

Viewing cable 07BUENOSAIRES173, DUSTR VERONEAU VISITS ARGENTINA - ROOM FOR IMPROVEMENT

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Reference ID	Created	Released	Classification	Origin
07BUENOSAIRES173	2007-01-31 12:08	2011-08-30 01:44	UNCLASSIFIED//FOR OFFICIAL USE ONLY	Embassy Buenos Aires

VZCZCXYZ0000
RR RUEHWEB

DE RUEHBU #0173/01 0311208
ZNR UUUUU ZZH
R 311208Z JAN 07
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 7109
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
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SIPDIS

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SENSITIVE

WHA FOR WHA/BSC AND WHA/EPSC
E FOR THOMAS PIERCE
PASS NSC FOR JOSE CARDENAS, ROB HUNTER
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
PASS USTR FOR DUSTR VERONEAU, AUSTR EISSENSTAT, SUE CRONIN, AND MARY SULLIVAN
TREASURY FOR ALICE FAIBISHENKO
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER
OPIC FOR JOHN SIMON, GEORGE SCHULTZ, RUTH ANN NICASTRI
US SOUTHCOM FOR POLAD

Ref: BRASILIA 124

Summary

¶1. (SBU) Deputy USTR Ambassador John Veroneau, accompanied by AUSTR Everett Eissenstat and Senior Director for the Southern Cone Susan Cronin, met with the Ministers of Economy and Foreign Affairs and with U.S. investors in a visit to Argentina that focused on developments in the Doha Round World Trade Organization (WTO) negotiations, internal Mercosur developments and Argentina's investment climate. U.S. investors noted they are generally profitable but remain very concerned by the GoA's unpredictable interventions and regulations in Argentine markets. Foreign Minister Taiana said that, five years after the deepest economic crisis in Argentine history, the nation is developing a "mature" approach to economic development with a mix of private sector and state participation that moves away from the extremes of the past and takes Argentina to being a "normal" country. Ambassador Veroneau expressed appreciation of Argentina's impressive post-crisis recovery and agreed that it remains up to each sovereign nation to determine just where on the spectrum between fully free and fully state-controlled markets it will stand. But, noting his discussions with U.S. investors, he stressed the importance of clarity and consistency in the GoA's regulatory regime in order to encourage the flow for foreign direct investment that Argentina needs to sustain its economic recovery.

¶2. (SBU) On trade, the Ministers emphasized the importance of agriculture to Argentina and other developing countries, arguing that a successful Round will require "sensible" trade-offs that are balanced, fair and in line with the spirit of the December 2005 Hong Kong declaration. Foreign Ministry Trade Secretary Chiaradia said that Argentina could not agree to developed nation demands for NAMA tariff cuts in the 70% range, but was willing to accept up to 50% cuts in Mercosur's 35% maximum applied tariffs in exchange for very substantial cuts in agricultural subsidies. At this 50% cut ceiling, Argentina could play a constructive role with both the G-20 and the NAMA 11. The discussion with the Ministers was frank and friendly overall. The only real surprise and disappointment was the confrontational approach taken by Chiaradia, especially when discussing the flexibility (or lack thereof) of the GoA's Doha position. END SUMMARY

Roundtable with U.S. Investors

¶3. (SBU) To better understand Argentina's business climate before meetings with GoA officials, Ambassadors Veroneau and Wayne heard from U.S. company manager members of the American Chamber Executive Board, including representatives of GM, Esso, Dow, Eli Lilly, Merck, Wal-Mart, Cargill, Coca-Cola, and PricewaterhouseCoopers. Veroneau reviewed ongoing USG efforts to revitalize Doha Round negotiations and our hemispheric trade priorities, including his January 24 FTA

consultations with Chile and his January 25 TIFA signing with Uruguay. U.S. companies noted they are generally profitable in the face of sustained expansion of domestic demand but that they remain very concerned by the GoA's sometimes heavy-handed and unpredictable

interventions in Argentine markets and the difficulties in eventually unwinding the complex network of cross-subsidies the GoA has constructed.

¶4. (SBU) U.S. companies shared their common concerns with the GoA's multi-faceted intervention in Argentina's energy sector: Esso noted that GoA control of retail gasoline and diesel prices at less than half of regional levels have squeezed its margins, highly distorted market consumption patterns and significantly reduced Argentine hydrocarbon export volumes. Dow cited constrained Argentine electricity generating capacity (due to the GoA's freezing of retail electricity tariffs and consequent lack of investment in new capacity) as a disincentive for new investment in Dow's own electricity-intensive production. Cargill commented that the GoA's attempt to create incentives for investment in new generating capacity by imposing higher electricity tariffs on incremental industrial use had decreased the profitability of its recent \$350 million investment in new soy crushing facility.

¶5. (SBU) All companies noted the inefficiencies and scarcities generated by GoA price controls on a basket of consumer products. Wal-Mart noted that such controls have discouraged needed capacity investment by its suppliers of price controlled products in the face of burgeoning demand. Companies also voiced concerns that strong, GoA-supported unions would demand salary increases in the 15%-plus range and further squeeze margins. They acknowledged that expanded demand helped compensate for decreased margins, but cited the double-hit "Mo-mo" effect on margins of price controls imposed by GoA Internal Commerce Secretary Moreno and the promise of high union wage demands by main labor leader Moyano. Wal-Mart noted statements by internal Commerce Secretary Moreno that the GoA preferred U.S. to European investment because of the higher ethical, accounting and managerial standards U.S. multinational investors have demonstrated in Argentina.

¶6. (SBU) Pharmaceutical companies Merck and Eli Lilly complained of an IPR "grey-zone" in Argentina, where regulations are broadly TRIPS-consistent but enforcement is weak. They raised the lack of adequate IPR protection on process patents and a lack of coordination among GoA patent registration and implementation regulatory agencies that has allowed local generic manufacturers to circumvent patent requirements. Ambassador Wayne noted the contradiction in longstanding shortcomings in the GoA's IPR protection regime and recent GoA statements that IPR-sensitive bio-tech and hi-tech sectors will be targeted as engines for future economic growth.

¶7. (SBU) Finally, GM highlighted its recent success operating at full capacity with sales up 30% last year and exports up 50%. GM expressed concern with the economic volatility implicit in the GoA's mix of macroeconomic and micro-price control policies but projected strong growth in the sector for at least the next three years. They noted that GM and other U.S. and European automakers have adapted well to the Brazil/Argentine auto sector managed trade regime.

¶8. (SBU) Ambassador Wayne hosted a lunch for the USTR delegation,

Economy Minister Felisa Miceli, members of her trade team, and Foreign Ministry Trade Secretary Alfredo Chiaradia. Veroneau briefed the Argentines on his visits to Chile and Uruguay and then turned to developments in the Doha Development Round. There has been evidence of new, positive energy in the last month, he said, and the U.S. will make every effort to reach an agreement. Miceli replied that, while she was not overly optimistic about the chances of resuscitating the round, Argentina and other small economies stand to benefit from Doha's successful completion and she stressed the need for renewed dialogue to unblock the process. Chiaradia emphasized the importance of agriculture to Argentina and other developing countries and that a successful round will require "sensible" trade-offs that are balanced, fair and in line with the spirit of paragraph 24 of the December 2005 Hong Kong declaration. Veroneau noted our shared desire for increased agricultural access, adding that the USG could accept differential but percentage reductions in agricultural subsidies and NAMA tariffs, so long as offers were ambitious in the four key areas of agricultural access, NAMA, subsidies and services. Veroneau added that a successful conclusion would expand the global economic pie with all participants realizing benefits. Miceli closed noting that that, while liberalized trade indeed benefits all players, Argentina's still high unemployment rate and post-crisis dislocations makes it politically difficult to "sell" overly ambitious Doha concessions at home.

¶9. (SBU) The Doha Round discussions continued in a follow-on meeting at the Ministry of Foreign Affairs with Secretary Chiaradia and other MFA trade officials. Chiaradia said that Argentina could not agree to developed nation demands for NAMA tariff cuts in the 70% range, but was willing to offer up to 50% cuts in Mercosur's 35% maximum applied tariffs in exchange for very substantial cuts in agricultural subsidies. At this 50% cut ceiling, Argentina could play a constructive role with both the G-20 and the NAMA 11. Any larger cuts, he concluded, would expose Argentine industry to debilitating competition from low cost Chinese imports. Chiaradia made it clear that Argentina would not succumb to a negotiating process whereby a small group reached agreement and expected others to follow. Chiaradia asked that the U.S. agree to meet in Geneva to discuss Argentina's NAMA position more completely. He added that the GoA shares our desire for increased agricultural access from developing countries. Argentina is a lonely voice in the G-20 on this issue, he concluded, asking the US to continue to push hard on this. Veroneau noted the U.S. average NAMA tariff of 3% and emphasized that a successful conclusion of the Doha Round will require more flexibility on the part of all players.

¶10. (SBU) Chiaradia contrasted Argentina's "balanced" approach to negotiating market access within Mercosur and in the Doha Round with that of Chile, which has negotiated FTAs with 57 countries. Chile, he said, has not developed a substantial domestic industrial base and produces a portfolio of agricultural products that faced relatively unrestricted access to developed country markets. In contrast, Argentina's industrial base is much broader and its

agricultural base of grain, beef and dairy production face high levels of protection.

¶11. (SBU) On bilateral trade issues, Chiaradia thanked Veroneau for the U.S. renewal of Argentina's GSP privileges in December 2006. He called Argentina "quite happy" with the overall bilateral trade

relationship noting steady progress on sanitary/phyto-sanitary frictions on beef and citrus exports. Chiaradia noted that Argentine seamless steel pipe producer Acindar is closely following development in the WTO OCTG dumping case. Veroneau noted the upcoming February 19 hearing on the latest USG appeal on this OCTG case. Veroneau also praised Argentine Ambassador in Washington Bordon's effective efforts in presenting Argentina's GSP position.

¶12. (SBU) Ambassador Wayne raised U.S. investor IPR concerns noting pharmaceutical company concerns on process patent protection and the longstanding Monsanto dispute over unpaid royalties on its GMO seeds. Chiaradia called IPR issues "complex and sensitive" and noted that the EU had recently released its annual IPR report that noted these same concerns. He noted, however, that local press coverage of the EU report failed to note that the EU had rated Chile's IPR performance below that of Argentina. (NOTE: This point is basically true, but ignores two factors: the EU report indicates that it held Chile to a higher standard given their existing FTA, and the lower rating does not apply directly to Argentina, but to Mercosur as a whole, specifically mentioning Brazil and Paraguay as well. END NOTE)

Mercosur - "Unfinished Business"

¶13. (SBU) At the luncheon with Minister Miceli, Secretary of Trade and Industry Miguel Peirano waxed optimistic about the future of Mercosur, saying significant progress had been made at the recent Rio Summit to accommodate Uruguay and Paraguay's complaints about asymmetrical investment. He called the bilateral relationship with Brazil stronger, and the current agenda for Mercosur economic integration dynamic, as opposed to "automatic" in the 1990s. (Note: This description of the Rio Summit strongly contrasts with the readout provided in reftel. End Note). Chiaradia was also upbeat, saying that the media gave disproportionate coverage to Uruguay and Paraguay's longstanding complaints. Chiaradia emphasized that Mercosur has already made significant accommodations for Uruguay and that in reality, given Uruguay's high per capita GDP, no additional accommodations were warranted or justified. He admitted there was a "lot of unfinished business" on subsidies and non-tariff barriers to attend to before Mercosur could evolve into a true customs union. Miceli added that Argentina and Brazil had the political will to help Uruguay and Paraguay, but that all must agreed to common disciplines.

Foreign Minister Taiana

¶14. (SBU) In a final session with Foreign Minister Taiana, the Minister took a broad view of Argentina's post-crisis economic and social transformation. "Argentina is turning around after forty

years of decadence and is looking towards a new era of prosperity," he said. The Argentine state is developing a "mature" approach to economic development with a mix of private sector and state participation that moves away from the extremes of the past. It also has a Peronist president adamant about maintaining a fiscal surplus -- a new development. Reflecting this "new economic consensus," Argentina is also opening much more to the world, with

total trade currently at over 30% of GDP, up from only 10-12% of GDP in the 1970s. All this is particularly impressive, Taiana concluded, in light of the legacy of social tensions that Argentina continues to face: In 1960, Taiana said, 52% of Argentines were middle class and only 10% fell below the poverty line. Today, he continued, though Argentina has recovered remarkably since its 2001/2 economic crisis nadir, 26% of Argentines still live below the poverty line. (Note: the most recent official number, for the first half of 2006, is 31.4%. End Note.) The goal, the Minister said, is to arrive at 2010 - the 200-year anniversary of Argentina's independence - with Argentina being perceived as a "normal" country.

¶15. (SBU) Ambassador Veroneau appreciated Argentina's impressive post-crisis recovery and agreed that it remains up to each sovereign nation to determine just where on the spectrum between fully free and fully state-controlled markets it will stand. But, noting his meeting with U.S. investors earlier in the day, he stressed the importance of clarity and consistency in the GoA's regulatory regime in order to encourage the flow for foreign direct investment that Argentina needs to sustain its economic recovery.

Press Roundtable

¶16. (SBU) Ambassador Veroneau held a press conference, well attended by print, television, radio and wire services. He emphasized the U.S. interest in expanding bilateral commercial and trade ties and conveyed that the day's meetings with Economy and Foreign Ministry officials had been productive. Journalists raised questions about U.S. views on the investment climate in Argentina, GoA price control mechanisms, U.S. views on the Mercosur trade bloc, and on a story this morning on the cover of one newspaper alleging that the U.S. and Brazil were forging an alliance in biodiesel fuels as a means to check Hugo Chavez's actions in the region.

Comment

¶17. (SBU) The tone of the meetings with the Ministers was frank and friendly overall. However, with the MFA Trade Secretary Chiaradia, the talks were surprisingly and disappointingly confrontational when discussing the GoA negotiating position in the Doha Round, as for example, Chiaradia argued that "someone paid" already for the U.S. to have lowered its average tariff to 3%. Veroneau took issue with implying that tariff cuts were a zero-sum game, and that poor countries were paying for rich countries to benefit. Veroneau sought to lay the framework for further progress in the WTO Doha Development round by emphasizing that incremental progress was being made in the negotiations but that time was short. Veroneau sought

to test the political boundaries of Argentina's willingness to contribute to further progress and to show flexibility in the negotiations. Argentina seemed steadfast that major contributions should be made in agriculture but that they had little flexibility with respect to NAMA.

¶18. (SBU) Also discussed were the current investment climate and the prospects for continued growth in the Argentine economy. Without

directly citing Argentina, Veroneau made clear that price controls and arbitrary government intervention create an uncertain investment climate that can impede long term growth, and argued persuasively for a system that left more economic decision-making in the hands of market players, not the government.

¶19. (U) This cable was cleared by the USTR delegation.

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

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