



Treaty Series No. 16 (2003)

Exchange of Notes

between the Government of the
United Kingdom of Great Britain and Northern Ireland
and the Government of the Islamic Republic of Pakistan

concerning Certain Commercial Debts (The United Kingdom/Pakistan Debt Agreement No. 3 (2001))

Islamabad, 6 March 2003

[The Agreement entered into force on 6 March 2003]

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
May 2003*

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**EXCHANGE OF NOTES BETWEEN THE GOVERNMENT OF THE
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND
AND THE GOVERNMENT OF THE ISLAMIC REPUBLIC OF PAKISTAN
CONCERNING CERTAIN COMMERCIAL DEBTS (THE UNITED
KINGDOM/PAKISTAN DEBT AGREEMENT NO. 3 (2001))**

No. 1

*The British High Commissioner at Islamabad to the Secretary of the Economic Affairs
Division of the Ministry of Economic Affairs and Statistics of Pakistan*

*Islamabad
6th March 2003*

I have the honour to refer to the Agreed Minute on the Consolidation of the Debt of the Islamic Republic of Pakistan which was signed in Paris on 13th December 2001, and to inform Your Excellency that the Government of the United Kingdom of Great Britain and Northern Ireland is prepared to provide debt relief to the Government of the Islamic Republic of Pakistan on the terms and conditions set out in the attached Annex.

If these terms and conditions are acceptable to the Government of the Islamic Republic of Pakistan, I have the honour to propose that this Note together with its Annex, and your reply to that effect, shall constitute an Agreement known as "The United Kingdom/Pakistan Debt Agreement No. 3 (2001)" and which shall enter into force on the date of your reply.

I have the honour to convey to Your Excellency the assurance of my highest consideration.

HILARY SYNNOTT

ANNEX

SECTION 1

Definitions and Interpretation

1. In this Annex, unless the contrary intention appears:
 - (a) "Agreed Minute" means the Agreed Minute on the Consolidation of the Debt of the Islamic Republic of Pakistan that was signed in Paris on 13th December 2001;
 - (b) "Appropriate Market Rate" means the Reference Rate plus 0.5 per cent.;
 - (c) "Business Day" means (i) a day on which dealings are carried on in the London Interbank market and (ii) if payment is required to be made on such day, a day on which banks are open for domestic and foreign exchange business (a) in London in the case of payments to be made in Sterling and (b) in both London and New York City in the case of payments to be made in Dollars;
 - (d) "Contract" means a contract, including any agreement supplemental thereto, the parties to which include the Debtor and a Creditor and which either (i) was for the sale of goods and/or services from outside Pakistan to a buyer in Pakistan, or (ii) was for the financing of such a sale, and which in either case granted or allowed credit to the Debtor for a period exceeding one year;
 - (e) "Creditor" means a person or body of persons or corporation resident or carrying on business in the United Kingdom, the Channel Islands or the Isle of Man, or any successor in title thereto;
 - (f) "Debt" means any debt to which, by virtue of the provisions of Section 2(1), the provisions of this Annex apply;

- (g) “Debtor” means the Government of Pakistan or its public sector whether as primary debtor or as guarantor;
- (h) “Deferred Debt” means any debt to which, by virtue of the provisions of Section 3(1), the provisions of this Annex apply;
- (i) “Department” means the Export Credits Guarantee Department or any other Department or entity that the Government of the United Kingdom may subsequently nominate to perform the functions of the Export Credits Guarantee Department hereunder;
- (j) “Late Interest” means Interest that accrues over any principal and/or interest payment not made on its Due Date, from such Due Date until receipt of the payment by the Department;
- (k) “Maturity”
 - (i) in relation to a Debt specified in Section 2(1)(a) means the due date for the payment or repayment thereof under the relevant Contract or a promissory note or bill of exchange drawn up pursuant thereto, and
 - (ii) in relation to a Debt specified in Section 2(1)(b) means 30 November 2001, and
 - (iii) in relation to a Deferred Debt specified in Section 3(1) means the due date for the payment or repayment thereof under the relevant Contract or a promissory note or bill of exchange drawn up pursuant thereto;
- (l) “Ministry” means the Ministry of Finance and Economic Affairs or any other institution that the Government of Pakistan may nominate for this purpose;
- (m) “Pakistan” means the Islamic Republic of Pakistan;
- (n) “Previous Agreements” means the two agreements between the United Kingdom and the Government of Pakistan concerning Certain Commercial Debts signed on 21 February 2000¹ and 1 August 2001;²
- (o) “Reference Rate” means the rate (rounded upwards where necessary to the nearest multiple of one sixteenth of one per cent) quoted by the Reuters Monitor Money Rate Services (International Swap Dealers Association Interbank Rate from London) (page reference “ISDA”) as the rate at which six-month sterling deposits, for Debts Denominated in sterling, or six-month US dollar deposits, for Debts Denominated in US dollars, are offered in the London Interbank Market at 11 am (London time) two Business Days before the commencement of the relevant interest period. If the Reuters Monitor Money Rate Services are unavailable at that time on that date, the rate to be used will be the rate (rounded upwards where necessary to the nearest multiple of one sixteenth of one per cent) quoted by a bank to be agreed by the Department and the Ministry, as the rate at which that bank is offering six-month sterling deposits or six-month US dollar deposits, as the case may be;
- (p) “United Kingdom” means the United Kingdom of Great Britain and Northern Ireland.

2. Where the context of this Agreement so allows, words importing the singular include the plural and vice versa.

3. Unless otherwise indicated, reference to a specified Section shall be construed as a reference to that Section of this Agreement.

4. The headings to the Sections are for ease of reference only.

¹ Treaty Series No. 63 (2000) Cm 4729.

² Treaty Series No. 55 (2001) Cm 5305.

SECTION 2

Debt

1. The following debt shall be subject to consolidation as set forth below:
 - (a) Commercial credits not previously rescheduled that fulfil all of the following four conditions:
 - (i) being guaranteed by ECGD,
 - (ii) having an original maturity of more than one year,
 - (iii) having the Debtor as debtor, and
 - (iv) arising from a Contract concluded before 30 September 1997; and
 - (b) any amount, other than Late Interest, payable under the Previous Agreements.
2. The Department and the Ministry have agreed and drawn up a list of the debts (the "Debt List") to which, according to this Section 2, the Annex shall apply. The Debt List may be reviewed from time to time at the request of the Department or of the Ministry, but may not be added to or amended without the agreement of both the Department and the Ministry. Delay in the completion of the Debt List shall neither prevent nor delay the implementation of the other provisions of this Annex.
3. The debts referred to in Section 2(1) shall be consolidated by making the following elements be one single principal amount:
 - (a) Principal payments of the debts referred to in sections 2(1)(a) and 2(1)(b) that:
 - (i) were overdue as of 30 November 2001, or
 - (ii) fall due after 30 November 2001, provided that in the case of debts referred to in Section 2(1)(a), such principal payments will be included in the Debt only when and as they become due pursuant to the Contract under which they arise;
 - (b) Interest payments of the debts referred to in sections 2(1)(a) and 2(1)(b) that:
 - (i) were overdue as of 30 November 2001, or
 - (ii) had accrued but were not overdue as of 30 November 2001; and
 - (c) Interest payments of debts referred to in Section 2(1)(a) accruing after 30 November 2001, provided that these payments will be included in the Debt only when and as they become due pursuant to the Contract under which they arise.

SECTION 3

Deferred Debt

1. Commercial credits arising from a Contract concluded after 30 September 1997 that fulfil all of the following three conditions ("Deferred Debt") shall be subject to deferral as set forth below:
 - (a) being guaranteed by ECGD;
 - (b) having an original maturity of more than one year,
 - (c) having Government of Pakistan or its public sector as debtor (either as original obligor or guarantor).
2. The following amounts of the debts referred to in Section 3(1) shall be subject to deferral as set forth in Section 5(2):
 - (a) Principal and Interest payments due as of 30 November 2001; and
 - (b) Principal and Interest payments due between 1 December 2001 and 30 June 2002 inclusive.

3. The Department and the Ministry have agreed and drawn up a list of the debts (the “Deferred Debt List”) to which, according to this Section 3, the Annex applies. The Deferred Debt list may be reviewed from time to time at the request of the Department or the Ministry, but may not be added to or amended without the agreement of both the Department and the Ministry. Delay in the completion of the Deferred Debt List shall neither prevent nor delay the implementation of the other provisions of this Annex.

SECTION 4

The Previous Agreements

1. The provisions of the Previous Agreements insofar as they relate to the payment of any Debt as defined herein shall cease to apply upon the entry into force of this Agreement.
2. Notwithstanding paragraph 1 of this Section, all amounts of Late Interest due under the Previous Agreements shall be paid to the Department no later than 30 November 2002.

SECTION 5

Repayment of the Debt and the Deferred Debt

1. Debt—The Government of Pakistan shall pay one hundred per cent (100%) of the Debt in thirty six (36) half-yearly instalments payable on the due dates indicated in the table below. The amount of each instalment shall be the product of applying to the total value of the Debt the percentage indicated next to each of the dates (“Repayment Dates”) in the following table:

<i>Repayment Date</i>	<i>Percentage of Total</i>
31 May 2007	0.67
30 November 2007	0.72
31 May 2008	0.77
30 November 2008	0.82
31 May 2009	0.88
30 November 2009	0.94
31 May 2010	1.01
30 November 2010	1.08
31 May 2011	1.15
30 November 2011	1.23
31 May 2012	1.32
30 November 2012	1.41
31 May 2013	1.51
30 November 2013	1.62
31 May 2014	1.73
30 November 2014	1.85
31 May 2015	1.98
30 November 2015	2.12
31 May 2016	2.27
30 November 2016	2.43
31 May 2017	2.60
30 November 2017	2.78
31 May 2018	2.98
30 November 2018	3.18
31 May 2019	3.41
30 November 2019	3.64
31 May 2020	3.90
30 November 2020	4.17
31 May 2021	4.46
30 November 2021	4.78
31 May 2022	5.11
30 November 2022	5.47
31 May 2023	5.85
30 November 2023	6.26
31 May 2024	6.70
30 November 2024	7.20
Total	100.00

2. Deferred Debt—The Government of Pakistan shall pay the Deferred Debt in full in four (4) equal and consecutive half-yearly instalments commencing on 31 May 2005 and ending on 30 November 2006.

SECTION 6

Interest and Interest Payment

1. Interest

- (a) Interest shall accrue over the total outstanding amount of Debt and Deferred Debt at the Appropriate Market Rate, as well as over the amounts of Interest that are capitalised pursuant to Sections 6(2)(b) and 6(2)(c).
- (b) The Government of Pakistan shall pay the Interest to the extent that the Debt has not been settled by payment to the Department. Interest shall accrue and shall be payable in respect of the period from Maturity and its payment shall be made first on 28 February 2003 and then half-yearly on 31 May and 30 November (the “Due Dates”) each year commencing on 31 May 2003.

2. Interest Capitalisation and Deferral

- (a) One hundred per cent (100%) of the Interest accrued from 30 November 2001 and until 30 June 2002, both dated inclusive, shall be capitalised on the Due Date and repaid in four equal and successive semi-annual instalments, commencing on 31 May 2005 and ending on 30 November 2006.
- (b) Twenty per cent (20%) of the Interest accrued between 1 July 2002 and 30 June 2003, both dates inclusive, shall be capitalised on the Due Date and repaid in four (4) equal and successive semi-annual instalments, commencing on 31 May 2006 and ending on 30 November 2007.
- (c) Subject to the condition set forth in Section III(6)(b3) of the Agreed Minute, twenty per cent (20%) of the Interest accrued between 1 July 2003 and 30 June 2004, both dates inclusive, shall be capitalised on the Due Date and repaid in four (4) equal and successive semi-annual instalments, commencing on 31 May 2007 and ending on 30 November 2008.
- (d) Interest not deferred pursuant to paragraphs (b) and (c) of this Section shall be payable as due.

3. Late Interest

- (a) If any principal amount of the Debt or any amount of Interest is not paid on the due date for payment thereof, the Government of Pakistan shall pay Late Interest to the Department on any such overdue amount.
- (b) Late Interest shall accrue over the overdue amount at the Appropriate Market Rate plus 0.5 per cent from day to day from the due date to the date of receipt of the payment by the Department, and shall be due without further notice or demand.

4. All Interest payable pursuant to this Annex shall be calculated on the basis of actual days elapsed and a year of 360 days in the case of Debt payable in US dollars, and 365 days, in the case of Debt payable in sterling.

SECTION 7

Payments to the Department

1. When any payment becomes due under this Annex, the Ministry shall arrange for the necessary amounts, without deduction of taxes, fees, other public charges or any other costs incurred outside the United Kingdom, to be paid in the due currency to an account notified by the Department to the Ministry.

2. If the day on which a payment falls due is not a Business Day payment shall be made on the next succeeding Business Day.

3. The Ministry shall give the Department full particulars of the Debts, Deferred Debts and Interest to which each of the payments it makes relate.

SECTION 8

Exchange of Information

The Department and the Ministry shall exchange all information required for the implementation of this Annex.

SECTION 9

Other Debt Settlements

1. The Government of Pakistan undertakes to fulfil its commitments under Article III of the Agreed Minute and agrees to accord to the Government of the United Kingdom terms no less favourable than those agreed with any other creditor, notwithstanding any provision of this Annex to the contrary.

2. The provisions of paragraph 1 of this Section shall not apply to matters relating to the payment of Interest determined by Section 6.

SECTION 10

Preservation of Rights and Obligations

This Annex and its implementation shall not affect the rights or obligations of any Creditor or Debtor under any Contract other than those payment rights and obligations arising under Contracts expressly mentioned in the Debt List or the Deferred Debt List.

SECTION 11

Debt Swaps Option

The Department shall give prior notification to the Government of Pakistan if it wishes to exercise the option given in Article II paragraph 2C of the Agreed Minute to sell or exchange Debt. This option may only be implemented with the consent of the Government of Pakistan and will only be exercised on condition that the Debt sold or exchanged is discharged in the lawful currency of Pakistan.

SECTION 12

Conditionality

Unless the Department otherwise agrees, the conditions of Article III paragraph 6 of the Agreed Minute shall apply to this Annex. If this Annex ceases to apply because it has been deemed by Paris Club creditors and the Chairman of the Paris Club that the conditions have not been fulfilled, all outstanding payments shall be due according to the original contracts, or according to the payment schedules in the Previous Agreements as the case may be, as if this Annex had never existed.

No. 2

The Secretary of the Economic Affairs Division of the Ministry of Economic Affairs and Statistics to the British High Commissioner at Islamabad

Islamabad

6 March 2003

I have the honour to acknowledge receipt of Your Excellency's Note of 6 March 2003 which reads as follows:

[As in No. 1]

I have the honour to confirm that the terms and conditions set out in the Annex to your Note are acceptable to the Government of the Islamic Republic of Pakistan, and that your Note together with its Annex, and this reply, shall constitute an Agreement between our two Governments in this matter which shall be known as "The United Kingdom/Pakistan Debt Agreement No. 3 (2001)" and which shall enter into force today.

I have the honour to convey to Your Excellency the assurance of my highest consideration.

WAQAR MASOOD KHAN



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