

**C.V. Starr Lecture  
Restructuring Iraq's Debt  
March 30, 2005**

During negotiations to restructure Iraq's large foreign debts, Lee C. Buchheit – a partner in the law firm of Cleary Gottlieb Steen & Hamilton LLP, which represented that country's government during its debt restructuring talks – said that “Iraq did not plead poverty,” but, instead, argued that “debt reduction equaled stability” in the region. He also addressed other issues concerning Iraq's debt restructuring agreement during a C.V. Starr Lecture on March 30, 2005.

After enduring over 10 years of sanctions, three wars since 1980, and decades of corruption, Iraq emerged in 2003 as a heavily indebted nation when a group of countries led by the United States toppled the regime headed by Saddam Hussein. According to one estimate, Iraq had a foreign debt of over \$120 billion, much of it incurred under the Hussein dictatorship and owed mostly to foreign governments.

Buchheit said that while many other indebted countries had argued in the past that they couldn't make regular payments to their creditors due to economic difficulties, the debt restructuring negotiations for Iraq were driven more by geopolitical than financial concerns. (Some experts claimed that the country has close to \$2 trillion in oil reserves.) With an insurgency in Iraq causing political instability and obstructing the reconstruction of the country through constant attacks on coalition troops and civilians alike, Buchheit said that the Iraqi government had argued that debt relief would invite private investment into Iraq, which would, in turn, stabilize the country and the region.

“Iraq couldn't be stabilized unless the economy was stabilized, and to achieve that, they needed their debt to be reduced . . . The prime objective was to return stability to Iraq,” said Buchheit. He also added that the “infrastructure in Iraq was basically nonexistent.”

Buchheit noted that, in November 2004, Iraq and a group of creditor nations known as the Paris Club – which includes the U.S., U.K., France, Germany, Japan, and Russia – agreed to forgive 80 percent of that country's \$40 billion of foreign debt owed to those six countries, and also reached a restructuring agreement to pay off the remaining debt over a 23-year period.

While the Iraqi debt restructuring negotiations did revive debate as to whether successor governments should repudiate those foreign loans used by a previous dictatorship for illegitimate purposes, Buchheit said that the current government did not use this argument in asking for a reduction of its debts. He said that “all sovereign debt problems raise intergenerational tensions” because there is always the question of whether the current regime must pay back the debts of former governments. But Buchheit noted that many experts generally agreed that, during debt restructuring negotiations, “one government takes over the responsibility of the other [government] regardless of whether they shared the expenses.”