

Debt Relief: Iraq

Commitment:

“We reaffirm our intention to reduce Iraq's debt by implementing the terms of the November 2004 Paris Club agreement. We call on other creditors to provide debt relief on generous terms comparable to or even better than those agreed by the members of the Paris Club in November 2004”

-Iraq⁷⁴⁰

Background:

As of December 2004, debt accumulated by Iraq's Saddam Hussein and owed mostly to Gulf States, Paris Club countries and commercial lenders was estimated at US\$120 billion. With reconstruction efforts underway in Iraq following the US invasion, the massive debt burden would hamper both economic and social progress in Iraq. The Bush administration in the US, in particular, has led the effort to relieve Iraq's debt and appointed former US Secretary of State James A. Baker III special presidential envoy to coordinate debtors and negotiate this issue among creditors.⁷⁴¹

The Paris Club is an informal group of 18 countries that meets monthly in Paris, France to collectively reduce or reschedule official debts they are owed by debtor nations. During a meeting held from 17 to 21 November 2004, Paris Club countries negotiated a 3 stage plan to reduce debt owed by Iraq by 80%.⁷⁴² This was a major accomplishment on the part of the US, since the Paris Club countries were initially only willing to cancel 50% of Iraq's debt. The first stage involved the immediate cancellation of 30% of debt owed by Iraq to each Paris Club country. The second stage involves the implementation of an International Monetary Fund (IMF) program, following which another 30% was to be cancelled. The remaining 20% of the initial stock would be forgiven upon completion of the last IMF Board review of three years of implementation of standard IMF programs.⁷⁴³

G8 members, all of which belong to the Paris Club, are owed nearly US\$40 billion of Iraq's debt. At the Gleneagles Summit in June 2005, the G8 leaders reaffirmed their support of the Paris Club agreement to reduce Iraq's debt by at least 80% to aid in the rebuilding of Iraq and to encourage non-Paris Club Gulf States, to which most of Iraq's debt is owed, to also cancel Iraq's indebtedness to them.

Team Leader: Barbara Tassa

⁷⁴⁰ Iraq, G8 Gleneagles 2005 (Gleneagles), 8 July 2005. Accessed: 1 February 2006. www.g8.utoronto.ca/summit/2005gleneagles/iraq.pdf.

⁷⁴¹ Iraq: Debt Relief, CRS Report for Congress, Library of Congress: International Trade and Finance Foreign Affairs, Defense, and Trade Division (Washington, DC), 11 March 2005. Accessed: 10 January 2006. www.fas.org/sgp/crs/mideast/RS21765.pdf.

⁷⁴² Iraq, Paris Club Press Release (Paris), 21 November 2004. Accessed: 10 January 2006. www.clubdeparis.org.

⁷⁴³ Iraq, Paris Club Press Release (Paris), 21 November 2004. Accessed: 10 January 2006. www.clubdeparis.org.

Assessment:

	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Canada			+1
France			+1
Germany			+1
Italy			+1
Japan			+1
Russia		0	
United Kingdom			+1
United States			+1
European Union		n/a	
Overall			0.88

Individual Country Compliance Breakdown:

1. Canada: 0

The Canadian government registered full compliance with the Gleneagles commitment to Iraqi debt relief by signing a bilateral agreement on June 20, 2005, that forgives 80% of the debt owed to Iraq, amounting to \$470 million.⁷⁴⁴ Canada's Iraqi debt reduction strategy will take place in three phases: \$175 immediately, \$175 effective upon Iraq's signing of a formal International Monetary Fund (IMF) stand-by arrangement, and a final installment of \$120 million upon completion of the IMF stand-by arrangement.⁷⁴⁵

In addition, the Canadian government supports a G8 led international debt-reduction program for Iraq.⁷⁴⁶ Canada has worked towards progress in this area as evidenced by its ongoing commitment to reconstruction endeavours presently underway in Iraq. The Canadian International Development Agency (CIDA) has contributed CAD\$300 million to the International Reconstruction Fund Facility (IRFF) which is chaired by Canadian Ambassador Michael Bell.⁷⁴⁷ The participation of the Canadian government in the Iraqi crisis is within the context of a multilateral endeavour. The debt relief commitment is in fact a concerted pledge by the Paris Club on a shared burden basis. It is further contingent upon Iraq's other creditors granting similar or indeed more generous concessions of debt relief. Therefore, the Paris Club agreement may be enacted en masse to coincide with the formalization of debt relief by Gulf states, Iraq's largest creditors, as well as other nations.⁷⁴⁸

Analyst: Kathryn Kotris

⁷⁴⁴ Canada: Eighty percent of Iraq's debt cancelled, PortallIraq. Accessed June 25 2006. www.portalliraq.com/news/eighty+percent+of+Iraq's+debt+cancelled_1111252.html

⁷⁴⁵ Canada: Eighty percent of Iraq's debt cancelled, PortallIraq. Accessed June 25 2006. www.portalliraq.com/news/eighty+percent+of+Iraq's+debt+cancelled_1111252.html

⁷⁴⁶ Iraq: Overview, Canadian International Development Agency (Ottawa). Accessed: 6 January 2006. www.acdi-cida.gc.ca/iraq.

⁷⁴⁷ Iraq: "International Reconstruction Fund Facility Committee Meeting Concludes on a High Note," Canadian International Development Agency (Ottawa). Accessed: 6 January 2006. www.acdi-cida.gc.ca/index.htm.

⁷⁴⁸ David DeRosa, "James Baker Scores in Asia on Cutting Iraqi Debt," Bloomberg News (New York), 4 January 2004. Accessed: 9 January 2006. quote.bloomberg.com/apps/news?pid=10000039&refer=columnist_derosa&sid=aVnu.

2. France: +1

The French government showed progress towards cancelling nearly all US\$5.6 billion owed it by Iraq. On 21 December 2005, Paris signed a bilateral agreement with Mawafak Abboud, Iraqi Ambassador to France, agreeing to set the conditions for cancelling 80% of Iraq's debt in accordance with the Paris Club agreement.⁷⁴⁹ In December 2005, the French Ministry of Foreign Affairs noted that France will cancel about €4 billion over the period from 2005 to 2008.⁷⁵⁰ Therefore, France reports a high level of support for the G8 debt relief commitment to Iraq.

Analyst: Barbara Tassa

3. Germany: +1

On December 28, 2005, Germany announced the signing of a bilateral agreement to cancel Iraq's debt in accordance with its compliance with the Paris Club debt cancellation program.⁷⁵¹ Like France, Germany had announced its commitment to reducing Iraq's debt burden by an unspecified amount in December 2003, and followed through on that earlier commitment with this bilateral Paris Club announcement.⁷⁵² This move followed statements by German Ex-Chancellor Gerhard Schroeder to the effect that Germany's reduction of Iraqi debt would be "substantial."⁷⁵³

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4. Italy: +1

Italy achieved full compliance with the 2005 Gleneagles Summit commitment to reducing Iraq's debt by implementing the terms of the November 2004 Paris Club accord. The bilateral debt cancellation agreement between Italy and Iraq was signed on 5 October 2005, which will be implemented in three stages culminating in the write off of 80% or the equivalent of €2.4 billion

⁷⁴⁹ Bilateral agreement about Iraq's debt, French Ministry of Foreign Affairs (Paris, December 21, 2005). Accessed: 5 February 2005. www.diplomatie.gouv.fr/en/country-files_156/iraq_304/bilateral-agreement-about-iraq-debt-paris-21.12.05_3157.html.

⁷⁵⁰ Bilateral agreement about Iraq's debt, French Ministry of Foreign Affairs (Paris, December 21, 2005). Accessed: 5 February 2005. www.diplomatie.gouv.fr/en/country-files_156/iraq_304/bilateral-agreement-about-iraq-debt-paris-21.12.05_3157.html.

⁷⁵¹ "Germany cancels 80 percent of its Iraqi debt," Portal Iraq, 28 December 2005. Accessed: May 20, 2006. www.portaliraq.com/news/Germany+cancels+80+percent+of+its+Iraqi+debt_1111729.html?PHPSESSID=8ec6e42702c086ebf01a860ca8f4.

⁷⁵² Joint Plan to relieve Iraq debt, CNN (Atlanta), 16 December 2003. Accessed: 10 January 2006. www.cnn.com/2003/WORLD/europe/12/16/sprj.irq.france.baker/.

⁷⁵³ Facts Sheet: German Aid for the Stabilization and Reconstruction of Iraq, Germany Embassy in the United States (Washington, DC), 2 Dec 2004. Accessed: 23 January 2006. www.germany-info.org/relaunch/info/archives/background/Germany_Iraq_12_04_Factsheet.pdf.

684 Press Release, Ministry of Foreign Affairs Italy (Rome), 5 October 2005. Accessed: 5 January DC), 2 Dec 2004. Accessed: 23 January 2006.

of Italy's claims against Iraq.⁷⁵⁴ Italy was the third Paris Club country to fully comply with the Iraq debt relief commitment.⁷⁵⁵

Analyst: Claire Chow

5. Japan: +1

Japan registered a high level of compliance with the G8 commitment for Iraqi debt relief. The Japanese government announced that it had reached a bilateral debt reduction agreement with Iraq on 24 November 2005. The government of Japan provided a schedule for an 80% reduction of the debts owed to them by Iraq.⁷⁵⁶ This agreement satisfies the guidelines set by the Paris Club group of nations in November 2004 to reduce Iraq's debt. The current US\$6.9 billion owed to Japan by Iraq will be reduced to US\$1.7 billion by the end of the 23 year term.⁷⁵⁷

Analyst: Barbara Tassa

6. Russia: 0

In May 2006, Russia had still not fully complied with its commitment to work towards relieving Iraq's debt. Although Russia did sign the November 2004 Paris Club agreements,⁷⁵⁸ it has not taken concrete steps to fulfill the goals set by the Paris Club. Russian Finance Minister Alexei Kudrin suggested that a stumbling block has been a continued dispute over the size of the debt owed to Russia by Iraq.⁷⁵⁹ Additional sources cited pending IMF agreements as the barrier to a Russian debt reduction agreement, as the Paris Club agreement was contingent upon such an IMF-Iraq agreement.⁷⁶⁰ This agreement was reached on 23 December 2005 and should have generated prompt action.⁷⁶¹ The Russian government is expected to relieve Iraq of 90% of the US\$10.5 billion debt owed it but has yet to sign an agreement with Iraq to that effect.

Analyst: Barbara Tassa

⁷⁵⁴ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Accessed: 06 January 2006. www.portaliraq.com/news/Italy+cancels+80+percent+of+its+Iraq+debt_1111529.html.

⁷⁵⁵ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Accessed: 06 January 2006. www.portaliraq.com/news/Italy+cancels+80+percent+of+its+Iraq+debt_1111529.html.

⁷⁵⁶ Debt Relief Measures for the Republic of Iraq, Ministry of Foreign Affairs Japan (Tokyo), 24 November 2005. Accessed: 10 January 2006. www.mofa.go.jp/announce/announce/2005/11/1124.html.

⁷⁵⁷ Japan cancels 80 per cent of Iraq's debt. Iraq Development Program. 19 December 2005. Accessed: 10 January 2006. www.iraqdevelopmentprogram.org/idp/news/new1128.htm.

⁷⁵⁸ Iraq, Paris Club Press Release (Paris), 21 November 2004. Accessed: 10 January 2006. www.clubdeparis.org.

⁷⁵⁹ "Russian debt still not reconciled," Jubilee Iraq, 30 September 2005. Accessed: May 20, 2006. www.jubileeiraq.org/cgi-bin/mt-search.cgi?Template=jubileeiraq&search=russia%20OR%20russian

⁷⁶⁰ Write-off for bulk of Iraqi debt. BBC News UK Edition (London), 28 December 2005. Accessed: 10 January 2006. news.bbc.co.uk/1/hi/business/4563882.stm

⁷⁶¹ IMF Standby Agreement signed, Jubilee Iraq, 23 December 2005. Accessed: 10 January 2006. www.jubileeiraq.org/blog/2005_12.html#000916

7. United Kingdom: +1

The United Kingdom is in full compliance with the Paris Club agreement of 21 November 2004 and thus its Gleneagles commitment to Iraqi debt relief. The initial stage of the three part debt reduction strategy was implemented with a bilateral agreement between Iraq and the United Kingdom was signed on 25 January 2005. The International Monetary Fund (IMF) provided an important condition for the collective action of all Iraqi creditors to move forward and officially comply with the second stage of the Paris Club agreement. Due to improved fiscal management by the Interim Iraqi Government, on 23 December 2005 the IMF approved a Stand-By Arrangement credit facility of up to US\$685 million which will serve to support the country's economic rehabilitation over the next 15 months. Upon completion of the final stage of the Paris Club agreement, the United Kingdom will forgive US\$1.39 billion in debt to Iraq.

Analyst: Kathryn Kotris

8. United States: +1

Having already announced 100% debt relief of over US\$4 billion owed by Iraq in December 2004, the US has been instrumental in negotiating debt relief from Paris Club and other creditors since the G8 Summit in June 2005.⁷⁶² In December 2005, the IMF announced a loan worth US\$685 million in the Stand-By Arrangement for Iraq, which is intended to facilitate the second stage of debt reduction negotiated among the Paris Club creditors.⁷⁶³ While this action was not financed by the US government, their ongoing involvement in achieving debt relief for Iraq and by encouraging Paris Club, commercial and other creditors to cancel Iraq's debt have been crucial steps in its efforts to fulfill its Gleneagles commitment.

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9. European Union: n/a

The European Union (EU) has not been graded for its compliance with the 2005 Gleneagles Summit commitment to debt relief for Iraq. As a multilateral institution, the EU does not have the ability to register compliance with this G8 commitment on behalf of its member states. However, the EU did reaffirm the need to reduce Iraq's debt through its General Affairs and External Relations council meeting on 18 July 2005. Furthermore, many member states of the EU have already registered full compliance with debt relief for Iraq.

By the end of 2005, six member states of the EU including Austria, Belgium, Denmark, Malta, Slovakia, and Spain had all independently signed bilateral agreements with Iraq to provide debt relief on terms comparable to, if not better, than those of the Paris Club agreement.

⁷⁶² Iraq: Debt Relief, CRS Report for Congress. Library of Congress: International Trade and Finance Foreign Affairs, Defense, and Trade Division (Washington, DC), 11 March 2005. Accessed: 10 January 2006. www.fas.org/sgp/crs/mideast/RS21765.pdf.

⁷⁶³ IMF Executive Board Approves First Ever Stand-By Arrangement for Iraq, International Monetary Fund Press Release (Washington, DC), 23 December 2005. Accessed: 10 January 2006. www.Imf.org/external/np/sec/pr/2005/pr05307.htm.

In early 2006, four more EU countries signed bilateral debt cancellation agreements with Iraq. These include the three Paris Club members Finland, the Netherlands and Sweden, and the non-Paris Club country, Hungary.⁷⁶⁴ Moreover, four other EU member states — the Czech Republic, Cyprus, Greece, and Poland — have undergone discussions with Iraq regarding debt cancellation.⁷⁶⁵

Even though the EU, as an institution, is not in a position to implement the Gleneagles commitment of Iraqi debt relief made at the 2005 Gleneagles Summit, the efforts shown by its member states have been positive, as fourteen EU countries have already signed or are in the process of signing bilateral debt reduction agreements with Iraq.

Analyst: Claire Chow

⁷⁶⁴ The Netherlands cancels 80 percent of its Iraqi debt, Portal Iraq, 24 January 2006. Accessed: 19 May 2006. www.portaliraq.com/news/The+Netherlands+cancels+80+percent+of+its+Iraqi+debt__1111767.html.

⁷⁶⁵ Iraq's Debt Relief: Procedure and Potential Implications for International Debt Relief, CRS Report for Congress, 21 April 2006. Accessed: 19 May 2006. fpc.state.gov/documents/organization/65761.pdf.