

Press Statement

Washington, DC
December 22, 2004

U.S.-Iraq Joint Economic Commission Joint Communiqué

The U.S.-Iraq Joint Economic Commission met on December 20 and 21, 2004 in Washington, D.C. Iraqi Finance Minister Adil Abdul Mahdi and U.S. State Department Under Secretary Alan Larson co-chaired the meeting. Delegates from 13 U.S. government and 9 Iraqi government agencies agreed to new steps to further Iraq's economic development and re-integration into the world economy, building on Iraq's achievements of the past few months.

The past few months have witnessed important strides in Iraq's drive to re-integrate into the global economy. In December, the World Trade Organization (WTO) agreed to begin accession talks with Iraq. In November, Iraq reached agreement with the Paris Club group of creditors to forgive 80 percent of Iraqi sovereign debt, an agreement described in the Iraqi press as the country's second liberation. In October, Iraq concluded an Emergency Post-Conflict Agreement with the International Monetary Fund, backed by \$420 million in new lending, to help guide economic reform, and began discussions with the World Bank on International Development Association (IDA) loans. In September, during the inaugural Joint Economic Commission meeting in Baghdad, the U.S. and Iraq agreed on an Export-Import Bank Framework Agreement, which provides insurance for letters of credit issued by the Iraqi Trade Bank.

During this week's JEC meeting in Washington, the two sides concluded three important bilateral instruments. First, Secretary of State Colin Powell, Secretary of the Treasury John Snow and Finance Minister Adil Abd al-Mahdi signed a Debt Cancellation Agreement in which the U.S. forgives 100 percent of Iraq's \$4.1 billion debt. The U.S. and Iraq also signed two Memoranda of Understanding in the oil sector. The first establishes a program of regular technical consultations and exchanges on science and technology between the Iraqi Oil Ministry and the U.S. Department of Energy. The second commits both sides to an Oil Sector Training Program that will allow Iraq's oil professionals to directly access state-of-the-art technology, and to help close the information gap that existed for Iraq's oil industry under the prior regime.

The Iraqi side outlined measures to maintain fiscal stability and implement its 2005 budget. Iraq's Finance Minister and Central Bank Governor described the steps that Iraq will take to secure an IMF Stand-By Agreement in 2005. The Iraqi side detailed plans to reform state subsidies, which they said account for 60 percent of budget expenditures and create major market distortions in key areas of their economy. The U.S. side outlined technical assistance programs underway that support Iraq's economic reforms,

including USAID programs to strengthen the Iraqi government's economic data gathering and analysis, to train Iraqi commercial banks in loan management, and to help the Central Bank develop more monetary policy instruments.

Development of Iraq's agricultural sector was highlighted as a key priority for both sides. The Iraqi Government outlined its plans to increase productivity through investment and to strengthen market mechanisms. USAID agreed to support the Iraqi Ministry of Agriculture's Transition Plan, by establishing over 100 agricultural demonstration sites throughout Iraq to reinvigorate crop and livestock production, and boost rural job creation. Both sides agreed to continue joint programs to revive Iraqi agriculture in areas such as date production with 13 new date palm nurseries founded thus far in central and southern Iraq, fish farming in the restored Iraqi marshlands, new crop varieties, and the expansion of extension services. The U.S. Department of Agriculture agreed to increase visits of Iraqi agricultural experts under the Cochran Program, noting a successful visit of Iraqis to U.S. agricultural research facilities in December.

The Iraqi side presented its vision for a future legal and regulatory framework in the oil sector, focusing on options for restructuring of the oil industry, reducing fuel subsidies and encouraging private and foreign investment. The U.S. side detailed the range of oil sector training and exchange opportunities available to help modernize Iraq's oil sector and enhance technical and managerial expertise. Both sides examined the role of oil revenue, and the importance of transparency in implementing budget and national development policies.

Both sides emphasized the need for bolstering private sector development and creating private sector jobs. The U.S. described USAID projects underway that will provide 16,000 loans to micro, small and medium size businesses by June 2005. In the area of training, USAID is strengthening the capacity of the Iraqi Ministry of Labor's existing 6 vocational training and 18 job placement centers, with plans to expand in 2005 to 17 vocational training and 28 job placement centers. The two sides agreed that next steps will include USAID-funded workshops on how to manage and grow businesses to be held with Iraqi universities and chambers of commerce throughout the country in 2005. The two sides agreed to hold a videoconference in February 2005, including Iraqi private sector representatives, to monitor progress on job creation and private sector development.

Another urgent priority identified by both sides was housing. The U.S. Treasury and USAID agreed to support the Iraqi Government's housing finance program with technical assistance to develop a policy framework that attracts private sector and multilateral sources of mortgage finance. The Iraqi government-funded Housing Fund will start lending in January 2005 and plans to add 30,000 new residential units in and around Baghdad in 2005. USAID and US Treasury will provide technical assistance for the start-up operations of this Fund.

Recognizing that a healthy banking sector is critical to Iraq's economic growth and implementing its economic reform plans, the two sides agreed to strengthen U.S.

technical assistance that boosts Iraqi government capacity in the areas of state bank restructuring, commercial bank supervision, and electronic payments. The U.S. Treasury and State Department and the Iraqi Finance Ministry also agreed on next steps to fully realize the repatriation of Iraqi government assets frozen in third countries, and to coordinate vigorously in stopping the funding of terrorism, working through the UN Sanctions Committee, the UN 1267 Committee and in other fora.

The two sides welcomed the November agreement by the Paris Club to reduce Iraq's debt and stressed their joint determination to work for early implementation of this agreement. The Iraqi side described efforts underway to seek at least comparable treatment from non-Paris Club creditors. The U.S. side noted it implemented the Paris Club agreement by forgiving 100 percent of Iraq's \$4.1 billion debt. Both sides urged other creditors to follow this example, to help ensure that Iraqi funds are available for reconstruction needs.

Both sides hailed the decision of the WTO General Council on December 13 to begin accession talks with Iraq, and agreed to work together to support Iraq's early accession. Reaffirming the need to boost trade cooperation, the two sides discussed ways to increase the benefit to Iraq under the Generalized System of Preferences (GSP) program. The Iraqi side held detailed bilateral talks with the U.S. Export-Import Bank, the Overseas Private Investment Corporation and the Trade and Development Agency, focusing on plans to conclude trade and investment facilitation agreements in the near future.

Both sides affirmed the utility of continuing the Joint Economic Commission in order to coordinate and intensify efforts to revive Iraq's economy and re-integrate it into the world economy. They agreed to hold the next meeting in Baghdad in the spring 2005.

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