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."

- Iraq

Background

As of December 2004, debt accumulated by Iraq’s Saddam Hussein and owed mostly to Gulf States and Paris Club countries and commercial lenders was estimated at US$120 billion.667 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, as a special presidential envoy to coordinate debtors and negotiate this issue among creditors.668

The Paris Club is an informal group of 18 countries that meet monthly in Paris, France, to collectively reduce or reschedule official debts they are owed by debtor nations. During a meeting held from 17 November to 21 November 2004, Paris Club countries including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, the Republic of Korea, the Russian Federation, Spain, Sweden, Switzerland, the United Kingdom and the United States of America, negotiated a 3 stage plan to reduce debt owed by Iraq by 80%.669 This was a major accomplishment on the part of the US, since the Paris Club countries were initially only willing to cancel only 50% of Iraq's debt.670 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 abided upon completion of the last IMF Board review of three-years of implementation of standard IMF programmes.671

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 their debts.

Team Leader: Barbara Tassa

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### Assessment

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#### Individual Country Compliance Breakdown

1. **Canada: 0**

The Canadian government has registered only partial compliance with the Gleneagles commitment to Iraqi debt relief. To date, the Canadian government has not provided a formal announcement to confirm the initial 30% of the total outstanding debt owed by the government of Iraq has been forgiven under the terms of the November 2004 Paris Club agreement. The total amount outstanding is approximately CAD$750 million due entirely to the Canadian Wheat Board. Nevertheless, the Canadian government supports a G7 led international debt-reduction program for Iraq. This initiative is, however, a work in progress as determined by the Canadian governments’ 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 Donor Committee (IRFFI) which is chaired by Canadian Ambassador Michael Bell. 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. To this end, the intention to reduce Iraqi debt under the Paris Club agreement was reaffirmed by participants at the Iraq International Conference held in Brussels on 22 June 2005. Therefore, the November 2004 Paris Club agreement may be enacted en masse to coincide with formalization of debt relief by the Gulf States, being Iraq’s largest creditors.

Analyst: Kathrine Kotris

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2. France: 1
The French government has shown progress towards cancelling nearly $5.6 billion of debt owed by Iraq. On 21 December 2005, the French government signed a bilateral agreement with Mawafak Abboud, Ambassador of Iraq. In this treaty the French government agrees and sets the conditions for canceling 80% of the Iraq debt in accordance to the Paris Club agreement. France will cancel about 4 billion euros in the period from 2005 to 2008.

Analyst: Barbara Tassa

3. Germany: -1
Since the 2005 Gleneagles Summit, Germany has not announced new plans to cancel nearly US$6 billion in debt as agreed in the Paris Club meeting in November 2004. Like France, Germany had announced its commitment to reducing Iraq’s debt burden by an unspecified amount in December 2003, but has not made any bilateral agreements with Iraq to carry through its plan. In that statement, Mr. Gerhard Schroeder, Germany’s previous Chancellor, had indicated the debt reduction would be “substantial.” Although Germany has been helpful in the Iraq reconstruction effort since that agreement, the absence of direct financial commitment to Iraqi debt relief since the Gleneagles Summit in June 2005 indicates a low level of compliance with the specific Iraq debt relief commitment.

Analyst: Attila Kovacs

4. Italy: +1
Italy has fully complied with the 2005 Gleneagles Summit commitment to reducing Iraq’s debt by implementing the terms of the November 2004 Paris Club agreement. On 05 October 2005, Italy’s Undersecretary Alfredo Mantica signed the Iraqi Debt Cancellation Agreement with Iraqi Ambassador Mowafak Abboud. The bilateral agreement follows the terms of the Agreed Minutes concluded in the November 2004 Paris Club accord and will be implemented along three stages. By signing this bilateral agreement, Italy agrees to cancel 80 percent of the debt owed by Iraq, which totals the equivalent of $2.4 billion Euro. Immediately effective is the writing off of US$900 million of the total US$3 billion claim Italy has on Iraq, with the following US$1.5 billion to be cancelled gradually as Iraq fulfils conditions to be imposed by IMF for three years. The second phase of debt reduction, which will total another US$900 million, occurs when Iraq formally signs a Stand-By-Arrangement with the IMF. The final phase of debt

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cancellation by Italy will amount to US$600 million, and will come into effect once Iraq completes its Stand-By-Arrangement with the IMF. When Italy’s Iraqi Debt Cancellation Agreement is fully phased in, the residual debt stock of approximately US$600 million will be repaid over a twenty-three year period. There will be no principal or interest paid in the first three years of repayment, as well as a six year grace period will be granted on principal payments. Italy’s compliance with the Iraq debt relief commitment makes it the third Paris Club country to sign a bilateral agreement with Iraq that constitutes debt reduction terms contained in the November 2004 Paris Club accord.

Analyst: Claire Chow

5. Japan: +1

The Japanese government announced that it had reached a bilateral debt reduction agreement with the Republic of Iraq on 24 November 2005. The government of Japan provided a schedule for an 80% reduction of the debts owed to them by Iraq. 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 debt will be reduced to US$1.7 billion by the end of the 23 year term.

Analyst: Jacky Stillman

6. Russia: -1

There was no action by the Russian government to fulfill the goals set by the Paris Club of nations in its November 2004 agreement, which were reaffirmed at the Gleneagles summit, on the cancellation of Iraqi debt. 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. This agreement was reached on 23 December 2005 and should generate prompt action. The Russian government is expected to relieve Iraq of 90% of the debt owed which is US$10.5 billion.

Analyst: Jacky Stillman

7. United Kingdom: 0

The United Kingdom agreed on 21 November 2004, along with 18 other Paris Club member countries to cancel 30% of their outstanding debt owed by Iraq by 1 January 2005. The United Kingdom has not, however, officially declared compliance with this initiative. The multilateral effort is intended to allow participating members to coincide their debt relief policies with those of Iraq’s largest creditors, Saudi

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The commitment to reducing debt accumulated by Saddam Hussein’s regime prior to the first Gulf War is considered to be a work in progress. The International Monetary Fund (IMF) may have provided an important impetus for the collective action of all Iraqi creditors to move forward and officially comply with the initial 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. This move is seen to be an endorsement of the fiscal management of the Interim Iraqi Government which is necessary to pave the way for implementation of the second stage of the Paris Club agreement, being the creation and approval of an IMF standard programme. Further endorsement of the debt relief initiative by the United Kingdom was reiterated along with other Paris Club member countries at the Iraq International Conference held in Brussels on 22 June 2005 together with encouragement of other creditor countries to follow suit. The consensus appears to be well established among the creditors, however, the timing of concluding the debt relief is undecided.

**Analyst: Kathrine 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. 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. While this action was not financed by the US government, their ongoing involvement in achieving debt relief for Iraq, by encouraging Paris Club and other creditors to cancel Iraq’s debt will be a crucial step in its efforts at bringing economic stability to Iraq. Even though not all creditors have cancelled debt, continued progress in debt relief is evidence for US dedication to this G8 commitment.

**Analyst: Attila Kovacs**

**9. European Union: n/a**

The European Union (EU) has not been graded for its compliance with the commitment to debt relief for Iraq. The EU, as an institution, is not in a position to offer relief on behalf of its members. The EU, in its 2674th Meeting of the General Affairs and External Relations Council in Brussels on 18 July 2005, did, however, reaffirm the need for further assistance in debt reduction for Iraq.

More constructively, many member states of the EU have independently signed bilateral debt cancellation agreements with Iraq since the Gleneagles Summit. These agreements implement terms that are comparable to, or even better than, those contained in the November 2004 Paris Club agreement. Some of these non-G8 countries in the EU include Austria, Belgium, Denmark, Malta, Slovakia, and Spain. Austria signed an agreement on 13 December 2005 that cancels 80% of Iraq’s debt, which amounts to

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US$2.1 billion. Belgium’s agreement with Iraq also reduces 80% of debt, or US$390 million, and was signed on 7 November 2005. Denmark agreed to cancel 80% of Iraq’s debt, or US$42.6 million on 21 December 2005. Malta was the first non-Paris Club country to sign an agreement with Iraq that forgives 100% of debt, which amounts to US$8 million, and was signed on 26 September 2005. The Slovakian government announced a further debt cancellation of $145 million for Iraq on 21 December 2005. On 22 December 2005, Spain signed an agreement with Iraq that implements the Paris Club term of 80 percent of Iraqi debt reduction, which amounts to US$493 million.

Although the EU is institutionally incapable of directly implementing the debt relief terms of the 2004 Paris Club agreement, it has demonstrated a commitment to the principle of debt relief for Iraq. Moreover, many individual member states of the EU have already fully complied with the Gleneagles Summit commitment by signing bilateral debt cancellation agreements with Iraq.

Analyst: Claire Chow