

## IRAQ'S DEBT

### Baker's Trip Falls Short; Broader, More Aggressive Action Required

WASHINGTON, Dec. 18, 2003 – Although former Secretary of State James Baker has made progress on reducing Iraq's debt during his trip to European capitals, the Bush administration's efforts must be broader, more aggressive and will require a holistic and innovative strategy, according to a new CSIS analysis.

The analysis, "**Four Hazard Points Secretary Baker Must Address on Iraq's Debt**,"

(<http://www.csis.org/isp/pcr/IraqDebtTalkingPoints.pdf>) asserts that the current focus on reducing and restructuring Iraqi debt owed to Paris Club nations fails to take into account the "full range of issues regarding Iraq's outstanding financial obligations," including debt owed to other Arab nations and Gulf War reparations.

"Those obligations must be addressed holistically, which will require moving beyond the traditional Paris Club debt restructuring mechanisms," the analysis states. "Iraq's overall total financial obligations are close to \$225 billion. Its debt is an estimated \$120 billion, of which around \$21 billion (excluding interest) is owed to Paris Club countries and the remainder is owed to governments (mostly Arab) and private lenders. Iraq also owes close to \$125 billion in Gulf War reparations." Under international norms, which hold that a country's maximum ratio of debt to exports should be 150 percent, Iraq's overall financial obligations should be no more than \$35 billion.

Since 1991, the United Nations Compensation Commission (UNCC) has determined that Iraq owes \$46.5 billion in Gulf War reparations, of which the country has paid approximately \$18 billion. But the UNCC has yet to address another \$95.6 billion in reparations claims still before it. "[T]he total will be unmanageable," the report states. The situation is made more urgent because the Coalition Provisional Authority has run through the Saddam regime money that coalition forces have been using for reconstruction, and money appropriated by the U.S. Congress combined with oil revenue won't cover the funding gap.

"We need to be cautious about prematurely celebrating the forgiveness of Iraq's debt by the West," said **Rick Barton**, co-director of the CSIS Post-Conflict Reconstruction Project and co-author of the analysis. "There are still likely to be unrealistic levels that are refinanced. Claims from the earlier Gulf War that the United States has supported are draining billions from Iraq's thin oil exports. And revenues must be found to run the future government. Any financial overhang that exceeds \$35 billion of combined debt and past war claims will prevent a successful reconstruction."

**Bathsheba Crocker**, also a co-director of the Project and co-author of the analysis, said: "Initial reports from Secretary Baker's trip seem positive, but the United States must pursue a much more radical strategy in order to fully address Iraq's financial obligations. That strategy must look beyond traditional debt restructuring mechanisms, and must include reparations Iraq owes from the Gulf War. If it doesn't, Iraq will not be able to get back on its feet without international -- particularly U.S. -- help for many years."

In January 2003, CSIS released "A Wiser Peace: An Action Strategy for Post-Conflict Iraq" (<http://www.csis.org/isp/wiserpeace.pdf>), also written by Barton and Crocker. "A Wiser Peace" outlined steps to strengthen Iraq's security, governance, justice system and economy before the conflict. One of the key recommendations was that the Bush administration begin focusing on the debt and reparations issues.

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