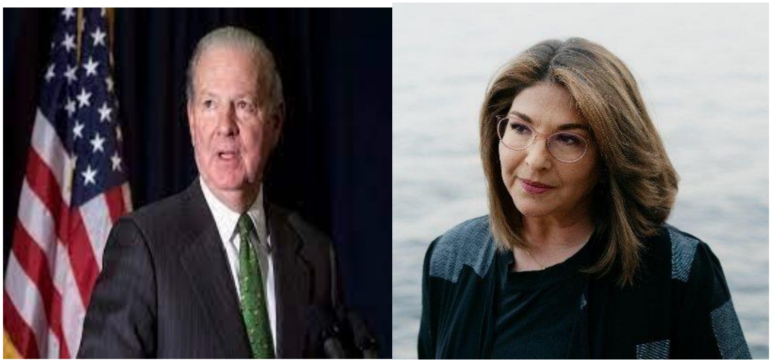
Policy papers on Iraqi debt



James Baker’s Double Life - *Bush's special envoy has a private interest in Iraqi debt, documents reveal.* By Naomi Klein *

When President Bush appointed former Secretary of State James Baker III as his envoy on Iraq’s debt on December 5, 2003, he called Baker’s job “a noble mission.” At the time, there was widespread concern about whether Baker’s extensive business dealings in the Middle East would compromise that mission, which is to meet with heads of state and persuade them to forgive the debts owed to them by Iraq. Of particular concern was his relationship with merchant bank and defense contractor the Carlyle Group, where Baker is senior counselor and an equity partner with an estimated $180 million stake.

Until now, there has been no concrete evidence that Baker’s loyalties are split, or that his power as Special Presidential Envoy–an unpaid position–has been used to benefit any of his corporate clients or employers. But according to documents obtained by *The Nation*, that is precisely what has happened. Carlyle has sought to secure an extraordinary $1 billion investment from the Kuwaiti government, with Baker’s influence as debt envoy being used as a crucial lever.

The secret deal involves a complex transaction to transfer ownership of as much as $57 billion in unpaid Iraqi debts. The debts, now owed to the government of Kuwait, would be assigned to a foundation created and controlled by a consortium in which the key players are the Carlyle Group, the Albright Group (headed by another former Secretary of State, Madeleine Albright) and several other well-connected firms. Under the deal, the government of Kuwait would also give the consortium $2 billion up front to invest in a private equity fund devised by the consortium, with half of it going to Carlyle.

The Nation has obtained a copy of the confidential sixty-five-page "Proposal to Assist the Government of Kuwait in Protecting and Realizing Claims Against Iraq," sent in January from the consortium to Kuwait's foreign ministry, as well as letters back and forth between the two parties. In a letter dated August 6, 2004, the consortium informed Kuwait's foreign ministry that the country's unpaid debts from Iraq "are in imminent jeopardy." World opinion is turning in favor of debt forgiveness, another letter warned, as evidenced by "President Bush's appointment…of former Secretary of State James Baker as his envoy to negotiate Iraqi debt relief." The consortium's proposal spells out the threat: Not only is Kuwait unlikely to see any of its $30 billion from Iraq in sovereign debt, but the $27 billion in war reparations that Iraq owes to Kuwait from Saddam Hussein's 1990 invasion "may well be a casualty of this U.S. [debt relief] effort."

In the face of this threat, the consortium offers its services. Its roster of former high-level US and European politicians have "personal rapport with the stakeholders in the anticipated negotiations" and are able to "reach key decision-makers in the United Nations and in key capitals," the proposal states. If Kuwait agrees to transfer the debts to the consortium's foundation, the consortium will use these personal connections to persuade world leaders that Iraq must "maximize" its debt payments to Kuwait, which would be able to collect the money after ten to fifteen years. And the more the consortium gets Iraq to pay during that period, the more Kuwait collects, with the consortium taking a 5 percent commission or more.

The goal of maximizing Iraq's debt payments directly contradicts the US foreign policy aim of drastically reducing Iraq's debt burden. According to Kathleen Clark, a law professor at Washington University and a leading expert on government ethics and regulations, this means that Baker is in a "classic conflict of interest. Baker is on two sides of this transaction: He is supposed to be representing the interests of the United States, but he is also a senior counselor at Carlyle, and Carlyle wants to get paid to help Kuwait recover its debts from Iraq." After examining the documents, Clark called them "extraordinary." She said, "Carlyle and the other companies are exploiting Baker's current position to try to land a deal with Kuwait that would undermine the interests of the US government."

The Nation also showed the documents to Jerome Levinson, an international lawyer and expert on political and corporate corruption at American University. He called it "one of the greatest cons of all time. The consortium is saying to the Kuwaiti government, 'Through us, you have the only chance to realize a substantial part of the debt. Why? Because of who we are and who we know.' It's influence peddling of the crassest kind."

In the confidential documents, the consortium appears acutely aware of the sensitivity of Baker's position as Carlyle partner and debt envoy. Immediately after listing the powerful players associated with Carlyle–including former President George H.W. Bush, former British prime minister John Major and Baker himself–the document states: "*The extent to which these individuals can play an instrumental role in fashioning strategies is now more limited…due to the recent appointment of Secretary Baker as the President's envoy on international debt, and the need to avoid an apparent conflict of interest.*" [Emphasis in original.] Yet it goes on to state that this will soon change: "*We believe that with Secretary Baker's retirement from his temporary position* [as debt envoy]*, that Carlyle and those leading individuals associated with Carlyle will then once again be free to play a more decisive role…*"

Chris Ullman, vice president and spokesperson for Carlyle, said that "neither the Carlyle Group nor James Baker wrote, edited or authorized this proposal to the

Kuwait government." But he acknowledged that Carlyle knew a proposal was being made to the government of Kuwait and that Carlyle stood to land a $1 billion investment. "We were aware of that. But we played no role in procuring that investment."

Asked if Carlyle was "willing to take the billion but not to try to get it," Ullman answered, "Correct."

Iraq is the most heavily indebted country in the world, owing roughly $200 billion in sovereign debts and in reparations from Saddam's wars. If Iraq were forced to pay even a quarter of these claims, its debt would still be more than double its annual GDP, severely undermining its capacity to pay for reconstruction or to address the humanitarian needs of its war-ravaged citizens. "This debt endangers Iraq's long-term prospects for political health and economic prosperity," President Bush said when he appointed Baker last December.

But critics expressed grave concern about whether Baker was an appropriate choice for such a crucial job. For instance, one of Iraq's largest creditors is the government of Saudi Arabia. The Carlyle Group does extensive business with the Saudi royal family, as does Baker's law firm, Baker Botts (which is currently defending them in a $1 trillion lawsuit filed by the families of September 11 victims). The *New York Times* determined that the potential conflicts of interest were so great that on December 12 it published an editorial calling on Baker to resign his posts at the Carlyle Group and Baker Botts to preserve the integrity of the envoy position.

"Mr. Baker is far too tangled in a matrix of lucrative private business relationships that leave him looking like a potentially interested party in any debt-restructuring formula," stated the editorial. It concluded that it wasn't enough for Baker to "forgo earnings from clients with obvious connections to Iraqi debts…. To perform honorably in his new public job, Mr. Baker must give up these two private ones."

The White House brushed off calls for Baker to choose between representing the President and representing Carlyle investors. “I don’t read those editorials,” President Bush said when asked by a reporter about the *Times* piece. Bush assured reporters that “Jim Baker is a man of high integrity…. We’re fortunate he decided to take time out of what is an active life…to step forward and serve America.” Carlyle was equally adamant: Chris Ullman assured a Knight-Ridder reporter that Baker’s post “will have no impact on Carlyle whatsoever.”

In fact, several months earlier, on July 16, 2003, Carlyle had attended a high-level London meeting with Kuwaiti officials about the deal. According to the document, the Kuwaitis asked Carlyle and the other consortium members to “prepare a detailed financial proposal for the protection and monetization” of reparation debts from Iraq. But at the time Baker was appointed envoy, the consortium had not yet submitted its proposed plans to Kuwait. That means that the Carlyle Group could have pulled out of the consortium, citing the potential conflicts of interest. Instead, Carlyle stayed on, and the consortium proceeded to use Baker’s powerful new position to aggressively pitch a deal that positioned the consortium as the Kuwaiti government’s chief lobbyist on Iraq’s debts and that gave Carlyle a clear stake in the fate of Iraq’s debts.

However, several changes were made in the way the consortium presented itself. The documents state, “Prior to [Baker’s] appointment [former US Secretary of Defense Frank] Carlucci had played a convening and guiding role on behalf of Carlyle.” But after the appointment, according to Carlyle’s Chris Ullman, the firm’s role was scaled back. “When James Baker was named special envoy…Carlyle explicitly restricted its role to only investing assets on behalf of Kuwait.” Shahameen Sheikh, chairman and CEO of International Strategy Group, a company created by the consortium to manage this deal, said that Carlyle told her that “they are not a lobbying firm.” Days before Baker’s appointment, the consortium reached out to another high-profile Washington firm, the Albright Group, which eventually signed on as the leading political strategists and lobbyists for the consortium.

Moreover, Ullman said that Carlyle put “controls in place” that would insure that Baker “would play no role in nor benefit from” the proposed $1 billion investment–an amount that would constitute nearly 10 percent of Carlyle’s total equity investments.

But it’s not clear that Carlyle has been straightforward about its dealings so far. The day before Baker’s appointment was announced, John Harris, managing director and chief financial officer of Carlyle, submitted a signed statement to White House Counsel Alberto Gonzales. “Carlyle does not have any investment in Iraqi public or private debt,” he wrote. He didn’t mention that Carlyle had for months been in negotiations with Kuwait to help secure its unpaid war debts from Iraq. Asked if the White House had been informed of the Carlyle Group’s dealings with Kuwait at any point, Ullman replied, “I’ll get back to you on that.” He did not.

According to Kathleen Clark, it is unclear whether Baker is complying with the criminal statute and administrative regulations that prohibit government officials from participating in government business in which they have a financial interest-including matters that affect an outside company that employs the official. Clark notes, “even if Baker is somehow being screened from profiting from this deal, Carlyle is using Baker’s government position to benefit themselves.” She says it’s time for Carlyle and the White House to come clean. “There’s a tremendous need for transparency here.” The White House and James Baker’s office did not respond to repeated requests for comment.

Baker occupies a complicated place in the consortium’s January proposal–he is both problem and solution, stick and carrot. In the documents, Baker’s name comes up repeatedly, usually in tones of high alarm. “Mr. Baker’s new role and the likely emergence of what will be understood as a new round of global negotiations over Iraqi debt–casts all of these issues in a new light and gives them a new, perhaps even intense, sense of urgency,” states a letter signed by Madeleine Albright; David Huebner, chairman of the Coudert Brothers law firm (another consortium member); and Shahameen Sheikh.

But after establishing Baker's envoy job as the embodiment of the threat that Kuwait will lose its reparations payments, the proposal goes on at length about the powerful individuals connected to the consortium who will "have the ability to gain access to the highest levels of the United States Government and other Security Council governments for a hearing of Kuwait's views." According to Levinson, "What they are proposing is to completely undercut Baker's mission–and they are using their connection with Baker to do it."

On January 21, 2004, James Baker's dual lives converged. That morning Baker flew to Kuwait as George Bush's debt envoy. He met with Kuwait's prime minister, its foreign minister and several other top officials with the stated goal of asking them to forgive Iraq's debts in the name of regional peace and prosperity.

Baker's colleagues in the consortium chose that very same day to hand-deliver their proposal to Foreign Minister Mohammad Sabah Al-Salem Al-Sabah–the same man Baker was meeting. The proposal "takes into account the new dynamics that have developed in the region," states the cover letter, signed by Albright, Huebner and Sheikh–dynamics that include "Secretary Baker's negotiations" on debt relief. If Kuwait accepts the consortium's offer, they explain, "we will distinguish Kuwait's claims–legally and morally–from the sovereign debt for which the United States is now seeking forgiveness."

Was it a coincidence that the consortium submitted its proposal on the same day Baker was in Kuwait? And which James Baker were Kuwait's leaders supposed to take more seriously–the presidential envoy calling for debt forgiveness or the businessman named in the proposal as a potential ally in their quest for debt payment?

Ahamed al-Fahad, under secretary to the prime minister of Kuwait, told *The Nation*, "I have seen it [the proposal] and I am fully aware of the situation." But when asked about Baker's dual role in Kuwait, he said, "It's hard to comment on that issue, especially now. I hope you fully understand."

Shahameen Sheikh, the consortium head who made the delivery, says the timing was a coincidence. “It had nothing to do with Mr. Baker’s visit…. I was in the region so I thought I would stop over on the way to Europe and deliver the proposal.”

We do know this: After meeting with Baker on January 21, Kuwait’s foreign minister told reporters that Baker had shown “understanding of Kuwait’s position on war reparations,” confirming that the subject did come up. He also said that while sovereign debt might be forgiven, reparations would not, because “there is an international decision from the UN.”

Three days later, when Baker was back in Washington giving a speech, he made this distinction for the first time

“My job is to deal with Iraqi debt to sovereign creditors, not with war reparations,” he said. He also echoed the exact line of the Kuwaiti government: that reparations are outside his purview because they are “under the jurisdiction of the United Nations Security Council and subject to resolutions it has passed.”

This was a curious statement: Why would such a large portion of Iraq’s debts be off the table? It also seemed to contradict other things Baker said in the same speech. He said that “any reduction [in Iraq’s debt] must be substantial, or a vast majority of the total debt.” That is impossible without addressing reparations, which by some measures account for more than half of Iraq’s foreign debts. The Center for Strategic and International Studies, the center-right think tank hosting Baker’s speech, has said it is “unwise” to make any debt relief plan “that does not include reparations.”

Baker’s statement on reparations also placed him at odds with several other members of the Bush Administration, including former chief envoy to Iraq Paul Bremer. “I think there needs to be a very serious look at this whole reparations issue,” Bremer said in September 2003. He compared the Iraq situation to that of Germany after World War I, when the 1921 Reparations Commission forced the Weimar Republic to pay $33 billion. The massive reparations “contributed directly to the morass of unrest, instability and despair which led to Adolf Hitler's election," Bremer warned.

Yet Iraq continues to make regular reparations payments for Saddam's 1990 invasion of Kuwait. In the eighteen months since the US invasion, Iraq has paid out a staggering $1.8 billion in reparations–substantially more than the battered country's 2004 health and education budgets combined, and more than the United States has so far managed to spend in Iraq on reconstruction.

Most of the payments have gone to Kuwait, a country that is about to post its sixth consecutive budget surplus, where citizens have an average purchasing power of $19,000 a year. Iraqis, by contrast, are living on an average of just over $2 a day, with most of the population dependent on food rations for basic nutrition. Yet reparations payments continue, with Iraq scheduled to make another $200 million payout in late October.

This arrangement dates back to the end of the first Gulf War. As a condition of the cease-fire, Saddam Hussein agreed to pay for all losses incurred as a result of his invasion and seven-month occupation of Kuwait. Payments started flowing in 1994 and sped up in 1996, with the start of the UN's oil-for-food program. According to UN Security Council Resolution 986, which created the program, Iraq could begin to export oil as long as the revenue was spent on food and medicine imports, and as long as 30 percent of Iraq's oil revenues went to the United Nations Compensation Commission (UNCC), the Geneva-based quasi-tribunal in charge of Gulf War reparations.

Some of the claims that have been awarded by the UNCC are huge: the cost of cleaning up Kuwait's and Saudi Arabia's coastlines from oil spills and fires, or the Kuwait Petroleum Corporation's controversial award for $15.9 billion in lost oil revenues. So far, the UNCC has paid out $18.6 billion in war reparations and has awarded an additional $30 billion that has not been paid because of Iraq's shortage of funds. There are still $98 billion worth of claims before the UNCC that have yet to be assessed, so these numbers could rise steeply. That's why there are no accurate estimates of how much Iraq owes in war reparations–the figure ranges from $50 billion to $130 billion.

But the fate of these debts is now highly uncertain. On May 22, 2003–two months after the United States invaded Iraq–the Security Council decided to cut the percentage of Iraqi oil revenues going to war reparations to 5 percent. This past May, an Iraqi delegation went to the UN to ask for the percentage to be reduced even further, to accommodate Iraq's own reconstruction needs. There is growing sympathy for this position. Justin Alexander of the debt relief group Jubilee Iraq says that many of the claims before the UNCC are inflated and that "even for genuine claims, this is Saddam's responsibility, not the Iraqi people's, who themselves suffered far more than anyone."

This is where the Carlyle/Albright consortium comes in. The premise of its proposal is that Iraq's unpaid debts to Kuwait are not just a financial problem but a political and public relations problem as well. Global public opinion is no longer what it was when Kuwait was promised full reparations. Now the world is focused on reconstructing Iraq and forgiving its debts. If Kuwait is going to get its reparations awards, the cover letter argues, it will need to recast them not as a burden on Iraq but "as a key element in working toward regional stability and reconciliation."

Several parties involved in the consortium emphasized that the proposal concerned only reparations debts. Albright Group spokesperson Jamie Smith said, "We were asked to join a proposal to secure justice for victims of Saddam's invasion of Kuwait and ensure that compensation to Kuwaiti victims–which was endorsed by the US government and the United Nations–be used to promote reconciliation, environmental improvements and investment in Kuwait, Iraq and the region."

In fact, the proposal does not restrict itself to reparations debt. The consortium also asks the government of Kuwait to give the consortium control over $30 billion in defaulted sovereign debts to be used as political leverage to secure reparations claims. Furthermore, most experts on debt restructuring agree that

Iraq’s debts must be looked at as a whole: There is little point forgiving Iraq’s sovereign debts if the country is still going to be saddled with an unmanageable reparations burden. This understanding is reflected in the documents, which repeatedly state that Kuwait’s reparations payments are endangered by the moves to forgive Iraq’s debts.

To avert this threat to Kuwait, the consortium proposes a three-pronged strategy of aggressive backroom lobbying, clever public relations and creative investing and financing. “Any solution for payment of the Unpaid Awards…must be politically sellable as reinforcing stability and growth in the Gulf and in Iraq. This Proposal provides the strategy, the architecture, and the talent to achieve this goal,” the document states.

Lobbying:

Since the UNCC exists entirely at the discretion of the Security Council, which can vote to reduce, suspend or eliminate reparations at any time, the part of the proposal dealing with power-brokering is straightforward: It suggests a full-on lobbying offensive directed at Security Council members, using Albright’s connections, but also other “eminent” people associated with the consortium like former US Senator Gary Hart and former US ambassador to the UN Jeane Kirkpatrick. “We will first seek to preserve the five percent of the revenues from Iraqi oil allocated as funding for payment of the UNCC awards,” the proposal says. To achieve this, the consortium will make “discreet contacts at top levels in key capitals of Security Council member states and with influential representatives,” and “interventions with United Nations senior staff to shape presentations to the Security Council.” The proposal further notes that “Germany and Romania may be pivotal, and The Albright Group has very close ties to each.”

Public Relations:

The consortium also has a detailed plan to address the perception that reparations are “diverting resources from rebuilding Iraq to a more wealthy neighbor." First, Kuwait must assign its unpaid debts from Iraq to a private foundation controlled by the consortium. The foundation will manage an investment fund that will invest a portion of reparations payments from Iraq to Kuwait back into Iraq. As examples of the types of investments the foundation would make, Albright, Huebner and Sheikh suggest in their letter that the reparations funds could be used to buy Iraq's state-owned companies. "In the near future, 40 state-owned Iraqi enterprises in a range of sectors will be available for leasing and management contracts," they write. By demonstrating that Kuwait is investing part of its reparations proceeds back into Iraq's economy, the consortium-run foundation "establishes a humanitarian rationale for the United States and other countries to continue their support" for the reparations. The consortium appears to see privatization–a highly controversial proposal in Iraq–as part of a humanitarian mission.

The proposal also suggests more direct public relations strategies. It calls for Kuwait to dedicate $1 billion of the reparations awards it has already been paid by the UNCC to a Kuwait Environmental Restoration Fund, which the consortium would create. The purpose of this fund would be to remind the world of "the gravity of the environmental legacy facing Kuwait" and to "position Kuwait as the region's environmental leader." The fund would be headed by Carol Browner, former head of the US Environmental Protection Agency and a principal in the Albright Group.

Investment/Financing:

The proposal predicts that on their own, lobbying and PR will not be sufficient to secure the amounts that the Kuwaiti government hopes to receive in reparations. For the consortium to "maximize the value of Kuwait's compensation," Kuwait will have to part with even more of the reparations payments it has received. In addition to the $1 billion for the environmental fund, the proposal calls for another $2 billion of Kuwaiti money to be invested in a Middle East Private Equity Fund. Of that $2 billion, "$1 billion would be invested, by way of special agreement, in The Carlyle Group equity funds" for a period of at least twelve to fifteen years. At the end of that period Kuwait will get the return on these investments, as well as whatever the consortium has been able to negotiate in reparations payments.

For the consortium, it is an excellent deal: Its members get to manage a $2 billion investment portfolio, collecting healthy management fees as well as a percentage of interest. They also will be paid a “retainer” and 5 percent of any debts the consortium gets repaid, and “a negotiated percentage of the value returned to Kuwait exceeding” the pre-arranged amount.

Other consortium members sharing in these benefits include Fidelity Investments; BNP Paribas, a European bank embroiled in the oil-for-food scandal; Gaffney, Cline & Associates, an energy company specializing in oil and gas privatization; Nexgen Financial Solutions, a financial engineering firm partly owned by the government of France; and Emerging Markets Partnership, an AIG affiliate headed by a former senior vice president of the World Bank, Moeen Qureshi.

In addition to the financial windfall, the arrangement would give this group of private companies tremendous power. Whoever holds Iraq’s debt has the ability to influence policy in Iraq at a moment of extreme political uncertainty. Yet for the government of Kuwait the proposed deal is fraught with risk. It’s true that the fate of its Iraqi reparations looks grim. The consortium estimated that if Kuwait tried to sell those debts on the market, its $27 billion would be worth only $1.5 billion. But the consortium is asking Kuwait to risk $3 billion of reparations money it has already received in the hope that it can be used to leverage some of the rest. However, as Jerome Levinson points out, “There are absolutely no guarantees of even that.”

It is clear that the consortium is extremely eager to seal a deal with Kuwait. Consortium CEO Shahameen Sheikh writes of making five trips to Kuwait in four months; Albright met with Kuwait’s foreign minister about the issue on April 2, 2004; and the Albright Group’s Carol Browner is reported to have “personally delivered a copy” of the proposal to his hotel when he was in Washington. Yet Kuwait appears reluctant: It took four months to reply to the proposal and then it would only say, in a letter dated August 10, that the proposal "will be taken into deep consideration and is currently being studied by the appropriate authorities." According to Ahamed al-Fahad, "The issue is now in the hands of the under secretary of foreign affairs," who was unavailable for comment. But Salem Abdullah al Jaber al-Sabah, Kuwait's ambassador to the United States, said, "As far as my information is concerned, my government is not considering such proposals."

Even if the deal falls through, the fact that the Carlyle Group and the Albright Group have been engaged in these negotiations may already have damaged debt relief efforts, hurting both Iraqi and US interests. Levinson points out that the Bush Administration has made commitments that Iraq's oil revenues will be spent on reconstruction. Yet the failure to deal with the reparations issue means that "part of those resources instead are being diverted to Kuwait. Who pays for this? It's the people of Iraq who continue to make reparations payments, and it's US taxpayers, who are asked to foot the bill for reconstruction, because Iraq's money is going to debt payments."

Levinson says this is all the more remarkable because of who is involved. "Here you have two former Secretaries of State seemingly proposing to use their contacts and inside information to undercut the official US government policy." Washington University's Kathleen Clark says the proposal "lays bare how former high-level government employees use their access in order to reap financial benefits that appear to be enormous."

A case can certainly be made that James Baker and Madeleine Albright have had more direct influence over Iraq's debts and reparations payments than any politicians outside Iraq, with the possible exception of the forty-first and forty-third Presidents of the United States.

As Secretary of State, Baker played a role in running up Iraq's foreign debts in the first place, personally intervening in 1989 to secure a $1 billion US loan to Saddam Hussein in export credits. He was also a key architect of the first Gulf War, as well as of the cease-fire that required Saddam to pay such sweeping reparations. In his 1995 memoirs, *The Politics of Diplomacy*, Baker wrote that after seeing the oil-well fires in Kuwait he cabled President George H.W. Bush and said, “Iraq should pay for it.” Now, through the consortium, Carlyle could end up controlling $1 billion of those payments.

The role of the Albright Group raises similar questions. As Secretary of State and Ambassador to the UN, Madeleine Albright participated personally in drafting UN Resolution 986, which created the oil-for-food program, diverting 30 percent of Iraq’s revenue from oil sales to war reparations. “It’s a great day for the United States because we were the authors of Resolution 986,” she said on *The NewsHour With Jim Lehrer* on May 20, 1996. Now, as a private citizen, Albright is a leading member of a consortium that is exploiting her connections to try to profit from the very reparations she helped secure. Albright also enforced the brutal sanctions campaign against Iraq, one of the effects of which was the hobbling of Iraq’s state companies. Now, she is part of a plan to use Iraq’s reparations payments to buy the very firms that her sanctions program helped to debilitate.

But it is Baker’s envoy post that raises the most serious questions for the White House, especially because a Special Presidential Envoy is the President’s personal representative, meeting with heads of state in the President’s stead and reporting back directly to the President. If a President’s envoy has a conflict of interest, it reflects directly on the highest office. Clark says, “There is absolutely a conflict of interest. Baker is aligned with two parties–the US government and Carlyle–that are not aligned with each other.”

As envoy, Baker’s job is to do his best to clear away Iraq’s debts, lessening the burden on Iraqis and on US taxpayers. Yet as a businessman, he is an equity partner in a company that is part of a deal that would achieve the opposite result. If Baker the envoy succeeds, Baker’s business partners stand to fail–and vice versa.

Have these conflicts influenced Baker’s performance as envoy? Has he pushed as hard as he could have for debt forgiveness? We know that Iraq’s steep war reparations to Kuwait have largely escaped public scrutiny–if Baker has steered the Bush Administration away from the reparations issue, for whom was he working at the time? The White House? Or Carlyle? Clark says questions like these are precisely why conflict-of-interest regulations exist. “We have reason to doubt that Baker is doing everything he could be doing on behalf of the United States because he has an interest in another side of the transaction.”

This issue is all the more pressing because the file that President Bush handed to Baker is in disarray–ten months on, there is significantly less goodwill toward forgiving Iraq’s debt than when Baker arrived. When President Bush appointed him, he praised Baker’s “vast economic, political and diplomatic experience.” And at first, Baker seemed to be making fast progress: After top-level meetings, France, Russia and Germany appeared open to canceling a large proportion of debt owed to them by Iraq, and Saudi Arabia and Kuwait seemed ready to follow.

But now, the negotiations are not only stalled, they seem to be going backward. Kuwait, for its part, has hardened its position. “Debts remain debts,” Foreign Minister Mohammad Sabah Al-Salem Al-Sabah said recently. And it has intensified its demands for Gulf War reparations, joining with Saudi Arabia, Iran, Jordan and Syria to claim an additional $82 billion from Iraq in environmental damages.

And the Europeans? At a Senate Foreign Relations Committee hearing on September 15, Senator Joseph Biden Jr. asked Ronald Schlicher, Deputy Assistant Secretary of State for Iraq, about the status of the international negotiations.

“Has a single nation in the G8…formally said or requested of their parliaments to forgive Iraqi debt?” Biden asked.

“Not yet. No sir,” Schlicher replied.

Not only has Baker failed to deliver any firm commitments for debt forgiveness; at the annual meeting of the International Monetary Fund on October 2, it emerged that France had done an end run around Washington and was pushing a debt-relief deal of its own. French Finance Minister Nicolas Sarkozy announced that he had lined up Russia, Germany and Italy behind a plan to cancel only 50 percent of Iraq's debts–a far cry from the 90-95 percent cancellation Washington had been demanding. Yet Baker was nowhere to be found.

Busy negotiating the rules of the presidential debates, Baker has been MIA on the debt issue. Since he returned from his trip to the Middle East in January, the President's envoy has issued only two public statements on Iraq's debt, and he has been completely silent on the topic for the past six months–despite having publicly committed to getting the debt issue sewn up by the end of the year.

While this is bad news for Iraqis and for US taxpayers, it could be good news for Carlyle. A swift resolution to Iraq's debt crisis works against its financial interest: The longer the negotiations drag on, the more time the consortium has to convince the reluctant Kuwaiti government to sign on the dotted line. But if Iraq's debt is successfully wiped out, any proposed deal is off the table.

Baker's position as envoy has certainly been useful to his colleagues in the consortium. Whether Baker has helped solve Iraq's debt crisis is far less clear.

(*) Naomi Klein is a contributing editor for The Nation and the author of No Is Not Enough: Resisting Trump's Shock Politics.

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