



# **A WISER PEACE: AN ACTION STRATEGY FOR A POST-CONFLICT IRAQ**

## **Supplement I:** Background Information on Iraq's Financial Obligations\*

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*A Wiser Peace: An Action Strategy for a Post-Conflict Iraq* can be found at <http://www.csis.org/isp/pcr/index.htm>. For further information, please contact Milan Vaishnav at [mvaishna@csis.org](mailto:mvaishna@csis.org) or Amanda Pomeroy at [apomeroy@csis.org](mailto:apomeroy@csis.org).

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\* Every attempt has been made to verify the facts herein. These efforts include discussions with original sources, embassies, and country and economic specialists. It should be noted that even organizations such as the International Monetary Fund (IMF), the World Bank and the United Nations have had limited access to official economic statistics. As a result, economic estimates tend to vary greatly.

### **Iraq's Overall Financial Burden**

**Figure 1: Iraq's Overall Financial Obligations (US \$ Billions)**

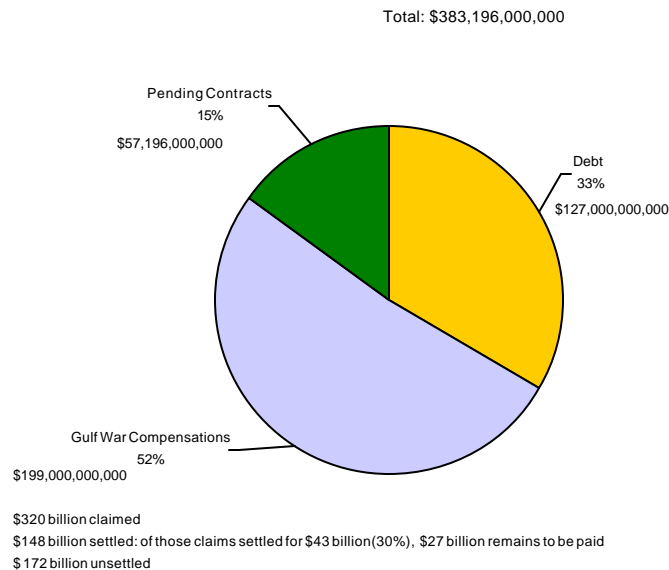


Figure 1 depicts the three sources of Iraq's financial obligations – compensation claims, foreign debt, and pending contracts. By current estimates, Iraq's overall financial burden from these three sources is approximately \$383 billion.

### **Compensation Claims**

The United Nations Compensation Commission (UNCC)<sup>1</sup> has received a total of \$320 billion in claims against Iraq related to Iraq's invasion of Kuwait in 1991 by aggrieved individuals, companies, governments, and international organizations.<sup>2</sup> To date, only individual and family claims (known as Categories A, B, and C claims) have been resolved. Of the \$148 billion in individual and family claims submitted to the UNCC, the Governing Commission awarded \$43 billion, yielding approximately a 30 percent return on the original claim. Of that amount, \$16 billion has already been paid, leaving \$27 billion as a remaining obligation on Iraq's balance sheet.<sup>3</sup>

<sup>1</sup> The United Nations Compensation Commission (UNCC) is a quasi-judicial process established in 1991 pursuant to United Nations Security Council Resolution 692 in 1991 to process claims and pay compensation stemming from the Gulf War. See UNSC 692, May 20, 1991, at <http://ods-dds-ny.un.org/doc/RESOLUTION/GEN/NR0/596/28/IMG/NR059628.pdf?OpenElement> Claims submitted to the UNCC are processed in accordance with the Provisional Rules for Claims Procedures, passed by the United Nations Compensation Commission Governing Council Decision 10 on June 26, 1992. See Decision 10, S/AC.26/1992/10, June 26 1992, at [http://www.unog.ch/uncc/decision/dec\\_10.pdf](http://www.unog.ch/uncc/decision/dec_10.pdf). Only governments and international organizations are entitled to submit claims to the Commission. The UNCC then makes payments to government and international organizations, which in turn distribute them to claimants. All claims are scheduled to be adjudicated and sent to the Governing Council for resolution by the end of 2004. Final payouts are scheduled to occur in 2005.

<sup>2</sup> For more information on the Claimants and the UNCC, see Nicholas C. Ulmer, *Claimants's expectations from the United Nations Compensation Commission*, JOURNAL OF INTERNATIONAL ARBITRATION, Vol. 15, No. 1, March 1998, p. 7-14.

<sup>3</sup> Phone interview with UNCC Office of the Executive Secretary. November 7<sup>th</sup>, 2002. Payments have meted out four times a year, transferred from the Oil-For-Food Program to the UN Compensation Commission (UNCC).

Government, corporate, and international organization claims (known as Categories D, E, and F claims), which constitute the remaining \$172 billion, have yet to be resolved. Conventional wisdom holds that these claims will be settled at a lower rate of return than individual and family claims.<sup>4</sup>

The Governing Council has yet to address the issue of interest on award payments.<sup>5</sup>

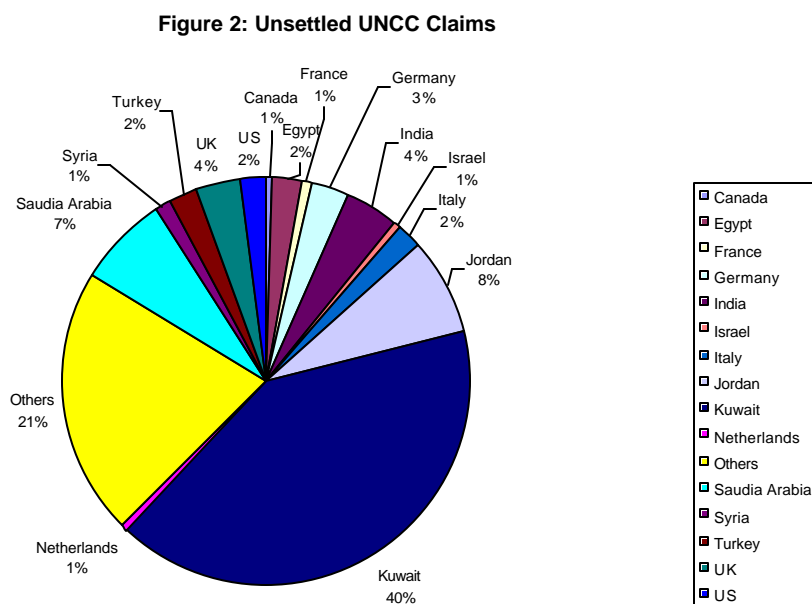


Figure 2 depicts a percentage breakdown of unsettled claims to the UNCC by governments, corporations, and international organizations.

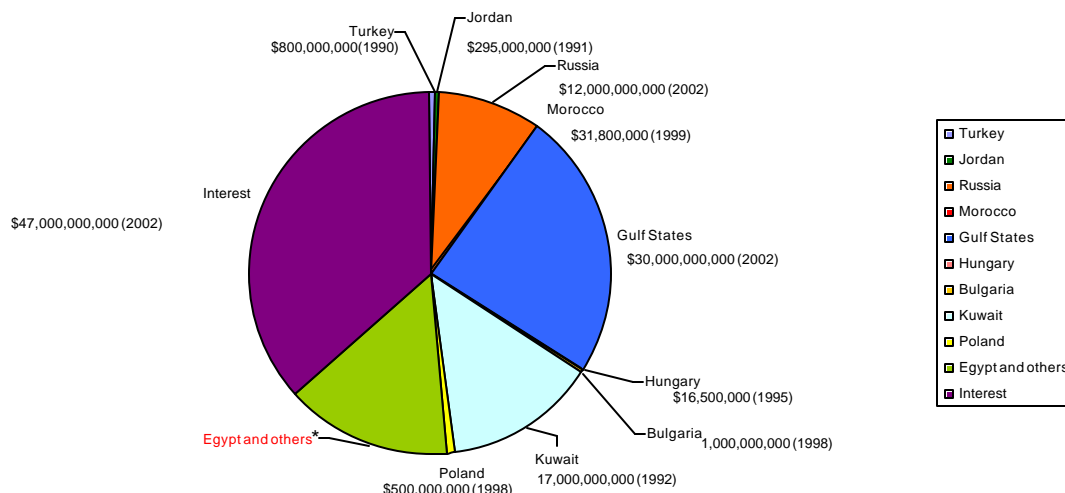
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<sup>4</sup> Phone interview with UNCC Office of the Executive Secretary. November 7<sup>th</sup>, 2002.

<sup>5</sup> According to A UNCC Governing Council Decision of December 18, 1992, "interest will be awarded from the date the loss occurred until the date of payment, at a rate sufficient to compensate successful claimants for the loss of use of the principal amount of the award. The methods of calculation and of payment of interest will be considered by the Governing Council at the appropriate time. Interest will be paid after the principal amount of the award." United Nations Compensation Commission Governing Council, Decision 16, S/AC.26/1992/16, Jan. 4 1993, at [http://www.unog.ch/uncc/decision/dec\\_16.pdf](http://www.unog.ch/uncc/decision/dec_16.pdf).

## **Foreign Debt**

**Figure 3: Creditors of Iraq's Debt, by Country of Origin**  
(Derived from multiple sources. Dates indicate year of stated debt accumulation)



\*Note: There are known to be creditors in Egypt, although the exact amount of this debt is not known. There are also assumed to be other unknown or undisclosed creditors in these and other countries.

Figure 3 depicts a breakdown of Iraq's known foreign debt, according to the best available information. Estimates of Iraq's foreign debt vary widely, from \$62-130 billion. The disparities in estimates are due in part to a disagreement between Iraq and its neighboring states over the nature of approximately \$30 billion in assistance given to Iraq by several Gulf States during the Iran-Iraq War. Iraq considers these payments to have been grants; the creditor states consider them to have been loans.<sup>6</sup> Figures also vary depending on whether they include accrued interest, which some estimates put at \$47 billion and rising.<sup>7</sup> The World Bank/Bank for International Settlements' 2001 estimate for Iraqi debt totaled \$127.7 billion, including \$47 billion in accrued interest.<sup>8</sup> The U.S. Department of Energy's 2001 estimate was \$62.2 billion.<sup>9</sup>

Known country sources of creditors include Egypt, Hungary, Russia, Bulgaria, Turkey, Poland, Jordan Saudi Arabia, Kuwait, and other Gulf states. The amounts in Figure 3 include both government and privately held debt in these countries. In fact, Iraq has accumulated primarily short-term debt from private commercial banks and private companies. Such debt typically matures much faster, at considerably higher interest rates, than debt to regional or multilateral institutions

<sup>6</sup> David Chance, *Regime Change Could Benefit Iraqi Creditors*, REUTERS NEWS WIRE, Sept. 13, 2002.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.*

<sup>9</sup> U.S. Department of Energy, Energy Information Administration, *Iraq Country Analysis Brief*, Oct. 2002, at <http://www.eia.doe.gov/emeu/cabs/iraq.html>.

such as the World Bank or the Arab Monetary Fund. Iraq also holds long-term debt to foreign governments.

The World Bank and the International Monetary Fund (IMF) maintain different threshold ratios for sustainable debt management, including a debt-to-export ratio, a debt-to-GNP ratio, and a debt service-to-export ratio. According to World Bank standards, the maximum sustainable debt service-to-export threshold for Heavily Indebted Poor Countries (HIPC) is 15-20 percent.<sup>10</sup> Even assuming a discounted figure for Iraqi debt and a highly favorable repayment schedule, Iraq's debt service-to-export ratio would greatly exceed this threshold.<sup>11</sup>

### **Pending Contracts**

**Figure 4: Pending Contracts with Iraq, by Country of Origin**  
(ESTIMATES - Contracts held by both public and private companies)

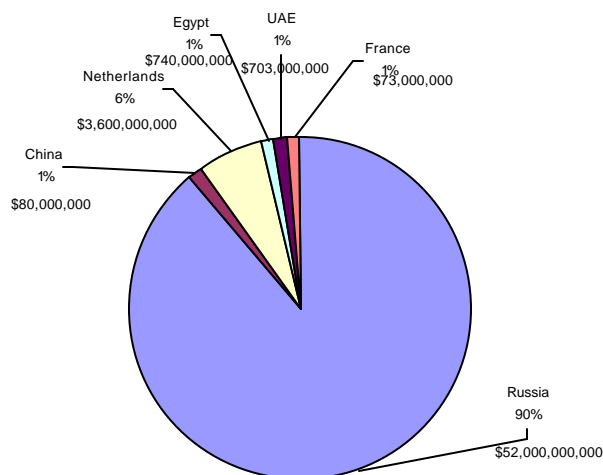


Figure 4 depicts a percentage breakdown of Iraq's pending contracts with public and private foreign companies, according to the countries where those companies are located. Iraq has pending contracts with Russian, Dutch, Egyptian, United Arab Emirates, Chinese, and French entities estimated at \$57.2 billion, primarily in the energy and telecommunications sectors.<sup>12</sup>

<sup>10</sup> IMF Executive Board Reviews HIPC Initiative Modifications, International Monetary Fund, Public Information Notice No. 99/76, Aug. 13, 1999, at <http://www.imf.org/external/np/sec/pn/1999/pn9976.htm>.

<sup>11</sup> For an excellent in-depth discussion of Iraq's debt, see Ahmed Jiyad, *The Economic Debt Trap: Iraq's Debt, 1980-2020*, ARAB STUDIES QUARTERLY, 23:4, pp. 15-58 (Fall 2001).

<sup>12</sup> For more detailed information on the companies with which Iraq has contracts, see Bhushan Bahree, *Global Oil Companies Undercut U.S. Policies Toward Iraq, Iran*, WALL STREET JOURNAL, Feb. 23, 1998; Colum Lynch, *Iraq Uses Its Buying Power as Leverage*, WASHINGTON POST, July 3, 2001.

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