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Briefing on Upcoming Launch of the International Compact With Iraq and the Expanded Ministerial Conference of the Neighbors of Iraq

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AMBASSADOR SATTERFIELD: Okay. I want to give you a little bit of context, sort of an overview of the May 3rd and 4th ministerials in Sharm: the compact launch on the 3rd, the Neighbors-plus meeting, P5, G8 plus EU participation on the 4th.

We see both of these meetings as mirror images of each other. They are efforts to build a greater dialectic, if you will, dialogue with substantive components between Iraq and the concentric rings of its neighbors, the region as a whole, the international community. Now what do we mean by dialectic? Let's take a look at the first document, the compact that will be launched formally on the 3rd of May. Ahmed Saeed from the Department of the Treasury is here to give you a little bit more detailed granularity, as our military friends would say, on the compact document.

But in essence, what the compact is is a detailed lay-down of fundamental, economic, commercial trade regime structural reforms, which the Iraqi Government subscribes to, much of which is already in the process of or has been implemented, which should serve as the basis for a liberal, investment-friendly, investor-friendly economic regime in Iraq. It's quite an extraordinary document. It is a document which would have been difficult to negotiate in '89 or '90 in the context of post-Soviet Eastern Europe in terms of its far-reaching aspects.

It's the product of quite exceptional efforts led on the U.S. side by the Treasury Department, on the Iraqi side by Deputy Prime Minister Barham Salih, conducted at the highest levels in a joint undertaking between the UN, World Bank, and the Iraqi Government. It's had the participation by a steering group of involved countries from the region, from

the broader international community. It is a document which truly does commit Iraq to an open way of doing business. It is a document which we believe well merits the support of Iraq's neighbors, the Middle East as a whole, and the international community.

Now the text of the compact was actually closed in New York in March. This is the formal ministerial-level launch. We believe it is an undertaking, an accomplishment, if you will, for Iraq as well as for the Bank and the international community as a whole in terms of moving towards Iraq's greater integration, engagement in, participation in a broader international economic system. This is obviously to the benefit of Iraq, because Iraq needs to be able to create more opportunities, more jobs, more economic positives for its people than they can currently do. And a lot of that is going to be Iraq's responsibility through liberalization at home, through better development of the hydrocarbon and agricultural sectors, through better budget execution efficiencies.

All of these are internal Iraqi issues, but Iraq is also going to need support from outside and that support is going to come over the long-term from the private sector and Ahmed can talk in more detail about that. But it also is going to come from public sectors in the form of debt relief, debt forgiveness, from the non Paris Club debt holders. There are five principal non Paris Club debt holders who I believe are Qatar, Russia, Egypt, UAE, Saudi Arabia, Kuwait, six of a billion-plus in debt. We are hopeful for progress to be made there. We also want to see opportunities provided for extension of credit, soft, hard, in between as well as loans. It's a package of public sector support.

On the private sector side, because Iraq is entering into a contract, if you will, through this Compact with itself and with the international community and with the investor community, we want to see a positive response. Now, the challenge comes back: How can you possibly ask anybody to invest in Iraq; everybody's being blown up. Isn't it like what we see on TV every day?

And the answer is: That difficult and challenging as the security circumstances are in Baghdad, and in the so-called conflict provinces around Baghdad, the fact remains that in the north, parts of the center and the south, there is an environment which is supportive from a security standpoint of investment and that has not been the bar to investment coming in. The bar has been concern over what's the environment for investment, what's the framework in which investors can have confidence that their monies are really going to yield results, that they are going to have a return, that their contracts are going to be enforceable. It's a rule of law issue. It's the business environment as opposed to the security environment; certainly, for the hydro carbon sector which has dictated a certain reluctance to move forward.

This leads me to a parallel issue -- the hydrocarbon law -- while not primarily a topic for discussion, it certainly will come up in the context of the meetings taking place in Sharm. The Iraqi Government is committed to moving a comprehensive hydrocarbon package through the council of ministers to the council of representatives as soon as possible. It's very important they do so. The excellent structures provided in the Compact, when it comes to the vital hydrocarbon sector, need the new hydrocarbon law and all of its attendant pieces for companies which we and Iraqis know are waiting to invest to move in. So we hope this can happen as rapidly as possible.

Just as we see on the Compact side a significant outreach by Iraq in the form of the reforms that it is undertaking, the commitments it is making, a need for the region, the neighbors, the international community to respond positively to these steps, the same thing exists on second day of Sharm on the political side. The neighbors-plus meeting is designed to do the same kind of thing -- to facilitate the greater integration, a better dialogue between Iraq and its neighbors, its neighbors in the Arab world, its neighbors more generally -- the region in the international community.

Too often, neighbors have concerns about what is happening in Iraq. The international community has concerns about what is happening in Iraq. Iraq has concerns about what the neighbors are doing. There's not an adequate dialogue. The conference is designed as part of a process and I want to underscore that; not a one-off event, but as part of a process which should lead, we hope, Iraq hopes, to a continuing better level of dialogue at the working and political level with those concentric rings: neighbors, region, international community on the political side.

From the Iraqi standpoint there is certainly a desire for support from the neighbors and that support really comes in two broadly different forms. One is support for the concept of a new post-Saddamist Baath Iraq as it moves forward on a national -- not a sectarian, not a partisan, not a particularist agenda but a national agenda. The second is a very focused message particularly from the Arab nations to those in Iraq engaged in violence. And the message there would hopefully be violence by Sunnis, Sunni Arabs in Iraq, is literally killing the hopes and the future of Iraq's Sunni community.

It doesn't have support from outside. It provides, in fact, a breeding ground, the environment conducive to the growth of other extremists, like al-Qaida, who threaten not just Iraqis, but the region as a whole. That's a kind of positive message, which the Iraqi Government and we would certainly like to see emerge. But there needs to be a much better dialogue, a much better sense of belonging, stake and interaction between Iraq and its Arab neighbors and that is something which this process, which will have its ministerial incarnational launch at Sharm, we hope can move on.

There were three working groups proposed by the Iraqi side on March 10th in Baghdad, which should be formally launched at Sharm. There are groups on refugees, fuel imports, border security. Precisely how the groups will be structured, the venues, venue or venues, plural, and time or times for their initial meetings, all of those we hope can be set in discussions at Sharm or at least a construct set out to make those decisions. We think this is a perfectly viable, useful kind of follow-on from these large ministerial plenary meetings.

It takes things beyond the focus of a communiqué or statements by chairs as you go around the table, into ongoing processes and ongoing mechanisms in which certainly we, other international parties in and outside the coalition and international institutions like the UN High Commissioner for Refugees would like to be able to play a constructive part. So there in a nutshell you have it -- two different meetings, one on economic trade side, the other on a political side, each intended to facilitate a dialectic, a dialogue, an exchange, a better integration between Iraq, the neighbors, the region, the international community, a two-way street very much.

AMBASSADOR SATTERFIELD: Ahmed.

MR. SAEED: Thank you very much, David. I'm just going to provide a little bit more detail than David did on the signing of the International Compact with Iraq, the meeting on the first day. Nine months ago on July 27, 2006, the Government of Iraq and the United Nations launched the International Compact with Iraq.

Under this initiative, the Government of Iraq reached out to key partners in the international community to establish a collaborative process for developing policy commitments to put its economy on a path to self-sufficiency and sustainable growth, while also creating safeguards to protect the most vulnerable elements of its society. The Government of Iraq and the United Nations established a preparatory group to help develop the compact based on best practices and lessons learned from the experiences of other transitioning economies.

Between July and December, Iraq consulted regularly with members of this group, including the World Bank, the IMF, the Arab Fund for Economic and Social Development, as well as knowledgeable government officials from the Gulf, Europe and Asia. The U.S. Government also played a supporting role. The UAE and Kuwait each hosted preparatory group meetings and the UN briefed its members on progress under the compact on September 18th, November 13th and March 16th. The World Bank and the IMF also hosted a preparatory meeting on the margins of its annual meetings in Singapore.

The final compact document as David indicated was presented at a meeting attended by over 70 countries and institutions and hosted by Secretary General Ban Ki-moon in New York on March 16th. This was a significant document and it is notable in many respects. The compact is comprehensive in scope, ranging from commitments to strengthen public expenditure management to policies designed to improve health, education and the environment. It is also underpinned by clear, measurable benchmarks.

The compact commits to a number of significant unifying principles, including the adoption of policies to ensure that all Iraqis benefit from the country's vast hydrocarbons resource base, the important anti-corruption practices and the accelerated development of Iraq's private sector. It is also notable that the compact document was unanimously endorsed by the Cabinet of Ministers last December, establishing a clear consensus on the direction and strategy for realizing Iraq's latent economic potential.

The compact has also been a critical vehicle for Iraq's engagement with its neighbors -- something that David also alluded to. Preparatory group meetings were hosted in the UAE and Kuwait and the final signing ceremony is to be in Egypt.

The compact has also provided the Iraqi Government an opportunity to draw attention to its own very significant economic accomplishments. One of these I would point to is the reduction of fuel subsidies. This has not been an easy decision for the Iraqi Government. And in fact, is one that is fraught with political difficulties. Other decisions include management of a sound economic, macroeconomic framework, the management of inflation, adherence to the strict criteria of an IMF standby arrangement, bank restructuring, pension reform, passage of an investment law, and forward movement on hydrocarbons legislation, as well as on a revenue management law.

The next step is for Iraq and the international community to formally endorse this compact at a ministerial level meeting in Sharm el-Sheikh on May 3rd. At this event participants will be invited to offer their endorsement for the compact's reform program. This is not a gap-filling exercise for Iraq and the international community has not been asked to meet a specific fundraising target. However, we understand that some delegations will announce support in terms of additional debt relief, grants, loans or technical assistance.

It is expected that Saudi Arabia for example will announce a commitment to provide debt relief. Others including the UAE are also expected to make similar announcements. With Iraq's focus on financial sustainability, reading the balance sheet of Saddam-era debts is one of the most important and prudent steps that the country can take. The United States will also offer a bilateral pledge. Secretary Rice will attend the signing ceremony supported by Treasury Deputy Secretary Kimmitt who is also the President's special envoy on the compact.

The UN and Iraq expect the meeting to be attended by more than 50 countries and organizations. Ministers will be attending from the UK, Germany, Italy, Denmark, Bulgaria, Poland, China, Korea, Saudi Arabia, the UAE, Bahrain,

Kuwait, Egypt, Turkey and Greece, among others. Other countries including Russia and Japan are expected to be represented at senior levels. Under Secretary General Ban Ki-moon will co-chair the event with Prime Minister Maliki.

Thank you very much.

QUESTION: Did you say China in that list or are they restricted?

MR. SAEED: I did say China.

AMBASSADOR SATTERFIELD: Questions.

QUESTION: I'm not supposed to be first. But the -- how does the oil revenue section of the compact jibe with the actual hydrocarbons law that's being mulled?

AMBASSADOR SATTERFIELD: It's entirely consistent -- absolutely consistent. The hydrocarbon framework law, the first piece, the overarching piece of this legislative package, has already been approved by the Council of Ministers. It's pending the other pieces of the package before they go together comprehensively. It's very much consistent with the outline in the compact.

QUESTION: That means setting up a single petroleum account. Sorry, if it's a little bit technical, but that's something that wouldn't contradict?

MR. SAEED: No, no, it won't.

AMBASSADOR SATTERFIELD: No.

QUESTION: Going out of order also. It's very nice to talk about Iraq's --

AMBASSADOR SATTERFIELD: That's why we're here.

QUESTION: (Laughter.) Iraq's --

STAFF: Out of order, out of chaos.

QUESTION: If you will permit me. Talking about Iraq's integration in the region, how can you do that when the leadership of Saudi Arabia would not have a meeting with Prime Minister Maliki and what does that lack of a relationship say to you about the overall likely success of this?

AMBASSADOR SATTERFIELD: Look, the purpose of this meeting, the neighbors meeting, is to try to build a better direct relationship and exchange -- an exchange in terms of the reality of what's happening in Iraq, an exchange in terms of the agenda of the Government of Iraq, not just in rhetorical terms, but what's happening on the ground. What's happening with respect to security, what's happening with respect to the political reconciliation process.

Clearly, a better dialogue needs to be established both ways between Iraq and its Arab neighbors. And partly, I'd ask you to keep in mind the fact that very few of Iraq's Arab neighbors actually have representation on the ground in that country and that's been a problem. It's been a problem as it would be a problem for us or for any other country in terms of second and third-hand information flows, often with a deliberate slant or interpretation applied. We've strongly advocated, the Iraqis have strongly advocated for a more direct exchange of diplomatic representatives.

But let's go back to the specific issue of the Saudis. Prince Saud will be there I believe for both days -- certainly for the neighbors meeting -- and the Saudis have come forward in the course of the last two weeks with very significant and very positive declaration that they will in fact now be carrying through on the pledge for 80 percent that is Paris club equivalent level of debt forgiveness, so that's a major step and it's a very welcome step.

QUESTION: Well, 80 percent of what?

AMBASSADOR SATTERFIELD: The precise --

QUESTION: The total.

AMBASSADOR SATTERFIELD: The total is in this case as it would be for any country's debt negotiations -- Ahmed can speak more directly to this -- that's the subject of separate and actually quite lengthy negotiations that determine what the exact size and shape of the debt is. That's true anywhere in the world. It's true for the Iraq debt as well. But whatever that ultimate bilaterally negotiated debt amount will be, the extent of forgiveness will be 80 percent.

QUESTION: I have a question for Mr. Saeed. You said that there are some uncertainties about the reduction of fuel subsidies. Can you explain what kind of uncertainties? The reduction of fuel subsidies.

MR. SAEED: Sure. The decision to reduce fuel subsidies was a very brave one on the part of the Iraqi Government and I thank you for the question. When this new Iraqi Government came into power, there was -- many people doubted that it would follow through on its commitment to the IMF to immediately increase -- immediately reduce fuel subsidies. But it nevertheless, did that and then three times following that, it did it again.

This was a difficult decision because there was -- in the near term, the government was confronted with a political cost. In the long run, this was the right decision because it has put the Iraqi budget and the Iraqi economy on a more sound economic trajectory, but it was a politically difficult one. In the long run, corruption is down, the Iraqi economy is more stable, but in the near term, people saw an increase at the pump and so politically, it was a difficult decision.

But the government made the right decision and did this and from that, we have drawn some confidence that this government was looking at the long term consequences of its actions on the issue of economic management and for this reason -- and this was one of the issues that it had to address as a signatory to its IMF standby arrangement and therefore, it's been in compliance with this agreement with the IMF.

QUESTION: So there is no uncertainties anymore?

MR. SAEED: No, I did not say the word "uncertainties." I said --

QUESTION: So when you're saying support for neighbors, do you mean also Turkey, Iran and Syria?

AMBASSADOR SATTERFIELD: Certainly. Turkey, Iran, and Syria are all participants as neighbors of Iraq in this conference. Those states have, just like the other neighbors of Iraq, an important role to play. We hope it is a constructive and positive role. It's why we have welcomed their attendance at this meeting, why Iraq has welcomed their attendance at the meeting. This conference is about not one particular country or set of bilateral relationships, but rather about the overall overarching issue of support for Iraq from an economic, commercial and trade standpoint, from a political standpoint.

QUESTION: What are you hoping that Iraq -- Iran is going to offer at this conference? Are you hoping that they're going to come forward with a list of suggestions on how they could help to stabilize the situation?

AMBASSADOR SATTERFIELD: Well, the Secretary has been asked the question of what would you hope to see from Iraq, what would be the outcomes of a positive dialogue. And we would certainly hope to see from Iran, generally speaking, the kind of supportive steps which would match Iran's rhetorical position on Iraq. Iran declares it wants to see a stable, peaceful Iraq sovereign within its borders. That's our objective as well. It should be the objective of all of the neighbors.

But in the case of Iran, in the case of Syria, such a declaration, such a rhetorical declaration carries with it some real implications. It means an end to supply of weaponry to factions within Iraq. It means an end to the flow of those involved in suicide bombings and the conduct of other acts of violence and terror inside Iraq. It means an end to training of elements engaged in violence inside Iraq. All of that is incumbent in respect for Iraqi sovereignty and borders and a desire to see a stable, peaceful Iraq emerge.

QUESTION: If I could follow up on the five Iranians who are being --

AMBASSADOR SATTERFIELD: Yes.

QUESTION: -- held in Iraq. Previously, Iran had said that it wouldn't attend a meeting unless the U.S. released the five Iranians being held in Iraq. Is this something that you're prepared to discuss --

AMBASSADOR SATTERFIELD: A, Iran --

QUESTION: -- with Iran?

AMBASSADOR SATTERFIELD: (A) Iran is attending; (B) there has been no release.

QUESTION: David, can you talk a little bit about whatever preparations might have been made for a possible meeting of whatever kind between Secretary Rice and an Iranian or a Syrian diplomat and tell us what might be on the agenda, should they encounter each other?

AMBASSADOR SATTERFIELD: Charlie, the meeting in Sharm -- the meetings in Sharm are not about us and bilateral partners. It's about Iraq. It's about a support by the neighbors in the broader international community attending for Iraq. We are obviously prepared for whatever may emerge in the term of useful dialogue on Iraq and on that goal of support for Iraq, including with those parties.

QUESTION: That's fine and I understand it as the general principle, but the Secretary will be having certain bilateral meetings while she's in Sharm.

AMBASSADOR SATTERFIELD: Charlie, I would look -- yeah.

QUESTION: Should she have one with Iran and Syria, what could be expected?

AMBASSADOR SATTERFIELD: I would walk back your question a bit just to clarify the ground for which I will -- or on which I will respond. In the course of discussions on how best to support Iraq, discussions should emerge with Syria, with Iran. They will focus on Iraq-related issues, all of which will center on what steps need to be taken to better provide for progress towards a peaceful, stable, sovereign, democratic Iraq.

QUESTION: If I could just follow, so that if the -- if Minister Mottaki decides he wants to talk about the nuclear issue, Secretary Rice will leave the room?

AMBASSADOR SATTERFIELD: No, no. She will refer that issue to the very qualified hands and channel of Javier Solana.

QUESTION: (Inaudible) I believe asked that the United States engage directly with Iran on the issue?

AMBASSADOR SATTERFIELD: Javier has the lead on this issue.

QUESTION: Am I correct in thinking that Iran and Syria are not members of the compact?

AMBASSADOR SATTERFIELD: No. Iran and Syria both have participated since September of last year in the large multilateral meetings in support of the compact. When you say "are members of the compact," the compact has been open to the participation of essentially all UN member states. And both Syria and Iran have attended, at ministerial and sub-ministerial level, the various meetings of the broad international community that have led to Sharm. There's nothing new in that.

QUESTION: Yeah. Well, I didn't ask if there was. I was just asking if I was right in thinking that -- but will they -- they will be there at the compact meeting?

AMBASSADOR SATTERFIELD: Yes.

QUESTION: And not just the neighbors meeting?

AMBASSADOR SATTERFIELD: They will be there for both sessions.

QUESTION: Okay. And then just on -- how much -- are you looking for 80 percent? When you mentioned the Saudi -- what you expect the Saudis to do in terms of debt relief, are you looking for -- is that what you're looking for around -- across the board from everyone?

MR. SAEED: Well, I should be clear. We're not looking for anything. This is Iraqi debt and so this is probably a question better directed to the Iraqis.

QUESTION: Okay. Well, what are you expecting when you say other countries are expected to offer support in the forms of loans, grants and technical assistance? So what are you expecting them to offer?

MR. SAEED: I think that we would urge countries, and we have been urging countries, to offer as much debt relief as possible. The United States has offered 100 percent debt relief. The Paris Club has offered 80 percent debt relief, and the Paris Club includes coalition members like the United Kingdom. We have always urged as much as possible. Both of those are reasonable figures.

QUESTION: Okay. Well, what is this U.S. -- the United States will also offer a generous bilateral pledge?

MR. SAEED: Our pledge is \$10 billion and that's the pledge that we have submitted to Congress.

QUESTION: But apart from what you're offering, you're just saying --

AMBASSADOR SATTERFIELD: Just to clarify -- I see some shaking heads -- that is not -- that is the money we have requested economic and security assistance for Iraq. It is not a new --

MR. SAEED: Right.

AMBASSADOR SATTERFIELD: Please, lest a headline just come out, no, it is the monies already before the Congress under consideration.

QUESTION: Okay. But in terms of what you would hope other people would give, you don't have a figure? It's awfully hard to see this conference failing in any way at all to meet its goals if there are no goals. So I'm just trying to figure out what exactly you're looking for.

MR. SAEED: Well, let me be clear. This is not a pledging conference, so we should be clear that the goals are not numerical in the sense that there should be an outcome which has a dollar figure attached to it. The goals are primarily associated with the plan of economic reform that the Iraqis have developed, which is in fact -- and you have the document before you -- a very robust plan and a very detailed plan that the Iraqis have themselves developed and which represents a very strong homegrown Iraqi plan for their economic future, which if they implement -- and the fact is that if we look at their track record of economic achievement to date, which includes significant achievements in terms of reducing subsidies, significant achievements in terms of passing an investment law, in terms of hydrocarbons

legislation. So they've achieved much. If they implement this, this plan which lies before you, they will actually have done something quite substantial.

MR. CASEY: Guys, I think we've got time just for one or two more, so why don't we go to this woman and then go over to Elaine.

QUESTION: In terms of the oil revenues, as you said, much of the success of the compact and the plan depends on all those agreements being reached. While the framework law has been passed by the Council of Ministers, you still have several components that have not even been agreed on, and yet you have the Iraqi parliament going on recess for a couple of months now. When is this all going to happen?

AMBASSADOR SATTERFIELD: It needs to happen as soon as possible. And are we confident that it will happen in the near term? And near term, I think, is a question of weeks rather than multiple months. Yes, we believe it certainly can happen. We believe the political will should be there on the part of all parties to move this through. It's certainly to the advantage of Iraqis to move that hydrocarbon package through to passage by the Council of Representatives as quickly as possible because they get a real return from that. This is not theoretical. This is genuine and real and it's absolutely essential. We think it can be done. It needs to be done as quickly as possible. And as quickly as possible means just that; it means in the few weeks ahead we believe both the schedule of the Council of the Representatives and the sort of dynamics within the political process in Iraq certainly allow that to happen.

QUESTION: What's your -- what kind of odds do you give --

AMBASSADOR SATTERFIELD: I'm not going to give odds on anything in Iraq.

MR. CASEY: Elaine, why don't you --

QUESTION: It was actually sort of the same thing. But I just heard you say it needs to be done, you hope it'll be done, but what are -- what is the Iraqi Government telling you about if it will be done?

AMBASSADOR SATTERFIELD: That it wants it, that it needs it, that it is committed to doing it. We know, because agreement was reached on the framework legislation and an accompanying side letter that laid out basic principles for the other pieces of the package, that the general sense of political understanding necessary to make it happen is there bridging over differences. They've got to now move to the specific pieces of the package not a theoretical statement of principles, but the actual parts of the legislation package and move it. And we think it can be done.

Obviously, we will exert our maximum efforts in this regard. The Prime Minister has committed and will commit again, I have no doubt, at Sharm to his maximum efforts to move this through.

MR. CASEY: Thanks everyone.

AMBASSADOR SATTERFIELD: Thank you.

2007/348

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