

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"

- Iraq⁶⁶⁶

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 abdicated 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

⁶⁶⁶ Iraq, G8 Gleneagles 2005, (Gleneagles), 8 July 2005. Date of Access: 1 February 2006.

<http://www.g8.utoronto.ca/summit/2005gleneagles/iraq.pdf>.

⁶⁶⁷ Iraq, Paris Club Press Release, (Paris), 21 November 2004. Date of Access: 10 January 2006.

http://www.clubdeparis.org/en/countries/countries.php?IDENTIFIANT=397&POSITION=0&PAY_ISO_ID=IQ&CONTINENT_ID=&TY PE_TRT=&ANNEE=&INDICE_DET=.

⁶⁶⁸ Iraq: Debt Relief, CRS Report for Congress, Library of Congress: International Trade and Finance Foreign Affairs, Defense, and Trade Division, (Washington, D.C.), 11 March 2005. Date of Access: 10 January 2006.

<http://www.fas.org/sgp/crs/mideast/RS21765.pdf>.

⁶⁶⁹ Iraq, Paris Club Press Release, (Paris), 21 November 2004. Date of Access: 10 January 2006.

http://www.clubdeparis.org/en/countries/countries.php?IDENTIFIANT=397&POSITION=0&PAY_ISO_ID=IQ&CONTINENT_ID=&TY PE_TRT=&ANNEE=&INDICE_DET=.

⁶⁷⁰ Debt Relief Plan Eludes IMF Group, Washington Post, (Washington D.C.), 3 October 2004. Date of Access: 10 January 2006.

<http://www.washingtonpost.com/wp-dyn/articles/A3095-2004Oct2.html>.

⁶⁷¹ Iraq, Paris Club Press Release, (Paris), 21 November 2004. Date of Access: 10 January 2006.

http://www.clubdeparis.org/en/countries/countries.php?IDENTIFIANT=397&POSITION=0&PAY_ISO_ID=IQ&CONTINENT_ID=&TY PE_TRT=&ANNEE=&INDICE_DET=.

Assessment

Score	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Country			
<i>Canada</i>		0	
<i>France</i>			+1
<i>Germany</i>	-1		
<i>Italy</i>			+1
<i>Japan</i>			+1
<i>Russia</i>	-1		
<i>United Kingdom</i>		0	
<i>United States</i>			+1
<i>European Union</i>			n/a
Overall			0.25

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.⁶⁷² Nevertheless, the Canadian government supports a G7 led international debt-reduction program for Iraq.⁶⁷³ 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.⁶⁷⁴ 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 2005.⁶⁷⁵ 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.⁶⁷⁶

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⁶⁷² Iraq: Overview, Canadian International Development Agency, (Ottawa). Date of Access: 6 January 2006. www.acdi-cida.gc.ca/iraq.

⁶⁷³ Iraq: Overview, Canadian International Development Agency, (Ottawa). Date of Access: 6 January 2006. www.acdi-cida.gc.ca/iraq.

⁶⁷⁴ Iraq: International Reconstruction Fund Facility Committee Meeting Concludes on a High Note, Canadian International Development Agency, (Ottawa). Date of access: 6 January 2006. <http://www.acdi-cida.gc.ca/index.htm>.

⁶⁷⁵ Iraq International Conference., Conference Statement, (Brussels), 22 June 2005. Date of Access: 9 January 2006. www.europa.eu.int/comm/external_relations/iraq/conf/statement.pdf.

⁶⁷⁶ David DeRosa, James Baker Scores in Asia on Cutting Iraqi Debt, Bloomberg News, (New York), 4 January 2004. Date of access: 9 January 2006. http://quote.bloomberg.com/apps/news?pid=10000039&refer=columnist_derosa&sid=aVnu.

2. France: 1

The French government has shown progress towards cancelling nearly \$5.6 billion of debt owed by Iraq.⁶⁷⁷ 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.⁶⁷⁸ France will cancel about 4 billion euros in the period from 2005 to 2008.⁶⁷⁹

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."⁶⁸⁰ Although Germany has been helpful in the Iraq reconstruction effort since that agreement,⁶⁸¹ 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.

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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.⁶⁸² 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.⁶⁸³ 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.⁶⁸⁴ 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.⁶⁸⁵ 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.⁶⁸⁶ The final phase of debt

⁶⁷⁷ Japan forgives \$6 billion in Iraq debt, United Press International, (Washington), 9 November 2005. Date of Access: 10 January 2006.

<http://www.upi.com/SecurityTerrorism/view.php?StoryID=20051128-074514-9750r>.

⁶⁷⁸ Bilateral agreement about Iraq's debt, French Ministry of Foreign Affairs (Paris, December 21, 2005). Date of Access: 5 February 2006. http://www.diplomatie.gouv.fr/en/country-files_156/iraq_304/bilateral-agreement-about-iraq-debt-paris-21.12.05_3157.html

⁶⁷⁹ Bilateral agreement about Iraq's debt, French Ministry of Foreign Affairs (Paris, December 21, 2005). Date of Access: 5 February 2006. http://www.diplomatie.gouv.fr/en/country-files_156/iraq_304/bilateral-agreement-about-iraq-debt-paris-21.12.05_3157.html

⁶⁸⁰ Joint Plan to relieve Iraq debt, CNN, (Atlanta), 16 December 2003. Date of Access: 10 January 2006.

<http://www.cnn.com/2003/WORLD/europe/12/16/sprj.iraq.france.baker/>.

⁶⁸¹ Facts Sheet: German Aid for the Stabilization and Reconstruction of Iraq, Germany Embassy in the United States, (Washington, D.C.), 2 Dec 2004. Date of Access: 23 January 2006.

http://www.germany-info.org/relaunch/info/archives/background/Germany_Iraq_12_04_Factsheet.pdf.

⁶⁸² Press Release, Ministry of Foreign Affairs Italy, (Rome), 5 October 2005. Date of Access: 5 January 2006.

http://www.esteri.it/eng/6_38_93_260_01.asp?id=664.

⁶⁸³ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Date of Access: 06 January 2006.

http://www.portaliraq.com/news/Italy+cancels+80+percent+of+its+Iraqi+debt__1111529.html.

⁶⁸⁴ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Date of Access: 06 January 2006.

http://www.portaliraq.com/news/Italy+cancels+80+percent+of+its+Iraqi+debt__1111529.html.

⁶⁸⁵ Italy ratifies Paris Club deal, Jubilee Iraq, 5 October 2005. Date of Access: 04 January 2006.

http://www.jubileeiraq.org/blog/2005_10.html#000899.

⁶⁸⁶ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Date of Access: 06 January 2006.

http://www.portaliraq.com/news/Italy+cancels+80+percent+of+its+Iraqi+debt__1111529.html.

cancellation by Italy will amount to US\$600 million, and will come into effect once Iraq completes its Stand-By-Arrangement with the IMF.⁶⁸⁷

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.⁶⁸⁸ 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.⁶⁸⁹ 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.⁶⁹⁰

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.⁶⁹¹ 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.⁶⁹²

Analyst: Jacky Stillman

6. Russia: -1

There was no action by the Russian government to fulfil 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.⁶⁹³ This agreement was reached on 23 December 2005 and should generate prompt action.⁶⁹⁴ The Russian government is expected to relive 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 2005.⁶⁹⁵ 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

⁶⁸⁷ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Date of Access: 06 January 2006. http://www.portaliraq.com/news/Italy+cancels+80+percent+of+its+iraqi+debt__1111529.html.

⁶⁸⁸ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Date of Access: 06 January 2006. http://www.portaliraq.com/news/Italy+cancels+80+percent+of+its+iraqi+debt__1111529.html.

⁶⁸⁹ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Date of Access: 06 January 2006. http://www.portaliraq.com/news/Italy+cancels+80+percent+of+its+iraqi+debt__1111529.html.

⁶⁹⁰ Italy cancels 80 percent of its Iraqi debt, Portal Iraq, 10 October 2005. Date of Access: 06 January 2006. http://www.portaliraq.com/news/Italy+cancels+80+percent+of+its+iraqi+debt__1111529.html.

⁶⁹¹ Debt Relief Measures for the Republic of Iraq, Ministry of Foreign Affairs Japan, (Tokyo), 24 November 2005. Date of Access: 10 January 2006. <http://www.mofa.go.jp/announce/announce/2005/11/1124.html>.

⁶⁹² Japan cancels 80 per cent of Iraq's debt. Iraq Development Program. 19 December 2005. Date of Access: 10 January 2006. <http://www.iraqdevelopmentprogram.org/idp/news/new1128.htm>.

⁶⁹³ Write-off for bulk of Iraqi debt. BBC News UK Edition, (London), 28 December 2005. Date of Access: 10 January 2006. <http://news.bbc.co.uk/1/hi/business/4563882.stm>.

⁶⁹⁴ IMF Standby Agreement signed, Jubilee Iraq, 23 December 2005. Date of Access: 10 January 2006. http://www.jubileeiraq.org/blog/2005_12.html#000916.

⁶⁹⁵ Iraq: Economic Issues, Foreign & Commonwealth Office Economic, (United Kingdom), 7 December 2005. Date of Access: 7 January 2006. <http://www.fc.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1024313963681>.

Arabia and Kuwait.⁶⁹⁶ 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.⁶⁹⁷ 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.⁶⁹⁸ 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.⁶⁹⁹ The consensus appears to be well established among the creditors, however, the timing of concluding the debt relief is undecided.

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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 2005.⁷⁰⁰ 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.⁷⁰¹ 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.⁷⁰²

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

⁶⁹⁶ David DeRosa, James Baker Scores in Asia on Cutting Iraqi Debt, Bloomberg News, (New York), 4 January 2004. Date of access: 9 January 2006. <http://quote.bloomberg.com/apps/news?pid=10000039&cid=derosa&sid=aVnuCkqtP6T8>.

⁶⁹⁷ International Monetary Fund Press Release No. 05/307, IMF, (Washington, D.C.), 23 December 2005. Date of Access: 7 January 2006. www.imf.org/external/np/sec/pr/2005/pr05307.htm.

⁶⁹⁸ Paris Club Press Release: The Paris Club and the Republic of Iraq Agree on Debt Relief, Paris Club, (Paris), 21 November 2004. Date of Access: 27 December 2005. www.clubdeparis.org.

⁶⁹⁹ Iraq International Conference; Conference Statement, EUROPA, (Brussels), 22 June 2005. Date of Access: 9 January 2006. www.europa.eu.int/comm/external_relations/iraq/conf/statement.pdf.

⁷⁰⁰ Iraq: Debt Relief, CRS Report for Congress. Library of Congress: International Trade and Finance Foreign Affairs, Defense, and Trade Division, (Washington, D.C.), 11 March 2005. Date of Access: 10 January 2006. <http://www.fas.org/spp/crs/mideast/RS21765.pdf>.

⁷⁰¹ IMF Executive Board Approves First Ever Stand-By Arrangement for Iraq, International Monetary Fund Press Release, (Washington, D.C.), 23 December 2005. Date of Access: 10 January 2006. <http://www.Imf.org/external/np/sec/pr/2005/pr05307.htm>.

⁷⁰² Press Release: 2674th Council Meeting: General Affairs and External Relations, The Council of the European Union, (Brussels), 18 July 2005. Date of Access: 4 January 2006. http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/85786.pdf.

US\$2.1 billion.⁷⁰³ Belgium's agreement with Iraq also reduces 80% of debt, or US\$390 million, and was signed on 7 November 2005.⁷⁰⁴ 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 2005.⁷⁰⁵ The Slovakian government announced a further debt cancellation of \$145 million for Iraq on 21 December 2005.⁷⁰⁶ 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.⁷⁰⁷

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.

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⁷⁰³ Austria cancels 80 percent of Iraq debt, Portal Iraq, 19 December 2005. Date of Access: 7 January 2006.

http://www.portaliraq.com/news/Austria+cancels+80+percent+of+Iraq+debt__1111724.html.

⁷⁰⁴ Belgium & Japan implement Paris Club agreement, Jubilee Iraq, 07 November 2005. Date of Access: 7 January 2006.

http://www.jubileeiraq.org/blog/2005_11.html#000911.

⁷⁰⁵ Malta cancels 100% of debt, Jubilee Iraq, 26 September 2005. Date of Access: 7 January 2006.

http://www.jubileeiraq.org/blog/2005_09.html#000896.

⁷⁰⁶ Slovakia cancels \$145mn of Iraqi debt, Middle East Times, (Bratislava), 1 January 2006. Date of Access: 7 January 2006.

<http://metimes.com/articles/normal.php?StoryID=20051219-085832-5874r>.

⁷⁰⁷ Spain Cancels 80% of Its Iraqi Debt, Business Wire, (Baghdad), 4 January 2006. Date of Access: 7 January 2006.

http://home.businesswire.com/portal/site/google/index.jsp?ndmViewId=news_view&newsId=20060104005576&newsLang=en.