ABSTRACT

While the government of President Cristina Fernández de Kirchner has recently taken a few modest steps toward economic rationality, the nation is in a free fall, with expanding drug trafficking, massive corruption and economic mismanagement.
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Preface

This paper is the third in series of IASC studies on Argentina. The first one, “Back to the Future: Argentina Unravels,” discussed both the roots and populist ties of the government of Cristina Fernández de Kirchner to Iran and the Bolivarian bloc of nations led by Venezuela, and its growing criminalization. The second, “La Cámpora in Argentina: The Rise of a New Vanguard Generation and the Road to Ruin,” discussed the rise of the Camporista movement within the Fernández de Kirchner government, and its vision of remaking Argentina’s society and economy in a populist authoritarian model – one unconstrained by the rule of law or the laws of economics -- where the Camporistas embody the state, and those who oppose them are traitors.

This is a companion piece to the first two and provides an overview and update on the current headlong rush of the Fernández de Kirchner government toward economic collapse, a prospect which poses a significant risk to both the region and to the strategic interests of the United States.

Unlike other emerging-market struggles, Argentina’s woes are almost entirely self-inflicted, the result of bad governance, corruption, lack of transparency and creeping authoritarianism.

In the year since the publication of “Back to the Future” the situation has deteriorated significantly, as we foresaw, due to the economic and social policies under development at that time. What has added to a growing sense of crisis is the general lack of leadership by a president who has been in poor health and governs primarily through her Twitter account rather than through policy deliberations.

The results of the current economic policies, coupled with the lack of leadership and the disregard for law enforcement, have been predictably catastrophic. The Camporistas have gained ascendancy in the economic field, and through a state-owned bank they control opaque trusts funneling hundreds of millions of dollars to projects which often exist only on paper. Drug trafficking, production and consumption are on the rise, and major corruption scandals have exposed massive graft at the highest levels of the government. This overview shows how the Fernández de Kirchner government has chosen the path of authoritarianism, corruption and opacity rather than democracy, the rule of law and transparency, much to the detriment of its own people.

1 http://www.strategycenter.net/research/pubID.303/pub_detail.asp
2 http://www.strategycenter.net/docLib/20130513_LaC%C3%BDmporaFINAL.pdf
Introduction

The lesson from the parable of Argentina is that good government matters. Perhaps it has been learned. But the chances are that in 100 years’ time the world will look back at another Argentina – a country of the future that got stuck in the past. The Economist, February 15, 2014.3

After years of refusing to publish reliable economic statistics such as its inflation rate, the government of President Cristina Fernández de Kirchner in February took a tentative step toward international credibility by unveiling a new price index. The new data show prices rose by 3.7 percent in January 2014, an annual rate three times the government’s earlier claim.4

It should be expected that a country with the size and economic scale of Argentina – Latin America’s fourth largest economy after Brazil, Mexico and Colombia – would routinely provide reliable economic metrics. Yet in recent years the Argentine government simply made up numbers and punished economists who dared to differ, drawing ire and sanctions from world bodies such as the International Monetary Fund.5

For a government that has lost almost all international credibility through defaulting on its debt, racking up hundreds of millions of dollars in unpaid binding arbitration settlements and illegal business expropriations (with more threatened), the modest step of dealing with real numbers instead of imaginary ones was hailed as a sign of a new pragmatism in the radically populist government.

In reality, as with the other small steps recently taken, the Argentine government pulled back from its disastrous policies just enough to avert a collapse. Each grudging half-measure – from settling a few of the dozens of outstanding international legal cases with the World Bank, to trying to open talks with the Paris Club to redeem its rock bottom credit rating – partly masks the Fernández de

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Kirchner government’s headlong rush toward an economic, political and social meltdown.6

Underlying the modest efforts to rejoin the world economic community is an increasingly authoritarian government in chaos – one which disdains international treaties, media freedoms, and the rule of law while presiding over a faltering economy built on arcane regulations that stymie growth and encourage massive corruption. This permissive political climate and disregard for the rule of law in turn has made Argentina ever more attractive to transnational criminal organization who produce and traffic drugs and launder money with relative impunity.7

“There is an overall picture of lack of control concerning drug trafficking, including the situation we have at very important ports in our country,” said Leandro Despouy, the auditor general of Argentina. “There is a deliberate absence, the state has renounced its right to exercise control.”8

The normally-staid hierarchy of the Catholic Church also has become increasingly outspoken on the complicity of the government in the booming drug trade.9 Even Argentina’s defense minister Agustín Rossi, after years of denying Argentina had important drug issues to deal with, recently acknowledged Argentina had gone beyond being just a transit country for drugs and “is now a consuming nation as well as a drug producing nation.”10

This brief attempt to deal in facts – given the proliferation of cocaine and methamphetamine laboratories found, and Argentina’s growing consumption, as described in detail below – was not welcomed by the rest of the administration, whose increasingly Orwellian statements on everything from the economy to drug trafficking and press freedoms reflect a fantasy world rather than reality. True to form, minister of security Sergio Berni immediately contradicted the defense

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7 The U.S. State Department’s 2013 International Narcotics Control Strategy (INCS) listed Argentina as a country of “primary concern,” noting that “money laundering related to narcotics trafficking, corruption, contraband, and tax evasion occurs throughout the financial system,” and noted that the “general vulnerabilities in the system also expose Argentina to a risk of terrorist financing.”


minister, saying publicly, “the truth is that Argentina is not a producer of drugs, we are a long way from being that.”

None of the steps the Fernández de Kirchner government has offered as signs of a new economic seriousness actually deal with the underlying issues in the crisis. These issues include:

- Failed populist economic policies of untenable price and currency controls, plunging currency reserves, expansion of a bloated bureaucracy, economic confiscation by the state which drives away foreign investment, and an open disdain for international law;
- New and ongoing corruption scandals that continue to widen their reach to the highest levels of government, sucking in the vice president as well as the president’s top business ally who earned hundreds of millions in government contracts, and reaching across the upper echelons of the governing party;
- A growing energy deficit that is supposedly resolved with a series of agreements with the populist government of Venezuela, agreements run through an opaque trust within the state-owned national bank where more than $1 billion has simply disappeared from public accountability;
- An ailing president who has become increasingly isolated and withdrawn, communicating through Twitter and the official media but seldom appearing in person;
- Increasing drug trafficking and its associated violence that have turned Argentina into a major cocaine transshipment center and money-laundering haven.

Each of these issues is connected to the substance of the Fernández de Kirchner government’s policies and priorities and will be examined below.

**An Economic Model Running on Fumes**

**Failure to Attract Investment; Growing Regional Isolation**

There is little doubt that the economic mismanagement of the Fernández de Kirchner administration is the most visible measure of its decline and one of the

11 “Berni desautorizó a Rossi:” op. cit.
primary causes of its plunging poll numbers. At the end of 2013 the president’s approval rating stood at 31 percent, a 17-point decline over the course of the year. It is likely to continue falling as the economy worsens.\textsuperscript{13}

The crumbling economy, where foreign reserves are shrinking almost daily, is now in the hands of \textit{La Cámora}, a group of young, inexperienced economists steeped in Marxist dogma and deeply loyal to the president.\textsuperscript{14} The \textit{Camporistas}, whose leader is Máximo Kirchner, the president’s son, espouse conspiracy theories which blame the nation’s woes on the imperialist wishes of the United States and other vague international enemies bent on destroying their nation – rather than their own incompetence and inexperience.

In order to prop up the faltering peso, which officially trades at 7.8 to the dollar but trades at 12 to the dollar in the booming black market (called the “Blue Dollar” in Argentina), the government has used its foreign reserves, which have now dropped precipitously. Foreign reserves stood close to $53 billion in January 2011 and have now dropped by almost half, to $27.7 billion.\textsuperscript{15} Other measures exacerbating the exchange rate crisis include crushing currency exchange regulations that have strangled exports and made importing a bureaucratic nightmare.

Now the Fernández de Kirchner administration is running out of options. An emergency trip by two senior cabinet ministers – including Axel Kicillof, the abrasive new economics minister and – to China and Russia seeking $17 billion in infrastructure investment and the sale of Argentine bonds, produced no new money. Over the past decade China has been Latin America’s lender of last resort, willing to put down cash wherever there is even a glimmer of economic hope. Russia has even been willing to help Bolivia and Nicaragua but rebuffed overtures from Argentina.\textsuperscript{16}

Argentina’s traditional trading partners, including Brazil, Chile, and Uruguay are involved in significant trade spats with Argentina and have publicly expressed

\begin{itemize}
\item \textsuperscript{12} For a more comprehensive look at how the Argentine economy has faltered and why see: “The Tragedy of Argentina: A Century of Decline,” The Economist, February 16, 2014, accessed at: \url{http://www.businessinsider.com/the-tragedy-of-argentina-a-century-of-decline-2014-2}
\item \textsuperscript{13} Hugh Bronstein, “Analysis – Fernandez image wilts in year-end Argentine heat wave,” Reuters News Service, December 31, 2013, accessed at: \url{http://uk.reuters.com/article/2013/12/31/uk-argentina-fernandez-analysis-idUKBRE9BU0B320131231?feedType=RSS&feedName=GCA-GoogleNewsUK}
\item \textsuperscript{14} For a more complete look at the origins, ideology and role of \textit{La Cámora} see: Douglas Farah, “\textit{La Cámora} in Argentina: The Rise of a New Populist Generation and the Road to Ruin,” International Assessment and Strategy Center, May 2013, \url{http://www.strategycenter.net/docLib/20130513_LaC%E1mporaFINAL.pdf}
\item \textsuperscript{15} Shane Romig, “Argentina Foreign Reserves Fall Slightly to $27.743 Billion,” The Wall Street Journal, February 18, 2014, accessed at: \url{http://online.wsj.com/article/BT-CO-20140218-712544.html}
\item \textsuperscript{16} “El road show de De Vido y Kicillof por Rusia y China fracas y las represas siguen sin financiamiento,” Opi Santa Cruz, December 12, 2013, accessed at: \url{http://opisantacruz.com.ar/home/2013/12/12/el-road-show-de-de-vido-y-kicillof-por-rusia-y-china-fracas-y-las-represas-siguen-sin-financiamiento/18384}
\end{itemize}
dismay that Fernández de Kirchner’s unpredictable economic policies are stagnating the region’s economic growth.

After his unsuccessful trip to China and Russia, Kicillof, who is one of the president’s closest advisers, flew off to Europe to meet with the Paris Club, to which Argentina owes some $10 billion. Resolving that debt crisis is crucial to Argentina’s future ability to borrow on the international markets.

The meeting reportedly ended quickly with virtually no discussion of how to move forward. The alleged reason for the brushoff was that Kicillof, despite being warned that any negotiation must involve the head of Argentina’s central bank, had refused to invite the banker because he is a political rival.17

Relations with the United States and Europe have deteriorated steadily as Fernández de Kirchner has failed to address significant transnational organized crime and corruption issues while veering toward a strong anti-U.S. stance. She has publicly accusing the United States and European powers of conspiring against her government and fomenting the economic malaise that is gripping Argentina.

The issue of whether Argentina must fully repay some $1.3 billion in sovereign debt from its last economic meltdown at the turn of the century is still working its way through the U.S. court system, perhaps to the Supreme Court. Lower courts have consistently ruled in the creditors’ favor.

Constant feuding with her neighbors has left Fernández de Kirchner with only one significant ally in the region – Maduro in Venezuela, another increasingly embattled authoritarian ruler who is struggling to survive a self-inflicted economic meltdown, multiple strikes, and daily marches calling for his resignation.

The language used by both to attack their critics is strikingly similar, with Maduro blaming the nation’s lack of toilet paper and basic foodstuffs on the same vague set of international conspirators that Fernández de Kirchner blames for food shortages and electrical blackouts. Fernández de Kirchner publicly defended Maduro and embraced his claim that the protests are the result of foreign intervention, “conspiratorial attacks” and the “manipulation of public opinion.”18

The crisis is already having a significant negative economic impact in South America’s macro economic picture as Argentine imports have been squeezed and


traditional exports such as beef have atrophied. One telling statistic Argentines have a difficult time bearing is that Argentina is no longer among the top 10 beef producers in the world, even lagging behind tiny neighbors Uruguay and Paraguay in recent years.\(^\text{19}\)

On a broader horizon, as discussed in previous papers, Argentina’s economic decline and close realignment with Venezuela and Iran threaten the strategic and political interests of democracies in the region and of the United States.

**Deepening Contradictions and Charges of Corruption**

Even partially successful efforts to bring Argentina back into good standing have come at a heavy cost, both politically and economically. The Fernández de Kirchner government for years refused to recognize the authority of the World Bank to enforce decisions in the case of trade disputes, despite being a member of the Bank’s International Centre for Settlements of Investment Disputes (ICSID), an arbitration body in which Argentina had 46 pending disputes at the end of 2013.

Argentina had insisted the disputes be resolved in the local judicial system and had announced its intention to withdraw from the organization, as Venezuela, Bolivia and Ecuador have all done in recent years.\(^\text{20}\)

But abruptly on October 18, 2013, Argentina unexpectedly did an about face. Fernández de Kirchner, after months of secret negotiations, agreed to a $500 million settlement of four long-outstanding ICSID claims and one other case in international arbitration, recognizing the Bank’s jurisdiction and hoping to leverage the settlements into access to World Bank credits. The agreement immediately set off criticism in Buenos Aires because it was not submitted for approval to congress, nor was it reviewed by any Argentine court.\(^\text{21}\)

The criticism intensified when investigative journalists discovered that Gramercy, a Connecticut-based investment fund with well-documented close ties to the Fernández de Kirchner administration, had earlier set up two holding companies in Delaware that purchased the debt of some of the companies involved in the ICSID settlement, thereby reportedly enabling Gramercy to profit handsomely from the government’s change of heart. The case is similar to a previous episode when

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Gramercy had allied with the government in the 2010 debt restructuring deals that reportedly netted the firm millions of dollars in profits.22

Gramercy appears to have carved out an unusual role for itself in Argentina, collaborating with the government on debt deals, and acknowledging that collaboration as a selling point in its investment strategy. A Gramercy presentation dated September 2012, for instance, stated that “Gramercy is currently working on a solution with the Argentine government that would enable the resolution of ICSIS/UNCITRAL liabilities in exchange for ‘zero cash’ until 2014. Similar to the fashion in which Gramercy orchestrated the 2010 exchange, Gramercy’s proposal is a pre-packaged solution (i.e. guaranteed high participation).”23

The revelation of Gramercy’s relationship to the Fernández de Kirchner government in the ICSID case has helped rekindle a long-running investigation into the relationship between Gramercy and Amado Boudou, the vice president and former minister of economy. Boudou was the minister at the time Gramercy brokered the 2010 deal that restructured part of Argentina’s foreign debt, of which Gramercy acquired a significant amount.

Boudou, who was acting president when the ICSID payments were agreed to, is under legal investigation for influence peddling in the 2010 debt restructuring case with Gramercy, as well as a congressional inquiry. The congressional inquiry, filed by senator Fernando “Pino” Solanas, said Gramercy’s restructuring was “an opaque case”, and that his investigation has laid bare the “injustices and washing done behind Congress’ back.” Solanas said he had asked the vice president to say who owned the bonds that were exchanged in 2010, and who was offering the bonds, but had received no response. 24

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In addition, Boudou is facing other corruption investigations, including his relationship to the company that prints Argentine currency, as well as illegal activities and accepting gifts during the 2011 presidential campaign.\textsuperscript{25}

With Boudou’s help, Gramercy also sought to broker a new debt swap with the remaining sovereign debt holdouts that would end one of Argentina’s most watched international law suits. However, because the proposed Gramercy deal would not be negotiated directly with the Argentine government, but through third parties, it was never accepted.

Recently, as allegations of Boudou’s corruption have multiplied he has been largely shunned by Fernández de Kirchner’s small inner circle, lessening both his influence and that of Gramercy and shifting power to the radical Camporista group. Kicillof, the new finance minister and a leading voice of the group, has explicitly ruled out the Gramercy-brokered debt deal going forward, although other options are being studied.\textsuperscript{26}

The Lázaro Báez Case

The cases against Boudou are slowly moving forward and have hurt the government. But now Fernández de Kirchner is facing a far bigger headache. In recent months the president and her inner circle have been rocked by a series of investigative reports by TV host Jorge Lanata into the inexplicable fortune amassed by Lázaro Báez. Báez is one of Fernández de Kirchner’s closest business associates, as well as a close friend of the president’s late husband Néstor Kirchner, who preceded her in the presidency (2003-2007).

The long and convoluted case has led to serious allegations that Báez not only moved at least $65 million into offshore accounts for the Kirchner family, but that he has helped them earn millions of dollars by flipping real estate properties and paying them exorbitant rents on other properties.

The deep political and business ties of Báez’s with Néstor Kirchner became obvious after Kirchner’s death in 2010, when Báez revealed he had financed the construction of a massive crypt for Kirchner, standing three stories high and built in Rio Gallegos, the town where the two first met.


\textsuperscript{26} Leandro Gabin, “Kicillof evalúa cuatro propuestas para avanzar en una solución con los holdouts,” Infobae, February 19, 2014, accessed at: \url{http://www.infobae.com/2014/02/19/1544716-kicillof-evalua-cuatro-propuestas-avanzar-una-solucion-los-holdouts}
The building project attracted considerable notice in 2011, when the president, her son Máximo, several cabinet ministers who served under Néstor, dedicated the stone and marble burial vault in a televised event. Báez acknowledged to the press that he had funded the project but would not say how much it cost.

Investigative journalists began piecing together the story of the Báez-Kirchner relationship that had rocketed Báez to the upper echelons of Argentina’s business elite. They found that Báez, prior to working on Néstor’s 1991 campaign for governor of Santa Cruz, had been a clerk in a state owned bank. His main asset, according to his tax filings at the time, was a 17-year-old Ford Falcon.

His amazing rise from bank teller to president of the bank following Néstor’s election, to construction magnate handling millions of dollars in government projects after Néstor’s surprising and successful presidential run in 2003, closely tracked the political fortunes of the Kirchners.

Báez now faces criminal investigations into suspected illicit financial activity, extortion and political corruption that have taken a significant toll on Fernández de Kirchner’s political standing.

Figure 1: Mausoleum of Néstor Kirchner financed by Báez.
Following Néstor’s election Báez set up a new construction company named Austral Construcciones and soon became a major contractor to the national government on many of the massive public works projects favored by Kirchner.

Investigators further found that Báez had paid the Fernández de Kirchner family millions of dollars in rental on properties he secretly owned – income the first family never declared in their financial disclosure forms. This may help explain the significant growth in the declared personal wealth of the president, impressive even without including some of the deals related to Báez. Fernández de Kirchner declared personal worth of $1.6 million in 2003, when her late husband Néstor Kirchner was elected president, an amount which grew to $18 million by the end of 2012, the most recent data available – an increase of more than 1,000 percent.

The bulk of the declared growth in assets, using valuations of properties far below market value, came in 2008, shortly after Cristina took office. That year her wealth jumped from $5.2 million to $12.7 million, and it continued to grow in the ensuing years. The salaries of the president and her late husband Néstor, who preceded her as president, amounted to less than 4 percent of her wealth.

When Cristina succeeded Néstor in 2007 Báez continued to grow apace, and when Néstor died in 2010, the widowed president proved to be as supportive of Báez as her husband had been.

One Argentine paper recently calculated that between 2009 and 2013, Báez-owned companies, primarily Austral, collected 70-75 percent of all public works spending in his home region, which totaled about $100 million a year.


The value in dollars was derived by dividing the figures by the official exchange rate of 5 to 1. The article gives a year-by-year breakdown of what she declared, and shows that much of the growth in the family wealth in 2008 came from selling properties that had very low declared values but were sold at values far above those valuations. Her holdings include a luxury hotel, more than a dozen apartments and prime real estate in her home region of Santa Cruz. For a more detailed look at the anomalies in the president’s declaration see: Daniel Santoro, “Las dudas sobre el crecimiento de su patrimonio que Cristina no le pudo explicar a Darín,” Santoro Investiga: Blog, January 14, 2013, accessed at: http://santoroinvestiga.wordpress.com/2013/01/14/las-dudas-sobre-el-crecimiento-de-su-patrimonio-que-cristina-no-le-pudo-explicar-a-darin/

29 “43300515 no es un teléfono, es la cuenta dl Banco Nación usada por Néstor Kirchner para bajarle fondos a Lázár Báez, OPI Santa Cruz, August 7, 2013, accessed at:
In April 2013, popular TV host Jorge Lanata aired a report, based on videotaped interviews with two Báez underlings, who alleged that Báez had secretly shipped bags of euro notes out of the country on behalf of the Kirchners. The news came as the Fernández de Kirchner government was tightening rules governing the movement of foreign currencies, making it illegal to store foreign currency abroad. The exposé prompted a criminal investigation by Argentine prosecutors who alleged in court filing that Báez had begun moving funds out around 2006, and in 2011 had moved more than $65 million worth of 500-euro banknotes out of the country.

The Lanata exposé on his program “Journalism for All” played out over several weeks and garnered astronomical ratings. In an effort to dampen his ratings, the government moved the national broadcast of a major Argentine soccer match to the same time slot – and Lanata’s program still won the rating in a nation of soccer fanatics.³⁰

Lanata’s shows featured documents and videotaped statements by two alleged Báez underlings, who told of taking sacks of money on corporate jets to open accounts in tax havens around the world in the names of difficult to trace companies.

The allegations turned into a national soap opera because one of the associates, Leonardo Fariña, is the ponytailed and flamboyant socialite husband of one of Argentina’s top beauty models, Karina Jelinek. While possessing no visible means of support, Fariña drove Ferraris and BMWs, rented a $30,000 a month home and bought his wife a ring from Tiffany valued at 40,500 euros.

Journalistic investigations linked him to money laundering activities in Panama several years before the Báez scandal broke.31

Argentine prosecutor José María Campagnoli moved rapidly, turning up large quantities of incriminating transaction data, immigration and flight records, securities trades, and copies of cancelled checks.

In June 2013 Campagnoli submitted the most complete judicial investigation into the case, alleging the money transfers began in 2006 and moved through a maze of shell companies in multiple jurisdictions, including Panama, Nevada, Switzerland and the Seychelles Islands.

The latter jurisdiction caught the attention of investigators because on January 21-23, 2013 Fernández de Kirchner had made an official though unpublicized visit to

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the Seychelles capital of Victoria on her return from an Asian tour. Her spokesman described the visit as a spur of the moment decision based on the need of the pilots to rest, but the Seychelles government had enough advance notice to assemble an honor guard to greet her and her small entourage at the airport.

![Figure 4: President Fernández de Kirchner arrives in the Seychelles on a state visit](image)

After several muddled explanations of the stopover, which was far off the normal route she would have taken to get home, the government in March finally officially acknowledged the state visit in the official government gazette. The government has declined to provide any further details of the trip.32

The Báez investigation now appears to be stalled. Prosecutor Campagnoli, who released a lengthy report in May of 2013 that detailed how $65 million made its way from Helvetic Services Group through a European bank to a bank account of Báez’s most prominent business, soon found himself under investigation by pro-government judges.

In October, prosecutor Jorge di Lello confirmed that Campagnoli was being investigated for improper contact with the media group Clarín, which employs Lanata.33 In December Campagnoli was suspended from his post at the request of

32 BOLETIN OFICIAL Nº 32.599, Miércoles 13 de marzo de 2013
33 “Di Lello Confiro que se investiga si a fiscal Campagnoli Clarín le hace los escritos,” Noticias Terra, October 2, 2013, accessed at: http://noticias.terra.com.ar/politica/di-lello-confirmo-
attorney general Alejandra Gils Carbó, and was replaced by Cristina Camaño, formerly the second-ranking official in Cristina’s Security Ministry.  

**Conspiracy Theories Instead of Policies**

To counter her critics and slumping approval ratings Fernández de Kirchner has largely returned to the policy of fabrication and conspiracy theories that guided her inflation reporting policy until last month.

As prices have shot up, Fernández de Kirchner has responded by imposing price controls on all major food goods -- sending crowds of Camporistas to check prices at stores and supermarkets -- and blaming the ensuing scarcities on the unbridled greed of farmers, merchants, and truck drivers rather than the fact that inflation and misguided policies have led to a significant contraction of Argentina’s food production sector.

Similarly, the government said, the blackouts in recent months that shut off electricity for hours a day in Buenos Aires and other major cities were not the fault of the government’s poorly maintained transmission grid, but the result of the distributors’ negligence and consumers’ over-consumption of electricity.

Despite widespread protests, her Energy Secretary Daniel Cameron largely avoided the media throughout the period, and was observed playing golf at the height of the crisis.  

A few weeks later, as the peso devalued 15 percent in a single week, she flew off to Cuba for a regional summit, arriving several days before the meeting started while her countrymen were left wondering what the containment strategy might be. Felipe Noguera, a pollster, told Bloomberg News that “In Argentina many people are asking who is governing. If she is trying to give the impression that nothing is going on, I don’t think it’s a good strategy.”

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When police went on strike in December for higher wages, looting broke out across the country, leaving 13 people dead and an estimated $100 million in property damage. Because the governor of Córdoba, where the strikes and looting started, is from the opposition, Cabinet chief Jorge Capitanich referred to the riots as “exclusively” an issue for Córdoba to figure out, not a problem of the central government.  

As the police unrest spread to the provinces of Buenos Aires, Entre Rios, Tucuman, Chaco, Santa Fe, and Tierra del Fuego, the federal government took a more active role. When the crisis had largely subsided, Fernández de Kirchner said the strikes’ spread was neither a coincidence nor a spontaneous contagion, but rather the product of her government’s enemies.

The Presidential Absence and La Cámpora’s Takeover of Economic Policy

Fernández de Kirchner, despite a series of national crises, has been largely absent in recent months, disappearing from public view for weeks at a time following her brain surgery in October, and sending out streams of tweets on her Twitter account rather than engaging in substantive policy decision making with her cabinet. This has generated significant speculation that she will not be able to serve out her term.

Once a constant presence on national television and in public events, her prolonged absences have clearly eroded her authority and led to constant, public bickering among senior government officials over what official policy is and who speaks for the government.

In the president’s absence the most militant of her self-declared Marxist advisers – those who have consistently argued that the rule of law is a myth perpetuated by big business interests, and whose myopic polices have cost the treasury billions of dollars – have seized greater power, increasing the sense of economic uncertainty.

In an effort to impose more order, the president reshuffled her cabinet in November. No one has benefitted more in the new alignment than Kicillof, the most visible face of the Camporistas, who was named minister of economy.\textsuperscript{42}

![Figure 5: Axel Kicillof, Argentina’s minister of economy, with President Cristina Fernández de Kirchner](image)

Kicillof, known for his long sideburns and radical writings on economics that earned him fame for being “left of the left” has long had a hand in Fernández de Kirchner’s economic policies – he is the main architect of the restrictive currency controls and export and import policies, and the expropriation of the Spanish oil company Repsol. He was also a senior executive at Aerolíneas Argentinas, the national airline, which lost almost $2 million a day on his watch.\textsuperscript{43}

Now he has used his new standing to marginalize most of the more orthodox thinkers, such as outgoing minister Hernán Lorenzino, who famously told a foreign TV interviewer “I want to leave,” when asked about Argentina’s inflation rate.\textsuperscript{44} More importantly, Kicillof has taken on the role as point man for trying to

\textsuperscript{42} “Fernandez reshuffles Argentina cabinet,” BBC News Latin America and Caribbean, November 19, 2013, accessed at: \url{http://www.bbc.co.uk/news/world-latin-america-25008845}

\textsuperscript{43} “Aerolineas Argentinas se cae a pique con el control de La Cámara,” Hoy en la Noticia, March 28, 2013.

\textsuperscript{44} Andrew Totman, “I want to leave’: Interview with Argentina Economy Minister Hernan Lorenzino goes viral,” The Telegraph, April 25, 2013, accessed at: \url{http://www.telegraph.co.uk/finance/economics/10019443/I-want-to-leave-Interview-with-Argentina-Economy-Minister-Hernan-Lorenzino-goes-viral.html}
renegotiate Argentina’s problematic foreign credit quagmire so Argentina can begin to borrow money again from international institutions.

Kicillof, who has bragged that he has the president “hypnotized,”45 seems particularly ill-suited to the task. The brash academic has written dozens of papers denouncing foreign lending institutions. He has publicly attacked a New York appellate judge Thomas Griesa, who ruled against Argentina in a sovereign bond case as a “Taliban of the financial sector,” claiming the judge was a defender of the interests of those who are “betting on the country going broke.”46

As his initial forays to China, Russia and Europe show, his open disdain for international negotiations has limited his ability to strike deals. One particularly bitter pill he likely will have to swallow is a negotiated agreement to pay Repsol, the Spanish oil company he successfully pushed to be expropriated, a $5 billion settlement after initially vowing that Argentina would not pay compensation.47

Kicillof was the architect of another tone-deaf move by the Fernández de Kirchner administration: the naming of Cecilia Nahón, a leading Camporista with no diplomatic experience, as ambassador to the United States despite her years of attacking capitalism and international lending agencies. Nahón authored several academic papers with Kicillof when both belonged to radical student movements and Camporista think tanks, and her husband is a senior executive with Aereolineas Argentinas.48

Widely regarded by the White House and State Department as a lightweight, Nahón has been so ineffective that her primary role is delivering messages from her government to the lawyers representing Argentina in a bitter fight with hedge funds over repayment of debt from Argentina’s last financial collapse at the turn of the century.

The rise of the Camporistas is covered in detail in the previous writings, but the ascension of Kicillof has given them access to an entirely new revenue stream through which hundreds of millions of dollars flow—money that flows to Venezuela and Iran in untraceable ways.

45 Ezequiel Burgo, “Axel Kicillof: Los secretos del guru económico que logró hipnotizar a Cristina,” Clarín, April 15, 2012. (LINK)
48 For a more complete look at Nahón and the Nahón-Kicillof relationship in La Cámpora see Farah, “La Cámpora in Argentina,” op. cit.
Nación Fideicomisos S.A.

Nación Fideicomisos S.A. (NF) is a branch of Banco de la Nación Argentina (BNA), a state-owned Argentine financial group which has been under scrutiny by the U.S. Treasury Department for suspected money laundering activities. BNA has also been a key player in the Lázaro Báez case, extending unusually large credits totaling more than $47 million to two of Báez’s firms on favorable terms.49

The fideicomiso is a structured financial vehicle that functions like a trust, and handles large financial transactions to pay for large public works projects and other major expenditures and thus a vehicle to handle hundreds of millions of dollars.

Under the Fernández de Kirchner government, different funds within the NF have been established to handle hundreds of millions of dollars in bilateral trade, particularly oil imports by Argentina from Venezuela, as well as to provide financing to private companies working on state projects, such as Baez’ Austral Construcciones.

A confidential Venezuelan government document projects that just one such fund, called “Serie II” in the NF, between the Venezuelan state-owned oil company PDVSA and the Argentine state owned Energía Argentina S.A. (ENARSA), and the Compañía Administradora del Mercado Mayorista Eléctrico (CAMMESA), would handle over $1 billion from 2012-2014. Other confidential Venezuelan and Argentinian government documents discuss more than $5 billion in other transactions.50

There is virtually no oversight of NF entities, and the guidelines for the types of transactions they can engage in are defined with each transaction. For example, one of the NF trusts established in conjunction with Venezuela carried an unusual rider in Annex I, dated November 1, 2012, saying:

One time disposition: Without prejudice regarding the products included in Annex II, the Bolivarian Republic of Venezuela and the Republic of Argentina can reach agreements on any other products that might be needed by state entities, organizations or companies of the Bolivarian Republic of Venezuela.51

In other words, the trust can be used to finance whatever the Venezuelan government may need it for, with no questions asked.

50 Documents in possession of the author.
Given the proven track record of Kicillof and the Camporistas for seeking direct control of sectors of the government that control large amounts of cash under little public scrutiny, NF was a natural target. Given that all the enterprises they have taken over have quickly begun running deficits, and spent vast amounts of money in unexplained ways, it is not hard to see why NF has begun having difficulties even with traditional allies like PDVSA in Venezuela.

Since 2012, when Kicillof was deputy economics minister, he has worked hard to take control of NF and BNA, and his loyalists now have a majority of the directorships. In September 2012, Enrique Osvaldo Arceo was named to the board of directors of BNA and simultaneously the president of NF.

Arceo is former Marxist guerrilla who has had a distinguished academic career in which he has been a constant ally of Kicillof and his economic policies. He was named to the BNA board by presidential decree and without the customary bank board meeting to review nominees to the bank leadership. Perhaps just as importantly, he is the father of Nicolás Arceo, Kicillof’s best friend, top adviser and leading Camporista, whom Kicillof helped become head of the nationalized (and faltering) YPF oil company.

Two other Camporistas whose appointments Kicillof helped engineer are Esteban Alejandro Acerbo and Cecilia Fernandez Bugna, who, in addition to serving as directors of NF, also are directors of Nation Leasing, another entity of BNA.

Under the new leadership, NF threw a financial lifeline to two of Báez’s main companies, extending the period of repayment of hundreds of millions of dollars by a year, after the legal investigations had begun against him. Under terms of the trust, NF was to immediately suspend financial activities if there were to be “any judicial or extrajudicial resolution” relating to those operating the trust, and Báez’s companies had to state it had no knowledge of any judicial proceedings or investigations against the companies, something that was obviously untrue.

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The Elephant in the Room: Drug Trafficking Explodes

Over the past two years, a series of reports by the United Nations, the U.S. State Department, and Argentine and international investigative journalists have documented Argentina’s growing role as a transshipment center for cocaine heading to Europe; a major source of chemicals for the fabrication of methamphetamines; a major money laundering center; and a growing center of consumption.

A November 2013 documentary aired by Vice network, journalist Peter Scheffer filmed hundreds of people at a time carrying sacks of contraband good, much of it cocaine, from neighboring Bolivia, on Argentina’s northern border, to waiting vehicles on the Argentinian side. He also found that uncontrolled and unregulated trafficking flowing from Argentina to Bolivia provided key precursor chemicals to Bolivian cocaine “kitchens,” or small laboratories, that straddle the border.55

Claudio Izaguirre of Argentina’s Antidrug Association identified six cartels operating in Argentina, including Colombians in Rosario, Mexicans in northern Buenos Aires, and Bolivians along the northern route through Salta. Argentina is suffering from a convergence of several factors that make it attractive for a host of transnational criminal organizations, including Mexican, Serbian, Bolivian, Colombian and Chinese drug trafficking organizations.56

The Fernández de Kirchner government has been particularly lax in border enforcement and has few functioning radars or other monitoring devices along its porous borders with Bolivia, Paraguay, Uruguay and Brazil.57 Bolivian President Evo Morales has allowed cocaine production in his country to expand, so there is a greater amount of product moving to market.

At the same time neighboring Brazil and Chile are taking increasingly active measures to protect their borders, leading to a funnel effect with cocaine from Bolivia and Peru – and some from as far away as Colombia – all being pushed toward Argentina, the path of least resistance.

“Ninety percent of the cocaine coming into Argentina would come through Salta,” Federico Peñedo, an investigative reporter, told Vice. “Why Argentina? Because Argentina has not had radars on its borders for 10 years. If Brazil has 7,000 soldiers on their border, dozens of helicopters, planes and radars, and Chile has an important (counter-narcotics) operation as well, where are they going to cross? Through Argentina, to get to the sea.”

The main route from the Bolivian border south is Route 34 (Ruta 34), the main highway that runs from Salvador Mazza in the north, to Rosario, near Buenos Aires, to the southeast (See map above). Along the way the load can change hands several times, and the law enforcement and port officials take a cut to let the merchandise pass.58

Known as the “White Road” (Ruta Blanca), the Route 34 traffic is leaving an increasing toll of violence and chaos in its wake. The hub of the violence, where the

57 “Despouy, op cit.
cocaine is consolidated into larger shipments to move to the coast, is the city of Rosario.

According to numerous published reports and public statement by local officials, Rosario's violence is unlike any seen before in the region. The skyrocketing homicide rate, while far below that of Ciudad Juárez in Mexico, or Central America’s Northern Triangle, is alarming both for the numbers as well as the types of killing.

The number of homicides in Rosario has grown from 70 in 2004 to 163 in 2012, and then jumped to 264 in 2013. In the first 20 days of January there were 28 murders, more than half by sicarios, or hired hit men, for as little as $500. The killers often use the Colombian method of a two-person motorcycle team, with the rider on the back shooting the victim before the driver speeds off into traffic. So far, less than half the homicides have been solved.59

Other signs of the growth and expansion of drug trafficking are abundant. There have been many first time cocaine-related incidents in the past 18 months: cocaine laboratories found for the first time in the southern reaches of Patagonia;60 ecstasy labs in different parts of the country;61 the emergence of Argentine drug trafficking structures in Europe and elsewhere;62 and, drug gang warfare which leaves innocent bystanders dead.63

“It will only get worse, because the country is in turmoil, and no one is paying any attention to this, except where people are getting killed,” said one Argentine intelligence source. “You can see it corrupting the governments, the judges, the law enforcement, but with so many other crises, nothing is being done. And the president would like it to stay that way.”

Conclusions

It appears that Fernández de Kirchner’s government is pragmatic enough to try to do the minimum it feels it must in order to avoid collapse. Given the multiple challenges facing the government, that minimum is not likely to be enough. With foreign reserves falling to dangerously low levels, and the government unable to attract significant investment -- yet steadfastly unwilling to rethink the underlying catastrophic drivers of the crisis – there remains little room for compromise and correction.

Capital flight, despite the draconian measures enacted to slow it down, continues. Those who can do so try desperately to hedge against rising inflation by taking their money, in foreign currency, outside of Argentina. The rule of law continues to deteriorate while transnational organized crime groups gain an ever-widening operational capacity.

The president’s unpredictability and erratic personal and policy decisions have alienated Argentina’s neighbors and soured relations with the United States and Europe. Her long-time hope of building a mutually beneficial alliance with the Maduro regime in Venezuela has foundered, despite the diversion of hundreds of millions of dollars with virtually no return to show for it.

The irony of two of the continent’s potentially richest countries sinking together under the weight of similar authoritarian dreams and statist incompetence should not be lost on the surrounding countries.

The significant number of new corruption cases touching the president and her important allies has further debilitated the president. Fernandez de Kirchner’s losses in the 2013 congressional elections have dashed her dreams of changing the constitution to serve unlimited terms. With historically low approval ratings, the president has turned inward to a shrinking inner circle comprising the most radical Utopian Marxist leaders of La Cámpora. Their fervid vision of creating a functioning alternative economic model based on the Kirchners’ inscrutable philosophy has proven to be an empty one.

Time is running out. As the police strikes and looting earlier this year showed, Argentines, particularly the middle class, have run out of patience. The social fabric of a once-prosperous society is fraying. Rising levels of violence, open intimidation of judges in drug trafficking cases, and murders by hired killers on motorcycles, are all relatively new to Argentina. Absent a significant change of course, the situation will become unsustainable. Fernandez de Kirchner’s government is unlikely to be the source of such change.