

# DROP! IT!

Winter 2013

## Stop the debt vultures



  
**JUBILEE DEBT  
CAMPAIGN**

# THE VULTURE THREAT

**They're the financial speculators chasing obscene profits from debt crises around the world.** Again and again – from Argentina to Zambia, Liberia to Greece, Congo to the Co-op Bank – vulture funds have shown how our financial system allows money to be made from the most distressing situations, while governments sit back and declare ‘that’s just the way things are’.

**In recent years there’s been a fightback.** A handful of countries have bravely fought the vultures through the courts. Our campaigning has brought a landmark UK law protecting 40 impoverished countries from the most outrageous vulture tactics in British courts. And this protection has been extended to shady UK tax havens not covered by the original law.

**But for most countries, the vulture threat still remains – and this year it has deepened.** In a New York court case dubbed the ‘debt trial of the century’, they’ve won a victory that threatens to send one country back in time to a massive debt default, and put all others, rich and poor, on warning that future debt crises will be almost impossible to resolve.

**It’s time governments stopped accepting vulture funds as a fact of life. It’s time to clip their wings once and for all.**



## SCAVENGING FROM POVERTY

In Buenos Aires, the capital of Argentina, there is a Museum of Foreign Debt. It stands as a testament to the scale of social crisis that an impossible debt burden can provoke. During Argentina's debt crisis in 2001, when mass protests forced President Fernando De la Rúa to flee by helicopter from the presidential palace roof, the proportion of Argentinians living below the poverty line had ballooned to nearly 60%. Unemployment had reached record levels. The share of export revenue being spent on debt payments stood at 45%.

Vulture funds see this kind of social upheaval and think of one thing: profit. Pioneered in Latin America in the 1990s, these funds have become part of the ecosystem of global finance in an era of debt crisis. It is bad enough that countries must endure years of forced austerity in return for cancellation of some unjust debts, with the highest costs borne by

the poorest in society, and inequality deepening as a result. But the first thing many countries have encountered as they start to rebuild their economies is vulture funds demanding to be repaid on old debts in full.

The Jubilee Debt Campaign has been fighting vulture funds for many years. When our campaigning forces governments to cancel unjust debts, it is essential that the money freed up can go towards social goals like building schools and hospitals, not to line the pockets of wealthy speculators. So, as the decades-long debt crisis in the global South has been followed by the Western financial crisis of recent years, we have tracked and exposed these funds as they scour the world for rich pickings from other people's misery.

**“We thrive on people being misinformed”**

*A vulture fund manager quoted in the Financial Times*

## HOW A VULTURE FUND OPERATES

Just like shares, or commodities like copper or coffee, debts can be bought and sold on the financial markets. When a country takes on a debt, eg. for £1 million, it signs a contract saying it will repay £1 million plus a certain amount of interest by a certain date. Before that date the original lender can sell on the right to be paid the £1 million plus interest when the debt comes due. When a country looks like it can't or won't pay its debts, the 'market price' of the debt can fall very low. This is where the vulture funds come in: they buy up debts very cheaply in the midst of the crisis, then bide their time as the crisis plays out. While all other owners of the debt eventually

agree a 'write-down' – a reduction in the amount owed to make payments affordable – the vulture funds refuse to join in. Then they take the country to court to demand full repayment on their debts, often with huge interest and penalties added on top.

Vulture funds are a type of hedge fund, specialising in this 'distressed debt'. They tend to be very secretive, usually based in tax havens like the Cayman Islands where they can escape from scrutiny. Often, there is no information on who owns them at all. When *BBC Newsnight* turned up at one vulture fund's office in New York, the door had been locked and the name plaque unscrewed.



LEFT: IN 2012 VULTURE FUND FG HEMISPHERE FAILED IN A BID TO EXTRACT \$100 MILLION FROM CONGO IN A JERSEY COURT

But in 2010, following our campaigning, the UK passed a vulture funds law restricting the ability of these funds to profiteer from the debts of 40 countries. The law was instrumental in forcing the vultures to accept only 3% of the face value of the debt.

## 1. ZAMBIA, LIBERIA: A THREAT CONTAINED?

At least 54 companies are known to have taken legal action against 12 of the world's most impoverished countries in the last decade, for claims amounting to \$1.5 billion. Some were the original lenders, refusing to take part in international debt cancellation schemes, but most were secondary purchasers of the debt – vulture funds whose sole aim was to make as much profit as possible from countries trapped by debt.

In 2007, an American businessman called Michael Sheehan, also known as 'Goldfinger', bought up a debt owed by Zambia dating back to the 1980s. Paying \$3 million for a debt originally worth \$15 million, he sued Zambia in the High Court in London for a staggering \$55 million including interest and penalties. While the court only awarded just over \$15 million, it was a significant payout – and it was perfectly legal.

In 2009 two vulture funds, Wall Capital Ltd and Hamsah Investments, based in the British Virgin Islands, won a \$20 million judgement against Liberia in the High Court on a debt dating back to the 1970s.

**“Bravo! We’ve been waiting for a parliament or an assembly to take this kind of hard decision to be able to bring these funds into reason”.**

President Ellen Johnson Sirleaf of Liberia on the UK law

### VULTURE FUNDS IN NUMBERS

**£145 million:** Amount the UK's vulture funds law is estimated to be saving developing countries.



**\$1.4 billion:** Amount vulture funds are pursuing Argentina for from its 2001 financial crisis.

**€100 million:** Amount Dart Management made in a single day from Greek debt just after the EU and IMF had agreed massive bailout loans.



## 2. ARGENTINA: THE BIG ONE

While African countries offer opportunities for scavenging, for vulture funds Latin America has been an even bigger prize. US hedge funds Elliott Associates, owned by Republican donor Paul Singer, and Aurelius Capital, which this year has wrestled away control of the Co-operative Bank, have spent the last 10 years pursuing Argentina for debts bought up after the crisis of 2001.

Following its catastrophic default, Argentina's new government abandoned the IMF and began to negotiate with private creditors. In the succeeding years 93% agreed a deal to ease the debt burden, receiving 25-30 cents for every dollar owed, spread over several years. What's more, if Argentina's economy grew, the amount paid back would increase. It worked – following 2005, as payments continued to be made, 11 million people were pulled out of poverty. Unemployment more than halved over five years.

Today, vulture funds are jeopardising this recovery. They never lent Argentina any money, but now they are demanding a payout of as much as \$1.4 billion on debts they bought at a tiny fraction of the price. One analyst has estimated some stand to make a profit of 1,400%. They've even set up a lobby group in Washington DC to argue their case in the corridors of power. The 'American Task Force Argentina', distastefully named after the UK's naval fleet that fought in the Falklands War, was found by the *Wall Street Journal* to list members including farmers groups and educational associations that had never heard of it (they were subsequently removed).

Campaigners in Argentina, by contrast, point out that many of the debts were inherited from the time of the brutal military junta which ruled from 1976 to 1983. They are therefore 'dictator debts' which should be audited and, if the loans did not benefit the people of Argentina, repudiated.



World Economic Forum/swiss-image.ch

ABOVE: REPUBLICAN DONOR PAUL SINGER RUNS ONE OF THE VULTURE FUNDS PURSUING ARGENTINA

### A NEW DEBT DEFAULT

In late 2012 the vultures won a victory in a New York court, in a case the *Financial Times* has called the 'debt trial of the century'. They argued that Argentina, which has passed a law forbidding its government from making payments on the vulture debts, could not continue making repayments to the 93% of creditors who reduced the debt, unless they also made payments to the vultures. To the surprise of many, the court agreed.

If this verdict is allowed to stand, Argentina could be forced into a new default. If it gives in and pays the vultures, it could face 'copycat' lawsuits from the lenders who accepted debt reductions last decade, potentially totalling \$43 billion – plunging Argentina back into the debt crisis of 2001.

That's why the US Government, the French Government (which runs the 'Paris Club', a cartel of rich country creditors) and the International Monetary Fund have all found themselves in an unlikely alliance with debt campaigners by criticising the actions of the vultures funds. But so far these institutions, which have operated the global debt system in their own interests for the last 60 years, have gone no further than words.



**Tell the Chancellor  
to Stop Vulture Funds!**



Dear \_\_\_\_\_ MP

In 2010 the UK's Debt Relief (Developing Countries) Act led the world in curbing the ability of 'vulture funds' to profiteer from debt crisis in 40 of the world's most impoverished countries. But the threat is far from over: from Latin America to Europe, vulture funds are targeting rich pickings from countries mired in unjust debt.

Vulture fund Dart Management, based in the Cayman Islands, made €100 million from Greece's debt crisis in a single day, shortly after taxpayers had bailed Greece out. In Argentina, vulture funds are demanding a \$1.4 billion payout more than a decade after Argentina's 2001 debt crisis. Yet everyone from the IMF to the US Government has warned their legal case risks making debt crises even harder to resolve fairly and effectively.

The UK plays a crucial role in this little-known aspect of global finance because many sovereign debt contracts are written under English law. Please will you:

- **Sign Early Day Motion 666** calling for national and global action to stop vulture funds and promote responsible lending and borrowing
- **Write to the Chancellor, George Osborne**, urging him to stop vulture funds profiteering from debt crises now and in the future

I look forward to your response.

Yours sincerely,

Name \_\_\_\_\_

Address \_\_\_\_\_

Postcode \_\_\_\_\_

**Not sure who your MP is?** Type in your postcode at [www.theyworkforyou.com](http://www.theyworkforyou.com) or phone 020 7219 3000.

Affix stamp here

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ MP

HOUSE OF COMMONS  
WESTMINSTER  
SW1A 0AA

**YES I WOULD LIKE TO ORDER:**

- ✓ More copies of this issue of *Drop It*
- ✓ More copies of the Stop Vulture Funds postcard to MPs (above)
- ✓ Copies of the *Life and Debt* report (48 pages)

QUANTITY

**DONATE** I enclose a donation of \_\_\_\_\_

(Please make cheques payable to 'Jubilee Debt Campaign', and sign the Gift Aid declaration, if applicable)

We like to acknowledge donations received. Please tick if you **do not** require this.

Name \_\_\_\_\_

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Tick here if you do NOT want to receive further information about Jubilee Debt Campaign's work.

*giftaid it*

**If you're a UK taxpayer, we can reclaim an extra 25% in tax on your donations. Please tick the box, then sign and date. Declaration invalid without all three.**

I want Jubilee Debt Campaign (Registered Charity No. 1055675) to treat this and any future donations I make as Gift Aid Donations, until I notify you otherwise. I declare that I will pay income and/or capital gains tax for each tax year that is at least equal to the amount of tax that all the charities I donate to will reclaim on my donations for that tax year. I understand that other taxes such as VAT and Council Tax do not qualify. I will notify Jubilee Debt Campaign if I stop paying enough tax.

Signature \_\_\_\_\_

Date \_\_\_\_\_

Please return to: **Jubilee Debt Campaign, The Grayston Centre, 28 Charles Square, London N1 6HT**

If you're not making a donation, you can also email your order to [info@jubileedebtcampaign.org.uk](mailto:info@jubileedebtcampaign.org.uk) or phone **020 7324 4722**.

## TAKE ACTION

Please tell your MP to stop vulture funds profiteering from debt crises around the world. Ask them to sign Early Day Motion 666 by signing the attached postcard.

### 3. GREECE, IRELAND – THE NEW FRONTIER

Since the European banking crisis, vulture funds have spied a new frontier. Vulture fund Dart Management, based in the Cayman Islands, was one of several vulture funds which bought up so-called 'foreign law' Greek debt after the country's debt crisis was revealed in 2010. Two years later, nearly all of Greece's private creditors agreed to a 50% reduction in the value of their debts in return for the massive IMF and EU bailout loans, with austerity conditions attached, which enabled Greece to keep paying its debts. But funds which together controlled more than €6 billion of Greece's debt refused to join in, saying they would hold out for the full amount.

The Greek government was able to change the law to compel all creditors holding Greek law debts to join in with the debt reduction. But the vulture funds were able to demand their pound of flesh because the debt contracts they had bought were written under foreign law, including many under English law – which the UK Chancellor George Osborne has so far refused to change. According to the *New York Times*, Dart received a €400 million payment from Greece at the height of the country's debt crisis in May 2012, making an estimated €100 million profit in a single day. So far, the bailout loans have included at least €1.1 billion from the UK taxpayer via the IMF.

Ireland is the latest Eurozone country to be targeted. The *Irish Times* reported in September that two subsidiaries of Elliott

Associates have bought up \$75 million of debt owed by the former Anglo Irish Bank, whose debts were taken on by the Irish government in a special overnight session at the height of the financial crisis (a move which many in Ireland consider makes the debts illegitimate). The vulture funds are trying to prevent Irish assets held in the US from being used to pay back the Irish state.

### A SYSTEM IN CRISIS

The story of vulture funds is a story that shows most starkly the moral failures of the financial system. But that system is one constructed by politicians and economists, that has been run in the interests of the rich world for decades. As the vulture threat has grown in recent years, so an opportunity to draw attention to the wider failings of that system – and demand change – has taken shape.

This is not just a matter for Europe. Already, we have seen the first signs of the impact the Argentina case could have on other countries. The tiny Caribbean island of Grenada, which early this year stopped making payments on its debts after years of failed attempts to negotiate with creditors, has been sued by Taiwan, citing the Argentina verdict as a precedent. Other cases are expected to spring up in courts in the future.

That's why the fight against vulture funds is a crucial part of the wider struggle for a fair economy. It's a fight between two visions – of an economy run in the interests of rich 'investors', and an economy run in the interests of people around the world.

✚ For the latest on the campaign, see [www.jubileedebt.org.uk/vulturefunds](http://www.jubileedebt.org.uk/vulturefunds)

**“The vulture funds have raised greed to a new level.”**

*Joseph Stiglitz, Nobel Prize winner and former Chief Economist of the World Bank*



# DEBT NEWS

## DODGY DEALS: BACK TO THE BAD OLD DAYS

Liberal Democrat Business Minister Vince Cable has been criticised after refusing to implement his party's policy to audit and cancel Britain's dictator debts. In a letter to the Jubilee Debt Campaign, Cable said he had 'no plans' to order an audit of the UK's past lending to countries including Egypt, Indonesia, Kenya, Ecuador and Argentina, despite the evidence we've uncovered that much of the £2 billion owed to the UK by developing countries is from military sales to dictatorial regimes. The Liberal Democrats have party policy to 'rule invalid any past lending that was recklessly given to dictators'.

What's more, the Department for Dodgy Deals (aka UK Export Finance) revealed that it had guaranteed a £2 billion loan for Typhoon fighter aircraft to the repressive government of Oman – described by the Campaign Against Arms Trade as signalling a return to the 'bad old days' of under-the-table arms deals at a department Cable proposed to abolish when in opposition. By contrast, in August Norway became the first country in the world to complete an audit of the debts it

is owed – finding that many of Norway's past loans to developing countries did not meet UN responsible lending guidelines.

- ✓ Tell Nick Clegg not to break his party's promise on dictator debts at [www.jubileedebt.org.uk/dodgydeals](http://www.jubileedebt.org.uk/dodgydeals)

## 10,000 DEMAND A JUBILEE FOR JUSTICE

More than 10,000 paper chain petition links calling for a new debt jubilee were handed in to 10 Downing Street on the eve of the G20 meeting of major economies in September, following a year of campaigning by Jubilee supporters around the country. Jubilee campaigners held up giant letters spelling 'LIFE BEFORE DEBT' outside the Treasury on the day of the hand-in – urging the UK government to stop putting the payment of debts above the right to life for people in indebted countries. We await the Prime Minister's response to the petition – which called for debt cancellation, tax justice, and controls on the banks.

- ✓ See more photos and a video of the hand-in at [www.jubileedebt.org.uk/lifebeforedebt](http://www.jubileedebt.org.uk/lifebeforedebt)

CAMPAIGNERS SPELL OUT A MESSAGE OUTSIDE  
THE TREASURY AHEAD OF THE G20 SUMMIT



## LIFE AND DEBT IN 2013

Our new report, released in Global Debt Week, looks at the impact of debt and austerity, and the campaign for justice, in nine countries around the world. *Life and Debt: Global studies of debt and resistance* includes case studies of Egypt, El Salvador, Greece, Jamaica, Latvia, Pakistan, the Philippines, Portugal and Tunisia.



- Order a copy using the tear-off postcard attached or download from [www.jubileedebt.org.uk/reports](http://www.jubileedebt.org.uk/reports)



Meanwhile debt campaigners around the world took part in a photo solidarity action during Global Debt Week in October, declaring why illegitimate debt is 'not our debt' and 'should not be paid'. It was part of a week of action marking the anniversary of

African debt resister Thomas Sankara's assassination, as well as the annual meetings of the World Bank and IMF.

- See a round-up of the best photos at [www.jubileedebt.org.uk/debtweek2013](http://www.jubileedebt.org.uk/debtweek2013)

## NEW WEBSITE

Thanks to a generous legacy gift, we have been able to upgrade our website for the first time since 2005! The centrepiece is an interactive world map of global debt which explores the reality of global debt levels, in contrast to what is often reported in the press.

- Check out the new website at [www.jubileedebt.org.uk](http://www.jubileedebt.org.uk)
- View and share the global debt map at [www.jubileedebt.org.uk/map](http://www.jubileedebt.org.uk/map)




## STOP PRESS!


As we go to press, the Caribbean island of Grenada has taken a brave stand to publicly call for its debt to be cancelled. Take action at:

[www.jubileedebt.org.uk/grenada](http://www.jubileedebt.org.uk/grenada)

## ABOUT US

**Jubilee Debt Campaign is part of a global movement demanding freedom from the slavery of unjust debts and a new financial system which puts people first.**

 Jubilee Debt Campaign

 @dropthedebt

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