



**Congressional  
Research Service**

Informing the legislative debate since 1914

---

# Argentina: Background and U.S. Relations

**Mark P. Sullivan**

Specialist in Latin American Affairs

**Rebecca M. Nelson**

Specialist in International Trade and Finance

December 9, 2014

**Congressional Research Service**

7-5700

[www.crs.gov](http://www.crs.gov)

R43816

## Summary

Argentina, a South American country with a population of around 41 million, has had a vibrant democratic tradition since its military relinquished power in 1983. Current President Cristina Fernández de Kirchner, from a center-left faction of the Peronist party, was first elected in 2007 (succeeding her husband, Néstor Kirchner, who served one term) and is now approaching the final year of her second term. Argentina's constitution does not allow for more than two successive terms, so President Fernández is ineligible to run in the next presidential election, scheduled for October 2015. The presidential race is well underway with several candidates leading opinion polls, including two from the Peronist party.

Argentina has Latin America's third-largest economy and is endowed with vast natural resources. Agriculture has traditionally been a main economic driver, but the country also has a diversified industrial base and a highly educated population. In 2001-2002, a severe economic crisis precipitated by unsustainable debt led to the government defaulting on nearly \$100 billion in foreign debt owed to private creditors, the International Monetary Fund (IMF), and foreign governments. Subsequent Argentine administrations resolved more than 90% of the country's debt owed to private creditors through two debt restructurings offered in 2005 and 2010; repaid debt owed to the IMF in 2006; and, in May 2014, reached an agreement to repay foreign governments. Recent court rulings have increased pressure on Argentina to reach an agreement with private creditors who chose not to participate in the 2005 and 2010 debt restructuring offers. This outstanding debt has also prevented Argentina from accessing international credit markets, and could make it more difficult for Argentina to emerge from its current economic downturn.

U.S.-Argentine relations, as described by the Department of State, are based on such shared interests as regional peace and stability, nuclear nonproliferation, human rights, education, and cooperation on science and technology. Commercial relations are robust, with the United States running a \$5.7 billion trade surplus and U.S. companies investing approximately \$15 billion in the country. At various junctures, however, there have been tensions in the bilateral relationship, including over Argentina's payment of international arbitral awards in investment disputes and the repayment of debt owed to the U.S. government. While these issues have been settled, the unresolved holdout debt issue has contributed to increased tension, with Argentine officials at times rhetorically lashing out at the United States. A continued interest of Congress is progress in the investigation and prosecution of those responsible for the 1994 bombing of the Argentine-Israeli Mutual Association (AMIA) that killed 85 people. Both Iran and Hezbollah are alleged to be linked to the bombing.

This report provides background on the political and economic situation in Argentina and U.S.-Argentine relations. An appendix provides links to selected U.S. government reports on Argentina.

## Contents

Political and Economic Situation.....	1
October 2015 Presidential Election .....	3
Human Rights Issues .....	5
Economic Snapshot and Challenges.....	6
U.S.-Argentine Relations.....	7
Overview .....	7
Debt Issues.....	10
Debt Owed to the Paris Club Countries .....	10
Debt Owed to Private Bondholders.....	11
AMIA Investigation.....	13
Outlook .....	14

## Figures

Figure 1. Map of Argentina, with Provinces.....	2
---	---

## Appendixes

Appendix. Selected U.S. Executive Branch Reports .....	16
--	----

## Contacts

Author Contact Information.....	16
---------------------------------	----

## Political and Economic Situation

In December 2013, Argentina—a South American nation located in the continent’s southern cone—celebrated 30 years of civilian democratic rule since the military relinquished power after 7 years of harsh dictatorship. The military’s so-called Dirty War against leftists and their sympathizers in the late 1970s and early 1980s had resulted in thousands of disappearances. The military ultimately fell into disrepute in the aftermath of its failure in the Falkland Islands (Islas Malvinas) war with Great Britain in 1982, and the country returned to civilian democratic rule with the election of Raúl Alfonsín of the Radical Civic Union (UCR) as president in 1983. Carlos Menem of the Justicialist Party (PJ), also known as the Peronist Party, won the 1989 elections and served two presidential terms until 1999, during which he transformed Argentina from having a state-dominated protectionist economy to one committed to free market principles and open to trade.<sup>1</sup> Increasing corruption and high unemployment, however, led to the defeat of the Peronists in the 1999 presidential election, which was won by Fernando de la Rúa of the UCR as the candidate of a coalition known as the Alliance for Work, Justice, and Education.

### Argentina at a Glance

**Population:** 41.45 million (2013, WB).

**Area:** 1.1 million square miles, about the size of the United States east of the Mississippi; second-largest country in South America and eighth-largest country in the world.

**GDP:** \$610.3 billion (2013, current prices, IMF).

**Per Capita GDP:** \$14,709 (2013, current prices, IMF est.)

**Key Trading Partners:** Brazil (24%), China (11%), United States (8%) (2013, INDEC).

**Life Expectancy:** 76 (2012, WB)

**Literacy:** 98% (2011, WB)

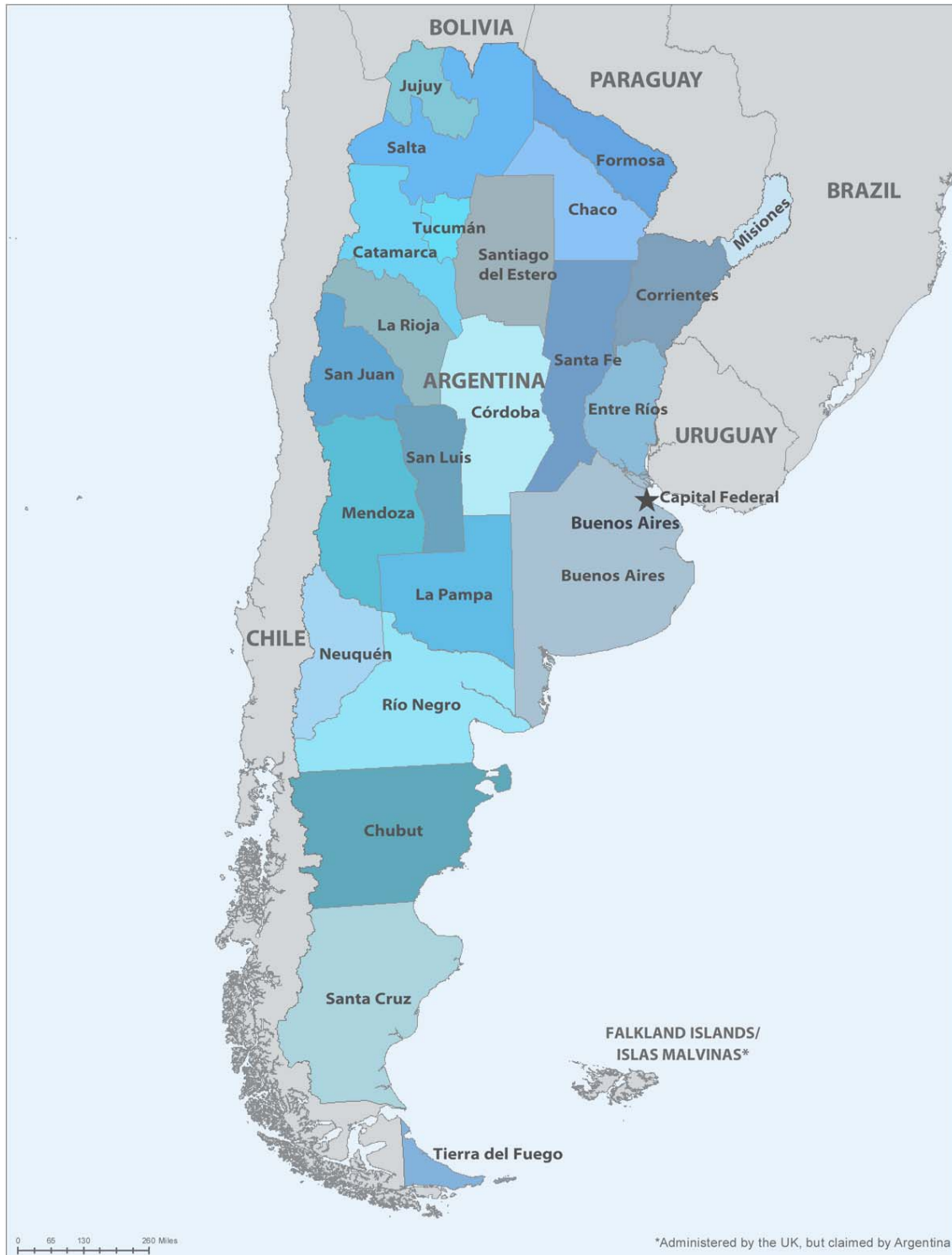
**Legislature:** Bicameral Congress, with 72-member Senate and 257-member Chamber of Deputies.

**Sources:** *International Monetary Fund (IMF); National Institute of Statistics and Census, INDEC (Argentina); World Bank (WB); and U.S. Department of State.*

In 2001-2002, Argentina’s democratic political system endured considerable stress amid a severe economic crisis and related social unrest. In late 2001, as the banking system faltered and confidence in the government of President de la Rúa evaporated, widespread demonstrations turned violent, and the President resigned. The subsequent interim government then defaulted on nearly \$100 billion in public debt, the largest sovereign default in history at the time. Ultimately, the political system survived the crisis. President Eduardo Duhalde (January 2002-May 2003), a Peronist (Justicialist Party, PJ) Senator selected by Congress to fill out the remainder of President de la Rúa’s term, implemented policies that stabilized the economy; then, left-leaning 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.

<sup>1</sup> Peronism as a political movement dates to the 1940s when Juan Domingo Peron, a colonel serving as Secretary of Labor in a military government that assumed power in 1943, went on to build a formidable political base through support from the rapidly growing union movement. Peron was ousted by the military in 1955, but after 18 years of exile, he returned and was reelected president in 1973. He died a year later and was succeeded by his second wife Isabel, who had little political experience. Economic and political chaos ensued, with political violence surging and the country experiencing its first bout of hyperinflation. The military intervened in 1976, and ruled until the return to democracy in 1983. Today in Argentina, Peronism has many different factions across the political spectrum.

Figure I. Map of Argentina, with Provinces



**Source:** Prepared by Calvin C. DeSouza, Geospatial Information Systems Analyst, CRS.

Despite some difficulties, Kirchner made popular policy moves in the areas of human rights and economic policy that helped restore Argentines' faith in democracy. In June 2005, the government offered the first of two restructurings of its defaulted private bond debt with a historically low

recovery rate to bondholders (about 30% on a net present value basis). While this was politically popular in Argentina, the government's failure to repay its arrears to official Paris Club creditors or to reach a deal with remaining private creditors in defaulted bond debt who did not accept the government's offer continued to prevent Argentina from having full access to international capital markets. Legislative elections in 2005 demonstrated strong support for Kirchner; his left-leaning wing of the PJ, known as the Front for Victory (FPV), made significant gains. Kirchner would have been eligible to run again in the 2007 presidential elections, but instead he supported the candidacy of his wife, Senator Cristina Fernández de Kirchner (hereinafter Fernández).

Cristina Fernández is now in her second term as president. She won the 2007 presidential election with 45% of the vote, defeating her closest rival by 23 points, and became the first woman in Argentine history to be elected president. In concurrent legislative elections, Fernández's FPV faction of the PJ gained further seats, solidifying its majority in both houses of Argentina's bicameral Congress. Nevertheless, Fernández's political honeymoon was short-lived because of an energy crisis and a series of farmers' strikes that led to the congressional defeat of her proposed tax increase on key agricultural exports. As a result, the Kirchners suffered a significant setback in the 2009 legislative elections, with the FPV losing control of both houses. It appeared that former President Kirchner was poised to run again for the presidency in 2011, but his death from a heart attack changed the political landscape. Instead, Fernández ran for reelection and won a second mandate in October 2011 with 54% of the vote, the largest percentage in a presidential race since the country's return to democratic rule. Her support was buoyed by an outpouring of sympathy after the death of her husband as well as by the absence of a strong opposition candidate. The President's FPV also regained a legislative majority in both houses of Congress.

President Fernández's popularity, however, fell considerably after her reelection amid large-scale public protests against corruption, increasing crime, the government's economic policies and the government's efforts to exert influence over the media and the judiciary. In Argentina's October 2013 legislative elections, in which one-half of the Chamber of Deputies and one-third of the Senate were at stake, President Fernández's Front for Victory managed to retain control of both houses. The FPV and its allies gained several seats in the 257-seat Chamber of Deputies, and in the 72-member Senate, the FPV lost several seats, but retained a majority.<sup>2</sup> Nevertheless, the FPV was unable to secure the two-thirds majorities needed to approve a constitutional reform that would have allowed President Fernández to run for a third consecutive term in 2015.

### October 2015 Presidential Election<sup>3</sup>

Argentina's next presidential election is scheduled for October 25, 2015; a second round will be held between the two leading candidates on November 24 if no candidate in the first round receives more than 45% of the vote, or, if receiving more than 40% of the vote, fails to achieve a 10-point lead over the next candidate. The deadline for presenting electoral alliances among the political parties is June 10, and a primary is scheduled for August 9, 2015, for all of the alliances.<sup>4</sup>

---

<sup>2</sup> "Modest Victory Fails to Mask Uncertain Future for Kirchnerismo," *Latin American Weekly Report*, October 31, 2013.

<sup>3</sup> Sources for the section include: "Argentina: Key Figures," *Economist Intelligence Unit (EIU) ViewsWire*, September 24, 2014; and "Country Report Argentina, *EIU*, November 2014.

<sup>4</sup> "Argentine Presidential Election 25 October 2013, and Runoff 24 November," *MercoPress*, September 3, 2014.

The presidential race is already underway, with four contenders topping opinion polls at this juncture. The 2013 legislative elections raised the profile of a centrist dissident Peronist faction known as the Renewal Front (FR) led by **Sergio Massa** (a former Fernández cabinet chief and former mayor of Tigre) who was elected to the Chamber of Deputies. Massa reportedly is now one of the leading candidates in the presidential race. At 42 years of age, Massa reportedly represents a generation of young politicians with experience in government and a reputation as an efficient administrator. He served as head of Argentina's National Social Security Administration (ANES) from 2002 to 2007 under Presidents Duhalde and Kirchner. Massa is garnering support from Peronists disillusioned with the Fernández government.

Another leading Peronist candidate for the presidency is **Daniel Scioli**, the governor of Buenos Aires province. Scioli, a close ally of President Kirchner, served as his Vice President from 2003 to 2007. While he remains a part of President Fernández's Front for Victory faction of the Peronist party, he reportedly is not close to Fernández. As a potential candidate of the FPV, Scioli would benefit from Fernández's continued popular support—in early November 2014, polls showed the President with relatively high approval ratings of between 40% and 47%.<sup>5</sup> While currently strong in the polls, Scioli's presidential prospects could diminish if President Fernández chooses to endorse another Peronist candidate.

A third leading candidate for the presidency is **Mauricio Macri**, the leader of the center-right *Propuesta Republicana* (PRO, Republican Proposal) party who is in his second term as mayor of Buenos Aires. One difficulty for his candidacy is that his political party is centered in Buenos Aires and does not have a nationwide reach, so it is likely that he would need to form a coalition with other parties in order to be elected. In September 2014, an electoral alliance between Macri's PRO and the center-left UCR won the mayoralty of a small town in Córdoba province in central Argentina. Some observers maintain the victory could portend a national PRO-UCR alliance for the presidential race, while others believe it is more likely that the UCR will seek to join a center-left alliance for the election.<sup>6</sup>

Another potential candidate from outside Peronism is **Hermes Binner**, the leader of the center-left *Partido Socialista* (PS). Binner placed second in the 2011 presidential election as the candidate of the Broad Progressive Front coalition, receiving almost 17% of the vote. He served as governor of Santa Fe province from 2007 to 2011, and previously had served as mayor of Rosario, Argentina's third-largest city. Binner, who reportedly has an image as an honest politician, could play a role in the 2015 elections as the potential candidate of a center-left alliance of parties known as the Broad Front UNEN (Unity and Meeting) established in April 2014.

For over a decade, opposition parties have not been able to gain nationwide support to win the presidency. Many analysts contend, therefore, that it is likely that a Peronist candidate will succeed Fernández. Some analysts speculate, however, that it is likely that a second round of voting will be needed and that a non-Peronist candidate could capture the presidency in such a scenario.

---

<sup>5</sup> "Argentine Agency Looks at President's Approval Rating," *BBC Monitoring Americas*, text of report from the official Argentine news agency Telam, November 10, 2014.

<sup>6</sup> "Argentina: Small Town Stand for a Big Alliance?" *LatinNews Daily*, September 8, 2014.

Some observers venture that President Fernández may even seek a legislative seat in 2015 (or potentially a seat in the Parliament of Mercosur [Common Market of the South], also known as *Parlasur*) as a way to preserve her political influence after her presidency and possibly position herself to vie for a third presidential term in 2019.<sup>7</sup> (At the same time as the presidential race in October 2015, Argentina will hold elections for one-half of the Chamber of Deputies and one-third of the Senate as well as seats for *Parlasur*.) If a Peronist does not win the presidency, Fernández would be in a good position to play a key role in the Peronist party, particularly since the FPV will continue to have significant representation in Congress. If a Peronist wins, however, it could prove more difficult for Fernández to retain her political influence.

## Human Rights Issues

Both the Kirchner and the Fernández governments have made significant efforts to bring to justice those responsible for the killing of thousands of people (some 30,000, according to Argentine human rights groups)<sup>8</sup> and the torture of thousands during the Dirty War, which occurred under military rule from 1976 to 1983. Since the Argentine Supreme Court overturned amnesty laws in 2003, more than 400 people, including many former military and police officials, have been convicted for the atrocities committed under military rule. These have included former military rulers General Jorge Rafael Videla (1976-1981), who died in prison in 2013, and General Reynaldo Bignone (1982-1983), who remains in prison. Argentine judicial authorities also continue to investigate cases of kidnapping and the illegal adoption of children born to those detained under the dictatorship.<sup>9</sup>

Despite progress in addressing past abuses, some human rights groups have criticized the current Argentine government regarding press freedom as well as alleged efforts to thwart judicial independence. Press rights groups have criticized the government for punishing media outlets critical of the government by withholding public advertising and instead awarding such advertising to outlets close to the government.

Over the past several years, the government has battled with the *Clarín* media group, which owns Argentina's most widely read newspaper, as well as radio stations, broadcast and cable television outlets, and an Internet service provider. In 2009, the government enacted a controversial law regulating broadcast and print media which it indicated was designed to strengthen pluralism and information freedom. The government maintained that it wanted *Clarín* to sell some of its assets in order to create more competition in the media market, while some press rights groups contended that the government actually wanted to muzzle *Clarín*, which has often been critical of the government. In October 2013, Argentina's Supreme Court upheld key provisions of the law. *Clarín* subsequently presented a plan to the government to break up its holdings into six different companies. An outline of the plan initially had been approved by the government's regulatory agency, the Federal Audiovisual Communications Authority (AFSCA) in February 2014, but in October 2014, the board of directors of AFSCA voted against *Clarín*'s plan and said that the agency itself would undertake enforcement of the media law and the breakup of the media group.

<sup>7</sup> "Argentina Politics: Quick View – Máximo Kirchner Steps into the Spotlight," *EIU ViewsWire*, September 25, 2014; and "Cristina Candidata?" *El Cronista Comercial* (Argentina), May 30 2014.

<sup>8</sup> "Argentina: On the Death of Jorge Rafael Videla," Human Rights Watch, May 17, 2013; and Jonathan Gilbert, "Argentine Judge Orders Arrest of Spanish Ex-Officials," *New York Times*, November 2, 2014.

<sup>9</sup> Human Rights Watch, *World Report 2014*; and U.S. Department of State, *Country Reports on Human Rights Practices 2013*, February 2014.



The President of the AFSCA said that Clarín's plan would have maintained linkages among the new companies and violated the spirit of the media law.<sup>10</sup>

In April 2013, President Fernández pushed a series of bills through Congress that were designed to reform Argentina's judicial system. The most controversial of these reforms would have expanded the council of magistrates (the body which oversees the judiciary) with several members elected by popular vote. Opposition groups strongly criticized the judicial reform as a means to exert further influence over the judicial branch and for attempting to politicize it. In June 2013, Argentina's Supreme Court struck down the controversial provision requiring the election of magistrates, dealing a significant political blow to the Fernández government.

## Economic Snapshot and Challenges

With a gross domestic product (GDP) of \$610 billion (2013, IMF), Argentina has the third-largest economy in Latin America after Brazil and Mexico. The country has vast natural resources, including abundant fertile land suitable for agriculture, which have traditionally been the main drivers of economic growth. A highly educated population and a diversified industrial base also contribute to growth. Argentina is classified by the World Bank as an upper-middle-income developing economy.<sup>11</sup> Poverty rates, which had increased a decade ago because of the 2001-2002 financial crisis, have fallen considerably in recent years as the economy has recovered. In 2012, Argentina's urban poverty rate was 4.3% compared to 30.6% in 2005.<sup>12</sup>

The global economic recession in 2009 had a negative effect on the Argentine economy, which contracted slightly by 0.1%. The economy rebounded in 2010 and 2011, however, with growth averaging 8.8%, due to an improvement in the global economy and higher demand for Argentina's exports by China (especially soybeans) and Brazil (especially cars and other vehicles). Argentina's economic growth slowed considerably in 2012 to an estimated 0.9% due to a variety of factors. These include sluggish global demand, high inflation, and a drought that affected agricultural production. Growth was also dampened by domestic economic policies, such as import and foreign currency controls, that discouraged foreign investment and made it more difficult for businesses to acquire capital goods. In 2013, a strong agricultural harvest resulted in an estimated growth rate of 2.9%.<sup>13</sup>

This year, however, the economy entered into a recession. While Argentine Minister of Economy and Public Finance Axel Kicillof maintains that growth resumed in the second quarter of 2014, and forecasts a growth rate of 0.5% for the year, the IMF and private economists are skeptical. The International Monetary Fund (IMF) forecasts that the Argentine economy will contract 1.7% in 2014 and 1.5% in 2015 because of macroeconomic imbalances and uncertainties related to the

---

<sup>10</sup> "The Battle for Clarín," *LatinNews Daily Report*, October 9, 2014; "Argentina, Media War, The Government's Media Regulatory Agency is Forcing a Reorganization of the Clarín Group under the Country's Broadcast Media Law," Reporters Without Borders, October 23, 2014.

<sup>11</sup> Because of doubts about the accuracy of Argentina's economic statistics, the World Bank estimates that the country's per capita income is within the range of an upper middle income economy, between \$4,086 and \$12,615. See World Bank, *World Development Report 2014*, 2013. The International Monetary Fund (IMF) estimates Argentina's gross domestic product per capita as \$14,709 in 2013. See IMF, *World Economic Outlook Database*, October 2014 edition.

<sup>12</sup> U.N. Economic Commission for Latin America and the Caribbean, *Social Panorama of Latin America 2013*, March 2014.

<sup>13</sup> "Country Report Argentina," *EIU*, October 2014.

standoff with holdout creditors.<sup>14</sup> The Economist Intelligence Unit (EIU) forecasts an economic contraction of 0.6% for 2014 and only a modest increase of 0.3% in 2015, and has expressed concerns about the accuracy of Argentina's official statistics.<sup>15</sup>

There are also some concerns that Argentina's economic deterioration could threaten some of the social gains that the country has made over the past decade.<sup>16</sup> In order to assist the Argentine government in this area, the World Bank approved a new three-year program in September 2014, with funding approaching \$3 billion to support poverty reduction and inclusive growth in Argentina.<sup>17</sup>

The Argentine government has consistently understated inflation since 2007. In February 2014, the government took action to improve its reporting on inflation and unveiled a new consumer price index, but private economists remain skeptical. Private economists estimate that inflation in 2014 was running at more than 40% by October.<sup>18</sup>

At this juncture, a significant economic challenge for the Fernández government is how to resolve its outstanding defaulted external debt owed to remaining private creditors (approximately \$15 billion, with principal and past due interest) who did not participate in Argentina's 2005 and 2010 bond exchanges (also see "Debt Issues" below). The outstanding debt has effectively blocked Argentina from the international credit markets. On a positive note, Argentina reached an agreement with the Paris Club group of official creditors in May 2014 to repay some \$9.7 billion (including \$608 million owed to the U.S. government) over a five-year period; it made its first Paris Club payment in late July 2014, with the next payment due in May 2015.<sup>19</sup> Yet the ongoing conflict with private creditors has essentially counteracted the positive effects of Argentina's agreement to resolve debt to official bilateral creditors and could increase the risk of a balance of payments crisis.<sup>20</sup>

## U.S.-Argentine Relations

### Overview

In the aftermath of Argentina's return to democracy in 1983, the United States and Argentina developed strong relations, which were especially close during the presidency of Carlos Menem (1989-1999). At times, however, there have been tensions in the bilateral relationship. The tough U.S. approach toward Argentina during its political and financial crisis in 2001-2002, in which the United States supported the cutoff of assistance from the IMF until Argentina committed to a

---

<sup>14</sup> IMF, *World Economic Outlook: Legacies, Clouds, Uncertainties*, October 2014.

<sup>15</sup> "Country Report Argentina," *EIU*, November 2014.

<sup>16</sup> "Argentina: Dark Clouds Gathering," *LatinNews Daily*, September 24, 2014.

<sup>17</sup> World Bank, "New WBG Strategy to Support Poverty Reduction & Inclusive Growth in Argentina," Press Release, September 9, 2014.

<sup>18</sup> "Country Report Argentina," *EIU*, November 2014.

<sup>19</sup> The Paris Club is an informal group of 19 creditor nations, including the United States, Canada, Japan, and many European countries. The group meets about 10 times annually to collaborate on official debt workout mechanisms for developing countries. "Paris Club Confirms First Receipt of Argentine Arrears," *Reuters News*, August 4, 2014.

<sup>20</sup> "Country Report Argentina," *EIU*, September 2014.

sustainable economic plan, caused friction. Today, the State Department maintains that bilateral relations are based on such shared interests as regional peace and stability, nonproliferation, human rights, education, cultural exchanges, commercial ties, and cooperation on science and technology initiatives.<sup>21</sup> U.S. officials commend Argentina's contributions to international peacekeeping operations; currently Argentina contributes almost 900 military troops and police to operations worldwide. Because of these contributions, the United States designated Argentina as a major non-NATO ally in 1997. Argentina has not traditionally received much U.S. foreign assistance because of its relatively high per capita income, but in recent years it has received small amounts of assistance for military education and training and assistance to enhance its strategic trade control compliance and enforcement. An estimated \$590,000 was provided to Argentina in FY2014, and the Administration requested the same amount for FY2015.

Tensions in bilateral relations increased in 2011 because of two incidents that occurred in the aftermath of a White House decision to exclude a visit to Argentina on President Obama's first trip to South America. First, Argentine Foreign Minister Hector Timerman criticized the decision of the mayor of Buenos Aires to send two police officials to the U.S.-backed International Law Enforcement Academy in El Salvador, which provides police management and specialized training to officials from throughout Latin America. Timerman publicly suggested that the school was teaching oppressive tactics. In another incident in 2011, Argentine officials seized U.S. government equipment associated with joint training activities on hostage rescue and crisis management between U.S. military personnel and Argentine federal police. According to the Department of State, the training had been approved by Argentine officials and the equipment involved was standard gear associated with the training.<sup>22</sup> Foreign Minister Timerman supervised the seizure of the cargo at the airport (opening part of the cargo in front of the press), which according to U.S. officials, was coordinated at the highest levels of the Argentine government.<sup>23</sup> Ultimately, tensions waned after an Argentine court ruled that the incident was not a criminal case, but a problem with customs clearance.

With regard to U.S.-Argentine commercial relations, the United States ran a \$5.7 billion trade surplus with Argentina in 2013, exporting \$10.3 billion in goods to the country (led by oil and machinery) and importing about \$4.6 billion in goods (led by crude oil). In 2013, Argentina was the 31<sup>st</sup>-largest export market for the United States. For Argentina, the United States was its third-largest trading partner (after Brazil and China) in 2013, with imports from the United States accounting for almost 11% of its total imports and exports to the United States accounting for about 5% of its total exports.<sup>24</sup> According to the U.S. Trade Representative's 2014 *National Trade Estimate Report on Foreign Trade Barriers*, Argentina imposes a growing number of customs and licensing procedures and requirements that makes importing U.S. products more difficult. In August 2014, a World Trade Organization (WTO) dispute settlement panel ruled that Argentina's import license restrictions violated WTO rules. The case had been initiated by the United States, the European Union, and Japan.<sup>25</sup>

---

<sup>21</sup> U.S. Department of State, "U.S. Relations with Argentina," Fact Sheet, November 21, 2013.

<sup>22</sup> U.S. Department of State, "Update on Seizure of U.S. Cargo by Argentine Authorities," Fact Sheet, February 17, 2011.

<sup>23</sup> Ken Parks and Julian E. Barnes, "World News: U.S., Argentina in Tussle Over Seized Cargo," *Wall Street Journal*, February 16, 2011.

<sup>24</sup> U.S. trade statistics are from the Department of Commerce, as presented by *Global Trade Atlas*. Argentina's trade partners were derived from Argentine statistics presented by *Global Trade Atlas*.

<sup>25</sup> Brian Flood, "WTO Dispute Panel Rules Against Argentina in Challenge to Import Licensing Restrictions," (continued...)

The stock of U.S. foreign direct investment in Argentina amounted to \$15.2 billion in 2013 (up from \$14.6 billion in 2012), concentrated in manufacturing and nonbanking holding companies.<sup>26</sup> Over 500 U.S. companies have invested in the country; in July 2013, Chevron announced that it would invest \$1.24 billion in the development of the Vaca Muerta shale oil and gas field in Neuquén province in southwest Argentina.

While the United States and Argentina have a bilateral investment treaty in place, Argentina has taken actions in recent years that have dampened the investment climate. Over the past year, however, the government of President Cristina Fernández has taken several positive measures. These include settling several outstanding international arbitral awards (including, in October 2013, almost \$300 million owed to three U.S. companies in cases that had been brought to the International Centre for the Settlement of Investment Disputes [ICSID, a branch of the World Bank Group]);<sup>27</sup> engaging with the IMF to improve the country's reporting of its economic growth and inflation data; and, as noted above and discussed in more detail below, reaching an agreement with the Paris Club group of official creditors in May 2014 to repay its overdue debt.

Despite these actions, the Department of State maintains that investor confidence in the country remains low because of long-standing concerns regarding the lack of transparency in government policymaking; efforts by the government to curb the remittance of profits abroad; currency controls that delay companies' access to dollars to pay suppliers; and a comprehensive import licensing system that makes it difficult to import materials for businesses.<sup>28</sup> Argentina also has been on the U.S. Trade Representative's Special 301 Priority Watch List since 1996 because of problems with intellectual property rights enforcement; USTR's 2014 report maintains that Argentina made little progress in this area over the past year, and noted particular concern over high levels of piracy and counterfeiting and the lack of political will to address the situation.<sup>29</sup>

Assistant Secretary of State for Western Hemisphere Affairs Roberta Jacobson acknowledged in September 2014 that U.S.-Argentine relations "are in a tough period right now." She maintained that the litigation involving private creditors is an issue for the courts to decide, but expressed hope "that it can be resolved in a way that Argentina can return to the international community, that Argentina can begin to grow and be productive again."<sup>30</sup> Argentine officials, likely attempting to play to a domestic audience, have lashed out at the United States regarding the debt issue. The Chargé d'Affaires at the U.S. Embassy in Argentina, Kevin Sullivan, made comments to the

---

(...continued)

*International Trade Reporter*, August 22, 2014.

<sup>26</sup> U.S. Department of Commerce, "U.S. Direct Investment Abroad Tables," *Survey of Current Business*, September 2014.

<sup>27</sup> U.S. Department of State, *2014 Investment Climate Statement – Argentina*, June 2014. In March 2012, the United States suspended Argentina's eligibility as a beneficiary of the Generalized System of Preferences (GSP), a preferential tariff treatment program, because of Argentina's failure to enforce such arbitral awards. About 11% of U.S. imports from Argentina benefitted from GSP in 2011. The GSP program, however, expired at the end of July 2013, and Congress has not renewed it. For more on GSP, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones, and CRS Report RS22541, *Generalized System of Preferences: Agricultural Imports*, by Renée Johnson.

<sup>28</sup> U.S. Department of State, *2014 Investment Climate Statement – Argentina*, June 2014; Martin Hutchinson, "Playing Nice Starts to Pay Off for Argentina," *Reuters News*, May 29, 2014.

<sup>29</sup> Office of the United States Trade Representative, *2014 Special 301 Report*, April 2014.

<sup>30</sup> U.S. Department of State, Assistant Secretary of State, Bureau of Western Hemisphere Affairs, Roberta S. Jacobson, "U.S. Priorities in the Western Hemisphere," September 26, 2014.

Argentine press in September 2014 in which he stated that “it is important for Argentina to emerge from default as soon as possible to return to the path of sustainable economic growth and attract the investment it needs.” Both Foreign Minister Timerman and President Fernández condemned the U.S. diplomat’s comments as an intrusion into Argentina’s internal affairs.<sup>31</sup> President Fernández also asserted in a speech on September 30, 2014, that “if anything happens to me ... look North,” referring to the United States, and alleged that economic sectors in Argentina wanted to oust her government with outside help.<sup>32</sup>

## Debt Issues<sup>33</sup>

Argentina’s default in 2001 has been a long-standing issue in relations with the United States. Argentina faced an acute economic crisis in 2001 that led to its default on nearly \$100 billion of debt: \$81.8 billion owed to private creditors; \$6.3 billion owed to other governments, including the United States; and \$9.5 billion owed to the IMF.<sup>34</sup> Reaching a resolution to the government’s default has been a complex process that has taken more than a decade, and some issues still remain outstanding. In terms of debt owed to official creditors (other governments and international organizations), Argentina repaid the IMF in full in 2006, but only reached an agreement to repay other governments in May 2014. In terms of debt owed to private creditors, Argentina restructured more than 90% of the debt owed to private bondholders. It has faced legal challenges from the remaining bondholders—the “holdouts.” Recent court rulings have favored the holdouts, but Argentina remains in default on this debt.

## Debt Owed to the Paris Club Countries

After more than a decade, Argentina took steps in 2014 to resolve its default on debt owed to the “Paris Club” countries. The Paris Club is a voluntary, informal group of creditor governments, including the United States, that negotiates and/or reduces debt owed to them by other countries on a case-by-case basis.<sup>35</sup> After defaulting on its Paris Club debt in 2001, Argentina negotiated with the Paris Club in 2008 and 2010, but the parties failed to reach an agreement in these talks.

As economic conditions in Argentina became more difficult, including being cut off from international capital markets and facing a shortage of foreign currencies (particularly dollars), Argentina again approached the Paris Club countries in January 2014 with a proposal for repaying its debts to these governments.<sup>36</sup> In May 2014, a multilateral agreement was reached between the Argentine government and the Paris Club countries that set out repayment terms for the amount outstanding, which had grown to \$9.7 billion including the principal and accrued

<sup>31</sup> Taos Turner, “Argentina Warns U.S. Diplomat Over Remarks to Local Newspaper,” *Dow Jones Newswires*, September 16, 2014.

<sup>32</sup> “Presidenta: ‘Si Me Pas Algo, Que Nadie Mire Hacia el Oriente, Miren Hacia el Norte,’” *Agencia Diarios y Noticias* (Buenos Aires), September 30, 2014; Cristina Fernández Says ‘Look North’ If Anything Happens to Her,” *Telesur*, October 1, 2014.

<sup>33</sup> Some of the material in this section is drawn from CRS Report R41029, *Argentina’s Defaulted Sovereign Debt: Dealing with the “Holdouts,”* by J. F. Hornbeck.

<sup>34</sup> See CRS Report R41029, *Argentina’s Defaulted Sovereign Debt: Dealing with the “Holdouts,”* by J. F. Hornbeck

<sup>35</sup> For more on the Paris Club, see CRS Report RS21482, *The Paris Club and International Debt Relief*, by Martin A. Weiss.

<sup>36</sup> Ken Parks, “Argentina to Start Debt Talks with Paris Club on Wednesday,” *Wall Street Journal*, May 27, 2014.

interest, including \$608 million to the United States.<sup>37</sup> In addition to the United States, Argentina owes money to Germany and Japan, which together account for more than half of Argentina's Paris Club debt, as well as the Netherlands, Spain, Italy, and Switzerland.<sup>38</sup> Markets responded positively to the announcement of the agreement.<sup>39</sup> Argentina made its first payment of \$650 million under the agreement in July 2014. The next payment, of \$550 million, is due in May 2015.

Although Argentina has made payments under the Paris Club agreement, formal implementation of the agreement requires signed bilateral agreements between Argentina and Paris Club members. This process is currently in progress. When the bilateral agreement with the United States is finalized, Argentina will no longer be in default on debt owed to the U.S. government. Restrictions in the Foreign Assistance Act of 1961 (Section 620(q)) prohibiting aid to countries in default to the U.S. government would be lifted.

### Debt Owed to Private Bondholders

Argentina remains in default on a portion of its private sector debt, and recent court rulings have increased pressure on Argentina to reach an agreement with private creditors on this debt. Most of the defaulted debt held by private creditors was resolved through bond exchanges offered by the Argentine government in 2005 and, again, in 2010. In the exchanges, the Argentine government extended a unilateral offer to private bondholders to exchange the defaulted bonds for new bonds at a steep loss (approximately a net present value loss of 70%). Although the terms were widely viewed as unfavorable for the bondholders, more than 90% of bondholders agreed to participate in the exchanges. Until recently, investors holding the restructured Argentine bonds had received the full payments due on these bonds. Issues have arisen with recent payments, discussed below.

A small group of private investors—the holdouts—did not participate in the exchanges and have not received any payment from Argentina since the 2001 default. They are now owed approximately \$15 billion, including principal and past due interest. Most of the holdouts are hedge funds that bought the bonds in secondary markets at steep discounts after the default. The holdouts have pursued litigation to seek full repayment from Argentina, primarily in the United States, since a large proportion of Argentine bonds were issued under New York law.

Although the legal cases have examined a number of issues, the most consequential ruling relates to the interpretation of a clause in the bond contracts that dictates creditors be treated equally: the “*pari passu*” clause. A smaller group of the holdout creditors, with claims totaling \$1.3 billion, argue that paying the exchange bondholders while repudiating the holdout bonds is a breach of this provision. In 2012, a New York federal district court judge, Thomas Griesa, ruled in favor of the holdouts. As a result, if Argentina does not pay the group of litigating holdouts, U.S. financial institutions legally cannot transfer interest payments from Argentina to the exchange bondholders.<sup>40</sup> In effect, for Argentina to pay the exchange bondholders, it would have to pay the

<sup>37</sup> Paris Club Press Release, May 29, 2014, <http://www.clubdeparis.org/sections/communication/communiqués/argentine/viewLanguage/en>.

<sup>38</sup> Leigh Thomas, “Paris Club Invites Argentina to Hold Debt Negotiation,” *Reuters*, March 14, 2014.

<sup>39</sup> Leigh Thomas and Sarah Marsh, “Argentina Clinches Landmark Debt Repayment Deal with Paris Club,” *Reuters*, May 29, 2014.

<sup>40</sup> Richard Deitz, “A Sensible Path for Avoiding an Argentine Default,” *Wall Street Journal*, July 2, 2014; Alison Frankel, “The Other Loser in Argentina Debt Saga: U.S. Courts,” *Reuters*, July 31, 2014.

holdouts as well. The ruling was appealed, eventually reaching the Supreme Court. The Supreme Court announced in June 2014 that it would not hear the case, letting the previous ruling stand.

Following the Supreme Court announcement, the Argentine government faced a difficult decision. It could either (a) pay the holdouts and the exchange bondholders or (b) pay neither group, and default on its debt. On one hand, paying the holdouts would be financially and politically costly. Financially, the court ruling involved only a small group of holdouts, with a claim totaling \$1.3 billion. However, other holdouts are also now pursuing similar legal recourse to the initial group that went to court over the “pari parssu” clause.<sup>41</sup> Argentina reportedly estimates that paying all remaining holdout creditors would cost \$15 billion.<sup>42</sup> Politically, paying the holdouts could be seen as the Argentine government “caving” to foreign investors, and some analysts argue that President Fernández has “staked her political career on fighting the holdouts.”<sup>43</sup> On the other hand, defaulting on its debt would make it difficult for Argentina to regain access to international capital markets, which many economists believe is critical for helping the struggling economy.

Last-minute negotiations between Argentina and holdout bondholders failed to reach a settlement. Argentina was facing a payment on the exchange bonds on July 30, 2014. Argentina transferred the funds to an intermediary bank (the Bank of New York Mellon), but did not pay the holdouts. Legally, the intermediary bank could not transfer the funds to the exchange bondholders, and on July 30, 2014, the credit rating agency Standard and Poor’s declared Argentina to be in default, for the eighth time in Argentina’s history. Argentine officials argue that because it transferred the funds, it should not count as a “default.”<sup>44</sup>

The Argentine government has indicated it may be willing to negotiate with creditors in 2015, after a clause in the exchange bonds expires at the end of 2014. This clause forbids Argentina from voluntarily offering a better deal to the holdouts than it gave in the 2005 and 2010 exchanges without extending the same deal to all creditors.<sup>45</sup> In the meantime, Argentina has attempted to circumvent its dilemma by devising a new bond swap that would offer the holders of Argentine bonds issued under New York jurisdiction the opportunity to exchange them for new bonds under Argentine or French jurisdiction.<sup>46</sup> In response, on September 29, 2014, the New York federal district court judge in the case held Argentina in contempt of court, and warned that it would suffer repercussions if it defied his order regarding payment to bondholders.<sup>47</sup>

While the full ramifications of the recent developments remain to be seen, some analysts believe that they could undermine progress that Argentina had made in 2013 and the first half of 2014 to repair its decade-long “rogue debtor” reputation and normalize its status in the international economy. In addition to reaching an agreement with the Paris Club, Argentina agreed to settle

---

<sup>41</sup> Bob Van Voris, “Argentina Faces \$4.7 Billion in New Bond Suits,” *Bloomberg News*, November 7, 2014.

<sup>42</sup> Richard Deitz, “A Sensible Path for Avoiding an Argentine Default,” *Wall Street Journal*, July 2, 2014.

<sup>43</sup> Thomas Landon, Jr., “Argentine Economist Says Bond Holdouts Should be Paid,” *New York Times*, September 3, 2014.

<sup>44</sup> Fabiana Frayssinet, “Did Argentina Default or Not? It’s more than Semantics,” *Inter Press Service News Agency*, August 4, 2014.

<sup>45</sup> Charlie Devereux and Pablo Gonzalez, “Argentina Says Willing to Negotiate with Holdouts Next Year,” *Bloomberg News*, September 26, 2014.

<sup>46</sup> “Argentina: Bond Swap Law Approved,” *LatinNews Daily*, September 12, 2014.

<sup>47</sup> Alexandra Stevenson, “Judge Holds Argentina in Contempt of Court,” *New York Times*, September 30, 2014.

several international investment disputes that had been brought to the ICSID, including, as noted above, several disputes with U.S. companies, while in February 2014 it agreed to a \$5 billion settlement with Repsol, a Spanish oil firm, ending a two-year dispute over Argentina's expropriation of the company's operations.

## **AMIA Investigation**

Congress has expressed concern over the years about progress into the investigation of the July 1994 bombing in Buenos Aires of the Argentine-Israeli Mutual Association (AMIA) that killed 85 people. Both Iran and Hezbollah (the radical Lebanon-based Islamic group with strong ties to Iran) are alleged to be linked to the AMIA bombing as well as to the 1992 bombing of the Israeli Embassy that killed 30 people.

In 2004, Argentine Special Prosecutor Alberto Nisman was appointed to lead the AMIA investigation. Until then, progress on the investigation and prosecution of those responsible for the 1994 bombing had been stymied because of the government's mishandling of the case. In September 2004, a three-judge panel acquitted all 22 Argentine defendants in the case and faulted the shortcomings of the original investigation. With Nisman's appointment in 2004, however, the government moved forward with a new investigation. As a result, an Argentine judge issued arrest warrants in November 2006 for nine foreign individuals: an internationally wanted Hezbollah militant from Lebanon, Imad Mughniyah (subsequently killed by a car bomb in Damascus, Syria, in 2008), and eight Iranian government officials.

INTERPOL, the International Criminal Police Organization, subsequently posted Red Notices (international wanted persons notices) in 2007 for Mughniyah and five of the Iranian officials: Ali Fallahijan (former Iranian intelligence minister, 1989-1997); Mohsen Rabbani (former Iranian cultural attaché at the Iranian Embassy in Buenos Aires); Ahmad Reza Asghari (former third secretary at the Iranian Embassy in Buenos Aires); Ahmad Vahidi (who served as Iran's defense minister from 2009 to 2013); and Mohsen Rezai (former commander of Iran's Islamic Revolutionary Guard Corps, 1981-1997, and two-time presidential candidate).<sup>48</sup> In 2009, Argentina also issued an arrest warrant for the capture of Samuel Salman El Reda, a Colombian citizen thought to be living in Lebanon, alleged to have coordinated a Hezbollah cell that carried out the bombing; he was subsequently added to the INTERPOL Red Notice list.

The Argentine government shifted its stance in 2011 with respect to engagement with Iran over the AMIA bombing issue. President Fernández indicated Argentina's willingness to enter into a dialogue with the Iranian government despite its refusal to turn over suspects in the case. Several rounds of talks with Iran were held in 2012, with Argentine Foreign Minister Hector Timerman leading the effort.

In January 2013, Argentina announced that it had reached an agreement with Iran, and signed a memorandum of understanding to establish a joint Truth Commission made up of impartial jurists from third countries to review the bombing case. After extensive debate, Argentina's Congress completed its approval of the agreement on February 28, 2013. Argentina's two main Jewish

---

<sup>48</sup> INTERPOL, Media Release, "INTERPOL General Assembly Upholds Executive Committee Decision on AMIA Red Notice Dispute," November 7, 2007. The three other Iranians wanted by Argentina not included on INTERPOL's red notice list are former President Ali Akbar Hashemi-Rafsanjani, former Foreign Minister Ali Akbar Velayati, and former Iranian Ambassador to Argentina Hadi Soleimanpour.



groups, AMIA and the Delegation of Israeli Associations (DAIA), strongly opposed the agreement because they believe that it could guarantee impunity for the Iranian suspects.<sup>49</sup> Several U.S. Members of Congress also expressed their strong concerns about the Truth Commission because they believed it could jeopardize Argentina's AMIA investigation and charges against the Iranians.

In May 2014, an Argentine court declared unconstitutional the agreement with Iran to jointly investigate the AMIA bombing. Special Prosecutor Nisman had maintained that the agreement with Iran constituted an "undue interference of the executive branch in the exclusive sphere of the judiciary."<sup>50</sup> The Fernández government maintained that it would appeal the ruling to Argentina's Supreme Court.

In a speech before the United Nations General Assembly on September 24, 2014, President Fernández acknowledged the 20<sup>th</sup> anniversary of the AMIA bombing, and expressed support for the memorandum of understanding with Iran, maintaining that it would enable the accused Iranian citizens to make statements before an Argentine judge. Fernández also said that Jewish organizations in Argentina accused the government of complicity with the state of Iran because of the agreement on the AMIA investigation.<sup>51</sup> DAIA President Julio Schlosser criticized the President's U.N. speech, maintaining that it was trying to convert the victims into victimizers.<sup>52</sup>

## Outlook

Argentina's presidential election is not scheduled until October 2015, but the race is already underway with several contenders, including two from the Peronist party, leading opinion polls to succeed President Fernández, who will be completing her second term in office. At this juncture, Argentina is facing a difficult economic situation, with the IMF forecasting economic contraction in 2014 and 2015. While the government has taken significant actions over the past year to repair its international economic relations (including resolving investment disputes and reaching a deal with Paris Club creditors), its outstanding dispute with holdout creditors is impeding the country's access to international credit markets. Some observers speculate that the government will make efforts to resolve the dispute in 2015, once a clause requiring creditors to be treated equally expires. Such a move, however, could also prove difficult for the Fernández government since it has led a public campaign strongly criticizing the holdout creditors. Many observers believe that any of the leading candidates for president would espouse more market-friendly policies than the current government.

U.S.-Argentine relations generally are characterized by robust commercial relations and cooperation in a number of areas, including nonproliferation, human rights, education, and science and technology. There have, however, been tensions at various times in the bilateral relationship, including the current U.S. judicial case regarding the holdouts, and Argentine officials at times have lashed out at the United States. Resolution of the issue would likely lead to

<sup>49</sup> "A Perverse Manoeuvre in Argentina," *LatinNews Daily*, February 28, 2013.

<sup>50</sup> "Argentine Court Declares Bombing Probe with Iran Unconstitutional," *Agence France Presse*, May 16, 2014.

<sup>51</sup> "Speech of Argentinian President Cristina Fernández During the UN General Assembly," *Morocco World News*, Video with transcript, available at <http://www.moroccoworldnews.com/2014/09/140311/speech-of-argentinian-president-cristina-fernandez-during-the-un-general-assembly/>

<sup>52</sup> "La DAIA Criticó el Discurso de la Presidenta en la ONU," *El Cronista* (Argentina), September 29, 2014.

improvement in the tenor of relations. Moreover, Argentina's 2015 presidential elections will also likely bring to power a government more committed to maintaining constructive bilateral relations.

## Appendix. Selected U.S. Executive Branch Reports

*Bilateral Relations Fact Sheet, U.S. Relations with Argentina*, State Department, November 21, 2013.

<http://www.state.gov/r/pa/ei/bgn/26516.htm>

*Congressional Budget Justification for Foreign Operations FY2015, Annex 3: Regional Perspectives* (p. 637), State Department, April 18, 2014.

<http://www.state.gov/documents/organization/224070.pdf>

*Country Reports on Human Rights Practices 2013, Argentina*, State Department, February 27, 2014.

<http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2013&dclid=220414>

*Country Reports on Terrorism 2013 (Western Hemisphere Overview)*, State Department, April 2014.

<http://www.state.gov/j/ct/rls/crt/2013/224825.htm>

*Doing Business in Argentina*, U.S. Department of Commerce, 2014.

<http://www.export.gov/argentina/doingbusinessinargentina/index.asp>

*International Religious Freedom Report 2013, Argentina*, State Department, July 28, 2014.

<http://www.state.gov/j/drl/rls/irf/religiousfreedom/index.htm?year=2013&dclid=222351>

*International Narcotics Control Strategy Report 2014, Vol. I, Argentina*, State Department, March 2014.

<http://www.state.gov/j/inl/rls/nrcrpt/2014/vol1/222841.htm>

*International Narcotics Control Strategy Report 2014, Vol. II, Argentina*, State Department, March 2014.

<http://www.state.gov/j/inl/rls/nrcrpt/2014/vol2/222681.htm>

*Investment Climate Statement, 2014, Argentina*, State Department, June 2014.

<http://www.state.gov/e/eb/rls/othr/ics/2014/226872.htm>

*National Trade Estimate Report on Foreign Trade Barriers, 2014, Argentina*, Office of the United States Trade Representative, March 31, 2014.

<http://www.ustr.gov/sites/default/files/2014%20NTE%20Report%20on%20FTB%20Argentina.pdf>

## Author Contact Information

Mark P. Sullivan  
Specialist in Latin American Affairs  
[msullivan@crs.loc.gov](mailto:msullivan@crs.loc.gov), 7-7689

Rebecca M. Nelson  
Specialist in International Trade and Finance  
[rmelson@crs.loc.gov](mailto:rmelson@crs.loc.gov), 7-6819