

March 15, 2007

M. Xavier Musca  
Chairman, Paris Club  
Treasury and Economic Policy General Directorate  
139, Rue de Bercy  
Télédoc 551  
75572 Paris Cedex 12  
France

Dear M. Musca:

We are writing to express our concerns over recent efforts by the Argentine government to pursue selected bilateral repayments of debts owed to Member countries outside of the established rules of the Paris Club. While Argentina has refused to share its repayment proposals publicly, such bilateral deals jeopardize repayment to other Member countries and hundreds of thousands of U.S. and other private investors, undermine the Paris Club as an institution and could destabilize the established frameworks of global lending. We ask that you oppose these tactics and press the Argentine government to honor both the rules of the Paris Club and its international debt obligations.

At a time when other countries such as Ecuador are openly considering a sovereign debt default of the Argentine model, the Paris Club should command respect for the established rules of international lending and finance. Allowing Argentina to drive a wedge between individual members of the Paris Club would signal that the consequences of government defaults have declined to the point of becoming an attractive alternative to honoring its financial obligations. Such an environment could produce a domino effect of defaults around the developing world, where international capital is most needed.

On a recent visit to Rome, ATFA Co-Chair Robert Shapiro shared new findings on the direct and indirect financial effects of Argentina's default and 2005 restructuring on American and Italian taxpayers and investors.

With Professor Nam D. Pham of The George Washington University, Dr. Shapiro analyzed and quantified these effects in a new report, "Discredited – The Impact of Argentina's Sovereign Debt Default and Debt Restructuring on U.S. Taxpayers and Investors." They found that the default and restructuring cost U.S. and Italian taxpayers some \$2.6 billion and \$4.3 billion, respectively, and U.S. and Italian shareholders of companies with direct investments in Argentina some \$10.4 billion and \$6.1 billion, respectively. They further found that the default and restructuring cost Argentina's worldwide lenders some \$74 billion, including net costs of \$7.9 billion for U.S. lenders.

These costs are so high, because the Argentine government applied uniquely harsh and unjustified terms to its subsequent restructuring, offering new bonds worth just 27 percent of the net present value of those they replaced – roughly half of the return offered in nearly every other sovereign debt restructuring of the last 25 years. Argentina further unilaterally cancelled all past due interest on the defaulted bonds, and then repudiated the entire principal and interest legally owed to any bondholder that declined these unprecedented terms.

It is not in the interest of the Paris Club or its Member Countries to allow the terms of Argentina's 2005 restructuring to become the new standard. Such a precedent would ultimately reduce lending to developing countries that most need it. To ensure that this harsh approach does not become a new and dangerous international standard, we urge the Paris Club and its Member Governments to work to persuade Argentina to honor both the rules of the Paris Club and its international debt obligations.

Already, Argentina has pursued a policy of "Spanish exceptionalism", honoring the outstanding debts of an influential ally before those of other members of the Paris Club. While the Government of Spain might be applauded for its ability to compel movement on a matter Argentine President Nestor Kirchner has deemed "closed", such a bilateral agreement is unfair and unwise.

We urge the Paris Club to communicate to Argentina that a reasonable debt payment agreement can be reached for all creditors impacted by this default and its take-it-or-leave-it restructuring. It is important for all members to uphold the Paris Club's stated principle that "no decision can be taken within the Paris Club if it is not the result of a consensus among the participating creditor countries."

We hope to have an opportunity to share our findings on the impact of Argentina's default with you in additional detail and would greatly appreciate an opportunity to brief you and Members of the Paris Club in person in the near future.

Sincerely,



Robert J. Shapiro



Nancy Soderberg

cc: M. Julien Rencki, Secretary General

M. Ambroise FAYOLLE, Co-President

M. Ramon FERNANDEZ, Vice-President

Paris Club Member Country Representatives

Hon. Roszell D. (Rod) Hunter, U.S. Special Assistant to the President and Senior Director for International Trade, Energy and the Environment.

Hon. Clay Lowery, Assistant U.S. Secretary of Treasury for International Affairs

Hon. Tom Shannon, Assistant U.S. Secretary of State for Western Hemisphere Affairs

Isabella Detwiler, Economic and Business Affairs, International Finance Division, U.S. Department of State.

Hon. Karl-Heinz Grasser, Minister of Finance, Austria

Hon. Nicholas Minchin, Minister for Finance, Australia

Hon. Didier Reynders, Minister of Finance, Belgium

Hon. Jim Flaherty, Minister of Finance, Canada

Hon. Thor Pedersen, Minister of Finance, Denmark

Hon. Eero Heinaluoma, Minister of Finance, Finland

Hon. Thierry Breton, Minister for the Economy, Finance and Industry, France

Hon. Peer Steinbrueck, State Secretary, Ministry of Finance, Germany

Hon. Brian Cowen, Minister for Finance, Ireland

Hon. Tommaso Padoa-Schioppa, Minister of Economy and Finance, Italy  
Hon. Koji Omi, Minister of Finance, Japan  
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Hon. Pedro Solbes, Minister of Economy and Finance, Spain  
Hon. Anders Borg, Finance Minister, Sweden  
Hon. Hans-Rudolf Merz, Federal Councillor, Switzerland  
Hon. Gordon Brown, Chancellor of the Exchequer, United Kingdom