

Argentina raises new barriers to Brazilian imports

A new licensing law exacerbates the clash between the Kirchner administration and the country's main businesses, especially those that need imported parts for production. And Argentina's unpredictable policies are causing major losses for Brazilian exporters.



Marcia Carmo, *Buenos Aires*

Trade between Brazil and Argentina set a new record in 2011, reaching nearly US$40 billion. But 2012 began with great uncertainty for Argentine importers and Brazilian exporters. In January Cristina Kirchner's administration imposed new import licensing rules that could affect Argentina's imports from Brazil, its main trading partner. Much of Argentina's industry depends on inputs from Brazil.

According to Argentine economic analysts, the reason for the new rules is that the government hopes to reduce its trade deficit with Brazil and to increase its global trade surplus. Officially that trade deficit with Brazil is estimated to have been US$4.2 billion in 2011, but private analysis using official trade data put it above US$5 billion. "Argentina's deficit with Brazil is here to stay," says Mauricio Claveri, an economist with the Abeceb consultancy in Buenos Aires. "The government's measures in the area of imports will not solve the problem." The Institute for Social Development of Argentina (IDESA) issued a statement saying, "This new measure confirms that the government has a short-term policy, which ends up being harmful to the Argentine economy." The president of the Argentine Industrial Union (UIA), José Ignacio de Mendiguren, said the main problem for Argentine businesses is that import rules "depend on the mood of the officer on duty," not on what is written.

The new law, scheduled to take effect in February, says that Argentine importers have to make a sworn statement detailing what they are buying abroad. The request for an import permit is sent to the Federal Administration of Public Revenues (AFIP). But the final word will be given by controversial Interior Commerce Secretary Guillermo Moreno. Moreno is known for abrupt actions. A Petrobras director in Argentina, who requested anonymity, said, "He called me screaming to know what was going on with our business … . I have lived in many countries, but had not seen anything like it." Since that time, Moreno has acquired a variety of responsibilities, most recently for foreign trade under the Ministry of Foreign Affairs. "We depend on imports of [parts] … but they are stuck in customs for months, waiting for Moreno's decision," said one businessman, who also requested anonymity.

Miguel Ponce, who is general manager of the Chamber of Exporters of Argentina (CIRA), says some businesspeople prefer anonymity because they fear reprisals from the government. "We depend on imports to keep our industry operating.

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Institute for Social Development of Argentina

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We import, for example, almost 80 percent of parts of the cars we make. How do we make vehicles if imports are suspended?" he said. In turn, 80% of Argentina's vehicles are exported to Brazil. In December, before the new measure was announced, for example, Fiat reportedly suspended production of cars for a few hours because it lacked parts. And Ponce adds that there were already numerous brakes on imports: "We're still trying to solve previous problems with the government and now comes this new measure to complicate matters more."

A United Front

The new measure was announced in January during President Kirchner's

leave for medical treatment. During her absence, Vice President Amado Boudou said disputes with Brazil were "natural" because bilateral trade had "multiplied" in recent years. When Kirchner returned on January 25, she announced that Argentina had recorded a major trade surplus in 2011: more than US$10 billion. But according to the INDEC, the trade surplus was 11% lower than in 2010 and 39% lower than the record US$16.8 billion in 2009.

Kirchner stressed that economic growth is a priority for her government. "The

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economy grew 9% in the eleven months of 2011 and will continue to grow," she said. She did not refer directly to such controversial issues as the new licensing requirement and the official manipulation of inflation data. She did, however, praise the style of Secretary Moreno. She also defended AFIP Secretary Ricardo Echegaray, who also is often accused by Argentine businesses of acting in the government's political interests rather than following the tax law.

In an interview with Radio Mitre in Buenos Aires, Echegaray said he did not understand why Argentine importers are complaining: "They were asking for such a system, a single system, electronic data to focus and facilitate imports. And now that we have created the Affidavit Advance Import Declaration (DJAI), they complain. We do not want details like the color of the merchandise," he said. But when asked about the shortage of products in some sectors because of other barriers he replied: "The consumer has to complain to the company that is responsible for the shortage of the product. The companies are wrong. The government is doing its part."

What Economists Think

In an interview with *The Brazilian Economy*, Mariano Lamothe, another Abeceb economist, said the move itself seems simple, but the question is how it will be carried out. "If the 10-day period specified is observed, there will be no major problems for imports. But if this deadline is only a fiction, oh yes, we will worry very much," he said. For him "the big question" is whether the government will make this period a trade barrier for each item requested by an Argentine importer. "The expectation is that Moreno will call the importers asking for details before giving approval for imports. This will delay the application and the unloading of goods," he said. He expects Brazil to be one of the exporting countries most affected.

Importers, businesspeople, and economic analysts are virtually unanimous in stating that Argentine industry depends heavily on imports of basic materials. "Without the screws required for each stage of production, our industry may suffer. If this measure is not well managed, we will not be hurting Brazil but ourselves," said economist Carlos Melconian.

The move prompted similar criticism in the media. "The problem in Argentina is not the trade deficit with Brazil. The problem of Argentina is Argentina and its unpredictability," said Marcelo

Longobardi of Radio Diez, one of the most popular commentators in the country. "This measure will affect the government's most precious goal: industry growth and hence economic growth," said Thomas Bulat of the Buenos Aires financial daily *El Cronista*. According to official figures, Argentine industry grew 6.5% more last year than in 2010.

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The Dollar Problem

Economists also noted that Argentina still has a trade deficit with Brazil even though the Brazilian real has appreciated more than the Argentine peso, showing that Brazilian industry is more competitive. They also understand that besides taking care of the trade balance, Argentina wants primarily to protect its dollar reserves. Lamothe explained that "All the measures taken in the last six months had the same goal: to stanch the bleeding of dollars. One imposed controls on the sale of foreign currency, for instance. Now [the government] wants to avoid an outflow of dollars to pay for imports."

Other analysts polled indicated that the Argentine economy is going through "a kind of creative adjustment" in order to avoid a fall in growth. President Kirchner calls this fine tuning. "Fine tuning because we are facing problems in each sector," she said. First there was the elimination of subsidies for public and private companies and the expected increase in consumer tariffs. Then there were the measures to contain runs on the dollar. Third, there were accusations against oil companies for fixing prices and a lack of investment—Kirchner claims that the companies were responsible for last year's energy deficit.

Alcadio Oña, a critic of Kirchner's management who is economic analyst for the *Clarin* newspaper, said the government wants to sustain the current exchange rate (about 4.3 pesos per dollar) "by force," through control of either sales of dollars or imports. "Basically what we lack is an industrial policy—or rather, long-term policies in general."