

## MP briefing: Vulture funds

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### 1) The UK Debt Relief (Developing Countries) Act

In April 2010 the UK parliament passed world-leading legislation to prevent vulture funds making exorbitant profits out of debt restructuring. After campaigning by the global Jubilee movement, \$130 billion of debt was cancelled for 35 countries, mainly in Africa. However, vulture funds refused to take part in this cancellation. Having bought debts cheaply when countries were in crisis, they sued newly solvent states for exorbitant profits, including in UK Courts.

In 2010, the Debt Relief (Developing Countries) Act limited how much vulture funds could sue for in UK courts to the amount they would have got if they had taken part in debt relief. The UK government estimates the Act will save £145 million over six years. Similar legislation has now been passed in Jersey, Guernsey and the Isle of Man.

### 2) Vulture funds are trying to force Argentina to default on its debt

The people of Argentina suffered from a debt crisis at the turn of the millennium, after the government followed IMF imposed policies over the previous decade. With debt payments reaching an unaffordable 45% of export revenues, and the percentage of the population living in extreme poverty increasing from 3% to over 20%, the government defaulted on its debts.

The Argentine government reached an agreement with the vast majority of private creditors to pay 30 cents on every dollar owed, spread over several years. Since 2005, these payments have continued to be made, extreme poverty has fallen to less than 2%, and inequality is also well down on the heights reached in the wake of the crisis.

Vulture funds such as NML Capital and Aurelius bought up some of the debt on the cheap after Argentina defaulted. Having not lent Argentina any money, the vultures are now demanding that the South American country pay the debt in full, which one analyst has estimated would make them a profit of 1,400%.

NML Capital and Aurelius have convinced a court in New York that Argentina should either pay them in full, or not pay anybody. As Argentina's payments are routed through a New York bank, this could force it to default. Nobel-prize winning economist Joseph Stiglitz has said the case "renders non-viable all debt restructurings under the standard debt contracts ... a basic principle of modern capitalism, that when debtors cannot pay back creditors, a fresh start is needed, has been overturned".

### 3) Vulture funds are making millions out of the suffering of the Greek people

In the run-up to the Global Financial Crisis, German, French and British banks lent billions of euros recklessly to the Greek government, whilst also helping the government hide the scale of the debt from public view. In 2010, these same lenders began to doubt Greece's ability to repay. The EU and IMF lent more money,

effectively bailing out the banks. As fears of a Greek government default increased, vulture funds such as Dart Management bought up debt cheaply.

In early 2012, Greece finally began negotiating with the remaining private creditors and a deal was agreed to reduce the debt owed to them by 50%. However, the vulture funds had bought debt issued under UK law. They are now refusing to take part in the restructure, getting back hundreds of millions of Euros in profits on the amount they paid for the debt, whilst the Greek people increasingly suffer. Eleven per cent of the Greek population now live in extreme poverty, two-in-three young people are unemployed and there has been an increase in suicides of 40% in the last two years.

#### **4) What should be done**

The global system for dealing with sovereign debt crises is broken, allowing vulture funds to make exorbitant profits out of the suffering of others, whilst continually causing turbulence in global financial markets. The Debt Relief (Developing Countries) Act shows that action can be taken to ensure internationally agreed debt reductions are enforced across all creditors.

A more sustainable, long-term solution would be the creation of a fair, independent and transparent arbitration mechanism for sovereign debts. If a government is unable to pay its debts, this would enable an ordered debt restructuring across all creditors, and is supported by other governments including Germany, Norway and Switzerland.

Early Day Motion 666 calls on the UK government to:

- share its experience of legislating on vulture funds with the Government of the United States of America
- pass legislation to prevent vulture funds from using UK courts to bypass internationally agreed debt restructuring for Argentina and Greece
- support the creation of a fair, independent and transparent arbitration mechanism for sovereign debt, so that all creditors share equally when unsustainable debts have to be reduced

#### **5) EDM 666 text**

'That this house welcomes the impact of the Debt Relief (Developing Countries) Act 2010 in preventing vultures funds taking an estimated £145 million from developing countries; welcomes the passing of similar laws in Jersey, Guernsey and the Isle of Man; notes that vulture funds are trying to force Argentina to default on its debt through a legal case in New York; notes that vulture funds are making large profits on Greek debt repayments owed under UK law despite other creditors agreeing a reduction in the amount they are owed; is concerned that vulture funds are preventing the fair implementation of debt restructuring; and urges the Government to, share its experience of legislating on vulture funds with the Government of the United States of America, pass legislation to prevent vulture funds ignoring international agreed debt restructuring for Argentina and Greece in UK courts, and support the creation of a fair, independent and transparent arbitration mechanism for sovereign debt.'



*This briefing has been undertaken with the assistance of the European Union. The update is the sole responsibility of Jubilee Debt Campaign, and can in no way be taken to reflect the views of the European Union.*