

# The National Grange

Of the Order of Patrons of Husbandry

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*Building Communities*

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April 24, 2007

The Honorable Eliot Engel  
House of Representatives  
2161 Rayburn House Office Building  
Washington, DC 20515-3217

The Honorable Dan Burton  
House of Representatives  
2308 Rayburn House Office Building  
Washington, DC 20515-1405

Dear Representatives Engel and Burton:

The National Grange would like to thank you for your recent letter bringing the issue of the Treasury Department's involvement in U.S. court cases litigating the circumstances of Argentina's sovereign debt default, quite possibly the largest sovereign debt default in recorded history, to the attention of the Secretary of the Treasury. The National Grange believes that the Administration's policy on trade promotion and the efforts of the Office of the U.S. Trade Representative in opening foreign markets for America's family farmers are being significantly thwarted by the decisions made by the U.S. Treasury to support the Argentine government in its debt default cases currently working their way through the U.S. courts. The National Grange strongly urges you to seek further clarification of the Administration's apparent policy of promoting sovereign debt default by one of our major export competitors as a tool of currency manipulation to gain unfair competitive advantage in world markets against U.S. family farmers.

The National Grange, the nation's oldest general farm and rural public interest organization, has historically supported efforts by successive Republican and Democratic Administrations to seek international trade agreements that will enhance the export of U.S. agricultural products in world markets on a basis that is both free and fair to all parties involved in the negotiations. As a result of these ongoing bipartisan efforts, the agriculture production equal to nearly 1 out of every three acres planted in the United States is now destined for overseas markets. More than one billion persons annually across the globe received some direct benefit or use from the production of food, fiber or fuel derived from America's farms and ranches.

In this particular case, the National Grange is concerned that the Treasury Department has intervened directly in U.S. cases brought by holders of Argentine sovereign bonds on the side of the Argentine government. These securities were voluntarily registered under U.S. securities law by the Argentine government. Argentina's decision to repudiate its existing sovereign debt and unilaterally dictate new terms to its bondholders has had the immediate effect of allowing the Argentine government to use its debt repudiation to devalue its currency. The National Grange does not believe that devaluation of the Argentine Peso was an unanticipated result of the Argentine government's debt repudiation decision. Instead we believe this action was taken by the Argentine government, in part, for the specific purpose of manipulating the Argentine Peso in order to attempt to drive down its value in foreign exchange markets.

This exercise in currency manipulation creates an unfair export incentive for Argentine exporters. The decision by the U.S. Treasury to intervene on behalf of the Argentine government in the cases brought by Argentine bondholders in the United States sends a clear signal to the Argentine government that their trade distorting currency manipulation policies may proceed without fear of accountability for their decisions and prior commitments to their bondholders in a United States court of law. To make matters worse, this message is directly contrary to the efforts of the Office of the US Trade Representative, who is working to craft a WTO agreement and other trade agreements that eliminate agriculture export subsidies and unfair trading practices.

Many nations face economic difficulties that require negotiated debt restructuring. Previously, the National Grange has strongly supported the United States' efforts to reach consensus between sovereign borrowers and debt holders for restructuring programs that alleviated short term cash problems and allowed national governments to reform their economies by adopting pro-growth and pro-prosperity policies. However, until now our government has not been an advocate for unilateral sovereign debt repudiation of the size and scope of that proposed by Argentina, a major competitor of U.S. farmers in foreign markets. The U.S. government's decision to side with Argentina in cases before the U.S. courts is not in the best interest of America's family farmers:

- Argentina is one of the United States' major competitors in the supply of agricultural products on the world market.
- By defaulting on its sovereign debt, Argentina can make investments in infrastructure and production capacity to increase agricultural output. This puts greater amounts of agriculture products on the world market than would be the case if their debt was repaid in full or renegotiated in good faith.
- Defaulting on sovereign debt devalues the Argentine Peso on international markets, which in turn gives Argentine farmers and export companies a financial advantage in world commodity export markets.
- Other nations with large agriculture commodity export sectors can now look to the Argentine debt repudiation model as a way of gaining a competitive price advantage against American farmers through similar currency manipulation.

- Argentina's decision to default on sovereign debt creates a climate of uncertainty for other developing nations seeking access to international debt markets. The domino effect of a general down-grading of sovereign debt for developing nations means that many developing nations that are our customers for agriculture commodities will suffer from a lack of access to, or increased costs for, credit in international lending markets because of the example set by Argentina. As a result, our government together with international multilateral lending organizations (such as the International Monetary Fund) will be left with the responsibility of filling the credit gap for these countries. This, in turn, increases the burden on America's taxpayers for commercial credit to maintain exports of U.S. agricultural products that could be provided by the market.

Defaulting on sovereign debt as a currency manipulation/trade management tool creates an unfair subsidy for Argentine products, especially agricultural products, on the world market. The impact of this potential subsidy has not been addressed in either the current or proposed World Trade Organization or other multilateral trade agreements where the United States is a party. These agreements consider that this debt is a "sovereign" responsibility and therefore outside the scope of traditional trade negotiations. Therefore, U.S. trade negotiators at the WTO talks and in other forums cannot effectively address the barriers to the sale of America's farm products if our competitors can unilaterally default on their debt and manipulate the value of their national currencies, thus creating de facto export subsidies and import barriers.

The members of the National Grange have an interest in the ramifications of sovereign debt default and unilateral repudiation of restructuring negotiations by countries that are our competitors in the world market. Our interest goes beyond the bondholders and extends to the impact that this will have on international trade, commerce and negotiations that impact America's family farmers.

The National Grange would like to thank both of you, Representatives Engel and Burton, for addressing this issue with the Treasury Secretary. The National Grange believes that the Administration's policy on trade promotion and opening markets for America's family farmers is being contradicted by the decisions of the U.S. Treasury to support the Argentine government in the cases brought by bondholders in U.S. courts. The National Grange urges you to continue to bring these issues to the attention of the U.S. Department of the Treasury so that these apparently divergent Administration policies can be clarified and rectified.

Sincerely,



Leroy Watson, Legislative Director  
National Grange of the order of Patrons of Husbandry