

# CRS Report for Congress

## Argentina: Background and U.S. Relations

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# Argentina: Background and U.S. Relations

## Summary

A South American nation with a population of around 40 million, Argentina returned to elected civilian democracy in 1983 after seven years of harsh military rule. In 2001-2002, the democratic political system experienced considerable stress as the country experienced a severe economic crisis, but ultimately weathered the storm. Current President Cristina Fernández de Kirchner, elected in October 2007, succeeded her husband President Néstor Kirchner (2003-2007), who had made popular policy moves regarding human rights, institutional reform, and economic policy that helped restore Argentines' faith in democracy. In her first year in office, President Fernández has faced several major challenges, including an energy crisis in early 2008 followed by a series of farmers strikes that led to the defeat of her proposed agricultural export tax increase. More recently, the government has faced the challenge of dealing with the effects of the global financial crisis. The rapid decline in prices for several of Argentina's key exports will have an impact on economic growth and government revenue.

U.S.-Argentine relations generally have been strong since the country's return to democracy in 1983 and were especially close during the Menem presidency (1989-1999). There was some friction in relations when the United States did not support Argentina during its 2001-2002 financial crisis, and under the Kirchner presidency when Argentina moved toward closer relations with Venezuela. There was expectation that the tenor of relations with the United States would improve under President Fernández. This was thwarted, however, by the so-called suitcase scandal involving the arrest of four foreign nationals from Venezuela and Uruguay in Miami for the attempted delivery of funds to benefit Fernández's presidential campaign. Nevertheless, the United States and Argentina continue to cooperate on many areas of mutual interest, including anti-drug and anti-terrorism efforts.

In the 110<sup>th</sup> Congress, initiatives regarding Argentina were adopted or introduced. The House adopted two resolutions for the anniversary of the 1994 Argentine-Israel Mutual Association bombing: H.Con.Res. 188 approved in July 2007, and H.Con.Res. 385, approved in July 2008. The House also adopted H.Res. 435 in November 2007 that emphasized the importance of eliminating Hezbollah's financial network in the tri-border area of South America. The House version of the FY2009 Intelligence Authorization Act, H.R. 5959, included a provision requiring a Central Intelligence Agency report on human rights violations committed by Argentine military and security forces during the military dictatorship (1976-1983). In September 2008, a bill was introduced, H.R. 7205, that would bar access to U.S. capital markets to foreign states that fail to satisfy U.S. court judgments, and specifically cited Argentina as an egregious example. The Senate version of the FY2009 agriculture appropriations bill, S. 3289, contained a provision prohibiting funds from being used for the importation of fresh meat from Argentina until the Secretary of Agriculture certifies to Congress that every region of Argentina is free of foot and mouth disease; the provision was not included in the FY2009 continuing appropriations resolution. Separate bills, S. 3238 and H.R. 6522, were also introduced on the issue. This report, which may be updated, summarizes political and economic conditions in Argentina and issues in Argentine- U.S. relations.

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# Argentina: Background and U.S. Relations

## Political and Economic Conditions

Argentina's democratic political system experienced considerable stress in 2001-2002 when the country experienced a severe economic crisis and related social unrest. In late 2001, as the banking system faltered and confidence in the government of then President Fernando de la Rúa evaporated, widespread demonstrations turned violent, and the president resigned. In late December 2001, the government of interim President Adolfo Rodríguez Saá announced a default on some \$132 billion in public debt, the largest sovereign default in history. Ultimately, the political system weathered the storm: first, President Eduardo Duhalde (January 2002-May 2003), a Peronist Senator selected by Congress to fill out the remainder of President de la Rúa's term, implemented policies that stabilized the economy; and then, center-left President Néstor Kirchner (May 2003-December 2007), a Peronist who had served as a provincial governor of Santa Cruz in Patagonia, further enhanced internal political and economic stability.

Despite some difficulties, Kirchner made popular policy moves in the areas of human rights, institutional reform, and economic policy that helped restore Argentines' faith in democracy. In June 2005, the government restructured over \$100 billion in defaulted bond debt that paid an historically low recovery rate of 30% to bondholders (which caused some 24% of creditors not to accept the offer).<sup>1</sup> While this was politically popular in Argentina, the government's failure to repay its arrears to official Paris Club creditors or reach a deal with private creditors for over \$20 billion in defaulted bond debt prevented Argentina from full access to international capital markets.<sup>2</sup> The Kirchner government's continuation of politically popular price caps on electricity and natural gas that had been imposed during Argentina's 2002 financial crisis also laid the foundation for energy shortages.<sup>3</sup>

Legislative elections in October 2005 demonstrated strong support for Kirchner with his leftist wing of the Peronist or Justicialist Party (PJ), known as the Front for Victory (FV), making significant gains. Kirchner would have been eligible to run again in the 2007 presidential elections, but instead supported the candidacy of his wife, Senator Cristina Fernández de Kirchner.

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<sup>1</sup> For background, see CRS Report RL32637, *Argentina's Sovereign Debt Restructuring*, May 5, 2006, by J. F. Hornbeck.

<sup>2</sup> Economist Intelligence Unit, "Argentina Country Profile 2008," p. 32.

<sup>3</sup> Thomas Andrew O'Keefe, "The Crisis in the Argentine Energy Sector and Its Regional Impact," in *Energy and Development in South America: Conflict and Cooperation*, edited by Cynthia J. Arnson, Claudio Fuentes, and Francisco Rojas Aravena, with Jessica Varat, Woodrow Wilson Center for International Scholars, 2008.

Figure 1. Map of Argentina



Source: Map Resources. Adapted by CRS.

Fernández de Kirchner won the October 2007 presidential elections with 45% of the vote, defeating her closest rival by 23%, and was inaugurated President on December 10, 2007, becoming the first woman in Argentine history elected as President. During concurrent legislative elections, in which half of the Chamber of Deputies and one-third of the Senate was contested, the President's leftist FV faction of the PJ gained further seats in Congress, and now enjoys a majority in both houses. In April 2008, former President Kirchner became head of the PJ, which should have helped shore up support within the party for his wife's presidency.

Despite the strength of President Fernández within the ruling party and Congress, her political honeymoon was short-lived because of several significant challenges. These included an energy crisis early in the year and a series of farmers strikes beginning in March 2008 that led to the congressional defeat of the President's increase on taxes for soybean and sunflower seed exports. After just six months in office, President Fernández's popularity declined to a low of 20% in June 2008 (compared to nearly 60% in January), although more recently in October 2008, her popularity had risen to 30%.<sup>4</sup>

Looking ahead, President Fernández faces the challenge of dealing with the effects of the global financial crisis on Argentina's economy. Her government also must deal with \$6.7 billion in defaulted Paris Club debt owed to foreign governments and more than \$20 billion in defaulted bond debt owed to private creditors. Efforts to address these challenges will likely be put on hold because of the current global financial crisis. How the government addresses these economic issues will likely have a direct impact on its popularity, and could effect next year's mid-term congressional elections scheduled for October 2009.

## Economic Challenges

The Argentine economy has been booming in recent years, continuing the recovery since the 2001-2002 period when the economy contracted more than 15%. In recent years, the economy grew 8.5% in 2006, 8.7% in 2007, and is forecast to grow 6.2% in 2008. The forecast for 2009 is for a slowed growth rate of 2.2% because of weaker demand for Argentina's exports resulting from the global financial crisis.<sup>5</sup> Poverty rates have declined considerably over the past several years – from a high of about 45% in 2002 because of the financial crisis to a return to the historical norm of about 21% in 2006<sup>6</sup> – but observers maintain that income inequality is still a major problem, with many people who were thrust into poverty during the 2002

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<sup>4</sup> "Argentina: Problems Intensify for Fernández," *Latin American Regional Report: Brazil & Southern Cone*, May 2008; "Argentine Poll: President's Approval Rating up in First Month," *Dow Jones International News*, January 23, 2008; "Argentina's President Approval Rating Slips to 28% - Poll," *Dow Jones International News*, September 24, 2008; and Helen Popper, "Argentina's Fernández Fails to Hit Right Note," *Reuters News*, October 28, 2008.

<sup>5</sup> "Argentina: Country Report," *Economist Intelligence Unit*, November 2008, p. 17; "Argentina Economy: Quick View – Economic Activity Loses Momentum," *EIU ViewsWire*, October 20, 2008.

<sup>6</sup> U.N. Economic Commission for Latin America and the Caribbean, "Social Panorama of Latin America 2007," p. 11.

crisis still struggling.<sup>7</sup> With a per capita income level of \$5,150 (2006), Argentina is classified by the World Bank as an upper middle income developing country.

Because of the country's nightmarish experience with hyperinflation in the 1970s and 1980s, the government is sensitive to reports of consumer price increases, and there is widespread belief that the government has manipulated inflation data to project a favorable rate. According to official data, consumer price inflation amounted to 8.5% in 2007, well below estimates of economists who maintain that inflation was around 20%, one of the highest rates in the region.<sup>8</sup> In September 2008, the Argentine government maintained that inflation over the past 12 months amounted to 8.7%, while private economists forecast a rate of about 20% for 2008 (down from previously estimated 25% because of a decline in commodity prices and falling demand for Argentine exports).<sup>9</sup> During a visit to New York in late September 2008, President Fernández asserted that inflation was not a problem in Argentina, and she defended the government's National Statistics Institute (INDEC), the agency which has been criticized for under-reporting inflation.<sup>10</sup>

Under the previous Kirchner government, Argentina's relations with the International Monetary Fund (IMF) were contentious. In 2003, after months of tough negotiations, Argentina reached a three-year stand-by agreement that provided a credit line of about \$12.5 billion. Although IMF accords are not normally politically popular, the accord was widely praised in Argentina as an agreement with realistic fiscal targets that would enable Argentina to deal with such issues as employment and social equity. Argentina suspended its IMF loan program in 2004 because of IMF pressure to complete debt negotiations with bondholders and adopt supporting economic reforms. In January 2006, Argentina ultimately chose to repay its \$9.5 billion debt owed to the IMF rather than accede to IMF policy directives. While the move was politically popular in Argentina, some critics argue that it might have been fiscally imprudent given the alternatives of paying down more expensive debt or spending it on alternative needs such as infrastructure or social spending.

In early September 2008, the Fernández government announced that Argentina would repay its defaulted \$6.7 billion owed to Paris Club countries in one lump sum using its foreign reserves (rather than renegotiating a refinancing package, which normally requires IMF monitoring), but the global financial crisis appears to have scuttled these plans. Rather than paying back its defaulted Paris Club debt all at once, which would deplete the country's \$47 billion in foreign reserves, the government was reportedly looking to pay it back in installments until 2025.<sup>11</sup> In addition to the U.S. government, Argentina's creditor nations for the defaulted debt include the governments of Germany, Japan, Spain, the Netherlands, France, Italy,

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<sup>7</sup> Sara Miller Llana, "Class Divide Hardens for Argentina's Growing Poor," *Christian Science Monitor*, January 7, 2008.

<sup>8</sup> Jude Webber, "Argentina Inflation Well Below Estimates," *Financial Times*, January 8, 2008.

<sup>9</sup> "Argentina: Slowing Demand Curbs Inflation," *Oxford Analytica*, October 13, 2008.

<sup>10</sup> "Fernández Denies Argentine Inflation," *LatinNews Daily*, September 26, 2008.

<sup>11</sup> "Argentina Finance: Grabbing the Pension Funds," *EIU ViewsWire*, October 22, 2008.



and Switzerland. Argentina's arrears owed to the U.S. government were estimated at almost \$300 million at the end of 2006.<sup>12</sup> Paying off the debt would be a step toward improving Argentina's ability to access international credit.<sup>13</sup>

Another difficult task for Argentina will be dealing with more than \$20 billion in defaulted bond debt from investors, largely from Europe, but also from the United States and Japan, who refused to participate in the government's 2005 debt restructuring. In September 2008, the Fernández government said that it was exploring a deal with three major banks with the goal of paying off the holders of the 2005 defaulted debt, but the status of the deal is unclear. On October 16, 2008, the government announced a deal with Citibank, Deutsche Bank, and Barclays that would include a swap of guaranteed loans in order to reduce the country's debt payments on loans coming due in 2009-2012, but no announcement was made on a deal for the holdouts.<sup>14</sup>

**Global Financial Crisis.** Initially, President Fernández maintained that the financial crisis in the United States would not have an effect on the region. In a speech before the U.N. General Assembly in September 2008, Fernández criticized the U.S. "casino economy, where it was thought that only capitalism can produce money."<sup>15</sup> By October, however, President Fernández was warning that the global financial crisis would have economic and social repercussions for Argentina.<sup>16</sup>

The global crisis already is having an effect on the Argentine economy. Argentina's growth in recent years has been fueled by its exports of primary commodities, but the rapid decline in the price of important export commodities for Argentina such as soybean products and corn will have an impact on economic growth and the government's fiscal situation. In particular, the government's heavy reliance on export taxes for its revenue will have a direct impact on funds available for government spending. In the manufacturing sector, two industries, textiles and cars, have led growth in recent years, but will also face downturns as global demand decreases.<sup>17</sup>

In an unexpected move on October 21, 2008, the Fernández government proposed nationalizing 10 private pension funds with holdings of around \$30 billion with the stated goal of protecting individuals from losing their savings during the

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<sup>12</sup> U.S. Department of the Treasury, "U.S. Government Foreign Credit Exposure as of December 31, 2006, Part I Summary and Analysis," p. 20.

<sup>13</sup> Anna Willard, "Argentina, Paris Club Still Discussing Debt Deal-Source," *Reuters News*, October 14, 2008; "Argentina Ratifies Paris Club Payment," *LatinNews Daily*, October 14, 2008.

<sup>14</sup> Lucas Bergman, "Argentina Moves Ahead with "Guaranteed Loan" Swap," *Reuters*, October 16, 2008; "Argentina Agrees to Debt Swap," *LatinNews Daily*, October 1, 2008.

<sup>15</sup> "Latin America Lashes Out at U.S. for Not Practising What it Preaches," *Latin America Weekly Report*, September 25, 2008.

<sup>16</sup> "Argentina Braces for Financial Crisis," *LatinNews Daily*, October 9, 2008.

<sup>17</sup> "Argentina Risk: Alert – Economic Slowdown Will Squeeze Public Finances," *Economist Intelligence Unit – Risk Briefing*, October 16, 2008.

global financial crisis. Critics, however, believe that the government's actions are an attempt to gain access to short-term financing needs in order to offset losses in revenue.<sup>18</sup> Some also view it as an attempt to shore up finances in order to prevent a future default given that some \$28 billion in debt will mature over the next three years.<sup>19</sup> The Argentine stock market reacted swiftly to the government's nationalization proposal with almost a 30% drop over two days. The pension nationalization proposal needs to be approved by Congress, and the Fernández government has asked for it to be completed by the end of November. Opponents in Argentina's Congress reportedly would support the nationalization if the government guaranteed that the assets would only be spent on retirees, and not used for other purposes.

## Energy Crisis

President Fernández's administration was hard hit early on with significant power outages that left areas of Buenos Aires without power for three days in January 2008. The outages are the legacy of the previous Kirchner government's policy of imposing price caps on electricity prices, which in turn created a disincentive for investment in electricity production. While the price caps were popular politically, they have resulted in degradation of the electricity network at a time when demand has been increasing because of the booming economy. In mid-2008, the Fernández government began taking more significant measures needed to improve the nation's electricity capacity over the long-term. In late July, the government announced that it would raise electricity and natural gas distribution tariffs on residential users, although poorer households would be exempt. The low rates had been a disincentive for investment in electricity production and natural gas production.<sup>20</sup>

Argentina has been a net exporter of natural gas for a number of years, especially to Chile, but as the Argentine economy started to boom, domestic demand for natural gas increased. This caused Argentina to cut back on its gas exports to Chile beginning in 2004, which has increased tensions in bilateral relations. At the same time, Argentina began importing gas from Bolivia to satisfy demand in the northern region of the country which is not well supplied by Argentina's domestic natural gas transmission network.<sup>21</sup>

For a variety of reasons, however, Bolivia has not been able to fulfill its contract to sell gas to Argentina. As a result, in 2008, Argentina resorted to importing liquified natural gas to fulfill its gas needs. The government announced in September 2008 that energy subsidies on gasoline, natural gas, diesel and electricity would be cut by some 30% in 2009, with the goal of spurring new investments in oil and gas

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<sup>18</sup> "Argentina: Grabbing the Pension Funds," *EIU ViewsWire*, October 22, 2008.

<sup>19</sup> Debora Rey, "Argentine Opposition Lawmakers Seek to Limit Pension Nationalization," *Associated Press Newswires*, October 23, 2008.

<sup>20</sup> Charles Newsbery, "Argentina Raises Gas, Power Tariffs to End 7-Year Freeze," *Market News International*, July 31, 2008.

<sup>21</sup> "Country Analysis Briefs: Argentina," Energy Information Administration, February 2008.

production.<sup>22</sup> Gas exploration companies announced in October 2008 that they would be investing some \$1.5 billion over the next three years in natural gas exploration in order to boost domestic production.<sup>23</sup>

In January 2008, President Fernández and Bolivian President Evo Morales met in Buenos Aires to discuss plans for a 1,500 kilometer gas pipeline (Gasoducto del Nordeste Argentino) that would run from the Bolivian border to a terminal in the Argentinian province of Santa Fe. When completed in 2010, the pipeline would supposedly supply Argentina with more than four times the amount of gas that Bolivia currently supplies. No work on the pipeline has begun, however, and there is skepticism that it will be built.<sup>24</sup>

## **Farmers Strikes and Rejection of Export Tax Increase**

Another crisis that besieged the Fernández government early in her administration was a farmers strike that began in mid-March 2008 in response to the government's tax increase on the export of soybean and sunflower seed products. Farmers reacted by setting up some 400 roadblocks around the country for about three weeks, and refusing to release much of their production. President Fernández criticized the farmers for protesting while earning record profits, and said she would not "yield to any extortion."<sup>25</sup>

The protests led to food shortages in supermarkets and to increased social tensions between supporters and opponents of the government. In late March, the government offered to make some concessions to the farmers, but these were rejected. In early April, the four principal farmers unions declared a 30-day truce. One casualty of the crisis was Argentina's Economy Minister Martin Lousteau, who resigned in late April because of the protracted conflict with farmers, and also reportedly because of his frustration with the government's unwillingness to deal with inflation.<sup>26</sup> (Lousteau was succeeded by Carlos Fernández, reported to be a staunch ally of former President Kirchner.)

In May and June 2008, farmers conducted a series of three more strikes protesting against the export tax until President Fernández agreed to send the export tax increase to Congress for debate. While Argentina's lower House of Representatives narrowly approved the measure by a vote of 129-122 on July 5, 2008, the Senate ultimately defeated the measure on July 17, 2008.

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<sup>22</sup> "Argentina to Cut Subsidies," *International Oil Daily*, September 18, 2008.

<sup>23</sup> "Argentina Gas Producers to Invest \$1.5 Billion to Boost Output," *Platts Commodity News*, October 10, 2008.

<sup>24</sup> "Argentina Ya No Hará un Gran Ducto a Bolivia," *La Razón* (Argentina, October 17, 2008).

<sup>25</sup> Vinod Sreeharsha and Jack Chang, "Argentine Farmers Export Tax Hike," *Miami Herald*, March 26, 2008.

<sup>26</sup> "Economy Chief Steps Down," *Miami Herald*, April 26, 2008.

The Senate's rejection of the export tax increase was a stunning political defeat for both President Fernández and her husband former President Kirchner, who thought that they had enjoyed a majority of support in both legislative chambers. Particularly difficult for Fernández was that Vice President Julio Cobos was the tie-breaking vote that defeated the measure. The defeat not only demonstrated the strength of Argentina's farming sector, which received support from the urban middle class, but also reflected the independence of Argentina's Congress, which had been viewed as a rubber stamp for the Kirchners. For some observers, the vote was a rejection of the governing style of the Kirchners, described by some as a style based on confrontation and intimidation of political opponents.<sup>27</sup>

## Human Rights

Argentina has made significant progress in human rights in recent years. The previous Kirchner government took steps to be able to bring to justice those responsible for past human rights abuses that occurred under military rule in the late 1970s and early 1980s in the so-called Dirty War against leftists and their sympathizers in which thousands “disappeared.” Kirchner purged the military’s top officers and vowed to prosecute current and retired military officials responsible for human rights abuses. He strongly supported the Supreme Court’s June 2005 overturning of two amnesty laws from the 1980s that had blocked prosecution. In August 2006, a former federal police official was sentenced to 25 years in prison, and in September 2006, the former police commissioner of Buenos Aires was sentenced to 25 years in prison. In October 2007, a former police chaplain was sentenced to life in prison for complicity in seven murders and other human rights violations that shed light on the Argentine Catholic Church’s close relationship with the military dictatorship.<sup>28</sup> In December 2007, seven former army officers and an ex-police official were convicted and sentenced to at least 20 years in prison.

In her inaugural address, President Fernández stated that her government would continue to press for the conclusion of human rights cases from the past, and noted the obligation of the government to “punish those responsible for the greatest genocide in our history.”<sup>29</sup> In August 2008, two former military generals were sentenced to life in prison for the disappearance of provincial Senator Guillermo Vargas Aignasse in 1976.

Earlier in the year, human rights activists expressed concerns about the mysterious deaths of two former military officers who were reportedly going to speak out about the military’s abduction of hundreds of babies from jailed or missing dissidents during the Dirty War. In December 2007, an ex-naval officer died in

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<sup>27</sup> Matt Moffett, "Argentina's Kirchner Rebuked in Soybean-Tax Defeat," *Wall Street Journal*, July 18, 2008.

<sup>28</sup> Jude Webber, “Spotlight on Church in Argentina’s Dirty War,” *Financial Times*, October 22, 2007.

<sup>29</sup> “Argentine President Sets Out Vision for New Government at Inaugural Speech,” Executive Office of the President of Argentina, December 11, 2007 (as translated by Open Source Center).

prison by cyanide poisoning four days before the court was to announce his sentence, while in February 2008, a retired army officer was found dead by a gunshot to the head, with the police reportedly finding a suicide note. There is concern among Argentines that the two deaths were orchestrated by those wanting to impede human rights prosecutions. Human rights activists also remain concerned about a 2006 missing person case of former political prisoner Jorge Julio López, who was a key witness in the trial of the former police commissioner of Buenos Aires convicted in 2006 of homicide and torture during the Dirty War.<sup>30</sup>

In the 110<sup>th</sup> Congress, on July 16, 2008, the House approved H.Amdt. 1117 (Hinchey) to the FY2009 Intelligence Authorization Act, H.R. 5959, that would require a report to Congress by the Director of the Central Intelligence Agency (CIA) on information during the military dictatorship in that country (1976-1983) related to human rights violations and Operation Condor, including information on children born in captivity whose status remains unknown. The House approved H.R. 5959 by voice vote on July 17, 2008, but the Senate has not taken action on it.

## Argentine-U.S. Relations

### Overview

U.S.-Argentine relations generally have been strong since the country's return to democracy in 1983 and were especially close during the Menem presidency (1989-1999). U.S. officials commend Argentina's contributions to peacekeeping operations worldwide, including a significant contribution to the current U.N. peacekeeping mission in Haiti. Because of its military contributions, the United States designated Argentina as a major non-NATO ally in 1997, a status that gives Argentina access to grants of surplus U.S. military hardware.

Argentina has not traditionally received much U.S. foreign assistance because of its well-developed economy and relatively high per capita income level, but it has received small amounts of anti-terrorism and counternarcotics assistance as well as International Military Education and Training (IMET) assistance. In 2005, Buenos Aires became the first port in South America to participate in the Container Security Initiative (CSI). The program is operated by the Department of Homeland Security (DHS) using a security regime to ensure that all containers that pose a potential risk for terrorism are identified and inspected at foreign ports before they are placed on vessels destined for the United States. In 2006, Argentina began participating in another DHS initiative known as the Trade Transparency Unit Program that facilitates exchanges of information in order to combat money laundering. The program includes training and equipment, and is viewed as a complement to the CSI program.

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<sup>30</sup> Jack Chang, "Former Army Officer Who Was 'Dirty War' Witness Found Dead," *Miami Herald*, February 29, 2008; and U.S. Department of State, *Country Reports on Human Rights Practices – 2007*, March 11, 2008.

Although U.S.-Argentine relations are close, at times there have been tensions in the bilateral relationship. The tough U.S. approach toward Argentina during its political and financial crisis in 2001-2002 caused friction in the relationship. This turned around to some extent in 2003 when the United States supported Argentina in its negotiations with the IMF. President Kirchner met with President Bush in July 2003 in Washington D.C., and President Bush visited Argentina in November 2005 at the Summit of the Americas held in Mar del Plata. President Kirchner's movement toward closer relations with Venezuelan President Hugo Chávez also was a source of consternation to U.S. policymakers. During the 2005 Summit of the Americas, President Chávez was the featured speaker at a parallel anti-summit, and in March 2007, Chávez was allowed to hold a huge anti-American rally in Buenos Aires to coincide with President Bush's visit to neighboring Uruguay. Some observers maintain, however, that Kirchner's closeness to President Chávez was merely pragmatic (especially since Venezuela has provided a lifeline to Argentina by purchasing a significant amount of Argentine bonds) and did not jeopardize Argentina's cooperation with the United States on a host of bilateral and global issues.<sup>31</sup>

With Cristina Fernández's presidential victory, there was considerable expectation that the tenor of relations with the United States would improve, compared to relations under the previous Kirchner administration. Just two days after her December 10, 2007 inauguration, however, an unexpected challenge to U.S.-Argentina relations occurred when U.S. federal prosecutors in Miami charged five foreign nationals in the so-called "suitcase scandal" involving the attempted delivery of funds to benefit Fernández's presidential campaign (see discussion below for details). President Fernández's swift condemnation of the United States, and what she referred to as its "garbage" smear campaign against her, thwarted any expectation of a quick improvement in bilateral relations. Not until late January 2008 did somewhat of a thaw in relations begin when U.S. Ambassador to Argentina Earl Wayne met with President Fernández. The Ambassador emphasized that the case did not have a foreign policy objective, but centered on the violation of laws in the United States carried out by suspected agents of the Venezuelan government.<sup>32</sup>

President Fernández reportedly was angered by Secretary of State Condoleezza Rice's decision to skip Argentina during a March 2008 visit to neighboring Brazil and Chile, but a visit by U.S. Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon in mid-April 2008 reportedly was aimed at getting relations back on track.<sup>33</sup> Shannon again visited Argentina in July and August 2008, with

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<sup>31</sup> Jude Webber, "Kirchner, Chávez Strike Mutual Pose," *Miami Herald*, March 16, 2007.

<sup>32</sup> "EEUU Aclara a Argentina Que Caso de Antonini Wilson en Miami No Es Político," *Agencia EFE*, January 31, 2008.

<sup>33</sup> Alexei Barrionuevo, "Rice Trip to Skip Argentina in Sign of a Growing Rift," *New York Times*, March 13, 2008; "Argentina: Patching up Relations with U.S.," *Latin American Weekly Report*, April 17, 2008.

some observers suggesting that it was an attempt to improve relations with President Fernández.<sup>34</sup>

As in many parts of the world, the image of the United States has declined in Latin America over the past several years. According to a 2007 Pew Research Center study that surveyed seven major countries in the region, Argentina by far had the lowest favorable view of the United States, just 16% in 2007, down from a favorable view of 50% in 2000.<sup>35</sup>

## **Suitcase Scandal and U.S. Indictments**

On December 11, 2007, four foreign nationals – three Venezuelans (Moises Maionica, Franklin Duran, and Carlos Kauffmann) and one Uruguayan (Rodolfo Wanseele Paciello) – were arrested in Florida, and appeared the following day in federal court in Miami in the so-called suitcase scandal. A fifth foreign national wanted in the case – Antonio Jose Canchica Gomez, reportedly a Venezuelan intelligence official – remains at large. U.S. federal prosecutors in Miami charged the five with: 1) conspiring to act as agents of the Venezuelan government in the United States without prior notification to the U.S. Attorney General; and 2) attempting to cover up the source and destination of the undeclared \$800,000 confiscated on August 4, 2007 by Argentine authorities from a dual U.S.-Venezuelan businessman from Miami, Guido Alejandro Antonini Wilson, at a Buenos Aires airport when entering the country. A federal grand jury indicted the five foreign nationals with the same charges on December 20, 2007. Three of the four defendants facing trial in the case pled guilty, leaving Franklin Duran to face trial beginning in September 2008.

At some point after his return to the United States in August 2007, Antonini began cooperating with the FBI as an informant. As alleged in the indictment, taped conversations between Antonini and the defendants in a series of meetings and telephone calls from August 23, 2007 until December 11, 2007 showed that substantial inducements were offered to Antonini, including the payment of money and the preparation of false documents in an attempt to conceal the source and destination of the \$800,000. High-level Venezuelan officials were alleged to be involved in the matter, including from the Office of the Vice President and the Intelligence and Preventative Services Directorate (DISIP).<sup>36</sup> The Department of Justice subsequently noted in January 2008 that Antonini had been carrying the suitcase at the request of one of the other passengers on the plane, and was unaware that the money was in the suitcase.

The initial criminal complaint filed against the defendants on December 12, 2007, alleged that the \$800,000 had been destined for the campaign of a candidate

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<sup>34</sup> "U.S.-Argentine Relations Back in the Spotlight," *Latin American Regional Report, Brazil & Southern Cone*, September 2008.

<sup>35</sup> The Pew Global Attitudes Project, "Global Unease with Major Powers," June 2007, p. 13.

<sup>36</sup> United States District Court, Southern District of Florida, Case No. 1:07-cr-20999-JAL, Document 24, December 20, 2007.

in Argentina's October 28, 2007 presidential election.<sup>37</sup> Assistant U.S. Attorney Thomas Mulvihill maintained in court that the money was intended for the campaign of Cristina Fernández de Kirchner, which was quoted in various press accounts.<sup>38</sup>

As noted above, the case, which appeared to catch the Argentine government by surprise, induced a strong reaction from President Fernández who maintained that the United States manufactured the scandal to punish her for maintaining close relations with Hugo Chávez. State Department officials stressed that the case was not a foreign policy matter, but that the case originated and was completely handled by the Department of Justice and the FBI.<sup>39</sup> By late January 2008, Argentine officials declined to make any further comments on the case, which appeared to be an attempt to prevent the case from further jeopardizing the status of relations with the United States.<sup>40</sup>

Argentina requested the extradition of Antonini in August 2007 on fraud charges, and then reportedly later amended the request to add the charge of money laundering. In early January 2008, Argentina's Minister of Justice Anibal Fernández demanded the extradition of Antonini, and in September 2008 the Argentine government reiterated their request for Antonini's extradition.

The trial of the remaining defendant, Franklin Duran, began in early September 2008, and on November 3, 2008, Duran was convicted of acting as an unregistered agent of a foreign government and of conspiring to cover up the origin and destination of the money. Antonini was one of the key witnesses at the trial, and convicted businessman Carlos Kauffmann also testified. Federal prosecutors maintained that Kauffman and Duran attempted to silence Antonini for the Venezuelan government in order to keep the source and destination of the \$800,000 in cash secret. In his testimony, Kauffmann said that he and Duran paid millions to Venezuelan officials in order to win public contracts. Antonini testified that a former Venezuelan oil company official told him that there was another \$4.2 million on board the plane also intended for the Fernández campaign that was not confiscated by Argentine customs.<sup>41</sup>

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<sup>37</sup> United States District Court, Southern District of Florida, Case No. 1:07-cr-20999-JAL, Document 1, December 13, 2007.

<sup>38</sup> Luisa Yanez, Jack Chang, and Phil Gunson, "Venezuela Accused in Campaign Probe," *Miami Herald*, December 13, 2007; Alexei Barrionuevo, "U.S. Links Smuggled Cash to Venezuela," *New York Times*, December 13, 2007; and Monte Reel and Juan Forero, "U.S. Says Venezuela Tried to Give \$800,000 to Argentine," *Washington Post*, December 13, 2007.

<sup>39</sup> U.S. Department of State, Daily Press Briefing, December 13, 2007.

<sup>40</sup> "Argentina Remains Silent About New Developments in \$800,000 Valise Case," *La Nación* (Buenos Aires), January 26, 2008 (as translated by Open Source Center).

<sup>41</sup> Gisela Salomon, "U.S. Prosecutors Say Argentine, Venezuelan Had Cash," *Associated Press Newswires*, September 24, 2008; Casey Woods and Gerardo Reyes, "Venezuelan Bribery Stars In Trial Over Suitcase of Cash," *Miami Herald*, October 4, 2008.



Some observers fear that the case could have a negative effect on bilateral relations. On September 11, 2008, Argentina's Foreign Ministry issued a communique that referred to the accusations in the trial as irresponsible and based on material produced by the FBI with the knowledge of political authorities in the United States.<sup>42</sup> In response, the U.S. Ambassador to Argentina, Earl Anthony Wayne, stressed that judicial independence is one of the pillars of the U.S. system, and emphasized that U.S. relations with Argentina remain friendly.<sup>43</sup> After Duran was convicted in early November, Argentina's Minister of Justice asserted that Antonini had been hired and paid for his testimony.<sup>44</sup>

## Tri-border Area and Cooperation on Terrorism

In recent years, U.S. concerns have increased over activities of the radical Lebanon-based Islamic group Hezbollah and the Sunni Muslim Palestinian group Hamas in the tri-border area (TBA) of Argentina, Brazil, and Paraguay, which has a large Muslim population. The TBA has long been used for arms and drug trafficking, contraband smuggling, document and currency fraud, money laundering, and the manufacture and movement of pirated goods. According to the State Department's April 2008 Country Reports on Terrorism, the United States remains concerned that Hezbollah and Hamas are raising funds among the sizable Muslim communities in the region and elsewhere in the territories of the three countries. The report also stated that there was no corroborated information that these or other Islamic extremist groups had an operational presence in the area. Allegations have linked Hezbollah to two bombings in Argentina: the 1992 bombing of the Israeli Embassy in Buenos Aires that killed 30 people and the 1994 bombing of the Argentine-Israel Mutual Association (AMIA) building in Buenos Aires that killed 85 people.

The United States has worked closely with the governments of the tri-border region through the "3+1 regional cooperation mechanism," established in 2002 to serve as a forum for counterterrorism cooperation and prevention among all four countries. Argentina hosted the fifth plenary session of the 3+1 mechanism in December 2006 that focused on such issues as early warning among states, information exchange in order to prevent illegal activity, and the denial of refuge to those who finance, plan, or commit acts of terrorism. According to the State Department's annual terrorism report, Argentina cooperates well with the United States at the operational level on counterterrorism issues, and has addressed legal and institutional issues that previously hindered its counterterrorism efforts. In June 2007, Argentina's Congress approved anti-terrorism legislation requiring lengthy prison sentences for terrorist financing or conspiring with terrorists. The new law

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<sup>42</sup> Ministerio de Relaciones Exteriores, Comercio Internacional, Y Culto, Comunicado de la Cancillería Argentina, September 11, 2008.

<sup>43</sup> A. Rebossio, "Fernández Acusa al FBI de Desestabilizar Argentina," *El País* (Madrid), September 13, 2008.

<sup>44</sup> "Argentina Slams Witness in Cash Suitcase Scandal," *Associated Press Newswires*, November 4, 2008; Phil Gunson, "Suitcase Evidence Is Phony," *Miami Herald*, November 5, 2008.

brings Argentina in line with the recommendations of the multilateral Financial Action Task Force.<sup>45</sup> Looking ahead, according to the annual terrorism report, Argentina's challenge is to begin to use its strengthened legal and regulatory tools aggressively in order to combat financial crimes.

**Figure 2. Tri-border Area of Argentina, Brazil, and Paraguay**



**Source:** Map Resources, Adapted by CRS, April 2008.

The U.S. Congress has continued to express concern about the potential terrorist threat emanating from the tri-border area. On November 5, 2007, the House approved H.Res. 435 (Klein) by voice vote, which supported the counterterrorism efforts of the “3 + 1” mechanism and emphasized the importance of eliminating Hezbollah’s financial network in the tri-border area of South America. The resolution also expressed concern over the emerging national security implications of Iran’s efforts to expand its influence in Latin America, and in light of this, recommended that the President create more mechanisms for joint counterterrorism operations and intraregional information sharing among supportive countries in the Western Hemisphere.

**AMIA Investigation.** Progress on the investigation and prosecution of those responsible for the 1994 Argentine-Israel Mutual Association (AMIA) bombing was stymied for many years because of the government’s mishandling of the case. In September 2004, a three-judge panel acquitted all 22 Argentine defendants in the

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<sup>45</sup> Oscar Serrat, “Argentine Congress OKs Anti-terror Bill with Sentences for Conspiracy, Financing, Laundering,” *Associated Press Newswires*, June 14, 2007; and Kate Joynes, “Anti-Terror Bill Passes Through Argentine Congress,” *Global Insight Daily Analysis*, June 15, 2007.

case and faulted the shortcomings of the original investigation. However, the government moved forward with a new investigation in 2005, and in November 2006, an Argentine judge issued arrest warrants in the AMIA case for nine individuals: an internationally wanted Hezbollah militant from Lebanon, Imad Mughniyah, and eight Iranian government officials, including former Iranian President Hashemi Rafsanjani. Interpol subsequently posted a Red Notice for Mughniyah, and in November 2007, Interpol's General Assembly voted to approve notices for five of the Iranians wanted by Argentina (not including Rafsanjani). The action had been held up since March 2007, when Iran appealed the decision by Interpol's Executive Committee to issue the notices. In mid-February 2008, Imad Mughniyah was killed by a car bomb in Damascus, Syria.

Over the years, the U.S. Congress has continued to express concern about progress in Argentina's investigation of the 1994 AMIA bombing. In July 2007, the House approved H.Con.Res. 188 (Ros-Lehtinen) by voice vote, which applauded the Argentine government for increasing the pace of the AMIA investigation, and called upon the General Assembly of Interpol to issue red notices for five Iranians implicated in the AMIA bombing. On July 15, 2008, the House approved H.Con.Res. 385 (Ros-Lehtinen) by voice vote, which condemned the AMIA bombing, and urged Western Hemisphere governments to take actions to curb activities that supported Hezbollah and other Islamist terrorist organizations.

## Trade, Investment, and Debt Issues

**Trade.** The United States exported almost \$5.9 billion in goods to Argentina in 2007 (with machinery, electrical machinery, and organic chemical exports topping the list) and imported \$4.5 billion in goods, with 41% consisting of oil imports. In 2004, the United States Trade Representative (USTR) placed Argentina on the Special 301 Priority Watch list regarding intellectual property rights (IPR) protection because of serious concerns over the lack of adequate protection for copyrights and patents. Although the country has made some improvements, USTR kept Argentina on the Priority Watch List through 2008 because of continued problems with patent protection and copyright piracy. According to USTR's 2008 Special 301 report, the United States encourages Argentina to undertake stronger IPR enforcement actions to combat the widespread availability of pirated and counterfeit products. The report maintained that there are more than 40 large well-established markets in Buenos Aires heavily involved in the sale of counterfeit goods.

Some in Congress have expressed concern about a potential rule change proposed by the U.S. Department of Agriculture in 2007, but not yet made final, that would permit imports of fresh bovine and sheep products from the southern Patagonia region in Argentina.<sup>46</sup> Currently, the United States only accepts cooked beef from Argentina because of concerns over foot and mouth disease in the country. The southern Patagonia region has been free of the disease since 1976, but critics

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<sup>46</sup> *Federal Register*, Vol. 72, January 5, 2007, pp. 475-480.

maintain that fresh meat imports from any part of Argentina should be prohibited from being imported into the United States.<sup>47</sup>

In the second session of the 110<sup>th</sup> Congress, identical bills S. 3238 (Johnson) and H.R. 6522 (Herseth Sandlin) introduced in July 2008 would have prohibited the importation of any ruminant or swine, or any fresh meat or products of ruminant or swine from Argentina until the Secretary of Agriculture certified that every region of Argentina was free of foot and mouth disease without vaccination. The Senate version of the FY2009 agriculture appropriations measure, S. 3289, as reported out of committee, included a provision in Section 736 that would have prohibited any funds in the act from being used to pay for activities that would allow such imports from Argentina. The provision was not included in the FY2009 continuing resolution.

**Investment.** The stock of U.S. foreign investment in Argentina amounted to an estimated \$14.9 billion in 2007, with investments concentrated in financial services, agribusiness, energy, and petrochemicals.<sup>48</sup> While strong economic growth levels have increased attention on Argentina by U.S. and international investors, legal uncertainties concerning creditor and contract rights and unpredictable regulatory changes have diminished the attractiveness in some sectors.<sup>49</sup> There are over 30 pending investment dispute cases against Argentina filed by foreign companies, including a number of U.S. investors, at the World Bank's International Centre for Settlement of Investment Disputes (ICSID), with claims amounting to some \$13 billion. The ICSID ordered Argentina to pay \$133 million in compensation to the Michigan-based CMS Energy Corporation in October 2007, but Argentina is now balking at the payment, maintaining that the company must file a claim in an Argentine court.<sup>50</sup>

**Debt.** With regard to Argentina's defaulted bond debt discussed above, a group known as American Task Force Argentina (ATFA) – an alliance of organizations representing U.S. bondholders that did not participate in Argentina's 2005 debt restructuring – has been pressing the U.S. government to pursue a negotiated settlement with Argentina.<sup>51</sup> The group includes a variety of national and state associations that lost money because of Argentina's 2001 debt default.

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<sup>47</sup> Michael Teitelbaum, "Panel-Approved Spending Bill Bars Funding of Meat Imports from Argentina," *CQ Today*, July 17, 2008.

<sup>48</sup> U.S. Department of Commerce, "U.S. Direct Investment Abroad Tables," *Survey of Current Business*, September 2008, p. 58.

<sup>49</sup> U.S. Department of State, "2008 Investment Climate Statement – Argentina," February 2008.

<sup>50</sup> Michael Casey, "Crunch Time in Key ICSID Case as Argentina Stalls CMS Payout," *Dow Jones Newswires*, January 16, 2008; In June 2008, CMS Energy sold its stake in the Argentine gas transport company TGN to a U.S. investment company, Blue Ridge Investments.

<sup>51</sup> See the website of the American Task Force Argentina at [<http://www.atfa.org/>].

According to ATFA co-chair Nancy Soderberg, Argentina's strong economic growth over the last few years can only be maintained if the country fully enters the international capital markets, and for that to happen the Argentine government will have to offer a new proposal to the bondholders that did not participate in the 2005 debt restructuring. She has maintained that Argentina's lack of international capital has driven the government closer to Venezuela and its expensive lines of finance.<sup>52</sup> Two so-called vulture companies (which specialize in buying bonds in distressed economic environments) – EM Ltd. and NML Capital – were seeking a judgement in U.S. court that would allow them to seize Argentine assets in New York, but in October 2007 the Supreme Court let stand a lower court ruling that prevented the seizure of the assets.

H.R. 7205 (Jackson-Lee), introduced late in the 110<sup>th</sup> Congress on September 28, 2008, would take a number of measures against foreign countries that fail to satisfy U.S. court judgments of more than \$ 1million for more than six months. Most significantly, the measure would bar access to U.S. capital markets to the foreign state in default and bar domestic corporations of a foreign state from access to U.S. capital markets if the foreign state has been in default for more than two years. The bill specifically cited Argentina as an egregious example of defaulting on its debt to foreign creditors in 2001, and then expressing its intention not to pay U.S. judgments against those defaults.

## Legislative Initiatives in the 110<sup>th</sup> Congress

**H.Res. 435 (Klein).** Introduced May 23, 2007; House approved by voice vote November 5, 2007. Among its provisions, the resolution supports the counterterrorism efforts of the “3 + 1” mechanism, emphasizes the importance of eliminating Hezbollah's financial network in the tri-border area of South America, expresses concern over the emerging national security implications of Iran's efforts to expand its influence in Latin America, and recommends that the President create more mechanisms for joint counterterrorism operations and intraregional information sharing among supportive countries in the Western Hemisphere, especially in light of Iran's increased involvement in the region.

**H.Con.Res. 188 (Ros-Lehtinen).** Introduced July 18, 2007; House passed by voice vote July 30, 2007. Among its provisions, the resolution applauds the Argentine government for increasing the pace of the AMIA investigation, and calls upon the General Assembly of Interpol to issue red notices for five Iranians implicated in the AMIA bombing.

**H.Con.Res. 385 (Ros-Lehtinen).** Introduced June 26, 2008; House approved by voice vote July 15, 2008. Among its provisions, the resolution condemns the AMIA bombing, and urges Western Hemisphere governments to take actions to curb activities that supported Hezbollah and other Islamist terrorist organizations.

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<sup>52</sup> “ATFA Co-Chair Ambassador Soderberg Concludes Visit to Buenos Aires,” *PR Newswire*, May 16, 2008.

**H.R. 5959 (Reyes).** FY2009 Intelligence Authorization Act. Introduced May 21, 2008; House passed July 16, 2008 by voice vote. During July 16, 2008 floor consideration, the House approved H.Amdt. 1117 (Hinchev) by voice vote, which became Section 426 of the bill. The provision calls for a report (in unclassified form, but may include a classified annex) within 270 days by the Director of the Central Intelligence Agency (CIA) that includes a description of any information in possession of the intelligence community with respect to the accession to power of the Argentine military in 1976, violations of human rights committed by officers or agents of the Argentine military and security forces, and Operation Condor and the fate of Argentine people targeted, abducted, or killed during such Operation, including children born in captivity whose status remains unknown. The report also is to include a compilation of information that has been declassified. Not later than one year after the original report, and annually thereafter for three years, the Director of the CIA is to submit an update of the compilation of information that has been declassified.

**H.R. 7205 (Jackson-Lee).** Judgment Evading Foreign States Accountability Act of 2008. Introduced September 28, 2008; referred to the Committee on Financial Services and in addition to the Committee on Foreign Affairs. Among its provisions, the bill takes a number of measures against foreign countries that fail to satisfy U.S. court judgements of more than \$1 million for more than six months. Most significantly, the measure would bar access to U.S. capital markets to the foreign state in default and bar domestic corporations of a foreign state from access to U.S. capital markets if the foreign state has been in default for more than two years.

**S. 3289 (Kohl).** FY2009 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act. Introduced and reported July 21, 2008 (S.Rept. 110-426). As reported, Section 736 of the bill would prohibit any funds appropriated by the act to pay the salaries and expenses of any individual to conduct any activities that would allow the importation into the United States of any ruminant or swine, or any fresh (including chilled or frozen) meat or product of any ruminant or swine, that is born, raised, or slaughtered in Argentina until the Secretary of Agriculture certifies to Congress that every region of Argentina is free of foot and mouth disease without vaccination. (The provision was not included in the continuing resolution for FY2009 appropriations. Also see related bills, S. 3238/H.R. 6522 below).

**S. 3238 (Johnson)/H.R. 6522 (Herseth Sandlin).** Foot and Mouth Disease Prevention Act of 2008. S. 3238 introduced in the Senate July 10, 2008; referred to Committee on Agriculture, Nutrition, and Forestry. H.R. 6522 introduced July 16, 2008; referred to the House Committee on Agriculture. Would require the Secretary of Agriculture to prohibit the importation of any ruminant or swine, or any fresh (including chilled or frozen) meat or products of any ruminant or swine that is born, raised, or slaughtered in Argentina until the Secretary of Agriculture certifies to Congress that every region of Argentina is free of foot and mouth disease without vaccination. (Also see action on S. 3289 above.)