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**Iraqi Debt Relief**

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I've been asked to speak about my role as the President's Personal Envoy on Iraqi Debt, and I'm happy to do that, but let me begin by providing some context.

Of course, discussions about Iraq's debt issue don't occur in a vacuum. I was forcefully reminded of that last month as I made plans for my initial trip – the one to Europe. The Sunday before I left, I turned on the television and saw the unforgettable videotape of Saddam Hussein being inspected for cavities and lice.

Now I'm not saying that the leader of any major creditor nation was convinced by that image alone. The case for Iraqi debt relief stands on its own merits. But in international relations, as in many areas of life, success builds on success. Momentum counts.

And there is clearly a sense of positive momentum in world affairs today. North Korea, being North Korea, blows hot and cold, but it's fair to say there's been a noticeable rhetorical warming in recent months. Iran has agreed to intrusive nuclear inspections. Libya says it will scrap its WMD programs. The picture of the leaders of India and Pakistan shaking hands speaks volumes about hopes for peace and stability in South Asia. And the strong recovery of the U.S. economy is lifting the global economy, as it so often has in the past. Yes, the reconstruction of Iraq will continue to be difficult – but I don't know anyone who argues that the Iraqi people are not better off. And so, all in all, the world is a better place – safer and more prosperous – than it was this time last year or, frankly, at any time since 9/11.

Let me be clear: I'm not saying these things as a partisan although I do admit my bias. I'm saying them because I believe they are true, although, of course, Iran and Libya bear very close watching to ensure that they meet their commitments.

And I'm not unmindful that this progress carries large costs and risks, including the costs in blood and treasure of continuing efforts in Iraq and Afghanistan, and the risk that things can still go wrong in a big hurry – there, here, and elsewhere. And, of course, it would be nice to see more progress on some other issues, including the Arab-Israeli dispute.

But I think the overall direction in world affairs is clearly positive. And while success has many fathers, and deservedly so, the fact of the matter is that few of the developments I've mentioned would have occurred without U.S. leadership. And to repeat a sermon I have preached for many years and through administrations of both parties, strong U.S. leadership means strong presidential leadership. In foreign affairs, even more than on domestic issues, the buck truly stops in the Oval Office. The West won the Cold War because administrations of both parties stayed the course for more than forty years with a bipartisan policy to contain the expansion of the Soviet Union.

Today's conflict with world terrorism calls for a similar spirit of constancy and broad agreement on core principles. We're not quite there right now, but I think we're heading in that direction. With respect to the worldwide war on terrorism, we're getting excellent cooperation. As to the war in Iraq, we all know there was substantial disagreement, which lingers. But with respect to the importance of rebuilding and liberalizing Iraq, there should be no disagreement. Notwithstanding differences of opinion on the war itself, what country today opposes a free, peaceful, prosperous, and self-governing Iraq? We all have an interest in the successful reconstruction of that country. In addition, the United States and those countries that for many years have been allies of the United States all have an interest in seeing those alliances repaired and invigorated.

And that brings me to Iraq's crushing debt burden. Solving the problem of Iraq's debt is, of course, clearly not a sufficient element by itself to guarantee the successful reconstruction of Iraq's government and economy, but it is a necessary element of that larger project. To date, we've had some success, but we still have a lot of work to do.

The Iraqi debt situation is unique and it is complicated. There is a huge job ahead just in reconciling the numbers – and in dealing with differences of opinion between Iraq and some creditor countries as to whether some loans were really grants. As you may imagine, records in Baghdad are hard to come by, though we are making progress.

But this much is certain: The debt is unsustainable. By any measure, Iraq is the world's most heavily indebted country save perhaps for some highly indebted poor countries in Africa. We are dealing with a post-conflict economy after ten years of sanctions, three wars, and over three decades of dictatorship and misrule. The debt-to-GDP ratio is an estimated 600 percent or more. Iraq's debts can never be paid in full, even under the most optimistic scenarios. Efforts to enforce the claims would ruin the Iraqi economy and, with it, any hopes for the Iraqi experiment with freedom and self-government. Paul Bremer was exactly right when he compared Iraq today to the Weimar Republic of the 1920s. In that case, unsustainable claims destroyed the German economy and, with it, liberal democracy. The true cost to the world of attempting to collect those debts was paid in the currency of death and destruction triggered by Adolph Hitler.

So how much overall reduction is necessary? All we can say with certainty is that it must be very, very substantial. It would be a mistake at this stage for the debate to revolve around specific percentages. Why? Because the exact size of the reductions is the most difficult issue, and you cannot put it up front if you want to have any hope for diplomatic progress. (It would be akin to beginning Arab-Israeli negotiations with the issue of Jerusalem.) And also, the decision about how much to reduce the debt depends very much on the not-yet-completed technical determinations of "sustainability," in other words, how much old debt a reconstructed Iraq could bear.

What I have asked of the major creditor countries in Europe, Asia, and the Persian Gulf region is agreement on three principles. First, that Iraq cannot be reconstructed successfully without debt reduction. Second, that any reduction must be substantial, or a vast majority of the total debt. And third, that we must begin now to have any chance to complete the project in 2004.

We can't wait to start debt reduction talks until a new Iraqi government is formed. Iraq's debts are simply too onerous and the issues too complicated and too urgent to wait. I respect the initial impulse among some creditors to want to wait to engage the new Iraqi government on this issue so as to get political credit with that new government. But I am pleased that they have now backed off, because in this case the perfect is the enemy of the good. To wait until that new government is in place would be a mistake even though the results of the overall debt reduction will, of course, have to be acceptable to that new government. We are meeting and closely coordinating with the Finance Minister and Central Bank Governor of Iraq.

For the record, the scope of my portfolio for this project is limited. My job is to deal with Iraqi debt to sovereign creditors, not with war reparations or private debt. Reparations for damages caused by Iraq's invasion and occupation of Kuwait are, as I'm sure most of you know, under the jurisdiction of the United Nations Security Council and subject to resolutions it has passed. Private debt is subject to processes outside the Paris Club, such as the London Club, which more often than not follows Paris Club leadership.

Iraqi debt reduction is so important to the reconstruction of Iraq and so complicated – involving as it does many countries around the world, some of which are not members of the Paris Club – that the President decided the issue could be resolved only through direct presidential involvement. That's why he appointed a Special Presidential Envoy who reports only to him. And that's why he asked heads of government, not ministers, to meet with that envoy. In doing so, he sent two messages: First, the issue is critical. Second, we can resolve it only by working together in a cooperative spirit at the very highest levels.

Before we go to Q&A, let me conclude where I began, by noting the sense of positive momentum in world affairs. Based on the good will and cooperation I have encountered so far as I have gone to the world's capitals, I think we can reasonably expect that momentum to continue. Simply put, I am confident that the world community will help us meet the challenge of reducing Iraq's debt so that the Iraqi people can escape the awful burdens of their past, and embrace the glorious possibilities of peace, freedom and prosperity for themselves and their children.

Thank you.

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