



G-8 Summit 2004 Iraq's Odious Debt: Rhetoric to Reality

Discussion of Iraq's debt is likely to arise at the 2004 G-8 summit. Debt cancellation can be an essential tool in rebuilding a nation destroyed by war. We have also seen in recent years that debt cancellation is an effective development tool that releases funds within a nation that can be used to address poverty and meet essential human needs.

- **Iraq's debt is an odious debt, and thus must be annulled in accordance with international law.**
 - A significant amount of Iraq's outstanding loans were taken out at the behest of Baath Party leadership and rather than being used for the benefit or the well-being of the Iraqi people were used for building lavish palaces, secret police, prisons, and illegal weapons programs.
 - Odious debt is an established legal principle. Legally, odious debt is debt that resulted from loans to an illegitimate or dictatorial government that used the money to oppress the people or for personal purposes. Moreover, in cases where borrowed money was used in ways contrary to the people's interest, with the knowledge of the creditors, the creditors may be said to have committed a hostile act against the people. They cannot legitimately expect repayment of such debts.
 - The United States set the first precedent of odious debt when it seized control of Cuba from Spain in 1898. Spain insisted that Cuba repay the loans made to it by Spain. The U.S. repudiated (refused to pay) that debt, arguing that the debt was imposed on Cuba by force of arms and served Spain's interest rather than Cuba's, and that the debt therefore ought not be repaid. This precedent was up-held in *Great Britain v. Costa Rica* (1923) when money was put to use for illegitimate purposes with full knowledge of the lending institution and the resulting debt was annulled.
- **The Bush Administration's intention to address Iraq's odious debt without addressing odious debts in Africa, Asia and Latin America is hypocritical.**
 - There are many other countries that are paying odious debts. For example, in South Africa, Mandela was released from prison and handed apartheid debt, a bill for his own oppression. In Argentina people are paying debts accrued by the military junta. Kenya, Congo, Uganda, Haiti, Nicaragua and many others could be considered to be paying on odious debt.
- **James Baker's work is more rhetoric than reality.**

- While we welcome the interest by some major creditors to relieve Iraq's debt, in this circumstance, partial debt relief, without full cancellation, will only raise the value of the debt, forcing Iraq to pay more than it would have before any relief. Current estimates are that debt relief could boost the value of private sector debt by up to 50 percent. This has been true for other heavily indebted nations. When a nation has little to no hope of being able to pay their creditors, the value of its debt is low (since it is not likely to be paid in full) but as the debt burden gets smaller overall with relief the more likely the nation is to be able to pay the debt back and the greater the value of the debt. While this does not happen in all cases, Iraq seems to be just such an example.
- The amount of the debt to be serviced by Iraq will still be less than the "paper value", however the result will be that instead of paying nothing as they have been for the past decade, Iraq will be paying up to \$ 5 billion in debt service a year.
- **Debt cancellation in Iraq will boost reconstruction efforts and address poverty.**
 - The cancellation of all of Iraq's debts would remove a major impediment to poverty reduction and economic growth in Iraq, enable Iraq to invest its resources in health care, education, and poverty reduction, and give Iraq a fresh start in the post-war period.