

Viewing cable 06BUENOSAIRES753, CODEL GRASSLEY DISCUSSES TRADE AND AGRICULTURE IN

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SUBJECT: CODEL GRASSLEY DISCUSSES TRADE AND AGRICULTURE IN ARGENTINA

REF: A. 05 BUENOS AIRES 0210

[1](#)B. BUENOS AIRES 0560

[1](#)1. This cable is sensitive but unclassified, and not for Internet distribution.

Summary

[1](#)2. (U) Senator Charles Grassley (R-IA), Chairman of the Senate Finance Committee, led a delegation to Argentina March 23-26 for discussions related to trade and agriculture with GOA officials and Argentine congressional counterparts. The CODEL also received a briefing on the local business climate from representatives of the U.S. business community. The

CODEL pressed the U.S. trade agenda with Deputy Foreign Minister Roberto Garcia Moritan and Trade Secretary Alfredo Chiaradia, as well as with Central Bank President Martin Redrado, a former Argentine trade secretary. Ambassador Gutierrez hosted a working lunch with Argentine legislators, which focused upon agricultural issues of common interest, and the CODEL raised similar issues with Argentine Secretary of Agriculture Miguel Campos.

¶3. (U) The U.S. delegation also included: Senator Michael D. Crapo (R-ID); Senator Wayne Allard (R-CO); Representative Steve King (R-IA); Representative Phil English (R-PA); Representative Collin Peterson (D-MN); Representative Darrell Issa (R-CA); Representative Russ Carnahan (D-MO); and Mr. Everett Eissenstat, Assistant U.S. Trade Representative for the Americas. End Summary.

AMCHAM Breakfast

¶4. (U) The American Chamber of Commerce hosted a breakfast for CODEL Grassley and twelve U.S. companies. The companies briefed the CODEL on agriculture-related trade issues in preparation for the CODEL's meetings with GOA officials. The breakfast began on an upbeat note with comments from AMCHAM's president that focused on Argentina's high level of consumer confidence, fiscal surplus, growing exports, and declining unemployment. Senator Grassley focused on GMO issues and Monsanto's royalty problems (Reftel A). He expressed concern over Argentina's lack of respect and non-payment for intellectual property and the damaging effect that is having on U.S. farmers.

¶5. (U) Many of the CODEL's members argued that it is in the interest of the U.S. to promote economic and political ties with the Southern Hemisphere and to stress the importance of mutually open markets, particularly in light of increasing Chinese competition. Several Congressmen remarked that they are in favor of pursuing a U.S.-Argentina Free Trade Agreement, which they said could aid in advancing the FTAA.

¶6. (U) The GOA's policy of controlling inflation through price controls and limiting exports was discussed. Breakfast participants felt that this reflected a short-term viewpoint that will have a negative impact on investment in Argentina. The lack of investment in the energy sector was another topic of discussion, and the CODEL was told that because there has been little new investment for exploration since 2001, Argentina's oil and gas reserves are shrinking and the country is poised to shift from being an energy exporter to a net importer of energy.

MEETING WITH FOREIGN MINISTRY

¶7. (SBU) The CODEL was received in the Argentine Foreign Ministry by a delegation led by Deputy Foreign Minister Roberto Garcia Moritan, MFA Secretary of Commerce and Foreign

Trade Alfredo Chiaradia, and Office of North American Affairs Director Vicente Espeche Gil. (FM Jorge Taiana, who had intended to be present, was called away at the last minute to meet with President Kirchner.) Garcia Moritan welcomed the congressional delegation and noted their visit was taking

place on a newly established holiday remembering the 30th anniversary of the military coup, which led to one of the darkest periods of Argentine history. He said that while democracy was now well established, the people of Argentina were continuing to strengthen their democratic institutions.

¶8. (SBU) Senator Grassley began the discussion by thanking the GOA for its cooperation on a number of issues of mutual concern, namely: Argentine counterterrorism efforts in the tri-border region; their active support in the UN Security Council on non-proliferation issues in general and on Iran in particular; the promotion of terrorism financing legislation in the Argentine Congress; and Argentine contributions to the peacekeeping mission in Haiti. Garcia Moritan responded that Argentina supported these efforts "because we believe in them." He said Argentina had joined in the fight against terrorism because it was important to do so. The same was true, he said, with non-proliferation and with weapons of mass destruction. However, he commented that the GOA was concerned about the recently announced U.S.-India nuclear cooperation agreement. He claimed that it set "a bad precedent" and could have a negative effect on the Non-Proliferation Treaty.

¶9. (SBU) Turning to trade issues, Senator Grassley said time was now an issue as the President's special negotiating authority would expire on July 1, 2007. Specifically on agricultural disputes before the WTO, he said these were used by some countries to hide other issues. Regarding agricultural subsidies, Senator Grassley said negotiations cannot be one-sided. However, the U.S. will honor agreements once they are made. He commended the GoA for its role in the recent Hong Kong discussions.

¶10. (SBU) Chiaradia assured the CODEL that there was much common ground between the GOA and the U.S. in the WTO negotiations. He said an agreement was in Argentina's interest but that it must be an equitable one. He said the U.S. position in the talks was reasonable and ambitious and that the real difficulties lay with the EU and Japan. He said market access was not the only issue and that agricultural subsidies needed to be eliminated.

¶11. (SBU) Senator Crapo noted the U.S. Congress was ready to address the subsidies issue, even in agriculture. He noted, however, that there is an expectation that the U.S. would reduce subsidies without some reciprocal move by other nations. He noted that if market access was not on the table, the U.S. was being asked to agree to subsidy reductions on good faith alone. Senator Allard said he favored the elimination of all trade barriers and that this view was widely supported in Colorado. He agreed with Chiaradia that the real obstacle to an agreement was coming from EU countries.

¶12. (SBU) The meeting ended with a discussion of the dispute with Monsanto over royalty payments for genetically modified soybean seeds. Chiaradia disputed the real reason behind Monsanto's efforts to collect royalties on the use of Roundup Ready soybean technology, claiming it had only become an issue after the expiration of Monsanto's patent on the herbicide. He said the GOA was ready to negotiate with Monsanto on both royalties and second generation seeds. However, the GOA would not do this "under the gun" referring to legal actions taken by Monsanto in Europe against Argentine soybean shipments. Senator Grassley noted that in addition to being an IPR issue, the Monsanto dispute was also a very real trade issue for American farmers who had to pay royalties and were being placed at a very real trade disadvantage vis-a-vis Argentine growers.

Meeting with Central Bank President

¶13. (SBU) Central Bank President Martin Redrado provided a wide-ranging overview of the Argentine economic recovery, which he attributed to five factors: strong fiscal management by President Kirchner with a "sustainable" three percent primary fiscal surplus and good financial performance by provincial governments; the adoption of a flexible exchange

rate; an aggressive trade policy that has opened new markets and made China a major trading partner; "prudent, predictable and transparent" monetary policy by the Central Bank; and a smaller but much sounder financial system whose assets matched liabilities and which have much less invested in public debt instruments. These policies came in the context of a good external environment for Argentina in particular and for Latin America in general, Redrado said, and he was "confident that the next economic crisis would not come from Latin America."

¶14. (SBU) Senator Grassley asked what the GOA would do when it paid off all of its debt. Redrado said that Argentina's infrastructure needs were still very high, and that while the economy has recovered a lot in the past few years, "Argentina is slowly becoming a normal country." Senator Grassley asked if he was worried about inflation and if so, what was he doing about it? Redrado said yes, he was worried, but said the current inflation is in large part the re-adjustment of prices from the 2002 devaluation. As a result, Redrado said, "I have to be modest about what monetary policy can do" to contain inflation. A key worry going forward is energy. While prices began to adjust in 2005, "in hindsight, we should have bitten the bullet in 2002-03" and let prices adjust then. Now, Argentina faces double-digit recovery in energy prices that will push inflation. He said that fiscal policy is key for controlling inflation. Last year, spending increased 26 percent, ahead of revenue growth of 21 percent. This year, Redrado said spending should be back below growth in revenues, although he acknowledged that wage pressures remain very high. "We are still in a learning process about the need to link wages to productivity." The current nine

percent GDP growth is "not sustainable," and what is needed is to engineer a "soft landing" at 5-6 percent growth. On the monetary side, Redrado noted that the Argentine financial sector accounts for only 10 percent of GDP, which means that interest rate adjustments are not very effective as a way to restrain economic activity. He noted that "90 percent of our economy is still in cash." This will change over time, Redrado said. It took Chile 15 years from its last crisis to adopt an inflation targeting system, and it took Mexico 7 years.

¶15. (SBU) Representative Carnahan asked about the effect of health care costs on inflation. Redrado said that health costs are a concern, as they are rising at a 10-15 percent annual rate. The GOA has responded to this by negotiating price agreements covering 800 of the most commonly used pharmaceuticals. He also noted that "human capital is the key component" in health care costs. Salary increases therefore will be a major driver to health care inflation, and the GOA has to be cautious in its salary negotiations, which will set the standard for salary increases for provincial employees and the private sector.

¶16. (SBU) Representative English asked about how U.S. interest rates and China's exchange rate policies affected Argentina. Redrado said that since U.S. interest rates are the anchor for interest rates worldwide, any rise in U.S. rates puts pressure on Argentine rates. In Redrado's view, a major reason for the dollar's strength against the Euro recently has been the rise in U.S. interest rates. Although core inflation in the U.S. is under control, interest rates are still rising in the U.S. Eventually, that will mean more money flowing to the U.S. and less to emerging markets. However, Redrado noted that Argentina is in much better shape following its debt restructuring than Brazil, which has very high U.S. dollar debt exposure. Concerning China, Redrado said that all the actors seemed to understand what each one had to do -- China to make their exchange rates more flexible, the U.S. to raise its savings rate, and the Japanese to increase consumption -- but there was no coordination mechanism like the Plaza Accord to make them come about.

¶17. (SBU) Redrado asked the senators and representatives what they thought about reform to the IMF and other international financial organizations. Senator Allard said that there was no consensus in the Congress yet. He liked the Metzger Report on reforms, thought the IMF should focus on being a lender of last resort, and stated that there should be greater

oversight on the use of IMF funds for development. Redrado asked if a capital increase for the IMF would make it through the Congress. Senator Allard said it would depend on what reforms were adopted. Senator Grassley said that the World Bank was even more of a problem than the IMF, and that he would like to see World Bank funds go to specific projects, not to governments. There also was a "real feeling" that some countries had wiped out their middle classes following World Bank tax policies.

¶18. (SBU) Finally, Redrado asked the senators and representatives for their views on the World Trade Organization and the Doha Round. Senator Grassley replied that we only have a year to get a deal done, and that it was very unlikely that the Congress would re-authorize trade promotion authority. Senator Crapo said he was "pessimistic" that an agreement on agriculture could be reached after this trip. Between now and April is the key time. Senator Grassley said that the Europeans had to avoid "letting the French tail wag the European dog" to get an agreement done in time.

Lunch with Argentine Counterparts

¶19. (U) Ambassador Gutierrez hosted a working lunch for CODEL Grassley, and invited a number of Argentine legislators with agricultural interests. Ruling PJ party Senator Roberto Daniel Urquia from the Province of Cordoba headed the Argentine delegation, which also included PJ Representatives Maria del Carmen Alarcon from the Province of Santa Fe; Jorge Raul Giorgetti, also from Santa Fe; and opposition (PRO) Representative Federico Pinedo from Buenos Aires city. The turnout was significant, considering that the lunch took place on a Friday that was also a national holiday, and Senator Grassley joked that it would be impossible to find any U.S. legislators in Washington under similar circumstances.

¶20. (SBU) Urquia began by offering the CODEL an overview of Argentine agriculture. He pointed out that Argentina expects a record soybean crop of around 40 million tons this year, and in response to a question by Senator Grassley noted that such a bumper crop had been predicted by Argentine experts. Recent strength in soybean production has come about due to advances that result in higher yields per acre, but also because large amounts of land once dedicated to livestock have been converted to farmland, Urquia said. A recent drought means that Argentina's corn production is likely to come in at approximately 13 million tons, well under the original estimate of 18 million tons, according to Urquia. Urquia ended his presentation by suggesting that Argentina, Brazil, and the U.S. form a soy cartel & like OPEC to maximize revenues all around. That idea failed to find favor with any members of the CODEL.

¶21. (SBU) Senator Grassley prompted a lengthy discussion when he asked Urquia about Argentina's plans for using soy to produce biodiesel fuel. Urquia replied that he and his colleagues in Argentina's Congress all see a bright future for biofuels in Argentina. In fact, Urquia added, the Argentine Chamber of Deputies (House of Representatives equivalent) passed a framework law March 23 to spur production of fuels using soy, sugarcane, and corn. Alarcon added that the law will stimulate the production of oilseeds and corn. Urquia opined that the best legislative result for Argentina would be a law requiring a five percent biofuel content in all & regular fuel. Senator Grassley explained that six percent of the U.S. corn crop is currently dedicated

to biofuel, and predicted that number would rise to 20 percent in three years.

¶22. (SBU) There followed a discussion regarding the relative merits of various crops as biofuel inputs, with Representative Peterson explaining why corn is the most efficient and most utilized such input in the U.S. Senator Urquía commented upon the EU's preference for rapeseed. Senator Grassley provided the Argentine delegation with a brief history of ethanol in the U.S., and explained how best to structure production in order to allow farmers to maximize

their benefits. Senator Crapo asked whether Argentina was considering using rapeseed for biofuel production, but Alarcon said that Argentine farmers are only looking at soy in that context at the moment. Alarcon added that she and her colleagues are concerned about the quality of biofuel, saying no one wants to see a low-quality fuel ruin the engine of expensive agricultural machinery. Senator Grassley reassured her on the quality issue by explaining that every John Deere tractor coming off the plant near his home has a 20 percent biofuel mixture in its fuel tank.

¶23. (SBU) As the lunch ended, Giorgetti lamented Argentina's lack of a real development bank, saying it puts Argentine producers at a significant disadvantage compared to their Brazilian competitors. He then asked the CODEL about possibilities for enhanced U.S.-Argentine agricultural cooperation on the national and provincial levels. Ambassador Gutierrez assigned the Agricultural Counselor to investigate such possibilities.

Meeting with Secretary of Agriculture

¶24. (SBU) The CODEL then met with Secretary of Agriculture Miguel Campos and Undersecretary of Agriculture Fernando Nebbia. Campos began by stressing the need to work together in areas of common interest, mentioning Bovine Spongiform Encephalopathy (BSE, or Mad Cow disease) and avian influenza as specific issues on which both countries have much common ground. He added that he is hoping for some "strong signals" of support from the U.S. Senator Grassley countered by pointing to the U.S.'s groundbreaking agricultural offer at last December's WTO ministerial in Hong Kong, and asked Campos what more the U.S. needs to for its concessions to be recognized. Campos replied that he knows that Argentina and the U.S. have very different positions on subsidies, but there is a lot that the two countries can do together, on market access in particular. Nebbia said that Argentina realizes that the U.S. position at the WTO was a very strong starting point, but was not enough to keep the ball rolling. He said that Brazil is playing a role within the G-20 that Argentina cannot accept (Note: Nebbia did not elaborate. End Note.), and that Argentina is prepared to work with the U.S. at the WTO on many issues, especially those issues that place market access progress in danger. Argentina understands the U.S. position at the WTO, even those positions she opposes, Nebbia added.

¶25. (SBU) Senator Grassley asked Campos to specify the type of signal he would like to see, and Campos mentioned his hope that the U.S. will allow better access for Argentine poultry, citrus, beef, and processed food products. Campos said that Argentina had given the U.S. the sort of help he is asking for when he took a chance and approved the import of bull semen and bovine embryos from the U.S. following the detection of a BSE case there. Nebbia commented that the U.S. has an important role to play in pushing the EU to better its own offer on agriculture, which prompted Representative English to express his mystification about why the U.S. should be held accountable at the WTO for Europe's actions. English said that Argentina is in a very powerful position if it is in some way unhappy with Brazil's G-20 role; as a Mercosur member, Argentina presumably has more influence over Brazil than do many other nations. The U.S. has been "carrying as much water" as the G-20 for developing countries at the WTO, English said, adding that the U.S. has made a particular effort to lead on issues that matter to those countries. English stressed that the Bush Administration's position at the WTO accurately reflects U.S. public opinion and the opinion of the U.S. Congress.

¶26. (SBU) Nebbia replied that Argentina does not hold the U.S. responsible for Europe. Rather, the U.S. is the only country with enough muscle to move the EU. (Note: Chief EU Trade Negotiator Peter Mandelson visited Buenos Aires the week following Grassley's visit, but the visit did not result in any changes to the positions of the EU or Argentina in the WTO. End Note.) Argentina appreciates that the U.S. has moved strongly on market access, Nebbia continued, but at the end of the day the process is still frozen, and that is what

matters. Representative Peterson asked why, if Argentina is so concerned about exports, is it making them so expensive via export taxes or shutting them down altogether as in the export ban on beef (Reftel B). Campos explained that Argentina is using export tax revenues to help the truly poor segment of its population. He questioned why the U.S. closes its markets to Argentine beef because of Foot and Mouth Disease, which is harmless to humans, but then blasts Argentina when it temporarily shuts down exports to better feed its own people. Campos added that Argentina is not satisfied simply selling soy to the world, and would also like to export dairy products like milk and cheese. Even with the five percent tax the GOA places on dairy exports, Campos said, there is no cheaper producer of those products in the world, but Argentina still has little access to the U.S. or European markets.

¶27. (SBU) Ambassador Gutierrez asked Campos to clarify the GOA's export ban on beef, noting that some U.S. companies purchase cooked Argentine beef and asking how those exports will be affected. Nebbia replied that all existing contracts will be honored, and reiterated that the ban is a temporary measure that he hoped will have expired by the time the contracts to which the Ambassador referred need to be renewed. Campos then raised the same arguments about Argentina's festering dispute with Monsanto that the CODEL

had heard earlier at the MFA. He told the CODEL that Argentina and the U.S. have always worked hand-in-hand regarding biotechnology, but the dispute with Monsanto is threatening the future of Argentine agriculture. Senator Grassley said that Congress had hoped to hear of progress in this case, but that it doesn't appear as though a solution is in sight. Campos and Nebbia agreed with that analysis.

¶28. (U) Senator Grassley did not clear this cable.

¶29. (U) To see more Embassy Buenos Aires reporting, visit our website at: <http://www.state.sgov.gov/p/wha/buenosaires>

GUTIERREZ