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HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon Tessa Jowell MP
House of Commons
London
SW1A 0AA

Your ref: 01094097

27 January 2010

Dear Tessa,

As you know, your letter of 17 December to Douglas Alexander enclosing correspondence from your constituents about Vulture Funds has been passed to the Treasury. I am replying as I have Ministerial responsibility for this policy area.

The UK Government shares your constituents' concerns about so-called 'vulture funds'. The Government thoroughly deplores these funds and we have taken a leading role in combating the damage caused by their activities. We have concentrated our efforts so far in two areas: preventing debts from falling into the hands of vulture funds, and helping countries to defend themselves. We are now proposing to go further, and have consulted on legislating to protect poor countries from the activities of vulture funds.

Our key priority has been to help countries buy back their commercial debts at a substantial discount. This means that, with the help of donors, these debts are written off and can no longer fall into the hands of vulture funds, and court cases get dropped. For example, we have helped Liberia buy back its debt for only about 3 per cent of its face value. US \$1.2 billion of Liberia's commercial debt - that's equivalent to 4 times its Gross National Income (GNI) - was cancelled. This significant reduction of Liberia's debt burden will help the country get back on track for economic growth and development and make a difference to all its citizens. In another example, we supported Nicaragua to buy back its commercial debt, which led to all legal proceedings against the country being dropped.

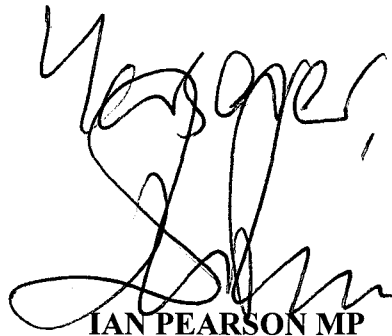
More than \$10 billion of poor countries' debts have already been cancelled in this way. The Government has therefore recently committed more funds, up to £10 million, for future operations.

We have also won support from other countries not to sell on their claims to those who do not provide debt relief. As a result, Members of the Paris Club (an informal group of 19 governments) and EU member states have publicly stated their commitment not to sell their claims to creditors unwilling to implement the Heavily Indebted Poor Countries (HIPC) Initiative.

Finally, we are giving countries the legal expertise necessary to defend themselves from vulture funds. For example, the African Legal Support Facility has recently been launched with our support and will advise countries on how to avoid debts falling into the hands of vulture funds in the first place. If funds are already in possession of these debts, lawyers will help governments to fight legal cases. We have committed £5 million to support this and helped Zambia to pay its legal fees when it was targeted by a vulture fund in 2007. This case demonstrated the value of high quality legal advice: the court reduced Zambia's liability by around \$40 million. This represents two-thirds of the country's annual budget for primary schools.

While these measures have gone a long way towards reducing the problem, and freeing up vital development funds in poor countries, there remains a risk that the efforts made by participating countries are negated by a minority of creditors who choose not to take part in the HIPC scheme. I favour changing the law to address this problem and hope to support legislation brought forward this Parliament.

Please pass on my thanks to your constituents' for taking the trouble to make me aware of these concerns and I hope they find this response helpful.



IAN PEARSON MP