

United Nations  Nations Unies

HEADQUARTERS • SIEGE NEW YORK, NY 10017
TEL.: 1 (917) 367.9949 • FAX: 1 (212) 963.8061

5 November 2010

Dear Mr. Abu-lughod,

Reference is made to the Development Fund for Iraq (DFI) interim financial statements for the six months period ended 30 June 2010 that were presented by your firm to the International Advisory and Monitoring Board (IAMB) at their last meeting held on 14-15 October in Amman and the letter from the Head of COFE dated 20 October 2010 (enclosed for easy reference).

At the meeting the IAMB raised its concerns relating to the note in the DFI interim financial statements reflecting that net proceeds from export sales of petroleum products and natural gas continue to be not deposited in the Oil Proceeds Receipts Account (OPRA).

In this respect, note 4 to the DFI interim financial statements states that *“Net proceeds from export sales of petroleum products and natural gas were not being deposited in the OPRA and consequently to the DFI as were stated in the UNSCR 1483 (2003), instead proceeds are deposited in SOMO bank accounts. These proceeds amount to USD 12,990 thousand as for the six months period ended 30 June 2010 (since inception to 31 December 2009: USD 3,383,456 thousand).”*

It should be noted that a similar observation was raised by the previous external auditor for the period from 1 January 2009 to 31 December 2009.

In light of the discussions at the IAMB meeting as well as the letter from the Head of COFE, I would appreciate if you can provide clarification on this important issue and confirm whether there are any net proceeds from export sales that are not being deposited in the OPRA and subsequently, if required make any changes to the notes to the interim DFI financial statements.

Yours sincerely,



Jun Yamazaki
Assistant Secretary General
Controller

Enclosure

Mr. Sami Abu-lughod
PricewaterhouseCoopers
3rd Circle, Jabal Amman – 14 Hazza' Al Majali Street
Amman, Jordan

بسم الله الرحمن الرحيم

Republic Of Iraq
Committee of

جمهورية العراق
لجنة الخبراء الماليين

Financial Experts

Ref. 97/Oct.20,

الرقم:
التاريخ: 2010/10/

2010

To,
UN comptroller office
Sub. Sales of oil products

Dear Sirs,

The external auditors of DFI accounts stated in their reports for the last years a frequent observation on barter transactions of limited quantities of crude oil with neighboring countries (Turkey, Iran, Syria) against supplying of electricity, as well as a limited quantities of feul oil, and depositing the proceeds in a special account of SOMO that was used to import light oil products (benzene, gas oil) from neighboring countries. These observations pointed out that those amounts were not deposited in DFI account in order to pay the 5% of the saled or bartered quantities to the UN compansations fund in accordance with UNSCR 1483 (2003).

The Iraqi representatives has made clear their opinion during the IAMB meetings where this subject was rasid and clarified that what was mentioned does not agree with the specific situation due to below reasons:

1. The circumstances that appeared during 2003 and later on, the devastating war actions and terrorist attacks Iraq exposed to which targeted in large scale its infra-structures, in particular power plants and its transporting lines, refineries and oil products means of transportation created a huge deficit in power supply to run the economic and services facilities, the same case was for oil products. The size of hostile actions and terrorist attacks suffered by Iraq during 2003 and further years did not exist when the UNSCR 1483 (2003) was issued therefore it is an exceptional case that has its on specificity.
2. The barter method Iraq was compelled to resort resulted in a big loss in evaluation of exported items and pricing imported items due to the control of neighboring countries on current situation and imposing submissive contracts on Iraq for the lack of alternatives available.
3. The special account of SOMO to receive the proceed of the limited quantities of feul oil sales and using them to import light oil products to cover its emergency deficit was opened in accordance with a decision made by the Coalition Provisional Authority pursuant the power granted by a UNSCR, and it was an expectional address for emergency conditions.

بسم الله الرحمن الرحيم

Republic Of Iraq
Committee of

جمهورية العراق
لجنة الخبراء الماليين

Financial Experts
Ref.

الرقم:
التاريخ: 2010/10/

4. The exceptional address ceased on April 01, 2009 except the contract with the Turkish Company Karttet which expires by the end of this year.
5. In addition to the above – mentioned, we would like to refer to a certain case of Iraqi oil export that took place during the 12 years prior to 2003, as the former regim was exporting large quantities of crude oil to Jordan, equivelent to \$300 million a year, free of charge and with the knowledge of the UN, while Jordan was not requested to pay the 25 -30% of the value of the crude oil received which exceeded billions of US dollars to the compensation fund.

Dr. Abdul Basit Turki Saeed
Head
Committee of Financial Experts

Oct.20, 2010