



Treaty Series No. 11 (2006)

Exchange of Notes

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

concerning Certain Commercial Debts (The United Kingdom/Iraq Debt Agreement No. 1(2004))

Paris, 20 and 25 January 2006

[The Exchange of Notes entered into force on 25 January 2006]

*Presented to Parliament
by the Secretary of State for Foreign and Commonwealth Affairs
by Command of Her Majesty
May 2006*

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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 REPUBLIC OF IRAQ CONCERNING
CERTAIN COMMERCIAL DEBTS (THE UNITED KINGDOM/IRAQ
DEBT AGREEMENT NO.1 (2004))**

No.1

*The British Ambassador at Paris to the Ambassador of the Republic of Iraq at
Paris*

British Embassy
Paris
20 January 2006

I have the honour to refer to the Agreed Minutes on the Treatment of the Debt of the Republic of Iraq which were signed in Paris on 21 November 2004, 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 Republic of Iraq on the terms and conditions set out in the attached Annex.

If these terms and conditions are acceptable to the Government of the Republic of Iraq, I have the honour to propose that this Note together with its Annex, and your reply to that effect, shall constitute an Agreement between our two Governments in this matter which shall be known as 'The United Kingdom/Iraq Debt Agreement No.1 (2004)' 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.

JOHN HOLMES

ANNEX

SECTION 1

Definitions and Interpretation

- (1) In this Annex, unless the contrary intention appears:
- (a) "**Agreed Minutes**" means the Agreed Minutes on the Treatment of the Debt of the Republic of Iraq which were signed in Paris on 21 November 2004;

- (b) "**Appropriate Market Rate**" means the Reference Rate plus 0.5 per cent;
- (c) "**Business Day**" means (i) a day on which banks are open for domestic and foreign exchange business in London, and (ii) in respect of Debt whose Currency is the US dollar, a day on which banks are open for domestic and foreign exchange business in both London and New York;
- (d) "**Contract**" means a contract, including any agreement supplemental thereto and any judgments or arbitral awards related thereto, entered into before 22 May 2003, the parties to which include the Debtor and a Creditor and which either was for the sale of goods and/or services from outside Iraq to a buyer in Iraq, or was for the financing of such a sale. It is understood that neither the Government of the United Kingdom nor the Department or any other agencies of the Government of the United Kingdom have extended commercial credits or loans to the Debtor between 6 August 1990 and 22 May 2003;
- (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) "**Currency**" in relation to the Debt specified in Section 2 means the currency specified in the relevant Contract;
- (g) "**Debt**" means any debt to which, by virtue of the provisions of Section 2, the provisions of this Annex apply;
- (h) "**Debtor**" means the Government of Iraq or the Iraqi public sector (as defined in Article I paragraph B3 of the Agreed Minutes) whether as primary debtor or as guarantor, or any person or body of persons or corporation resident or carrying on business in Iraq or any successor in obligation to that debtor;
- (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) "**Iraq**" means the Republic of Iraq;
- (k) "**Maturity**" in relation to a Debt specified in Section 2 means the date for the payment or repayment thereof under the relevant Contract or on a promissory note or bill of exchange drawn up pursuant thereto;

- (l) “**Ministry**” means the Ministry of Finance of the Republic of Iraq or any other institution which the Government of Iraq may nominate for this purpose;
 - (m) “**Participating Creditor Countries**” means those countries (other than Iraq) signatory to the Agreed Minutes;
 - (n) “**Payment Date**” means 1 January and 1 July of each year;
 - (o) “**Reference Rate**” means the rate (rounded upwards where necessary to the nearest multiple of one sixteenth of one per cent) quoted either by Bloomberg Services (British Bankers Association LIBOR Rates) (page reference "BBAM") or, at the discretion of the Department, by the Reuters Monitor Money Rate Services (British Bankers Association LIBOR Rates) (page reference "LIBOR01") as the rate at which six-month eurodollar deposits, in the case of a Debt denominated in US dollars, or six-month sterling deposits, in the case of a Debt denominated in sterling, are offered in the London Interbank Market at 11am (London time) two Business Days before the commencement of the relevant interest period. If the relevant rates on both Bloomberg Services and 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 eurodollar deposits or six-month sterling deposits, as the case may be, to leading banks in the London Interbank Market;
 - (p) "**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland.
- (2) 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 Debts denominated in US dollars, and 365 days, in the case of Debts denominated in sterling.
- (3) Where the context of this Annex so allows, words importing the singular include the plural and vice versa.
- (4) Unless otherwise indicated, reference to a specified Section shall be construed as a reference to that Section of this Annex.
- (5) The headings to the Sections are for ease of reference only.

SECTION 2

The Debts

(1) The provisions of this Annex shall, subject to the provisions of paragraph (2) of this Section and Article IV paragraphs 3, 4 and 5 of the Agreed Minutes, apply to:

(a) any amount, whether of principal or of the contractual interest accruing up to and including Maturity, which is owed by a Debtor to a Creditor and

(i) arises under or in relation to a Contract; and

(ii) is guaranteed by the Department as to payment according to the terms of the Contract

and

(b) any unpaid amount of interest accruing on the debt specified in paragraph 1(a) of this Section from but excluding Maturity up to and including 31 December 2004.

(2) The Department and the Ministry shall, as soon as possible, agree and draw up a list of Debts ("the Debt List") to which this 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 written 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. Subject to the provisions of Section 8 and Section 10, upon the entry into force of this Annex, Iraq's and the Debtors' obligations under this Annex will replace and supersede Iraq's and the Debtors' obligations under all Contracts.

SECTION 3

Debt Reduction and Payment

(1) The Department shall, as of 31 December 2004, reduce the amount of the Debt specified in Section 2(1)(b) in order to effect a reduction of 30 per cent of the total Debt specified in Section 2. This reduction shall take effect retroactively as of 1 January 2005.

(2) Repayment of the remainder of the Debt specified in Section 2 resulting from the implementation of paragraph (1) of this Section shall be deferred up to the date that Iraq agrees with the International Monetary Fund on an arrangement in the upper credit tranches, such date being 23 December 2005. As of such date of agreement, however, repayment of such Debt shall be further deferred as set forth

in paragraph (7) of this Section (subject to further reduction and deferral as set forth in that paragraph).

(3) Interest accruing on amounts deferred in accordance with paragraph (2) of this Section shall be capitalised on the relevant Payment Date and deferred up to the date Iraq agrees with the International Monetary Fund on an arrangement in the upper credit tranches, such date being 23 December 2005. As of such date of agreement, however, repayment of such interest shall be further deferred as set forth in paragraph (7) of this Section (subject to further reduction and deferral as set forth in that paragraph).

(4) If Iraq has not agreed an arrangement in the upper tranches as set forth in paragraph (2) of this Section on or before 31 December 2005 then, unless otherwise agreed in writing, all outstanding amounts after the reduction described in paragraph (1) of this Section shall become due on 31 December 2005 and shall be paid on 1 January 2006 and the remainder of this Section shall not apply.

(5) The Department shall, subject to the provisions of Article IV paragraph 4 of the Agreed Minutes, reduce the amount of Debt specified in paragraphs (2) and (3) of this Section by 42.85 per cent on the date Iraq agrees with the International Monetary Fund on an arrangement in the upper credit tranches, such date being 23 December 2005.

(6) Interest accruing on the remainder of the Debt resulting from the implementation of paragraph (5) of this Section between the date of the implementation of the reduction specified in paragraph (5) of this Section and the date of the reduction specified in paragraph (8) of this Section (such date being, unless otherwise agreed in writing, not later than 31 December 2008), shall be capitalised on the relevant Payment Date and deferred up to the date of conclusion by the Board of the International Monetary Fund of the final review as referred to in paragraph (7) of this Section but in any event no later than 31 December 2008, unless otherwise agreed in writing, and repaid in accordance with paragraph (7) of this Section .

(7) Unless the reduction set forth in paragraph (8) of this Section occurs on or before 31 December 2008, unless otherwise agreed in writing, the Ministry shall pay to the Department, in accordance with the provisions of Section 5, the remainder of the Debt resulting from the implementation of paragraph (5) of this Section in 34 equal and consecutive half-yearly instalments commencing on 1 July 2011. Unless the reduction set forth in paragraph (8) of this Section occurs on or before 31 December 2008, unless otherwise agreed in writing, interest shall be payable on the unpaid and outstanding balance of the Debt as from 31 December 2008 in accordance with Section 4 and the remainder of this Section shall not apply.

(8) The Department shall, subject to the provisions of Article IV paragraph 5 of the Agreed Minutes, reduce the amount of Debt specified in paragraphs (5) after the implementation of the reduction referred to therein, and (6) of this Section by

50 per cent on the date of the conclusion by the Board of the International Monetary Fund of the final review of a three-year implementation of arrangements in the upper credit tranches, and, unless otherwise agreed in writing, not later than 31 December 2008.

(9) The Ministry shall pay to the Department, in accordance with the provisions of Section 5, the remainder of the Debt resulting from the implementation of paragraph (8) of this Section in 34 equal and consecutive half-yearly instalments commencing on 1 July 2011.

(10) 90 per cent of all interest accrued in 2008 due to the Department after the implementation of the third reduction referred to in paragraph (8) of this Section will be capitalised and deferred. The Ministry shall pay these amounts to the Department, in accordance with the provisions of Section 5, according to the repayment schedule outlined in paragraph (9) of this Section. The Ministry shall pay to the Department, in accordance with the provisions of Section 5, the remaining 10 per cent of such interest on 1 January 2009.

(11) 73 per cent of all interest accrued in 2009 due to the Department after the implementation of the third reduction referred to in paragraph (8) of this Section will be capitalised and deferred. The Ministry shall pay these amounts to the Department, in accordance with the provisions of Section 5, according to the repayment schedule outlined in paragraph (9) of this Section. The Ministry shall pay to the Department, in accordance with the provisions of Section 5, the remaining 27 per cent of such interest on 1 July 2009 and 1 January 2010.

(12) 47 per cent of all interest accrued in 2010 due to the Department after the implementation of the third reduction referred to in paragraph (8) of this Section will be capitalised and deferred. The Ministry shall pay these amounts to the Department, in accordance with the provisions of Section 5, according to the repayment schedule outlined in paragraph (9) of this Section. The Ministry shall pay to the Department, in accordance with the provisions of Section 5, the remaining 53 per cent of such interest on 1 July 2010 and 1 January 2011.

(13) Interest accruing on the remainder of the Debt following implementation of paragraph (8) of this Section from and after 1 January 2011 will be paid, in accordance with the provisions of Section 5, with each half-yearly instalment of Debt pursuant to paragraph (9) of this Section.

SECTION 4

Interest

(1) Interest on the unpaid and uncanceled balance of the Debt shall be deemed to have accrued in accordance with the provisions of Section 3 and shall continue to accrue from and including 1 January 2005 until the complete payment of that Debt.

(2) The Government of Iraq shall be liable for and shall pay to the Department interest on the Debt in accordance with this Annex until such Debt has been settled by payment to the Department in the United Kingdom. Subject to the partial capitalisation provisions in Section 3 and subject to the provisions of Section 10, such interest shall be paid in respect of the immediately preceding interest period first on the earlier of 1 January immediately following the date of the conclusion by the Board of the International Monetary Fund of the final review of a three-year implementation of arrangements in the upper credit tranches or 1 July 2009 and then half-yearly on the Payment Dates each year.

(3) Interest shall be calculated at the Appropriate Market Rate applicable to each successive half-yearly interest period and shall be payable or capitalised, as the case may be on the relevant Payment Date, in accordance with the provisions of paragraph (2) of this Section. Each half-yearly interest period shall commence on either 1 January or 1 July and end on either 30 June and 31 December, respectively. Each of the dates on which the reductions contemplated by Section 3(5) and Section 3(8) occurs will be deemed a Payment Date solely for the purposes of capitalising interest.

(4) If any amount of Debt payable in accordance with the provisions of Section 3 and/or any amount of interest payable in accordance with the provisions of paragraph (2) of this Section is not paid on the pertinent Payment Date for payment thereof, or if such Payment Date is not a Business Day the first Business Day thereafter, the Government of Iraq shall pay to the Department additional interest on any such unpaid amount. Such additional interest shall accrue at the Appropriate Market Rate plus 0.5 per cent per annum and be payable from day to day from but excluding the pertinent Payment Date until the date of receipt of the payment by the Department, and shall be due without further notice or demand.

SECTION 5

Payments to the Department

(1) When payment becomes due under the terms of Section 3 or 4, 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 Currency of each Debt to the account notified by the Department to the Ministry.

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

(3) Following the determination of the Appropriate Market Rate applicable to a half-yearly interest period, the Department shall inform the Ministry of the amounts payable on each respective Payment Date, together with the supporting calculations

provided that the Department and the Ministry agree that any failure or delay by the Department to do so shall have no effect on the obligations of the Ministry to make the requisite payments.

SECTION 6

Exchange of Information

The Department and the Ministry shall exchange all technical information such as contact information, bank account and routing details and other information required for the implementation of this Annex, including updating such technical information if and when necessary.

SECTION 7

Other Debt Settlements

The Government of Iraq undertakes to fulfil its commitments under Article III of the Agreed Minutes and agrees to accord all categories of creditors a treatment not more favourable than that accorded to the Government of the United Kingdom. The Government of Iraq also commits to seek promptly from all its external creditors debt reduction and reorganization arrangements on terms comparable in net present value to those set forth herein for credits of comparable maturity, notwithstanding any provision of this Annex to the contrary.

SECTION 8

Preservation of Rights and Obligations

This Annex and its implementation shall not affect the rights or obligations of any Creditor or Debtor under a Contract other than those rights and obligations in respect of which the Government of the United Kingdom and the Government of Iraq are authorised to act respectively on behalf of and to bind such Creditor and Debtor.

SECTION 9

Debt Swaps Option

The Department shall notify the Government of Iraq if it wishes to exercise the option given in Article II paragraph 2E of the Agreed Minutes to sell or exchange Debt. This option may only be implemented with the written consent of the Government of Iraq and will only be exercised on condition that the Debt sold or exchanged is discharged in the legal currency of Iraq.

SECTION 10

Conditionality

Unless the Department otherwise agrees in writing, the conditions of Article IV paragraphs 3, 4 and 5 of the Agreed Minutes shall apply to this Annex. If this Annex ceases to apply in full or in part because: the Participating Creditor Countries have collectively (a) determined and declared that the Agreed Minutes are null and void pursuant to Article IV(3) of the Agreed Minutes, all outstanding payments shall be due according to the original Contracts, as if this Annex had never existed; or (b) suspended the Agreed Minutes pursuant to Article IV(3) of the Agreed Minutes because the Government of Iraq has not made its payment obligations under the Agreed Minutes, all outstanding payments shall be payable in accordance with the terms of such suspension. To the extent that there is any inconsistency between the provisions of this Section and any other part of this Annex, the Department and the Government of Iraq agree that this Section shall take priority.

No.2

The Ambassador of the Republic of Iraq at Paris to the British Ambassador at Paris

Paris
25 January 2006

I have the honour to confirm that the terms and conditions set out in the Annex to your Note of 20 January 2006 are acceptable to the Government of the Republic of Iraq, 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/Iraq Debt Agreement No.1 (2004)' and which shall enter into force today.

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

MOWAFAK M. ABOUD



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