

## **CADTM Vultures**

### **What is Jubilee?**

Old Testament idea, that every 50 years society needs to re-adjust.

Wipe out debts and slavery.

Why? Because if not inequality and poverty become entrenched.

No evidence it ever happened - but it's a powerful idea to mitigate against privilege in our society

We wanted to bring that idea to the issue of global debt - the debt crisis - which has been going on now for at least 25 years.

But I think we can see - given how out of control, destructive, self-serving the financial system which controls the world and our lives and livelihoods has become - that this idea of a Jubilee is more important than ever.

So we were never solely about 'debt relief'. We were also calling for the type of fundamental, structural reform which would mean debt could never be accumulated in such an unsustainable and unjust manner again.

### **What are 'vulture funds'?**

Now since Jubilee came into effect some debt cancellation has been given by IMF, WB, Paris Club. We've all heard a lot about this.

Vulture funds are interesting to us because they prove both how limited those debt cancellation schemes have been

And they also show just what lengths unregulated capitalism will go to to make profits.

Vulture funds seem to me to symbolise some of the irresponsible and reckless financial practices which has led us into that present crisis.

What are vulture funds?

Companies set up in secrecy jurisdictions in order to buy up specific defaulted debts of Southern countries. They do this because it's cheap - creditors have written off the debt effectively. So they buy it for cents in the dollar.

They then use legal means to force the country to pay up the money. And they often make hundreds of times what they paid for the debt in profits.

So example:

Donegal was set up by a guy called Michael Sheehan in the British Virgin Isles. We don't know any more about the company - where the capital comes from or anything like that - because it is based in a tax haven it enjoys secrecy.

Donegal was set up to buy some of Zambia's debt back in the late 90s. They bought the debt from Romania - bit unusual normally company debt - for some tractors sold to Zambia in the 70s.

The tractors were never great - some may not even have reached their destination. But anyway 20 years later the debt was still there because Zambia was highly indebted, highly impoverished country and defaulted on its debts.

Somehow Donegal persuaded Romania to sell the debt. Maybe corruption. They sold a \$15million for \$3million. Somehow it persuaded Zambia to waive its sovereign immunity - also we're pretty sure through corruption.

And the ended up suing Zambia for \$55million in a British court. didn't win the whole 55 but did win the price of the debt - \$15million. Much more than the 3million they'd paid and making them a vast profit. Zambia lost money that

could have gone into this health system to give life-giving treatment.

How widespread is this activity?  
We don't know.

IMF lists 54 cases in 12 countries  
But likely to be tip of the iceberg

Around 1/5 come to court in the UK. Over that in US.

Problem

Not simply related to money directly sequestered.  
Often, countries won't pay up - leading to enforcement against assets (including aid in the case of Belgium)  
Over times this wares countries down and they offer a concession.

DRC at the moment - recent appeal case in HK - seizing Chinese money promised for investment

Same in Jersey

A countries assets are essentially being fought over by two companies in a tax haven.

Interestingly - how do vultures defend themselves?

Normally they don't but I have had an email argument with the guy behind Donegal. He says he's doing thee countries a favour. Why? First because he suing is a last alternative. He'd rather swap the debt for a concession in a mine or other business. He calls that 'investment'.

Second because in taking legal action, the vulture scour the world looking for government assets, and in doing so uncover corruption - assets stashed away here and there. Not sure how it really benefits the people of the country concerned that those stolen assets immediately go into the pockets of an offshore billionaire, but that's what they argue.

### **The campaign and how it caught on**

No-one really likes vultures. Politicians don't like them, because essentially they're stealing the debt relief which

was given under HIPC. For companies - even oil companies - they can threaten to seize assets and disrupt trade (although the cost is normally passed on to the country concerned). Other creditors don't like them because they 'hold out' against more reasonable settlements and end up taking a bigger share than more reasonable creditors.

So a good basis for a campaign.

What were we calling for? Essentially we were looking to limit the amount of profit that could be claimed off debt bought on the secondary debt market. So if you buy sovereign debt and you end up taking legal action against that sovereign, you would only be allowed to claim a 'reasonable' rate of interest - e.g. 6%. Vulture funds (in their widest sense) would want to make more than this to make it worthwhile going through legal proceedings. In other words it slows down the market - rather like the Tobin tax - it dampens the ability for fast, odious profits.

An MP put a bill into parliament like this and one went into the US Congress.

However, financial sector and government didn't like this at all. They said this would destroy the secondary debt market. and as a result borrowing would become more expensive. For instance, anyone lending to DRC would charge more for that loan if they weren't as sure they could sell it to another buyer. We think that might well not be a problem - perhaps more responsible lending would be more expensive - if it prevents stupid debt build up that's a good thing.

But a lot of people make a lot of money behaving like this. So the British government proposed a compromise. They said that would make law that was only applicable to HIPC debts. One problem with HIPC - it's voluntary. So most commercial debts owed by HIPC countries were not cancelled, they still exist. This is what many vultures exploit.

The British government said, we'll support a law - if you can persuade an MP to put it forward (explain PMB system) which means that if a company bring a legal case against a HIPC in a British court, they will have to first of all apply a HIPC debt reduction to that claim. So if Zambia was given a 90% reduction in its debts under HIPC, 90% comes off the claim of Donegal when it comes to court in the UK. They wouldn't bother doing it - because the profit wouldn't be enough to make it worthwhile.

### **Passing the bill and problems**

So we thought it was worthwhile having such a bill, even if it was a long way from what we wanted. Some in the financial sector and the far right opposed it still, but - just a few days before the General Election - we got the law.

Actually we were lucky because so close to an election neither side wanted it to become an election issue, so we were able to play the parties off against one another.

We had to accept an amendment - a one-year sunset clause. But actually it has turned out ok and the law has been made permanent.

We are now trying to get the law applied to British territories overseas - like Jersey. We hope it might help with the tax campaigning there.

Was it worth it? Liberia saved \$40million. The Government estimate it will save another \$145 million over the next 6 years.

It also applies to original creditors - not just vultures.

BUT no help to Argentina. Or Ecuador. Or Peru (where the vulture model started). And far more money is made from these sorts of countries. Doesn't even apply to future debts for HIPC countries.

Also doesn't help in uncovering who these vultures are. We wanted a transparency clause which forced anyone

taking such a case would have to disclose more information about themselves - actually link vultures back to their investors. That didn't work and I think that could have made a real difference.

So the success of the campaign can only be judged in how successfully we are in getting campaigners to move on to other issues. To say - we've dealt with these vultures, now let's deal with the much bigger vultures who are much more mainstream to the financial system.

### **Where next?**

For JDC this is one example of the sort of reform we need in order to transform global finance - to make it accountable and answerable to people.

This includes tax justice - companies must be taxed as must rich individuals. This means closing down the casino economy.  
We must stop speculation of basic goods like foodstuffs.  
We must support countries in re-imposing capital controls.  
We must change the system, of lending and borrowing - I think to re-imagine something like Kenyes' international clearing union.

It must be clear to anyone whose been affected by the subprime mortgage collapse or whose lost their job and been unable to keep up repayment on their mortgage – that debt isn't always and everywhere the sole resp of the debtor. We need to ensure the same logic is applied to sov. country debt too.

This is the only way to ensure the poor are not left picking up the tab for the crimes of the richest in the developed world.

What is the Jubilee after all?

*That's the point of JDC. We're not about sticking plaster solutions. TW Debt still today provides a mechanism for explaining how and why the world is structurally unjust.*

*Our role in the coming years will be to convey that understanding to large sections of the population who are suddenly interested in global finance, who understand the pain of economic crisis – ensuring that they don't turn in upon themselves in these difficult*

*times, but foster a renewed solidarity with the really poor of the world.*

Brandt:

“As a means of modern impunity, debt makes legitimate our inequitable system of exchange. It allows one person to control another....

“Someday, all societies may recognize that benefiting from others' indebtedness is to deny them the freedom, dignity, and self-realization that is their birthright.

“When trust and equality prevail and the debt of developing nations is at last forgiven, the world will undergo a social, psychological, cultural, and economic renaissance only dreamed of today.”