

## Viewing cable 06BUENOSAIRES2576, ECONOMY MINISTER MICELI SEEKS SUPPORT ON GSP,

If you are new to these pages, please read an introduction on the [structure of a cable](#) as well as how to [discuss them](#) with others. See also the [FAQs](#)

| Reference ID                      | Created                          | Released                         | Classification               | Origin                               |
|-----------------------------------|----------------------------------|----------------------------------|------------------------------|--------------------------------------|
| <a href="#">06BUENOSAIRES2576</a> | <a href="#">2006-11-17 15:23</a> | <a href="#">2011-08-30 01:44</a> | <a href="#">CONFIDENTIAL</a> | <a href="#">Embassy Buenos Aires</a> |

VZCZCXYZ0031  
OO RUEHWEB

DE RUEHBU #2576/01 3211523  
ZNY CCCCC ZZH  
O 171523Z NOV 06  
FM AMEMBASSY BUENOS AIRES  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6503  
INFO RUEHAC/AMEMBASSY ASUNCION IMMEDIATE 5734  
RUEHBO/AMEMBASSY BOGOTA IMMEDIATE 1445  
RUEHBR/AMEMBASSY BRASILIA IMMEDIATE 5583  
RUEHCV/AMEMBASSY CARACAS IMMEDIATE 0993  
RUEHLP/AMEMBASSY LA PAZ NOV 4317  
RUEHPE/AMEMBASSY LIMA IMMEDIATE 1893  
RUEHMU/AMEMBASSY MANAGUA IMMEDIATE 0054  
RUEHME/AMEMBASSY MEXICO IMMEDIATE 1239  
RUEHMN/AMEMBASSY MONTEVIDEO IMMEDIATE 5939  
RUEHOT/AMEMBASSY OTTAWA IMMEDIATE 0423  
RUEHJP/AMEMBASSY PANAMA IMMEDIATE 0232  
RUEHFR/AMEMBASSY PARIS IMMEDIATE 1153  
RUEHQT/AMEMBASSY QUITO IMMEDIATE 0787  
RUEHSG/AMEMBASSY SANTIAGO IMMEDIATE 5343  
RUEHSO/AMCONSUL SAO PAULO IMMEDIATE 3028  
RUEAIIA/CIA WASHINGTON DC IMMEDIATE  
RHMFISS/DEPT OF JUSTICE WASHINGTON DC IMMEDIATE  
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE  
RHMFISS/HQ USSOUTHCOM MIAMI FL IMMEDIATE  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC IMMEDIATE  
RUCPDOG/USDOC WASHINGTON DC IMMEDIATE

C O N F I D E N T I A L BUENOS AIRES 002576

SIPDIS

SIPDIS

TREASURY FOR AFAIBISHENKO,AJEWEL,WBLOCK  
E FOR THOMAS PIERCE, WHA FOR WHA/BSC AND WHA/EPSC  
PASS NSC FOR JOSE CARDENAS  
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE  
EX-IM BANK FOR MICHELE WILKINS  
OPIC FOR GEORGE SCHULTZ AND RUTH ANN NICASTRI  
PASS USTR FOR SUE CRONIN AND MARY SULLIVAN  
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER  
US SOUTHCOM FOR POLAD

E.O. 12958: DECL: 11/14/2016

TAGS: [EFIN](#) [ECON](#) [ENRG](#) [EINV](#) [BEXP](#) [AR](#)

SUBJECT: ECONOMY MINISTER MICELI SEEKS SUPPORT ON GSP,  
JUSTIFIES PRICE CONTROLS, DISCUSSES PARIS CLUB AGREEMENT

REF: A. BUENOS AIRES 2240

[B](#). BUENOS AIRES 2556

[C](#). BUENOS 2202

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

Subject

-----  
[1](#). (C) During the Ambassador's November 14 courtesy call, Economic Minister Felisa Miceli welcomed the possibility to reengage on economic and trade issues and lobbied for Treasury Secretary Paulson to visit Argentina. In response to Miceli's request for support on maintaining Argentine GSP privileges, Ambassador noted that the U.S. Congress would have the final say. The Ambassador commented that U.S. companies report they are doing well, but remain concerned about price controls and would invest more with clearer and more consistent regulatory and policy rules. Miceli argued that price controls were necessary to control inflationary expectations, but agreed on the need to exit from this practice. She said the GoA had requested formal negotiations with the Paris Club, and hoped to reach agreement soon, but repeated an earlier statement (Ref A) that the GoA would not deal with the 2005 debt exchange holdouts before 2007 elections. The Ambassador explained that the U.S. has supported the majority of IDB loans to Argentina. He urged Miceli to support Monsanto's latest proposal to resolve its disputes in Argentina, and to address the legal gaps on terrorist financing. Miceli said she hoped to resolve the Monsanto issue, and added that was in the process of clearing the final GoA draft Counter-Terrorism Finance law. End Summary.

Ambassador's Courtesy Call on Minister Miceli

-----  
[2](#). (C) Ambassador met with Felisa Miceli, Minister of Economy and Production, as part of a first round of courtesy calls on GoA Ministers. The call followed on the heels of an earlier meeting with Planning Minister De Vido (Ref B). Miceli welcomed the meeting and commented that Argentina had felt the absence of a U.S. Ambassador over the last few months. She mentioned that Treasury Secretary Paulson had promised her -- when they met in September on the margins of the annual IMF/World Bank meetings in Singapore -- that he would visit Argentina. The Ambassador agreed that it would be useful to enhance our dialogue on financial sector and capital market issues. He recommended starting out at the staff level and then see how best to have higher level discussions. (Note: Miceli agreed to this strategy, but later issued a press release implying that Secretary Paulson would visit Argentina in 2007. End Note).

Miceli Urges Use of BCTI to Discuss GSP

-----  
[3](#). (C) Miceli was eager to create opportunities for greater

U.S. trade and investment, and welcomed the possibility of reviving the U.S./GoA Bilateral Committee on Trade and Investment (BCTI), which last met in October 2003, as a vehicle to engage our two governments. She saw the BCTI as the appropriate forum for raising issues such as Argentina's

request to retain GSP benefits, without having them become public and subject to press speculation. The Ambassador explained that the USG was pursuing a serious and fact-based approach on GSP benefits. He noted that the USG review process is ongoing and that Congress would have the final say on renewing and extending GSP benefits for Argentina and other countries. He also underscored that certain groups in the U.S. (including groups representing holdouts from the 2005 debt exchange) were critical of Argentina and were exercising their rights to urge Congress not to renew Argentina's access to GSP.

#### Ambassador Highlights Investment Climate Concerns

-----

¶4. (C) Ambassador praised Argentina's strong post-crisis recovery, adding that many U.S. companies report they are doing well and are reinvesting in their operations, albeit incrementally. Based on his recent meeting with the AmCham Executive Board (septel) and other discussions with U.S. companies, the Ambassador noted that U.S. companies see excellent business opportunities, but are moving cautiously. They would be inclined to invest more with clearer rules of the game with regards to regulation and pricing and tax policies. They are particularly concerned with explicit and implicit price controls. The Ambassador pointed out that Argentine subsidiaries of U.S. companies must convince their headquarters that the business climate is sufficiently stable and predictable to merit large and long-term investment. Clearer rules and a renewed GoA commitment to enforce such rules over a long term investment horizon would enable these companies to compete more effectively for a larger share of their headquarters' global investment budget. The Ambassador noted that EXIM had recently opened for short and medium term financing for the Argentine private sector, a move that potentially enhances opportunities for U.S. investments.

#### Miceli Justifies Price Controls to Curb Inflation

-----

¶5. (C) Miceli wished that the GoA had not been forced to implement price and export controls, but argued that these heterodox measures were necessary to permit the relative prices of nontradable goods and services to adjust to a new post-crisis steady state. Miceli claimed that, in the years following the 2001/2 crisis, "the government enjoyed a double surplus (fiscal and current account) for the first time in 100 years," and the Central Bank was pursuing prudent monetary policies. She said that when GoA officials asked businesses in 2005 why they were increasing prices despite a stable macroeconomic environment, the answer they received was, "just in case," a precaution based on Argentina's past tendencies to fall into hyper-inflation traps. Miceli noted other factors as well, including high international commodity

prices which benefited Argentine exports but also put upward pressure on local tradable good price levels. She also accused local industries of being uncompetitive and pushing for protectionist barriers to support their monopolistic and oligopolistic tendencies (Ref C) .

¶6. (C) Given this scenario, Miceli argued that while the GoA wants to return quickly to market based pricing, the use of

price controls allowed the GoA to anchor expectations for wage demands, constrain oligopolistic behavior, and facilitate the adjustment of relative prices by holding down inflationary pressures until supply caught up with the strong growth in domestic demand. And the GoA could do this without restraining growth, which could not accomplish through more orthodox macroeconomic policies. Miceli concluded that more competition in the market, through increased investment and lower protectionist barriers for sectors such as textiles, would reduce inflationary pressures and eliminate the need -- "probably by 2008/2009" -- for the controls. (Comment: As the IMF noted in its July 2006 Article IV, the imbalance in relative prices between tradable and non-tradable goods is a minor part of the inflation story. The real source of inflationary pressures is an economy operating above potential, with increasing government expenditures, accommodative monetary policy, and a commitment to maintaining an undervalued exchange rate, all fueling aggregate demand. End Comment).

#### GoA Approaches Paris Club; No Move on Holdouts

-----

¶7. (C) The GoA has begun its official approach to the Paris Club to renegotiate its \$7.2 million debt. Miceli noted that her Finance Secretary Mac Laughlin sent a letter November 9 to the Paris Club President requesting the opening of formal negotiations. Although the GoA has not completed its formal rescheduling offer, she said the details were largely worked out at the technical level. Miceli emphasized the importance of closing this chapter of the post-crisis recovery this calendar year, as a critical step in normalizing Argentina's relationship with international capital markets.

¶8. (C) The Ambassador welcomed the GoA's initiative and said the U.S. was open to constructive dialogue in the framework of Paris Club policy and precedent. He mentioned that Argentina's relatively strong financial situation (almost \$30 billion reserves and a primary fiscal surplus of almost 4%) put it in a good position to pay its more than \$3.5 billion in arrears to Paris Club creditors. He noted that an IMF agreement was a requirement for rescheduling, and hoped the Club and Argentina could find a way to move forward. Miceli responded that the GoA had repaid its IMF debt and closed that program, so renewing any IMF agreement beyond annual Article IV discussions was not an option. Nevertheless, she was optimistic that the July 2006 Article IV report could serve as a basis for discussion with the Paris Club.

¶9. (C) Miceli commented that the GoA-IMF relationship was improving and she anticipated a visit from IMF Managing

Director Rodrigo de Rato in January to discuss the global financial system and developing countries' concerns with IMF policies raised at the September Singapore annual meeting. She said it was time for each side to move beyond past recriminations. Both Argentina and the IMF, she said, had made mistakes and both bore responsibility for aspects of the nation's financial crisis.

¶10. (C) Miceli reiterated past assurances (Ref A) that the GoA would not deal with holdouts from the 2005 debt exchange

prior to the 2007 elections. She held out hope that, if the GoA could negotiate an agreement with Paris Club creditors and resume payment on official debts in 2007, it could consider opening negotiations with holdouts in 2008. Miceli emphasized that any accommodation with holdouts would entail high political costs, as the GoA would find it difficult to explain to the Argentine public that it should make payments on the \$24-odd billion outstanding to holdouts when Argentine law (referred to locally as the "padlock law") is clear that the restructuring offer closed in 2005 and cannot be reopened. Ambassador Wayne responded that groups of holdouts in the U.S. had taken this issue to the courts and were also lobbying Congress. He underlined the USG's responsibility to defend U.S. citizens' interests and urged continued dialogue on the subject to come to a resolution as soon as possible.

¶11. (C) Miceli agreed that Argentina was suffering as a result of the default to Paris Club creditors and the holdouts, noting the GoA's plan to solicit proposals for large infrastructure projects, including for new power plants and a high-speed rail link from Buenos Aires to Cordoba. By coming to terms with Paris Club creditors, she said, Argentina would regain access to their export credit agency credits, lowering large infrastructure project costs significantly. She also admitted that the holdouts situation limited the GoA's ability to issue debt under international law, which increased the GoA's risks and costs. (Note: Economy Ministry finance officials estimate the GoA is paying a significant 35-50 basis point premium for issuing internationally traded debt under local law. End Note).

#### U.S. Support for IDB Loans to Argentina

-----

¶12. (C) The Ambassador explained that the USG supported the great majority of IDB loans to Argentina. He clarified that U.S. decisions to abstain from or vote against several projects earlier this year were due to concerns with the particular loans, and did not reflect any change in U.S. policy towards Argentina. Miceli thanked him for the explanation and acknowledged U.S. support for most IDB (and all World Bank) lending to Argentina. She did, however, comment that she had found it strange that the U.S. voted in September against an IDB supported satellite project, given NASA's involvement in the project.

#### Ambassador Urges GoA Support for Monsanto Offer

-----

¶13. (C) The Ambassador urged Miceli to support Monsanto's latest proposal to resolve its disputes with Argentine producers over royalty payments for its trademark GMO Roundup Ready seeds and herbicides. He stressed the potential benefits as Monsanto brings a new generation of products on line. Miceli said she had met with Monsanto in the past and, while the GoA could not appear to be taking sides in what is essentially a negotiation between Monsanto and domestic agricultural players, she would encourage a resolution. She noted that Monsanto's new head of Argentina operations had asked for a meeting, which she had accepted. She also commented that Monsanto's relationship with the GoA's Secretary of Agriculture, which had been rocky in the past,

SIPDIS

seemed improved of late. She expressed hope that the latest Monsanto offer to drop its legal actions in Europe in exchange for forward royalty payments would help facilitate some agreement.

Counter-Terrorism Finance Law in Final Stages

¶14. (C) Miceli said she was in the process of clearing on the Justice Ministry's final draft of counter-terrorism financing legislation. The Ambassador stressed that given Argentina's good practical cooperation on terrorism, it would be very bad for Argentina to be sanctioned by the Financial Action Task Force (FATF). Miceli agreed it was inexplicable that the GoA had not completed it earlier, but appeared optimistic that the government would soon submit it to Congress. (Note: The Financial Action Task Force has given Argentina until February 2007 to submit a draft law to Congress, or else face sanctions, possibly including a public statement or even suspension of FATF membership. End Note).

Comment

¶15. (C) This was a cordial and productive first meeting with Economy Minister Miceli. She reiterated standard Kirchner administration justifications for the GoA's heterodox macroeconomic and micro price control policy mix and offered little new insight into the GoA's strategy on normalizing relations with Paris Club creditors and on post-election settlement with bond holdouts. Miceli was clearly overly optimistic about the ease of reaching a Paris Club accord and will benefit from some education and coaxing along the way if an agreement is to be reached. It was clear that her approach to the bondholder issue was based on domestic political considerations. Her comment on the need for the GoA to stand apart from Monsanto's battle with agricultural producers on GMO seed royalty payments was not consistent with past behavior of her Agriculture Secretary, but we can hope that it might reflect a sincere desire to move ahead. Ambassador will take up the Minister on her request for regular meetings to discuss broad economic and investment concerns. Embassy urges Treasury staff level visit soon to test the waters and prepare for higher level talks, and looks

forward to working closely with USTR to possibly resume more regular bilateral talks. End Comment.

WAYNE