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Argentina and U.S. Lock Horns amid ‘Default’ Fallout

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Argentina’s current "default" crisis, which began three months ago when a judge in New York ruled in favor of a group of "vulture funds"—lenders that in 2005 refused to participate in a restructuring of the South American nation’s foreign debt—has gone from being a dispute between a sovereign state and private interests to a full-fledged face-off between the Argentine and US governments.

This past June, by ordering the Bank of New York Mellon not to distribute funds Argentina had deposited there to pay off the 92.4% of its creditors that agreed to the debt restructuring, Judge Thomas Griesa forced the country into an unwanted—and artificially imposed—default (NotiSur, Aug. 29, 2014). Argentina has the money and is willing to pay those lenders, but, because of a US judicial ruling, is barred from doing so. Not only did Griesa’s decision compromise Argentina’s standing with the aforementioned creditors (the 92.4%), which it had been paying off on a regular basis for nearly 10 years, it also cut the country off from external financing.

A no-holds-barred power struggle ensued. In addition to garnering support from all the countries in the region, from global organizations and agencies, and from eminent individuals across the globe, Argentina also received backing on Sept. 9 from the UN General Assembly, where 124 of the body’s 193 members—versus just 11 opposition votes, led by the US—approved an initiative establishing "the need to create a multilateral legal framework for sovereign debt restructuring."

The vulture fund Aurelius Capital Management responded by publishing a notice in newspapers in Argentina and elsewhere warning that "the worst is yet to come for Argentina." Financial speculators, in the meantime, are using scare tactics in a campaign to undermine the country’s economic well-being.

"Under the false pretense that ‘Argentina is in default,’ the vultures moved their employees, and we’ve had everything from a small general union strike to a violent attack on the currency and almost daily threats that the country will be decimated by unemployment," Argentine Cabinet Chief Jorge Capitanich told reporters.

On Aug. 15, the Delaware-based corporation RR Donnelley and Sons Company shut down a massive printing plant in Argentina, declared itself bankrupt and laying off nearly 500 employees. The workers have since taken over the factory, which prints nearly all of Argentina’s magazines, and are maintaining production. The government said the company has an estimated 180 million pesos (US$21.3 million) in assets, 140 million pesos (US$16.6 million) in liabilities, and several million pesos worth of registered earnings. Donnelley, nevertheless, spoke of an "insurmountable crisis, without viable alternatives."

The bankruptcy went into effect with unusual speed. Donnelley filed a petition on a Friday. A judge granted its bankruptcy claim the following Monday. President Cristina Fernández de Kirchner (CFK) dubbed the judge’s actions a case of "servile justice."

On Sept. 18, the daily La Nación announced that the US carrier American Airlines had decided to stop selling tickets more than 90 days in advance of departure "because of difficulties securing
dollars and sending them abroad." Argentina’s Banco Central refuted the claim, saying that between US$24 million and US$26 million in tourism- and travel-related dollars are in circulation every day. American Airlines never retracted its statement, and the opposition press, in alliance with the vulture funds, continues to say, "There are no dollars for airlines companies."

Three days before the American Airlines story went public, US Business Attaché Kevin Sullivan, in an interview with the opposition daily Clarín, said, "It is important that Argentina end its default." Sullivan, who has a temporary post with the US Embassy in Buenos Aires, also said that the country "never should have turned to the UN and the International Court of Justice in The Hague for help settling a dispute that is based in New York and that was already clearly resolved."

**Five-point plan of attack**

The CFK administration vehemently opposes use of the term "default" to describe its current financial situation. The president said Sullivan’s comments were "improper" and her Foreign Minister Héctor Timerman demanded that the attaché explain himself. "Besides that what he says is false, it’s dumbfounding how he lamentably omits the role played by the [New York] judge," Timerman said. "These are exactly the kind of statements a diplomat should avoid to preserve good relations in a framework of reciprocal respect."

From the president on down, everyone in the Argentine government is doing his or her part to support what CFK described as "a crusade in defense of sovereignty." After learning about Sullivan’s declarations and the complaints made by American Airlines, the president—before traveling on Sept. 18 to the Vatican to enjoy a "lunch between good friends" with Pope Francis—used her Twitter account to share information regarding an interview she had in August with Carlos Gutiérrez, a Cuban-American who served for a time as secretary of commerce under US President George W. Bush (2000-2008).

Gutiérrez, according to CFK, requested the meeting based on his status as a former high-level US government official and with the express intent of serving as a kind of mediator on behalf of the vulture funds. "He also explained that he is part of a group headed by former [US] secretary of state Madeleine Albright," the president explained. "Later we learned that the [Albright] team was hired by the vultures to attack our country."

During the meeting, which took place in the presidential residence, Gutiérrez reportedly said that the vulture funds would soon begin developing a five-point plan of attack aimed at forcing the Argentine government’s hand. In her Twitter message, CFK summarized the strategy: 1) Wear down the president with constant attacks in the media and false claims in the US and around the world; 2) Spread rumors to generate economic instability, and encourage speculative attacks, particularly regarding the exchange rate on the illegal street market, to undermine confidence in the government; 3) Establish an aggressive policy in the international financial market to prevent the state and private sector from accessing financing; 4) Buy time so that the vulture funds can reach a favorable deal when the next government comes into power in 2016; 5) Contract journalists and media outlets in Argentina and elsewhere to attack the government, and either directly or indirectly pay opposition politicians and union leaders to help weaken the government.

Events that have played out since that interview appear to confirm all five of the strategy points Gutiérrez outlined.
**Fighting fire with fire**

Just days after CFK divulged the details of her meeting with Gutiérrez, her administration applied some economic pressure of its own. On Sept. 22, Argentine Planning Minister Juilio de Vido, the only Cabinet member to have kept his post since the beginning of the Kirchner era in 2003, met with US Energy Secretary Ernest Moniz during a nuclear-energy conference in Vienna, Austria. De Vido warned Moniz that Judge Griesa's ruling, the actions begun taken by the vulture funds, "and the almost complicit inaction of [US President] Barack Obama" will complicate matters for US companies Westinghouse and General Electric, which are in the running for a contract to build what would be Argentina’s fifth nuclear power plant.

"I told him that Westinghouse had an interesting proposal but that it could be ruined by the situation," De Vido told reporters. The biggest stumbling block, he explained, is financing, which the US companies can no longer guarantee. De Vido also reminded Moniz that there are US oil and services companies keen to exploit deposits in Vaca Muerta—in southeast Argentina—but that, for the reasons already mentioned, their plans to extract and export Argentine oil could fall flat (NotiSur, Aug. 9, 2013).

"De Vido’s statements generated concern within the US delegation that traveled to Vienna. The minister made it clear that what he was saying wasn’t a crude threat. It was a very concrete reality check," journalist María Sucarrat, sent by the Argentine daily Tiempo to cover the conference, wrote in a Sept. 23 dispatch. Sucarrat also reported that, during his meeting with Moniz, De Vido told the US official that he had met several hours earlier with the head of the Russian nuclear giant Rosatom, Sergey Kirienko, who reiterated his interest in building—and financing—the reactor in question. Rosatom is one of several firms already competing with General Electric and Westinghouse for the coveted Argentine nuclear power project. Firms from China, South Korea, and France are being considered as well.

De Vido made it clear that Argentina is also interested in building a fourth natural-uranium and heavy-water power plant together with the China National Nuclear Corporation (CNNC). The partners signed an initial agreement in early September. The more pressing priority, however, is the fifth nuclear power plant, a US$5 billion venture that Westinghouse and General Electric risk losing out on. "Kirienko told us that, despite the ‘selective default’ status that the ratings agencies have applied to Argentina, Rosatom has a different opinion and is ready to finance the project. That’s what I explained to Moniz," De Vido explained.

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