of the Government of Iraq. The executive summary of the report of the team of experts is contained in the annex; the full report is being made available to the members of the Council.

Since June 1998, a total of $3 billion has been authorized by the Security Council for the procurement of oil spare parts and equipment under phases IV to IX (extended to 3 July 2001, pursuant to resolution 1352 (2001). As at 1 June 2001, the Office of the Iraq Programme had received a total of 3,593 applications valued at over $2.29 billion. Of that total, 2,840 applications, valued at over $1.646 billion have been approved, 451 applications valued at $399 million have been placed on hold and 114 incomplete or non-compliant applications, valued at $122 million, remain idle pending further action, mostly by the suppliers. Although the suppliers have not yet submitted the applications for contracts signed under phase IX, the Government of Iraq has recently provided the Office of the Iraq Programme details of 185 contracts signed, at a total value of 381 million euros.

As at 1 June 2001, the total value of oil spare parts and equipment delivered to Iraq was over $716 million. Additional supplies, valued at over $800 million under already approved applications, are in the production and delivery pipeline.

The team of experts reiterated the views expressed in previous reports by expert missions that the oil industry in Iraq continues to face significant technical and infrastructural problems, which unless addressed will inevitably result in the reduction of crude oil production from the current levels. As stated in paragraph 13 of the attached executive summary, the peak levels of production recorded in phases

VI and VIII of the programme were only achieved at the expense of long-term damage to the oil-bearing structures utilized, and with increasing collateral damage to surface facilities operating beyond recommended (and safe) maintenance periods. It is therefore essential to take all necessary measures to address the rapid decline of oil production capabilities of existing fields, as well as to ensure additional production capabilities in order to sustain the current production and export levels.

I welcome the decision taken by the Security Council in paragraph 15 of resolution 1330 (2000) since the provision of funding for the purchase of oil spare parts and equipment for the oil industry alone is not sufficient unless funding is also provided to cover the cost of their installation and maintenance.

The team of experts has formulated a set of arrangements and a budget for the utilization of the funds from the escrow account, which follows normal oil company methodology and addresses the cash component requirements of the Iraqi oil industry over a period of 12 months. The team of experts has correlated the proposed projects with the oil spare parts and equipment already delivered. In a number of cases, however, proposed projects were based on the expectation of the Ministry of Oil of the early delivery of spare parts and equipment not yet approved. Benchmarking of the installation and maintenance costs of spare parts and equipment with other oil industries in the region supports the proposed expenditures. Both the budget and the correlation with approved contracts are summarized in detail in the full report of the team of experts.

As stated by the team of experts, the discussions with the Ministry of Oil and the visits to various operating companies in Iraq were used to verify the cash component requirements as far as possible. Physical evidence of costs were supplied and substantiated, wherever possible, by reference to, inter alia, pay slips, housing and food costs. It is the opinion of the team of experts that the expectation of the Ministry of Oil for the renewal of the allocation of 600 million euros with each extension of the mandate for the programme by the Council is commensurate with the size and complexity of the projects that are required to be installed, commissioned and maintained.

The proposal is for the funds to be initially transferred from the United Nations escrow account to the Rafidain Bank in Amman. Subsequently, the funds will be transferred in euros, in monthly instalments, to the Ministry of Oil, for transfer to the operating companies in Iraqi dinars against the agreed cash flow requirement. As part of the proposed mechanism, the Ministry of Oil has also agreed that up to three monitors will be stationed in Baghdad to participate in observations related to the quarterly review referred to in paragraphs 37 to 40 of the attached executive summary.

I welcome the report and the main conclusions of the team of experts. I should like to recommend that the Security Council approve the proposed arrangements for the utilization of the 600 million euros, pursuant to paragraph 15 of resolution 1330 (2000). Should the Council approve the proposed arrangements, I shall ask the Executive Director of the Iraq Programme, in full consultation with the United Nations Treasurer, to work out the necessary details in order to ensure full transparency and accountability in the utilization of the funds. The Council will be kept informed on the implementation of the arrangements in place.

I should like to take this opportunity to thank the members of the team of experts as well as the Government of Iraq for its full cooperation with the team.

(*Signed*) Kofi A. **Annan**

Annex

Report of the team of experts established pursuant to paragraph 15 of Security Council resolution 1330 (2000)

Executive Summary

A. Terms of reference

1. In paragraph 15 of resolution 1330 (2000) of 5 December 2000, the Security Council requested the Secretary-General, inter alia, to:

> "… make the necessary arrangements, subject to the approval of the Council, to allow funds up to 600 million euros deposited in the escrow account established by resolution 986 (1995) to be used for the cost of installation and maintenance, including training services, of the equipment and spare parts for the oil industry which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions …"

2. Pursuant to paragraph 15, the Secretary-General established a team of experts, comprised of the following:

- Team Leader;
- Oil services budgeting expert/accountant;
- Oil reservoir engineer;
- Oil services refining and training expert;
- Saybolt manager in Iraq for monitoring of oil spare parts and equipment;
- Office of the Iraq Programme oil industry expert.

3. The team of experts visited Iraq from 18 March to 1 April 2001 and was assigned the following:

(a) The team worked closely with the Government of Iraq to make the necessary arrangements, subject to the approval of the Security Council, to allow funds up to 600 million euros deposited in the escrow account established by resolution 986 (1995) to be used for the cost of installation and maintenance, including training services, of the equipment and spare parts for the oil industry which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions;

(b) On the basis of consultations with the relevant authorities of the Government of Iraq, the team assisted the Secretary-General in preparing a report, for consideration by the Council, which reflects discussions with the Iraqi authorities and the proposed arrangements for the use of the 600 million euros.

4. The team of experts held meetings with officials of the Ministry of Oil and the Iraqi State Oil Marketing Organization (SOMO) in Baghdad, as well as with officials of the North and South Oil Companies in Kirkuk and Basrah, respectively. The team then returned to Baghdad for further consultations and debriefings.

5. The work plan for the team of experts is contained in the appendix.

B. Methodology

6. The team of experts met immediately upon arrival with officials from the Ministry of Oil to plan and discuss the structure of the mission. During the first meetings in Baghdad with the Ministry of Oil, a business plan approach was

developed for proposed expenditures, following normal oil company procedures, and to structure a local currency budget covering a 12-month period, related to the cost of installation and maintenance, including training services, of equipment and spare parts, funded in accordance with resolution 1175 (1998) and subsequent related resolutions. A 12-month period was deemed appropriate since, on an international basis, oil companies operate on annual budgets. Anything shorter is impractical in terms of project lifetime; anything longer does not impart sufficient financial control.

7. This budget was further developed during the visits to the operating companies in both the north and south of Iraq. The team discussed the projects proposed with officials of the operating companies during initial meetings. During this time, the team's budget expert/accountant reviewed the financial aspects of the utilization of the proposed local currency budget. Where possible, the proposed expenditures were linked to oil spare parts and equipment delivered under the oil for food programme; where spare parts and equipment were yet to be delivered the Ministry of Oil's expectation of an early delivery was noted.

8. Additionally, while on site in the north and south of Iraq, the team of experts visited installations and sites related to the proposed projects in order to ascertain the current level of spare parts and equipment installation activity and the quality of work already undertaken, and to note examples of specific requirements within the proposed activities. These proposed activities included waste-water treatment projects, engineering workshops, de-gassing stations and new field hospitals.

C. General observations

9. Oil production peaked in July 1990, at about 3,500,000 barrels per day (bpd). As a result of significant damage to the oil industry infrastructure sustained during the conflict in 1990-1991, followed swiftly by the United Nations sanctions regime, crude oil production dropped dramatically, to about 300,000 bpd. Subsequently, the oil infrastructure was partially repaired, without access to external equipment or technology, and often by cannibalization and short-term substitution, in order to reinstate essential supplies of refined products and gas required by the population and fuel for the electricity sector.

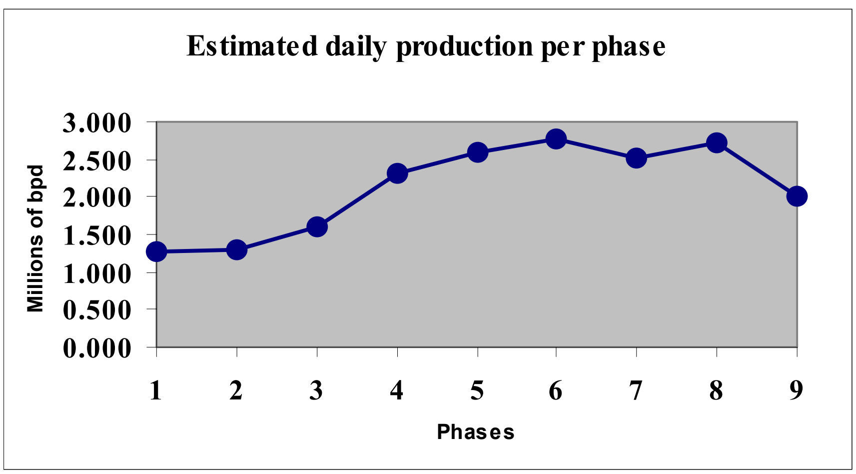
10. The volumes of crude oil exported from Iraq under the oil for food programme have been monitored and reported as follows:

Phase	*Total volume (millions of barrels)*	*Barrels exported per day (millions of barrels)*
I	119 506 261	0.664
II	126 942 342	0.705
III	182 142 984	1.012
IV	308 130 603	1.712
V	360 900 754	2.005
VI	389 628 891	2.165
VII	343 372 849	1.908
VIII	382 560 610	2.125
IX (to 30 April 2001)	202 906 071	1.400

11. The internal consumption of crude oil in Iraq is estimated at about 600,000 bpd, of which some 500,000 bpd is processed in local refineries, the balance being exported to Jordan under a special arrangement approved by the United Nations.

12. Under the oil for food programme, the total crude oil production of the Iraqi oil industry is the sum of the quantity exported under the relevant Security Council resolutions and Iraq's internal consumption. Therefore, although there are currently no facilities for the accurate measurement of crude oil production a reasonable estimate of overall production can be made, as follows:

Phase	*Production per day (millions of barrels)*
I	1.264
II	1.305
III	1.612
IV	2.312
V	2.605
VI	2.765
VII	2.508
VIII	2.725
IX (to 30 April 2001)	2.000



13. Crude oil production has therefore not returned to the levels that were experienced, albeit briefly, in July 1990. The peak levels recorded in phases VI and VIII were only achieved at the expense of long-term damage to the oil-bearing structures utilized, with increasing collateral damage to surface facilities operating beyond recommended (and safe) maintenance periods.

14. In March 1998, pursuant to resolution 1153 (1998), discussions were held with the Ministry of Oil to allocate funding from the oil sales revenue, under the programme provided for by resolution 986 (1995), for the purchase of necessary spare parts and equipment for the oil industry in order to sustain and increase crude

oil production to levels sufficient to fund the requirements of the humanitarian programme.

15. Initially, the sum of $300 million was approved for the purchase of spare parts and equipment for the oil industry under resolution 1175 (1998); this continued and was later increased to $600 million per phase under resolution 1293 (2000) of 31 March 2000. Just prior to that, under resolution 1284 (1999) of 11 December 1999, the ceiling for export levels of oil was removed. As at the end of phase VIII (December 2000), a total of $2.4 billion had been allocated to provide spare parts and equipment for the oil industry, of which some $650 million has been delivered; it is estimated that a total of $1.4 billion will be delivered by June 2002.

16. However, as reported by expert missions in 1998 and 2000, the oil industry in Iraq continues to face significant technical and infrastructural problems, which unless addressed will result in the reduction of crude oil production from the current levels. Without the drilling, perforation and connection of new wells, well workovers and the connection of previously drilled wells, the Ministry of Oil considers the recent peaks of crude oil production to be unsustainable.

17. The oil production capabilities of existing fields are declining; without rapid attention to this decline the production capabilities of the Kirkuk region in the north of Iraq could be reduced by 50 per cent over the next 12 months (to 500,000 bpd). In the south, the South Rumailah field lost 150,000 bpd of production during 2000, and without immediate action the overall export capability could be reduced to 1.4 to 1.5 million bpd. New production is therefore an absolute necessity if current production and export capabilities are to be sustained and the humanitarian programme funded at current levels. There are 380 new production wells currently planned by the Government of Iraq to allow production to be stabilized and the long-term expectation of increased production to become a reality.

D. Proposed budget

18. While the spare parts and equipment programme for the oil industry initiated in phase IV has resulted in an increasing rate of arrival of essential equipment, as indicated in paragraph 15 above, the ambitious but necessary plans for sustaining crude oil production proposed by the Ministry of Oil are hampered by two factors:

(a) Absolutely essential items related to sustaining production remain “on hold” in the Security Council Committee established by resolution 661 (1990) (e.g., coiled tubing units for well workover requirements to improve recovery, and perforation equipment to allow initiation of production from either previously drilled wells or planned new wells), and until these items are delivered and operational the probability of effectively dealing with diminishing production will continue to be precarious;

(b) The task of preparing for the arrival of external drilling contractors for the almost 400 new wells planned is an enormous one, requiring numerous access roads, earth-moving and foundation works to allow access to the incoming drilling units and to construct, repair and maintain surface facilities (e.g., de-gassing, de-watering) required to treat current and future crude oil production flows before export or refining can be undertaken.

19. Both these undertakings require an effective, trained and motivated workforce, operating within the confines of professionally managed establishments that are capable of undertaking major civil engineering work on an ongoing basis.

20. As a result of the significant downturn in the economy of Iraq and the lack of routine work schedules since the imposed sanctions regime, companies that previously would have undertaken this work, such as the State Company for Oil Projects, have lost significant numbers of trained staff at all levels and lack the funds to attract and/or train new employees to reverse this trend.

21. In this regard, during its mission the team of experts developed two concepts:

(a) The primary concept of providing a regular monthly cash component in local currency to support the installation of delivered equipment, plus related training, maintenance and associated overheads, according to an agreed plan based on standard oil industry “project-planning” methodology;

(b) The secondary concept of a system to provide tangible evidence of the efficacy of this expenditure (the “noticeable effect”), manifest through a quarterly review that can be compared to the annual budget, and to permit allocation adjustments within the budget by reference to the review process.

22. The budget prepared by the team of experts, in close cooperation with the Ministry of Oil, follows normal oil company methodology and addresses the cash component requirements of the Iraqi oil industry over a period of 12 months. During the preparation of the budget, both in Baghdad and at site meetings with the various operating companies involved, the team correlated the proposed projects with the spare parts and equipment already delivered, although, as already indicated, in a number of cases proposed projects were based on the expectation of the Ministry of Oil of the early delivery of spare parts and equipment not yet approved. Both the budget and the correlation with approved contracts are summarized in detail in the full report of the team of experts.

23. It must be noted that throughout their mission the Ministry of Oil maintained to the team of experts that the implementation of paragraph 15 of resolution 1330 (2000) should be based on the Ministry’s proposed exchange rate of 450 Iraqi dinars (ID) to 1 United States dollars (US$).

24. The total budget identifies an expenditure of ID 486 billion over a 12-month period. Since the majority of projects have an expected duration of more than 12 months, some as long as three years, there is a strong expectation from the Ministry of Oil that the allocation of 600 million euros will be approved by the Security Council for each phase that the mandate of the programme continues, as is currently the case with oil spare parts and equipment. It is the opinion of the team of experts that this expectation is commensurate with the size and complexity of the projects that are required to install, commission and maintain spare parts and equipment delivered to Iraq. In the context of one of the largest oil-producing operations in the world, it is not a practical proposition to initiate significant, expensive and widespread projects without the guarantee of continued funding. The impact of a “stop-start” situation would be negative — probably in the extreme — on the effectiveness of the operating companies, and would largely negate the positive effects of the initial expenditure, resulting in a “poor value for money” situation.

25. The result of this extensive budgeting exercise, summarized in the report of the budget expert/accountant included in the full report of the team of experts, is for a cash component of ID 486 billion delivered over a 12-month period. This amount is split into two main sections, a capital expenditure (capex) component at ID 202 billion and an operating expenditure (opex) section at ID 284 billion. As per normal oil industry practices, the capex budget is funded by the Ministry of Finance and the opex budget by the Ministry of Oil; they are kept strictly separated in all accounting records and have been separated out in the budget, as prepared by the budget expert/accountant of the team of experts.

26. The discussions with the Ministry of Oil and the various operating companies visited were used to verify the cash component requirements as far as possible, and physical evidence of costs were supplied and substantiated, wherever possible, by reference to pay slips, housing and food costs etc.

E. Benchmarking

27. The viable test of the accuracy of the budgeting exercise is to make comparisons with similar operations elsewhere, i.e., benchmarking. Such an exercise is easily carried out when open exchange rates are involved, but in the scenario presented in Iraq benchmarking becomes much more difficult.

28. Nevertheless, a number of benchmarking maxims are available which bear considerable relevance to the situation in hand, although it should be noted that any benchmarking comparisons require the use of an exchange rate that is at least generally agreed between the Iraqi dinar and the United States dollar.

29. First, the operating costs of oil production are fairly stable in the region, at $1.50 per barrel of oil produced. Using this yardstick and the average crude oil production over phases VII and VIII of 762 million barrels per annum, a figure of $1.15 billion per annum results. As noted in paragraph 23 above, the Ministry of Oil has proposed an exchange rate of ID 450 to US$ 1. At any exchange rate other than one at least close to that proposed by the Ministry of Oil, the figure reflected in the budgeting exercise differs significantly.

30. Another avenue of cost comparison is to measure installation costs relative to capital costs. In the upstream sector, the cost of installation of equipment and maintenance is established internationally at a level near $1 of cost per $1 of capital expenditure. In the downstream sector, the installation and maintenance costs are more on the order of $0.50 of cost per $1.00 of capital expenditure. Since expenditure on spare parts and equipment in Iraq is fixed at $600 million per phase, or $1.2 billion per annum, a figure of $1.15 billion (at an exchange rate of ID 450 to US$ 1, as proposed by the Ministry of Oil) is considered reasonable.

31. Other comparisons can be usefully made with operations in the Persian Gulf region. For example, in one country in the region there are current plans to increase production by 400,000 bpd of crude oil by drilling 400 new wells, at a price of approximately $500 to $600 million. The plan to drill about 400 new wells in Iraq, involving external contractors drilling in a similar terrain, results in comparable costs and is therefore consistent.

F. Proposed arrangement

32. The cash component budget reveals, as expected, a monthly variation in the local requirement as a result of the normal S curve of expenditure in oil field projects — namely a high initial cash requirement to prime the project and a high cash requirement for commissioning on completion. Another consideration is the staggering of the commencement of projects which need to be either coordinated with the expected delivery of spare parts and equipment or coordinated with other related projects.

33. Notwithstanding, this variation is only a few percentage points per month, and suggests that for ease of operation the cash component should be made available to the operating companies in equal amounts per month.

34. The proposed mechanism for the transfer of funds is from the United Nations Iraq escrow account to the Rafidain Bank in Amman, with a subsequent transfer in euros to the Ministry of Oil in monthly instalments as per the budget. The final transfer will be from the Ministry of Oil to the operating companies in Iraq, via local branches of the Rafidain Bank, in Iraqi dinars at an agreed exchange rate.

35. At the time of the mission of the team of experts, based on consultations with the Government of Iraq, the United Nations Secretariat was in the process of conducting a competitive exercise in order to diversify the issuance of humanitarian and oil letters of credit. Seven banks, including BNP-Paribas, which meet the acceptable credit rating, were asked to compete for the banking services required to implement resolution 986 (1995). This process is expected to be completed in June 2001. It should be noted that euro notes would only be available as of January 2002.

36. The euros supplied against the monthly budget requirements will be liquidated in the Rafidain Bank as they are drawn down and converted into Iraqi dinars.

G. Quarterly review

37. As part of this arrangement, the Ministry of Oil has agreed to a quarterly review of progress made with the projects encompassed in the cash component exercise.

38. The quarterly review will include site visits by a United Nations entity to "observe and note the visible effects of expenditure". The Ministry of Oil has agreed to the deployment in Iraq of three qualified personnel, who are fully conversant with the spare parts and equipment programme, to take part in the quarterly reviews.

39. The team of experts visited a number of the sites earmarked for expenditure under the arrangement that can be used as initial reference points for the observation of the visible effects of expenditure. These are elaborated in the full report of the team of experts. There will obviously be more sites involved in the proposed arrangement than the limited number of sites that the team of experts were able to visit due to the short time available to the team during the mission.

40. The proposed quarterly review will also be used by the Ministry of Oil to explain any significant variations from the agreed budget and the reasons for such variations. It will also provide a suitable vehicle for discussion of adjustments required to the allocation of funds, which are likely to occur with such a large number of technical projects being run concurrently. This is especially important

because many projects are interdependent and delays may require internal reallocation of funds to optimize overall progress.

H. Exchange rate

41. From the very beginning of the mission, the issue of the exchange rate between hard currency and the Iraqi dinar was seen to be pivotal to any arrangement that would fulfil the requirement of paragraph 15 of resolution 1330 (2000).

42. The team of experts had no authority under their terms of reference or under the provisions of resolution 1330 (2000), paragraph 15, to make any decisions or agreements on this issue, and thus refrained from doing so.

43. The team of experts noted only the arguments put forth by the Ministry of Oil in support of an exchange rate of ID 450 to US$ 1, which are included in the full report of the team of experts.

44. It should also be recalled that in its resolution 1330 (2000), paragraph 15, the Security Council allocates a sum of up to 600 million euros. At the same time, it should be borne in mind that the United States dollar is predominantly the currency of the oil industry.

45. Starting from a euro-denominated figure will therefore involve a floating exchange rate between the euro and the United States dollar, even before the issue of the exchange rate between hard currency and the Iraqi dinar is addressed. Therefore, unless a fixed rate is adopted for the purpose of the time period identified for any arrangement approved by the Security Council the resulting monthly Iraqi dinar figure available will fluctuate.

46. The budget for the cash component is presented in Iraqi dinars, but it should be noted that the Ministry of Oil is required by the Ministry of Finance to record all expenditures under the cash component exercise in hard currency.

47. It is therefore the expectation of the Ministry of Oil that when an exchange rate between hard currency (either euros or United States dollars) and the Iraqi dinar is adopted, the cash component budget will be converted into either euros or United States dollars at that rate.

I. Conclusions

48. The main conclusions of the team of experts are as follows:

(a) The value of spare parts and equipment for the oil industry so far delivered is $650 million. The value of spare parts and equipment for the oil industry to be delivered by December 2001 is estimated to be about $1,000 million, and the value of those to be delivered by June 2002 to be about $1,400 million;

(b) The Ministry of Oil has established an urgent requirement for a cash component provision under the memorandum of understanding to ensure the timely installation and commissioning of oil spare parts and equipment;

(c) The Ministry of Oil has advised that without the installation and commissioning of delivered spare parts and equipment and the completion of civil engineering works facilitating the commencement of approved drilling contracts, crude oil production will fall dramatically by December 2001;

(d) In its resolution 1330 (2000), paragraph 15, the Security Council has made available up to 600 million euros, subject to approval by the Security Council, to be used for the cost of installation and maintenance, including training services, of the equipment and spare parts for the oil industry which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions;

(e) To install, commission and maintain spare parts and equipment for the oil industry, the Ministry of Oil requirement is for a local cash component of about ID 500 billion per annum;

(f) The objective of the proposed financial arrangement is to sustain and eventually increase crude oil production. The effectiveness of the local currency expenditure plan will, in particular, be directly related to the availability of key items of spare parts and equipment associated with drilling and well completion activities;

(g) In line with normal international business and oil company procedures, a budget has been developed with Ministry of Oil officials, supported by site visits by the team of experts, in order to establish the monthly cash flow requirement. This requirement has been prepared in conjunction with the Ministry of Oil, reflecting the Ministry of Oil's internal accounting functions and systems. It has been discussed and evaluated with local operating companies, and identifies a cash component of ID 486 billion over a 12-month period;

(h) The Ministry of Oil has proposed an exchange rate of ID 450 to US$ 1 as the basis for conversion between hard currency and Iraqi dinars;

(i) The budgeting process correlates the proposed projects with associated Comm. Nos. relating to spare parts and equipment either delivered under the memorandum of understanding or for which there is an expectation from the Ministry of Oil of early delivery;

(j) Benchmarking of the installation and maintenance costs of spare parts and equipment with other oil industries in the Persian Gulf region supports the proposed expenditure;

(k) The Ministry of Oil has advised that, for internal reasons, any cash component must be kept separate in the accounts of the operating companies, and the Ministry of Finance has stipulated that all the accounting functions related to this exercise must be internally recorded in euros;

(l) The proposed arrangement is that the funds be initially transferred from the United Nations Iraq escrow account to the Rafidain Bank in Amman and subsequently transferred in euros in monthly instalments to the Ministry of Oil, for transfer to the operating companies in Iraqi dinars against the agreed cash flow requirement;

(m) The budgeting process has identified that the monthly cash component requirements vary, and follow the normal S curve of oil field investment projects. From a practical point of view, however, the variation in the monthly cash component is small;

(n) The Ministry of Oil will produce a quarterly comprehensive review document, covering work undertaken utilizing the cash component and including site visits by an appropriate United Nations entity for the purpose of noting the effects of expenditure. The quarterly review procedure will note variances in project implementation and progress, explaining areas of significant change from the original plan;

(o) As part of the proposed mechanism, the Ministry of Oil has given approval for up to three monitors to be stationed in Baghdad. Their function will be to participate in observations related to the quarterly review;

(p) It is understood by the Ministry of Oil that the cash component made available under resolution 1330 (2000), paragraph 15, will be renewed concurrently with resolutions of the Security Council extending the mandate of the memorandum of understanding.

Appendix

Work plan

The work plan of the team of experts was the following:

1. Define the range of expenditures to be covered by the funds, and distinguish between these expenditures and those to be undertaken under the current oil for food arrangements.

2. Determine the local expenditures by facility associated with the cost of upkeep and maintenance of oil spare parts and equipment, funded in accordance with the provisions of resolution 986 (1995) and related resolutions, including other costs necessary for the utilization of this equipment, such as:

- Cost of consumables and operating materials;
- Cost of production equipment, supplies and spare parts for the maintenance of existing equipment;
- Cost of implementing new projects to maintain and increase levels of production.

3. Assess the general and recurring operating costs associated with personnel required for the upkeep and maintenance of oil spare parts and equipment, funded in accordance with the provisions of resolution 986 (1995) and related resolutions, including:

- Wages and salaries of employees of the oil sector in Iraq;
- Provision of transportation, health care, housing and related services;
- Training and staff development;
- Occupational health programmes.

4. Identify other relevant expenditures, such as:

- Provision of associated infrastructure requirements, such as fuel, water, electricity and telecommunications;
- Maintenance of oil pollution mitigation equipment;
- Maintenance of fire-fighting equipment;
- Costs of reservoir management;
- Costs of environmental management.

5. Formulate, in consultation with the relevant authorities of the Government of Iraq, the appropriate modalities for the disbursement of the 600 million euros referred to in paragraph 15 of resolution 1330 (2000) to meet the costs identified above. These modalities should take account of:

- The various companies currently performing these operations in Iraq;
- The unit cost parameters for the calculation of various cost categories, benchmarked with local applicable norms and calculate cost distribution;
- The different types of expenditures and practical implementation thereof;
- A programme for funding agreements with the Government of Iraq;
- The mechanisms of funding approval.