New Argentine import rules spook business and allies

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Argentina could end up making ovens without heat-proof glass and candy bars without cocoa if new import hurdles cause shortages, as many companies fear.

Starting February 1, President Cristina Fernandez's centre-left government will launch a new system to pre-approve, or reject, nearly every purchase from abroad. It says it wants to modernize and streamline the importation process by getting online petitions in advance.

But critics, including key trade partners in neighbouring Brazil and Uruguay, believe Argentina is aiming to shore up its trade surplus and keep dollars in the country as waning global demand, lower grains prices and drought threaten to hurt growth.

Guillermo Moreno, the domestic commerce secretary and the top enforcer of the government's interventionist policies in recent years, will play a key role in the new scheme.

He is notorious for putting heavy pressure on companies to keep prices in check and threatening economists who put inflation at more than double the official rate with fines and even jail time. He has also blocked the import of goods like Barbie dolls and iPhones to force firms to produce locally or match imports with exports.

More imported goods could vanish from shelves under the new rules. And business leaders worry that imports needed to keep local factories going could be blocked, hurting production and exports, too.

They say this could affect everything from heat-proof glass and cocoa to machinery parts that are only produced abroad.

Fiat already suspended shifts at one of its plants this month, citing delays in government approvals for parts. The industry minister disputed this and said Fiat Auto Argentina's decision to halt production was "petty" and "incomprehensible."

Although Moreno has not said what criteria will be used to vet imports, officials have said local firms will only qualify for more protection against foreign-made goods if they commit to government policy on investments, pricing and job creation.

Normally a government ally, the head of the Argentine Industrial Union (UIA) has urged the new measure be delayed until the government makes the requirements for imports clear.

"This resolution is issued as if those of us working in foreign trade were the country's enemies," said Jorge Rodriguez Aparicio, head of the Argentine-Brazilian Chamber of Commerce in Buenos Aires.

"It breaches treaties we've signed, and with Brazil no less," he said, referring to Argentina's top trade partner.

Brazil's trade minister, Fernando Pimentel, said he hoped for a negotiated solution on Argentina's new import rules but that Brazil would respond "in proportion" to the measures if they go into effect as planned.

Argentina's economy has grown at one of the fastest rates worldwide since a 2001-02 crisis, thanks partly to heavy state spending aimed at boosting employment and fuelling consumer demand – even at the cost of 20 per cent-plus inflation.

Fernandez, who was easily re-elected in October, has managed to keep growth high despite Wall Street predictions that her unorthodox policies would end in ruin. But even the government admits that the sluggish global economy and Europe's debt crisis will slow growth to around 5 per cent this year.

Fernandez is determined to protect the trade surplus to increase foreign currency reserves, which the government could use in 2012 to pay debt for a third straight year. Argentina has been virtually shut out of global credit markets since its massive debt default in 2002.

Moreno ally Beatriz Paglieri, the new foreign trade secretary, told a local newspaper the government aims for a $10 billion trade surplus this year, in line with the 2011 surplus but up from the $8.58 billion estimated in the 2012 budget.

Consumer goods only account for about 11 per cent of Argentina's imports but they are the best target for trimming since energy and capital goods purchases are crucial to growth.

Strangely, the import rules will also be applied to companies that ship natural gas from Argentina's Tierra del Fuego province, which has a special customs status. A source in the energy industry said this could disrupt flows that account for roughly 12 per cent of Argentine natural gas consumption.

To slow import growth, Argentina raised the number of goods requiring non-automatic import licenses last year. Firms say officials often flout a 60-day limit for issuing the permits.

With Moreno's help, the government also pushed importers to match their purchases abroad with exports, leading to odd deals such as one whereby carmaker BMW exports rice.

The quirky strategy allowed the 2011 trade surplus to slim just 11 per cent from 2010, compared with 31 per cent the year before.

But the protectionist moves did not please Brazil, Argentina's top market for its cars and a key ally. In what was seen as retaliation, Brasilia expanded its non-automatic licenses for imported vehicles last May.

This tit-for-tat is not unusual and few of the neighbours' trade disputes ever make their way to the World Trade Organization.

Uruguayan President Jose Mujica said Argentina's new rules further complicated trade between the two countries but said "we won't declare war or anything of the sort" because that would alienate the Argentine tourists who crowd Uruguay's beaches.

The AFIP tax agency will administer the new system for pre-approving imports, which gives officials from other areas, like Moreno, a maximum of 10 days to object to the purchase. If they do not object, the operation gets approved automatically.

In a resolution published on Monday, the government also created a fast-track option for urgent requests.

The head of AFIP, Ricardo Echegaray, says the new rules are similar to those in the United Sates and Europe, where officials require data on imports well before shipments are made.

But Moreno has already undermined the AFIP's efforts to create a single electronic filing process by asking importers to send a separate form, by email, to his office.

"When just one person has the discretion to make decisions, you risk creating a sort of funnel that ends up strangling the economy," said an official at a foreign-owned industrial firm.

"Moreno will have to have a lot more than 24 hours in a day" to handle this, the source said, asking not to be named.

Moreno's office did not respond to requests for comment.

The new regime is part of the policy "fine-tuning" that President Fernandez promised voters in her second term. This has included subsidy cuts and currency controls imposed just after the election.

The limits on foreign currency purchases were ostensibly aimed at fighting tax evasion. But they were widely seen as a quick and dirty way to slow surging capital flight and protect the central bank's dwindling reserves.

The controls have largely worked. The central bank has been replenishing its reserves by buying dollars on the foreign exchange market. And government officials have twisted arms among companies and banks to ease demand for greenbacks.

Also, in December, the central bank ordered that banks give 10 days notice for dollar purchases topping $500,000.

Starting in February, banks will need proof of government approval before they can buy dollars on behalf of importers.

"The central bank informs us every day who can and who can't buy dollars. This already complicates deals. If even more filters will be in place now, it's going to be very hard to operate," a currency trader at a foreign bank told Reuters.

Argentina and its partners in the Mercosur trade bloc – Brazil, Uruguay and Paraguay – say they want increased trade in the region to compensate for sagging global demand. But Argentina's new scheme for imports seems to fly in the face of this.

Industry Minister Debora Giorgi is also meeting with company executives to discuss more protectionist measures, including additional non-automatic licenses, higher tariffs under a Mercosur exemption, and anti-dumping moves.

In return, companies must back government priorities that include import-substitution and keeping a currency equilibrium.

"We will preserve the domestic market and Argentine production and jobs from the global economic crisis and the glut of cheap products that will be generated in countries affected by this crisis," Giorgi said in a recent press statement.

In practice, officials have already been pressuring companies behind the scenes to stop buying goods from abroad if similar products are made locally. Many import licenses take months to be processed and goods are held up at port or in warehouses abroad.

Miguel Ponce, head of institutional relations at the Argentine Import Chamber CIRA, said the new scheme simply formalizes the role Moreno has been playing since mid-2011.

He also said that despite it all, business isn't so bad.

"Last year will be remembered as the year we had the most hurdles to foreign trade, but it will also be remembered for record exports, record imports and record trade," Ponce said. "We want to see in practice how this plays out."