

The Iraq sovereign debt restructuring

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Key points

- At the time of the U.S. invasion in 2003, Iraq had around 130 billion U.S. dollars in external debt that needed to be restructured. The restructuring was one of the largest in history, yet no clear and detailed historical account exists. Through primary sources and interviews with key actors involved, I tell the story of how Iraq managed to get a deal done.
- The restructuring was permeated by politics to inflict harsh terms on creditors, at a time when creditor-friendly restructurings were the norm. Despite its apparent success, in going for a politically expedient deal at the Paris Club, the restructuring missed an opportunity to enshrine a doctrine of odious debt in international law.

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1. INTRODUCTION

Iraq was the most indebted nation in the world when the U.S. and its Coalition partners invaded on March 19, 2003.² Iraqi indebtedness was a result of debts incurred as part of the Iran-Iraq War (1980-88) and crippling economic sanctions imposed during the 1990s. In early 2003, the U.S. government backed one of the largest sovereign debt restructurings in history to help reintegrate Iraq into the global economy. Getting rid of the debt burden was required to facilitate trade and avoid attachment of assets by creditors. The restructuring was a political process, setting it apart from most restructurings in the 1990s and 2000s, which were creditor-friendly affairs. This paper details and analyses the Iraq sovereign debt restructuring and shows how it managed to inflict harsh terms on its creditors.

Enforcement of sovereign debt repayments became easier with the rise of globalisation and interconnected capital markets. During the 1990s, holdout creditors increasingly sued wayward debtors, and won by cutting off countries from the global financial system.³ Iraq had no cash in 2003 and received all its foreign currency from the sale of oil, which made it vulnerable to aggressive creditors if the debt burden was

² According to the IMF's online database on sovereign debt, the most indebted nation in 2003 was Liberia, with a debt-to-GDP of 515 percent. IMF does not include Iraq for 2003. [Table 1 shows Iraq total government liabilities were 573 percent of GDP.

³ See e.g. Lee Buchheit and Mitu Gulati, 'Restructuring Sovereign Debt After NML v. Argentina' (2017), *Capital Markets Law Journal* 12 (2), pp. 224–38; or Chuck Fang, Julian Schumacher, and Christoph Trebesch, 'Restructuring Sovereign Bonds: Holdouts, Haircuts and the Effectiveness of CACs' (2020), *ECB Working Paper Series* 2366.

not dealt with.⁴ If creditors could attach judgments to oil-related assets, the restructuring could prove tricky - to say the least.

The Iraqi debt restructuring was able to circumvent aggressive creditors. Political pressure and a worldwide immunization of foreign assets forced through one of the most complex debt restructurings to date.⁵ The U.S. spent significant political capital and used close-to unprecedented tools to force creditors to exchange debt claims. However, it stopped short of enshrining a doctrine of odious debt in international law, despite initial overtures in that direction. Political expediency was preferred to a new sovereign debt restructuring regime.

2. WAR AND ODIIOUS DEBTS

Earlier studies into the Iraq sovereign debt restructures focus mainly on the outcome of the negotiations and rely on secondary sources.⁶ The Iraq debt burden on the eve of the invasion was 160 billion U.S. dollars, or more than 570 percent of GDP, as shown in Table 1. The debt was a consequence of politically motivated lending during the Iran-

⁴ IMF, 'Iraq: Use of Fund Resources—Request for Emergency Post-Conflict Assistance' (September 29th, 2004), *IMF Country Report* 04/325, pp. 29.

⁵ The Iraqi debt stock included all types of debt (external bonds, commercial loans, bank deposits, trade credits, export grants) owed to different creditors (government, commercial, and private creditors).

⁶ See Bessma Momani and Aidan Garrib, 'Iraq's Tangled Web of Debt Restructuring' in M. Lamani and B. Momani (eds), *From Desolation to Reconstruction: Iraq's Troubled Journey* (2010), pp. 155-74 and Martin A. Weiss, 'Iraq's Debt Relief: Procedure and Potential Implications' (2011), *CRS Report for Congress* 15.

Iraq War, where Iraq's then-allies had lent generously to defeat an unpopular geopolitical enemy (Iran).⁷

[Table 1 here]

The main creditors were Paris Club members, countries not part of the Paris Club (mainly Gulf States), and commercial creditors. The lines between each was blurred because commercial lending was often given at the behest of governments, while bilateral loan documentation was missing.⁸ The money Iraq owed was not spent on the Iraqi people; it was provided in the name of geopolitics, leaving the Iraqi people saddled with debt whilst an oppressive regime was personally enriched.⁹

A recent historical fact in international finance is that successive governments honour the previous regimes' debt.¹⁰ It might seem an oddity because no sovereign bankruptcy regime exists, and it is almost impossible to enforce sovereign debt contracts.¹¹ Following World War I, several attempts were made to formalise model

⁷ See Simon Hinrichsen, 'Tracing Iraqi Sovereign Debt through Defaults and Restructuring' (2019) *LSE Economic History Working Papers* 304.

⁸ Ibid.

⁹ Saddam's personal net wealth ranged from 2 to 40 billion dollars, see Justine Blau, 'Where are Saddam's Billions?' (April 11th, 2003) *CBS News* <https://www.cbsnews.com/news/where-are-saddams-billions/> (accessed September 29th, 2020).

¹⁰ The historical norm of continuous repayment is well-covered in Odette Lienau, *Rethinking Sovereign Debt: Politics, Reputation, and Legitimacy in Modern Finance* (2014) and Jerome Roos, *Why Not Default? The Political Economy of Sovereign Debt* (2019).

¹¹ Anna Gelpern, 'Sovereign Debt: Now What?' (2016), *Yale Journal of International Law* 41, pp. 45–95. Before the twentieth century, it was more common to enforce debt by sanctions or 'gunboat diplomacy',

arbitration clauses in sovereign bonds,¹² but until the 1950s defaulting countries were effectively immune from legal action.¹³ Even in the latter half of the century, restructurings were still largely voluntary ad-hoc affairs.¹⁴ Collective Action Clauses (“CACs”), that offer a way to restructure sovereign bonds if a majority of creditors agree, were absent from Iraqi debt contracts.¹⁵ Iraq therefore had no way of legally forcing creditors to exchange their claims. It left Iraq with the option of a negotiated restructuring or a repudiation by declaring its debt odious.

The doctrine of odious debt states that if debt was issued with no benefit and no consent of the people, and the creditors knew it at the time, then a new government should not be responsible for the old regime’s debt.¹⁶ Repudiation of debt has occurred

see e.g. Kris J. Mitchener and Marc D. Weidenmier, ‘Supersanctions and Sovereign Debt Repayment’ (2010), *Journal of International Money and Finance* 29 (1), pp. 19–36.

¹² Mark C. Weidemaier, ‘Sovereign Immunity and Sovereign Debt’ (2014), *University of Illinois Law Review*, pp. 67-114.

¹³ Anna Gelpern, ‘What Iraq and Argentina Might Learn from Each Other’ (2005), *Chicago Journal of International Law* 6 (1), pp. 391–414.

¹⁴ Jérôme Sgard, ‘How the IMF Did It—Sovereign Debt Restructuring between 1970 and 1989’ (2016), *Capital Markets Law Journal* 11 (1), pp. 103–25.

¹⁵ See Anna Gelpern and Jeromin Zettelmeyer, ‘CACs and Doorknobs’ (2020), *Capital Markets Law Journal* 15 (1), pp. 98-114 for an overview and description of CACs.

¹⁶ Seema Jayachandran and Michael Kremer, ‘Odious Debt’ (2006), *American Economic Review* 96 (1), pp. 82–92. There is an argument that the doctrine of odious debt already exists in international law, but it has never been used in practice, see e.g. Jeff King, *The Doctrine of Odious Debt in International Law: A Restatement* (1st edn, 2016). Changing international law occasionally happens but needs support from powerful nations, see Stephen J. Choi and Mitu Gulati, ‘Customary International Law: How Do Courts

throughout history, most famously after the Russian Revolution in 1918,¹⁷ but recent invocations of odious debt have been rare. Exception include Ecuador's default in 2008,¹⁸ and the Greek Parliament's Truth Committee on Public Debt.¹⁹ Because of the origin of Iraq's debt stock, invoking the doctrine of odious debt was possible, but it would require a new approach by the institutions involved. A standard sovereign debt restructuring, meanwhile, was up against potentially aggressive creditors who were used to receive generous treatment, and who could attach Iraq's assets abroad.

Do It?' In Curtis A. Bradley (eds), *Custom's Future: International Law in a Changing World* (2016), pp. 117–47.

¹⁷ Christina Laskaridis, Nathan Legrand and Eric Toussaint, 'Historical perspectives on current struggles against illegitimate debt' in Philip Mader, Daniel Mertens, Natascha van der Zwan (eds.) *The Routledge International Handbook of Financialization* (2020), pp. 482-93 and Lienau (n 10).

¹⁸ Anna Gelper, 'Debt and the People, Part II: The Hot ... and Concluding Disquietudes' (2010), *Credit Slips* <https://www.creditslips.org/creditslips/2010/03/debt-and-the-people-part-ii-the-hot-disquietude.html> (accessed January 8th, 2020). The IACPC was appointed by the president and found Ecuadorian debt to be illegitimate, leading to a strategic default, see Internal Auditing Commission for Public Credit, *Final Report of the Integral Auditing of the Ecuadorian Debt* (2008). Both Arturo Porzecanski and Adam Feibelman argue Ecuador were far from proving their case, see Adam Feibelman, 'Ecuador's Sovereign Default: A Pyrrhic Victory for Odious Debt?' (2010), *Journal of International Banking Law and Regulation* 25 (7), pp. 357–62; and Arturo C. Porzecanski, 'When Bad Things Happen to Good Sovereign Debt Contracts: The Case of Ecuador' (2010), *Law and Contemporary Problems* 73 (4), pp. 251–71.

¹⁹ The Truth Committee on Public Debt, 'On public debt, preliminary report' (2015), https://www.hellenicparliament.gr/UserFiles/8158407a-fc31-4ff2-a8d3-433701dbe6d4/Report_EN_final.pdf (accessed October 1st, 2020).

3. THE IRAQ DEBT RESTRUCTURING

The story of Iraq's sovereign debt restructuring is told in detail for the first time.²⁰ In addition to primary sources, I have conducted interviews with people involved in the restructuring. When information from an interview is used, I use standard citation to show where the information has been sourced. The potential for bias is present, as memories fade some might have a positive spin on their own actions. In addition, several involved parties have been involved in the sovereign debt literature. It is nonetheless the only way to gather certain information and all details provided have been checked against other interviewees as well as primary documentation.²¹ The story is therefore this author's best attempt at reconstructing what happened between 2003 and 2006. The interviews include the lawyers for the Iraqi government: Lee Buchheit²² and Jeremiah Pam;²³ advisors for the commercial restructuring: Nazareth Festekjian from Citigroup,²⁴ and Daniel Zelikow from JP Morgan;²⁵ officials for the U.S. government: Anthony Marcus;²⁶ Clay Lowery;²⁷ and Olin Wethington;²⁸ and the U.K.

²⁰ As far as the author is aware, at the time of writing (September 2020), there have been no other comprehensive accounts of the Iraqi restructuring featuring all aspects of the restructuring.

²¹ Interviews were recorded with consent and are on file with the author. Each interviewee had the opportunity to review statements attributed to them for comment before publication.

²² Lee C. Buchheit, *in person interview* (May 1st, 2019 in New York). Recording on file.

²³ Jeremiah Pam, *in person interview* (May 7th, 2019 in Washington, D.C.). Recording on file.

²⁴ Nazareth Festekjian, *in person interview* (May 2nd, 2019 in New York). Recording on file.

²⁵ Daniel Zelikow, *email correspondence* (March 10th, 2020). Records on file.

²⁶ Anthony Marcus, *in person interview* (May 6th, 2019 in Washington, D.C.). Recording on file.

²⁷ Clay Lowery, *in person interview* (May 8th, 2019 in Washington, D.C.). Recording on file.

negotiator for the Paris Club, Andrew Kilpatrick.²⁹ I also rely on primary sources—documents from the restructuring, press releases, annual reports—as well as some secondary literature.

3.1 Iraqi debts

A debtor country usually knows how much money they owe, but not to whom, as this depends on the type of debt. External bonds are publicly traded and can be held by anyone, while bilateral government loans are easier to identify.³⁰ Iraq's creditors included all types of claims and creditors, with commercial creditors ranging from government contractors and suppliers, to hedge funds, asset managers, banks, trade creditors, and state-owned entities. It also affected the strategy of the restructuring because a loan from a bank that is given illegally might be considered odious, but trade credits for goods and services is probably not.

After the U.N. imposed sanctions in 1990, Iraq stopped keeping track of who was owed what and the IMF had not conducted an Article IV consultation since the early

²⁸ Olin Wethington, *in person interview* (May 9th, 2019 in Washington, D.C.). Follow up *phone interview* (August 28th, 2019). Recordings on file.

²⁹ Andrew Kilpatrick, *in person interview* (July 23rd, 2019 in London). Follow up *phone interview* (August 28th, 2019). Recordings on file.

³⁰ In between external bonds (unknown) to bilateral sovereign loans (known) are commercial loans, syndicated loans, trade credits, supplier credits, etc., which has known creditors to various degrees.

1980s.³¹ The restructuring was thus an extremely complex endeavour. The Iraqi obligors (the debtor entities) were a diverse group, as the line between the Iraqi government and Iraqi commercial enterprises had been blurred. The obligor included not only the government itself, but ministries, state-owned enterprises, and quasi-governmental institutions such as banks—especially Rafidain and Rasheed.³² Coordinating between the different debtors was more complicated than in normal restructurings, as the entire public sector of Iraq was included as a debtor.³³

Reparations were quickly left out of the restructuring, mainly for international political reasons. The U.S. Treasury put together some initial numbers but looked for reasons not to include reparations in the restructuring.³⁴ Reparations had been structured by U.N. resolutions to be paid directly out of oil revenues and a new resolution would be required to change the legal setup.³⁵ Unlike sovereign debt, reparations were easy to enforce because the United Nations Compensation Commission (UNCC) had been set up to take money directly from Iraqi oil revenues. The original Resolution 705 stipulated 30 percent of Iraqi oil revenues should go towards paying reparations. It was

³¹ Shinji Takagi, Donald Donovan, Bessma Momani, Lorenzo L. Perez, Miguel de Las Casas, and Michael Pisa, 'The IMF and Fragile States: Eight Selected Country Cases' (2018), *IEO Background Paper* BP/18-01/02, pp. 56.

³² Definitions of obligors available at <http://www.eyidro.com> (accessed July 22nd, 2019).

³³ Hadi N Deeb, 'Project 688: The Restructuring of Iraq's Saddam-Era Debt' (2007), *Restructuring Newsletter*, Cleary Gottlieb Winter, p. 5. Most institutions were located outside the relative safety of the Green Zone in Baghdad, an added security risk.

³⁴ Lowery (n 27).

³⁵ U.N. Security Council Resolution 705 [1991], Doc S/RES/705.

lowered to 25 percent in 2000 and to 5 percent in 2003.³⁶ Just changing the legal status of reparations would require a political battle at the U.N., which could be vetoed by any one of the five permanent Security Council members.

3.2 Immunizing Iraqi assets and reconciling debts

U.N. Resolution 1483 lifted sanctions, terminated the Oil-for-Food Program, structured the post-invasion government, called for a debt restructuring, set up the Development Fund for Iraq (DFI), and called on all members to immunize Iraqi oil sales from creditor attachment.³⁷

The Central Bank of Iraq formally held Iraqi assets, both domestically and in foreign accounts. The assets could be attached by creditors, as Iraq was in default and could be sued. The DFI was therefore set up by the Coalition Provisional Authority (CPA), the interim government, to receive assets from the Central Bank of Iraq. The assets included future petroleum revenues and it was considered immune under U.N. privileges.³⁸ Other Iraqi assets were to be immunized by countries individually, which in the U.S. implemented through Executive Order 13303.³⁹ The DFI paid wages, pensions,

³⁶ By U.N. Security Council Resolution 1330 [2000], Doc S/RES/1330 and U.N. Security Council Resolution 1330 [2003], UN Doc S/RES/1483.

³⁷ Ibid.

³⁸ Iraqi savings were initially parked at the DFI, which at its peak held around 12 billion dollars (Zelikow, n 25). The Central Bank of Iraq (CBI) slowly replaced the DFI as the main holder of Iraqi public savings. The DFI was administered by the New York Federal Reserve.

³⁹ The President of the United States, 'Executive order 13303: Protecting the Development Fund for Iraq and Certain Other Property in Which Iraq Has an Interest' [May 22nd, 2003], 68 FR 31929. The order

and was used for cash disbursements.⁴⁰ Cash to run the government was withdrawn from the DFI and flown to Iraq.⁴¹ Immunising Iraqi foreign assets from, “any form of attachment, garnishment, or execution,”⁴² was, alongside the creation of the DFI, the most important features of U.N. Resolution 1483 for the debt restructuring.⁴³

Resolution 1483 was hotly debated with the international community divided between the U.S. and its allies, and countries that opposed the Iraq war. The U.S. and the U.K. had circulated drafts of the resolution, which essentially legitimised the invasion. The immunisation of Iraqi oil assets was included in early drafts and there is little evidence that it was a major point of contention.⁴⁴ It would protect Iraqi assets, but also enabled global oil companies, mostly American and British, to get involved without the risk of creditor judgments. From the U.S. government’s point of view, reconstruction depended on getting rid of the debt overhang⁴⁵ and on October 16th, 2003 Congress

was renewed by both Presidents Bush and Obama. It expired in 2014, see Lee C. Buchheit and Mitu Gulati, ‘Sovereign Debt Restructuring and US Executive Power’ (2019), *Capital Markets Law Journal* 14 (1), pp. 114–30. The executive order was marred by controversy, as some argued it immunised U.S. oil companies, see e.g. Claire Kelly, ‘The War on Jurisdiction: Troubling Questions About Executive Order 13303’ (2004), *Arizona Law Review* 46 (June), pp. 483–517.

⁴⁰ U.N. Resolution 1483 (n 36), article 12; Wethington (n 28).

⁴¹ *Ibid.*

⁴² U.N. Resolution 1483 (n 36), article 22.

⁴³ The security and government related questions are left for other articles to explore.

⁴⁴ Paragraphs 12-21 in the draft resolution governing the Development Fund of Iraq (available at <https://www.globalpolicy.org/component/content/article/168/36079.html> (accessed on September 29th, 2020)). In early drafts, it was called the Iraqi Assistance Fund.

⁴⁵ Lowery (n 27).

urged Paris Club creditors to get together to provide debt relief.⁴⁶ There was a political argument for debt relief, too. The White House and the Treasury could not go to Congress and ask for appropriations, only to turn around and see the money flow to other creditors, such as Saudi Arabia or China, on already delinquent loans.⁴⁷ The Treasury appointed Olin Wethington to oversee the economy directorate at the Coalition Provisional Authority (CPA), the transitional government of Iraq, in October 2003.⁴⁸

The CPA started to explore, but not to formally start, the restructuring until sovereignty passed back to Iraq.⁴⁹ The Trade Bank of Iraq (TBI) was established as a stopgap measure to facilitate imports and exports until then. Because of Iraqi's weak economic situation, it was key to establish an institution that could facilitate trade finance. The two main banks, Rafidain and Rasheed, were in no position to offer letters of credit (normal in trade finance) and judgment creditors would have attached collateral if they could. The TBI was therefore made immune from attachment as well.⁵⁰

⁴⁶ U.S. House Resolution 198 [October 16th, 2003], U.S. 108th Congress. See also Paris Club, 'Preliminary discussion on the situation of Iraq's Paris Club debt' (April 24th, 2003), *Press release*; and Paris Club, 'Paris Club creditors reviewed Iraq's situation towards them' (July 10th, 2003), *Press release*.

⁴⁷ Lowery (n 27).

⁴⁸ His role was, effectively, to be the interim central bank governor, with the title of Director of Economic Policy, reporting to Bremmer (Wethington n 28).

⁴⁹ Pam (n 23).

⁵⁰ Zelikow (n 25).

The legal structure allowed some relief on Iraqi supply-chains, but its scope was limited.⁵¹

Jim Baker was appointed Special Envoy in December 2003 to lobby Iraqi creditors for debt relief in a political capacity and to lay the groundwork for the restructuring. He targeted key creditors that would have to be engaged later. A group that included the Iraqi Finance Minister and Central Bank Governor travelled the world to obtain political buy-in for a restructuring.⁵² In late 2003, The Treasury (for financial matters), the State Department (diplomacy), and the National Security Council (to represent the executive) gathered in the States to agree on an approach.⁵³ Meanwhile the Treasury oversaw an initial inventory of debt, as nobody knew how much debt Iraq had.⁵⁴

The procurement process to hire separate legal advisors for Iraq started in early 2004, with Cleary Gottlieb appointed in June 2004.⁵⁵ Lee Buchheit led the Cleary team and his job was to run the restructuring for Iraq and manage other financial advisors.⁵⁶

⁵¹ Wethington (n 28). The TBI was incorporated as a bank and capitalised with 100 million dollars. A decade later, the financial sector was underdeveloped: credit from banks to the private sector account for less than ten percent of GDP compared to over 55 percent on average for the region, see World Bank Group, 'Iraq: Systematic Country Diagnostic' (2017), *World Bank Report* 112333-IQ, pp. 76.

⁵² Lowery (n 27) and Wethington (n 28).

⁵³ Additionally, U.S. Paris Club negotiators are jointly from the Treasury and State Department, see Pam (n 23) and Lowery (n 27).

⁵⁴ Ibid. A difficult process, as explained earlier. It started by looking at records in ministries and the central bank and asking other sovereigns how much they thought they were owed. The IMF played a coordinating role but had no data from the 1980s when it left Iraq, see Takagi et al. (n 31), pp. 60.

⁵⁵ Deeb (n 33), pp. 4.

⁵⁶ Buchheit (n 22).

At the first meeting between the White House, Treasury, IMF, and Cleary, the main subject of discussion was whether Iraqi debt could be declared odious. Declaring the debt odious implied that the debt was illegitimate and would have led to a cancellation of all debt. There was talk at the highest levels in the U.S. administration about declaring Iraqi debt odious, even going so far as to have Secretary of the Treasury Snow suggest it publicly.⁵⁷ It generated lots of support and debate in the think tank world⁵⁸ and academia, as a series of articles in the following years show.⁵⁹

The U.S. government took the position in public to support the idea of declaring Iraqi debt odious, but in private among the institutions directly involved—the U.S. Treasury and the IMF—the concept was not discussed much. The IMF publicly rejected the idea.⁶⁰ The institutions normally involved in sovereign debt restructuring judged a standard approach would more efficient.⁶¹ Support for the idea seemed to mostly originate outside of the institutions normally engaged in debt restructurings, particularly at the Pentagon, think tanks, and interest groups in Iraq and the U.S.

⁵⁷ Bessma Momani and Aidan Garrib, 'Iraq's Tangled Web of Debt Restructuring' in M. Lamani and B. Momani (eds), *From Desolation to Reconstruction: Iraq's Troubled Journey* (2010), pp. 158-19.

⁵⁸ Patricia Adams, 'Iraq's Odious Debts' (2004), *Cato Policy Analysis* 526.

⁵⁹ Jayachandran and Kremer (n 16); Anna Gelpern, 'Odious, Not Debt' (2007), *Law and Contemporary Problems* 70 (3), pp. 81–114; or Jai Damle, 'The Odious Debt Doctrine after Iraq' (2007), *Law and Contemporary Problems* 70 (4), pp. 139–56, are examples of refereed articles. For the current debate at the time, see e.g. the June 2005 edition of *Finance and Development* 42 (2), where 'Letters to the Editor' include discussions between several of the cited authors.

⁶⁰ Raghuram Rajan, 'Straight Talk: Odious or Just Malodorous?' (2004), *Finance and Development* 41 (4).

⁶¹ Wethington (n 28).

The legal advisors advocated against the doctrine of odious debts, with the IMF and the Treasury strongly supporting a standard restructuring instead.⁶² They were against not because the debt was not odious, but because it would unnecessarily complicate the restructuring.⁶³ There is no legal doctrine for odious debt, and it would have been a “minefield of definitions” as there would have been a need to set a precedent for what parts of the Iraqi debt stock was illegitimate.⁶⁴ According to some participant, the discussion never went to the National Security Council at the White House.⁶⁵ There are somewhat differing accounts of how much support the idea of declaring Iraqi debt odious had. Creditors at risk likely wanted to avoid enshrining a doctrine of odious debt into international law, and as a result were ready to take a larger haircut. Iraq did maintain the right to declare specific debt odious, which it did for several commercial claims, but the idea of a broad invocation did not move forward.

The political buy-in (at least amongst the Coalition) meant substantial debt relief was available without any invocation of odious debt. In October 2003, the U.S. organised a conference to raise financial support for Iraqi reconstruction. It gathered pledges to write off 27 percent of Iraqi outstanding debt, with the majority from Paris Club members.⁶⁶

⁶² Marcus (n 26).

⁶³ Buchheit (n 22).

⁶⁴ Ibid.

⁶⁵ Wethington (n 28).

⁶⁶ Momani and Garrib (n 6), pp. 160.

Sovereignty officially passed back to Iraq on June 28th, 2004. It was decided that the Paris Club would be the best place to start restructuring negotiations.⁶⁷

Restructurings have a process but no manual: the debtor starts wherever a deal might be reached. The tactical reason for going to the Paris Club was that a deal comes with a comparability of treatment clause, in addition to the political buy-in.⁶⁸ A deal would be a floor beyond which no other creditors could get a better deal.⁶⁹ Paris Club members all had substantial claims on Iraq and the geopolitical alliances of the Coalition were well-represented, following Jim Baker's initial diplomatic rounds.⁷⁰ Normally, countries undergoing restructurings do not have a lot of political friends, because they are creditors. Iraq was different. Paris Club negotiations opened with the U.S. willing to stand up for Iraq, with some in the National Security Council (which represented the White House) aiming for substantial, possibly even total, debt relief.⁷¹ The U.S. was keen on achieving a consensus outcome and the Paris Club was judged to be the best place to achieve it.⁷²

⁶⁷ Eighteen members participated in the Paris Club restructurings: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Korea, Netherlands, Russia, Spain, Sweden, Switzerland, U.K., and the U.S., Norway, the World Bank, UNCTAD, the European Commission, the IMF, and the OECD were observers.

⁶⁸ <http://www.clubdeparis.org/en/communications/page/the-six-principles> (accessed on July 26th, 2019).

⁶⁹ Wethington (n 28) and Buchheit (n 22).

⁷⁰ Pam (n 23).

⁷¹ Buchheit (n 22).

⁷² Wethington (n 28).

3.3 Paris Club negotiations

The Paris Club is a well-oiled machine for sovereign debt restructurings, having executed 434 deals with 90 countries since it was first established in 1956.⁷³ Iraq required two types of debt relief: flow treatment and reduction of the debt stock. The first was relatively easy, as Iraq was not paying its current debt. However, at the Paris Club, flow treatment usually comes before debt stock reduction. For Iraq, stock reduction came up front, which is unusual.⁷⁴ Iraq was treated under the Evian Approach, offering “comprehensive debt treatment,” reduction with no standard terms.⁷⁵ The approach was only approved in October 2003 and did away with economic indicators in favour of a non-standard debt sustainability analysis (DSA) from the IMF for highly indebted countries.⁷⁶ The IMF had been brought in early 2003 to put together a DSA for the rescheduling, and to prepare Iraq to be party to a stand-by agreement.⁷⁷

The Iraqi solvency and capacity to pay its debts would be based on the DSA, which largely depended on assumptions about oil prices and production. The Iraqi government generated all its revenue from oil sales: between 2005 and 2007, 94 percent of revenues,

⁷³ <http://www.clubdeparis.org/en> (accessed May 22nd, 2020). The Club is housed at the French Treasury in Paris. For a history of the Paris Club, see Gong Cheng, Javier Díaz-Cassou, and Aitor Erce, ‘Official Debt Restructurings and Development’ (2018), *World Development* 111 (November), pp. 181–95.

⁷⁴ Marcus (n 26) and Lowery (n 27).

⁷⁵ <http://www.clubdeparis.org/en/communications/page/evian-approach> (accessed on July 23rd, 2019).

⁷⁶ Weiss (n 6), pp. 5-6.

⁷⁷ The IMF (n 4). Meetings between the IMF and the CPA occurred throughout the spring of 2004 in Oman, Beirut, Abu-Dhabi, and London (Wethington n 28).

96 billion dollars in total, came from the sale of crude oil.⁷⁸ The accuracy of the assumptions was therefore essential for debt sustainability. Because of the U.S. desire for substantial debt relief, there was political pressure from the negotiations team to reduce Iraq's capacity to service debt, according to a report from the Independent Evaluation Office of the IMF issued in 2018.⁷⁹ The IMF assumed the price of oil would be under 26 dollar per barrel, forever.⁸⁰ [Figure 1 shows the futures market for Brent oil, as well as the oil price during negotiations. At the time of the DSA's publication, the oil price was 46 dollar and rose throughout 2005 and 2006. The assumption did not change during the negotiations, even as the price of oil rose to over 60 dollars.

[Figure 1 here]

Initial staff meetings at the Paris Club started in July 2004, with bilateral meetings in the fall. The deal was ultimately agreed in November 2004. Paris Club negotiations are generally completed within one day, and usually no more than forty-eight hours.⁸¹ The Iraqi negotiations went on for over a week, following months of preparation.

At issue was a fundamental difference between the Coalition—led by the U.S. and the U.K.—and non-Coalition countries, mainly European countries and Russia. The Europeans considered the IMF's DSA a work of fiction because of how vastly its oil

⁷⁸ Government Accountability Office, 'Stabilizing and Rebuilding Iraq: Iraqi Revenues, Expenditures, and Surplus' (2008), *Report to Congressional Committees* 08–1031, pp. 2.

⁷⁹ Takagi et al. (n 31), pp. 57.

⁸⁰ The IMF (n 4).

⁸¹ Buchheit (n 22) and Marcus (n 26).

price assumptions differed from reality.⁸² Iraq did not have enough cash on hand to do a cash-for-debt deal, so it would have to be debt-for-debt. The bid-offer on haircuts going into the negotiations was 95 percent (U.S./U.K.) and 50 percent (Europe/Russia).⁸³ However, an 80 percent write-down was the likely outcome from the beginning. The U.S. delegation and the head of the Paris Club had agreed on the number beforehand as a realistic compromise.⁸⁴ The U.S. delegation would negotiate with everyone who wanted a complete write-off, mainly the Iraqis and parts of the U.S. government. The Paris Club secretariat would try to get the Europeans and Russians up from their 50 percent haircut, while the U.S. would negotiate everyone else down to 80 percent.⁸⁵

The last creditor holding out was Russia. The general sense was always that a reasonable compromise could be reached through diplomacy.⁸⁶ At the Asia-Pacific Cooperation summit in Chile (November 2004) Bush personally got involved to close the deal with Putin. Three bilateral meetings at the summit's margins were required before Putin agreed to the 80 percent nominal haircut (Pam 2019; Khalaf 2004).⁸⁷ In fact, the

⁸² Buchheit (n 22).

⁸³ Paul Wolfowitz pushed for 100 percent initially, then lowered the opening offer to 95 percent alongside the U.K., according to both Buchheit (n 22) and Momani and Garrib (n 6), pp. 162. The White House deferred the final decision to the Treasury.

⁸⁴ Wethington (n 28).

⁸⁵ Weiss (n 6), pp. 6. The U.S. helped bring 'up' several of the holdouts, too (Wethington n 28).

⁸⁶ Buchheit (n 22).

⁸⁷ Pam (n 23) and Roula Khalaf, William Wallis, and James Harding, 'Iraq Debt Accord Ends US-Europe Stand-Off' (front page of the print edition on November 22nd, 2004), *Financial Times*. The Russian Finance Minister had been un-responsive until then, for reasons unknown.

actual last party to agree was Iraq, which attempted to get 100 percent debt relief.⁸⁸ All creditors met on 21 November, 2004, a Sunday in Paris, expecting an agreement, but Iraq continued to hold out and only agreed a few hours after the deadline had passed.⁸⁹ The deal was struck, with the following terms outlined in the Agreed Minutes:⁹⁰

- Debt reduction of 80 percent in three tranches.
 - 30 percent immediate debt cancellation, as of January 1, 2005.
 - 30 percent additional debt rescheduling for 23 years, with a six-year grace period, conditional on approval of a standard IMF program.
 - 20 percent of initial debt stock debt rescheduled after three years on similar terms, conditional on review of the IMF program (but no means testing).
- A six-year grace period for principal repayments, and a three-year grace period for (full and partial) interest rate payments.
- An interest rate of 6 percent.
- Voluntary debt-for-debt swaps.
- Comparable treatment of other external creditors.
- Net present value debt reduction of 89.75 percent.

⁸⁸ Wethington (n 28).

⁸⁹ Ibid. The Iraqi negotiators were the Finance Minister (Adel Mahdi), the Central Bank Governor (Sinan Al Shabibi), and Iraq's legal advisors, Cleary Gottlieb (Lee Buchheit and Jeremiah Pam).

⁹⁰ Paris Club, 'The Paris Club and the Republic of Iraq agree on debt relief' (November 11th, 2004), *Press release*.

The deal was harsher on creditors than other restructurings during the same period: Haircuts on debt restructured between 1998 and 2005 ranged from 13 percent (Uruguay, 2003) to 73 percent (Argentina, 2005).⁹¹ Haircuts were spread out, rather than taken upfront, mostly for accounting and budgetary reasons. All countries have different accounting rules and the haircut would influence each country differently.⁹² If haircuts are spread out, losses can be booked over many years.⁹³ Several countries—Germany prominent among them—had not marked down their loans. Any write-offs would hit the budget upfront if they were front-loaded.⁹⁴

Lazard Frères was brought on as financial advisors to execute the deal. In December 2004, the U.S. forgave 100 percent of its 4.1 billion dollars claim while all other Paris Club members restructured according to the initial terms.⁹⁵ Next, the focus turned to the

⁹¹ Federico Sturzenegger and Jeromin Zettelmeyer, ‘Haircuts: Estimating Investor Losses in Sovereign Debt Restructurings, 1998–2005’ (2008), *Journal of International Money and Finance* 27 (5), pp. 780–805.

⁹² Lowery (n 27).

⁹³ Festekjian (n 24).

⁹⁴ Even though the loans had been on the books for many years and were clearly worthless; a haircut would be treated as a revenue hit, see Martin Kelleners, ‘Performance and Budget Modernization - the German Experience’ (2012), *Finance Ministry presentation, Middle East and North Africa Senior Budget Officials* (accessed 12 August 2019); and Lowery (n 27).

⁹⁵ Weiss (76), pp. 6. In 2011, Iraq settled with some U.S. citizens for damages during the Gulf War, see State Department, ‘Settlement of Claims of U.S. Victims of the Sad-dam Hussein Regime with the Government of Iraq’ (2011), <https://2009-2017.state.gov/r/pa/prs/ps/2011/06/166691.htm> (accessed September 29th, 2020).

remaining creditors. With an almost 90 percent net-present value reduction of debt, Iraq had the terms to offer its other creditors.

3.4 Non-Paris Club bilateral debt negotiations

Other bilateral creditors comprised two categories: Gulf States and countries not in the Paris Club, like China. The Gulf States were the largest creditor overall with 53 billion dollars of debt. Iraq hired Houlihan Lokey Howard & Zukin as financial advisors, and Houlihan oversaw explaining to these countries what the Paris Club deal entailed.⁹⁶ The IMF DSA had assumed comparable treatment on the rest of the creditor universe. All countries were IMF members, and this helped obtain agreements in principle from bilateral creditors, but only in principle. Even if they did not restructure, then they would not obstruct the restructuring moving forward.⁹⁷ A key point was the evidence of indebtedness clause. It meant each new loan superseded and replaced any old contracts.⁹⁸ Old debt would be foregone, and Iraq would have a new known stock of external debt.

The largest Gulf State creditors were Saudi Arabia (39 billion), Kuwait (8 billion), Qatar (1.5 billion), and Jordan (1.3 billion); to this date none have restructured. The Gulf States were opposed to debt relief in late 2003, having all been on the receiving end of Saddam's wars.⁹⁹ Several soft pledges to restructure on Paris Club terms were

⁹⁶ Pam (n 23).

⁹⁷ Ibid.

⁹⁸ Deeb (n 33), pp. 7.

⁹⁹ Momani and Garrib (n 6), pp. 167-68.

made at the height of the restructuring talks in late 2004, but nothing came of them. In fact, Iraq and Saudi Arabia could not even agree on how much debt was outstanding.¹⁰⁰ As of 2020, Saudi Arabia still considers it is owed money, with the Foreign Minister, Adel Al-Jubeir, denying it has written off anything.¹⁰¹ The second largest creditor, Kuwait, refused to budge as well, as did Qatar. Kuwait has tied repayment of debt to national recognition. There is no evidence that either Kuwait or Qatar has officially restructured any debt, despite significant international pressure early on. Jordan has a large claim—having been a long-term trading partner of Iraq—but has not provided any documentation.¹⁰² The claim is still outstanding, likely due to ineligibility.¹⁰³

Most of the smaller creditors settled over the following few years. The Czech Republic, Hungary, Indonesia, Malaysia, Romania, and South Africa all settled on Paris Club terms, while Bulgaria, Bosnia, Serbia, and Slovenia settled on Paris Club-like terms for debt owed to former Yugoslavia.¹⁰⁴ Slovakia, Cyprus, and Malta wrote off all debt.¹⁰⁵ Others took a bit longer: China restructured its bilateral loans in 2007 (amounts unknown) and subsequently restructured 8.5 billion dollars in claims in 2010, having

¹⁰⁰ Ibid. The Gulf States had political incentives to not restructure, as they wanted leverage over Iraq.

¹⁰¹ Middle East Monitor, ‘Saudi Arabia Denies Writing off Iraq’s Debt’ (March 31st, 2017).

<https://www.middleeastmonitor.com/20170331-saudi-arabia-denies-writing-off-iraqs-debt> (accessed September 29th, 2020).

¹⁰² Marcus (n 26).

¹⁰³ It could be that loans violated U.N. sanctions.

¹⁰⁴ They were essentially the same; some took a bit of a larger haircut to get some cash up front.

¹⁰⁵ Special Inspector General for Iraq Reconstruction, *Quarterly Report and Semi-annual Report to the United States Congress* (2008), pp. 138.

originally pledged to do so as early as 2007. The claims were held by China's development banks and had to go through a budgetary process before a restructuring could be done.¹⁰⁶ The UAE indicated they would write off its 4.2 billion dollar debt in 2012 although there is no evidence they did.¹⁰⁷ Egypt was difficult and did not settle until 2015, and even then, it only did so in exchange for oil shares.¹⁰⁸ The outstanding issue for Egypt was a tie-up of worker remittances from Iraq. The remittances had been delivered to Iraqi banks but had been stolen before they were sent to Egypt.¹⁰⁹ It was unclear if the remittances could be defined as debt, which stalled negotiations. The countries which took the longest time to settle all had similar outstanding issues.

By 2008, the last phase for the Paris Club write-down was complete. The Iraqi debt overhang was no longer a priority, with an implicit understanding that the Gulf States would not push for repayment.¹¹⁰ By 2019, 65 out of 73 sovereign creditors had

¹⁰⁶ Kevin Acker, Deborah Brautigam, and Yufan Huang, 'Debt Relief with Chinese Characteristics' (2020), *Sais-Cari Working Paper Series* 39, pp. 10.

¹⁰⁷ Haneen Dajani, 'UAE Cancels Dh21bn of Debt Owed by Iraq' (January 17th, 2012), *The National*, <https://www.thenational.ae/uae/uae-cancels-dh21bn-of-debt-owed-by-iraq-1.357148> (accessed September 29th, 2020).

¹⁰⁸ Ayah Aman, 'Egypt Forgives Iraqi Debt in Exchange for Oil' (January 23rd, 2015), *Al-Monitor*, <https://www.al-monitor.com/pulse/originals/2015/01/egypt-iraq-talks-agreement-debt-oil-military.html> (accessed September 29th, 2020).

¹⁰⁹ Marcus (n 26).

¹¹⁰ Marcus (n 26); Lowery (n 27).

restructured, with the remainder mostly consisting of Gulf State uncollected debt.¹¹¹ By 2019, the immunization of Iraqi oil has lapsed but sovereigns rarely pursue other sovereigns. Because the Gulf States were never brought onboard as part of the early restructuring, they never restructured their claims. In addition to having been on the receiving end of Iraqi aggression, another reason is possibly the geopolitical and religious context. It is likely that creditors with Sunni majorities (all of them) had concerns about increased Iranian influence in Iraq and therefore hesitated in settling the claims.

3.5 Commercial debt claims and restructuring

Dealing with the Paris Club and other governments was high politics, while the commercial restructuring was more operational in nature. The commercial restructuring deal-offer was made in 2005 and was fixed at Paris Club terms, with JP Morgan and Citi brought in as financial advisors to deal with the so-called London Club of large commercial creditors.¹¹² The U.S. government was barely involved in the commercial restructuring, having achieved the Paris Club deal.¹¹³ The structure of the deal was decided by the Iraqi government, following advice from JP Morgan, Citi, and Cleary

¹¹¹ Paris Club, 'The Paris Club delivers the 3rd phase of debt reduction for Iraq' (December 22nd, 2008), *Press release*. I have been unable to find evidence that Brazil, Greece, Jordan, Kuwait, Pakistan, Poland, Qatar, Saudi Arabia, or Turkey have restructured.

¹¹² Iraq is unlike most Paris Club deals where the debtor leaves wanting to escape comparability of treatment terms; Iraq used it to argue for commercial creditors to accept a similar deal (Buchheit n 22).

¹¹³ Zelikow (n 25).

Gottlieb.¹¹⁴ The key things to decide for the structure were (i) past due interest, i.e. how much each claim had in accrued interest; (ii) whether to offer a cash-for-debt or a debt-for-debt swap; and (iii) how to reconcile claims.

The government decided each claim would receive 10.25 percent of its accrued value. All loans would accrue at a fixed interest rate from the date of default, Libor + 75bps, according to the Reconciliation Methodology which was developed by the financial advisors.¹¹⁵ It did not matter if the debt had a contract that accounted for past due interest; all claims were treated equally. The larger creditors, mostly European banks, held letters of credit or outright loans. The accrual rate was thus a good deal for all trade credit claims.¹¹⁶ The French banks pushed hard for adhering to contracts when calculating the spread over Libor. This would have benefitted the banks and larger claimants at the expense of smaller ones and was dropped in favour of treating everyone equally.¹¹⁷ Most small commercial claims were trade credits, with no interest rate specified in the contract.¹¹⁸

¹¹⁴ Pam (n 23).

¹¹⁵ Reconciliation Methodology (ex. C): <http://www.eyidro.com/recon-method.pdf> (accessed on July 23rd, 2019).

¹¹⁶ The claims came in different currencies—mainly U.S. dollars, Yen, and European currencies—but given claims pre-dated the Euro's existence, a formula for converting old currencies was worked out, per Festekjian (n 24).

¹¹⁷ Buchheit (n 22).

¹¹⁸ Festekjian (n 24).

The deal was a debt-for-debt swap, because Iraq did not have enough cash to pay all its creditors.¹¹⁹ There were hundreds of attachment orders outstanding against Iraq, which meant any deal had to resolve as many claims as possible.¹²⁰ Bonds were issued in return for restructured debt, but only for the largest creditors. Everyone owed more than 35 million dollars in principal was offered a debt-for-debt deal, while smaller creditors—legally unable to hold external bonds—received cash. Issuing bonds had been preferred by JP Morgan and Citi (who make a living trading bonds) but had some backing in Iraq, too—at least officially.¹²¹ The lawyers advised against a debt-for-debt swap, because all bond prospectuses included risk assessment disclosures, which would not align with the propaganda coming out of the White House in 2005. For political purposes, Cleary Gottlieb suggested an all-cash offer on comparable terms to the Paris Club.¹²²

The lawyers also wanted aggregate Collective Action Clauses (CACs), even though only one bond was being swapped into a 5.8 percent coupon bond, maturing in 2028. The reason behind this was to make it easier for Iraq to re-open this bond or issue more bonds should it need to in the future. It ended with a compromise, as JP Morgan and Citi would only agree to single-issue CACs, which was the market-standard at the time,

¹¹⁹ Ibid.

¹²⁰ Zelikow (n 25).

¹²¹ Joanna Chung and Stephen Fidler, 'Why Iraqi Debt Is No Longer a Write-Off' (July 16th, 2006), *Financial Times* <https://www.ft.com/content/b94bccb4-14e7-11db-b391-0000779e2340> (accessed September 29th, 2020).

¹²² Buchheit (n 22).

rather than second-generation CACs.¹²³ The lawyers did not consider using first-generation CACs a deal breaker at the time and did not push.¹²⁴

The main issue for settling commercial claims was reconciling outstanding debt.¹²⁵ Ernst and Young (E&Y) was appointed as reconciliation manager, working out of Jordan. Debt had to meet the following definitions to be eligible:¹²⁶

1. Evidence of written agreement.
2. Entered before the sanctions (dated August 6th, 1990).¹²⁷
3. Fit the definition of credit.

¹²³ Also called first-generation CACs, working within one bond issue rather than the whole range.

¹²⁴ Buchheit (n 22).

¹²⁵ Cleary Gottlieb knew of several precedents of how not to do it. In 1975, Nigeria ordered 16 million tons of cement to arrive within a year to plug a shortage, far exceeding port capacity, see Hanaan Marwah, 'Untangling Government, Market, and Investment Failure during the Nigerian Oil Boom: The Cement Armada Scandal 1974–1980' (2020), *Business History* 62 (4), pp. 566-87. The result was a run-up in trade debt that needed to be settled. The government took out a newspaper ad, asking anyone it owed money, to contact them. A lot of people did, and Nigeria was inundated with claims, entangling it in a debt reconciliation nightmare. It settled only one-third of the claims (Buchheit n 22).

¹²⁶ Adopted from the Iraqi Ministry of Finance's, *Memorandum for potential holders of claims* (January 30th, 2008).

¹²⁷ The statute of claims according to both New York and English law is six years, so claims had expired. As claims were made under a plethora of different legal standards, however, the offering document specified that by submitting a claim, claimants agreed to forgo the right to sue. It was important that no agencies or ministries inside Iraq talked to the external debt holders, as acknowledgement of debt would have reactivated the claim. All talks had to go through lawyers.

4. Be external debt (defined as debt in all currencies except Iraqi dinars).

If the claim had not been sold and E&Y could reconcile it to available documents, it would be settled. Because the debts were so varied, they were all treated equally in terms of eligibility, regardless of governing law and currency. From the moment a claim was submitted, the panel's decision became final, with about half of claims awarded to claimants.¹²⁸ In normal restructurings, creditors have Euroclear or DTCC numbers to certify their claim, which are mostly external bonds. Here, creditors turned up in Dubai and Jordan with boxes of paper.¹²⁹

Iraq did not assert odious debt for all the claims, but it reserved the right to do so on specific claims.¹³⁰ One man from India showed up to a creditor meeting in Dubai with an old fax, showing a claim and wanting to be paid. He was kindly asked to submit his claim to E&Y.¹³¹ Another gentleman had delivered 10,000 dollars' worth of frozen chicken to the docks in Basra the morning the sanctions took effect.¹³² He was not paid. An Irish meat exporter and a Swiss jeweller were told that documentation for the underlying goods would be required after they complained, and they withdrew their complaint.¹³³ Sovereign debt restructurings do not normally include such unusual

¹²⁸ Buchheit (n 22).

¹²⁹ Festekjian (n 24)

¹³⁰ Zelikow (n 25).

¹³¹ Festekjian (n 24).

¹³² Buchheit (n 22).

¹³³ Zelikow (n 25).

claims. 817 claims (out of a total of 11,776) could not be reconciled, and a special arbitration panel was convened (the rest were settled).¹³⁴

Once the parameters were set, Iraq published the commercial debt offer on July 25th.¹³⁵ JP Morgan and Citi arranged meetings with individual creditors in Dubai to market the settlement. It was a take it or leave it offer, with no creditor committee negotiations. Five creditor committees were created nonetheless, none representing all creditors. The largest, the London Club Coordinating Group, represented European and Middle East banks while the others were the Washington Club, the Iraq Creditors Club, the Korean Creditors Coordinating Committee, and the North African Trade Creditors Committee.¹³⁶ Advisors took the view that negotiating individually would be fatal, as it would negate the Paris Club deal if terms were improved. The argument for equal treatment was made by the Iraqi Central Bank Governor in 2005, in a letter to one of the creditor committees. The problem raised by the Governor was not that the creditor committees made invalid points, rather that all had valid points. It was thus impossible to accommodate one group over another.¹³⁷

A way to evaluate the fairness of the offer is to compare it to what the larger creditors had marked loans at in their books. The largest commercial creditor was the

¹³⁴ Iraqi Ministry of Finance, 'Iraq announces conclusion of commercial debt settlement' (July 18th, 2006), *Press release*.

¹³⁵ Iraqi Ministry of Finance, 'Iraq announces terms of commercial debt settlement offer', (July 26th, 2006), *Press release*.

¹³⁶ Lee C. Buchheit, 'Use of Creditor Committees in Sovereign Debt Workouts' (2009), *Business Law International* 10, pp. 205-11.

¹³⁷ The letter is in Buchheit (n 136), pp. 211.

Italian bank Banca Nazionale del Lavoro (BNL). The loan was marred in controversy. It originated in the late 1980s by the bank's Atlanta Branch and underwritten by the U.S. Department of Agriculture. The money was designated for agricultural imports but used to buy weapons illegally instead.¹³⁸ It is a prime example of odious debt. BNL held 3.4 billion dollars' worth of loans (in notional and accrued interest) to Iraq and its state-owned banks, classified as non-performing loans. The loans figure in BNL annual reports from 2000 and were marked to fair value. They are listed explicitly in terms of accrued value and can be compared directly to the settlement offer. From 2000 to 2004, BNL valued the loans at between 10 and 12 percent of accrued value.¹³⁹ In 2005, when the exchange happened, they received 683 million dollars' worth of the 2028 bonds, valuing them at 239 million in their annual report, with the loans moving from "non-performing" to "performing".¹⁴⁰ [Figure 2 shows the restructuring offer and the BNL marks in the years leading up to the restructuring. BNL's accounting valuation would suggest the offer of 10.25 percent of accrued value was fair.

[Figure 2 here]

This is not to say that commercial creditors did not complain about being strong-armed; they did.¹⁴¹ They also accepted the offer. The commercial debt settlement offer was made on July 26, 2005. By December, all large creditors had accepted (14 billion

¹³⁸ See Hinrichsen (n 7), pp. 12-13.

¹³⁹ Banca Nazionale del Lavoro, *Annual reports, Consolidated Financial Statements* (2000-5).

¹⁴⁰ Banca Nazionale del Lavoro, *Annual report, Consolidated Financial Statements* (2005), pp. 64.

¹⁴¹ Joanna Chung, 'Iraqi Debt Restructuring Draws Complaints' (December 20th, 2005), *Financial Times* <https://www.ft.com/content/f2e6917c-7193-11da-836e-0000779e2340> (accessed September 29th, 2020).

dollar), triggering the second phase of the Paris Club, the IMF stand-by agreement of January 2006, and a 30 percent further debt reduction.¹⁴² The deadline for large commercial creditors to submit claims was fixed and creditors who had earlier proclaimed they would not participate showed up with boxes of claims in hand, on the day.¹⁴³ A year later, on July 18, 2006, the restructuring was essentially complete.¹⁴⁴ In total, 11,776 individual Saddam-era claims were tendered (817 went through arbitration). Of 491 commercial claims, 96 percent of eligible claims (as considered by E&Y) accepted the deal, for a total of 19.7 billion dollar, according to the Ministry of Finance.¹⁴⁵

Two facts made the commercial restructuring a lot easier than that of the Paris Club. First, the immunization of Iraqi oil assets was helpful in marketing the commercial offer.¹⁴⁶ It meant potential holdouts would have to wait a long time to collect, versus up-front payment on delinquent loans now. It took away the legal options for any vulture funds, who broadly speaking did not engage.¹⁴⁷ Second, commercial creditors—as

¹⁴² Joanna Chung and Andrew Balls, 'Crucial Phase in Iraq Debt Restructuring Completed' (December 23rd, 2005), *Financial Times* <https://www.ft.com/content/f23f8f60-73f2-11da-ab91-0000779e2340> (accessed September 29th, 2020).

¹⁴³ Festekjian (n 24).

¹⁴⁴ Press releases announcing settlements and participation rates are available at the Debt Reconciliation Office, run by Ernst & Young: <http://www.eydro.com> (accessed on July 12th, 2019) and the Paris Club website: <http://www.clubdeparis.org/en/traitements/iraq-21-11-2004/en> (accessed on July 15th, 2019).

¹⁴⁵ Iraqi Ministry of Finance (n 135).

¹⁴⁶ Festekjian (n 24).

¹⁴⁷ Buchheit (n 22).

opposed to governments in the Paris Club—must mark non-performing loans down, and as shown above the offer was about fair value, or better. It did not hit anyone’s profit-and-loss statement.

4. HAIRCUTS AND ODIIOUS DEBTS

The Iraqi debt explosion was awesome in size when compared to any country or period in history. Few historical precedents exist in the intersection of post-conflict reconstruction and debt relief, amid such international political scrutiny.¹⁴⁸ [Figure 3 shows the size of haircuts for all sovereign debt restructurings from 1980 to 2009, measure by the size of the restructuring. Iraq stands out as being particularly severe for creditors in the upper right corner.

[Figure 3 here]

The haircut was much larger than other restructurings. Only Argentina’s 2005 restructuring comes close and it came with a low participation rate of 76 percent and

¹⁴⁸ A few were mentioned by participants in the restructuring. The closest was perhaps the German debt relief of 1953, when the London Debt Agreement cut external German debt in half, contributing to a successful reconstruction after World War II, see Gregori Galofré-Vilà, Christopher M. Meissner, Martin McKee, and David Stuckler, ‘The Economic Consequences of the 1953 London Debt Agreement’ (2019), *European Review of Economic History* 23 (1), pp. 1–29. Another is Polish debt relief in the early 1990s. Poland got a Paris Club deal that cut its debt stock in half, received IMF help from 1990-95, and turned things around in its re-entrance to the Western world, see James M. Boughton, *Tearing Down Walls, The International Monetary Fund 1990-1999* (2012).

years of litigation as shown earlier. Immunizing Iraqi foreign assets was and is largely unprecedented.¹⁴⁹

The restructuring was thus a success, insofar as it removed the debt overhang and allowed Iraqi output to outgrow the debt stock.¹⁵⁰ Government debt-to-GDP in 2019 was 50 percent, mostly thanks to output growth rather than an outright fall in debt. The composition of the debt stock changed. External debt has fallen to 34 percent of GDP, much of it loans to the Gulf States that have been de-facto cancelled.¹⁵¹ Iraq has increased its stock of local debt (in dinars) since the restructuring, although it has also increased its foreign exchange reserves. [Table shows outstanding Iraqi debt; almost half of gross debt is legacy debt owed to the Gulf States.

[Table 2 here]

The Iraqi debt restructuring was therefore also a case of missed opportunities. The build-up of debt in the 1980s was political in nature, originating from the U.S. and its allies in support for Iraq during the Iran-Iraq War.¹⁵² If a doctrine of odious debt has any place in international law, a good place to start could have been Iraq's commercial and bilateral debt. There is no doubt that going to the Paris Club instead of declaring Iraqi debt odious was politically expedient, but it left unanswered the question of who was at

¹⁴⁹ Buchheit and Gulati (n 39).

¹⁵⁰ The restructuring only. Iraq cannot be considered an economic or security success.

¹⁵¹ But not cancelled. It has political ramifications as collection can be attempted in some future point.

¹⁵² Hinrichsen (n 7).

fault.¹⁵³ It allowed the creditors to settle debts owed without answering any uncomfortable questions about why loans were extended in the first place. Instead the Paris Club deal, and the subsequent commercial restructuring, swept under the rug any debate about the morality of paying creditors at all.

5. CONCLUSION

A recent problem for countries in default is that sovereign debt restructurings have been increasingly creditor friendly since the 1980s. The Iraqi restructuring imposed large haircuts on creditors, largely thanks to political pressure from the U.S. A unique feature was that Iraqi oil assets were immunised from creditor attachment, leaving creditors with few options but to settle.

The Iraqi debt restructuring was nevertheless a missed opportunity to set an important precedent by declaring Iraqi debt odious. Iraq had vast political backing from a U.S. hegemon, and while the deal was ultimately successful in writing off Iraqi debts, it had the possibility to reform how sovereign debt is restructured.

¹⁵³ It is possible the debate over odious debt meant it was easier to get creditors to take a haircut, simply to avoid invoking the doctrine of odious debt. Another option, also not favoured by the U.S., would have been the Sovereign Debt Restructuring Mechanism (SDRM) proposed by the IMF, ‘Proposed Features of a Sovereign Debt Restructuring Mechanism’ (2003), *Prepared by the Legal and Policy Development and Review Departments* <https://www.imf.org/external/np/pdr/sdrm/2003/021203.pdf>.