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Narrow Loss in Senate Forces Argentine President to Withdraw Agriculture Tax

by LADB Staff
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An Argentine Senate vote in the early morning hours of July 17 failed to ratify an increase in grain and oilseed export taxes supported by President Cristina Fernandez. The Senate deadlock forced Fernandez to revoke the decree that imposed the tax hike, which she and her supporters had said would help ease poverty and increase food security within Argentina.

Farming groups had conducted months of protests and blockades against the tax, saying it hurt their ability to make a living and "feed the world."

A vote in the lower house of Congress had previously upheld the tax-rate increases. The controversy regarding the tax increase had become the biggest political challenge to Fernandez's presidency, with farmers' blockades resulting in food shortages (see NotiSur, 2008-04-11, 2008-06-20) and major drops in income from exports. The protests brought down her economy minister, Martin Lousteau, in April (see NotiSur, 2008-05-09) and dragged down her public approval rating.

Export levies would return to the fixed rates that existed before March, said Cabinet Chief Alberto Fernandez, no relation to the president, at a July 18 press conference. President Fernandez had little choice but to scrap the tax increases following the dramatic Senate vote, where senators were tied 36 to 36 after more than 16 hours of debate until Vice President Julio Cobos cast the deciding vote to reject his government's proposals. Cobos is a member of the governing coalition Frente para la Victoria (FPV), led by Fernandez' Partido Justicialista-peronista (PJ).

Cobos, referring to his political allies in the Fernandez administration, told the Senate chamber, "I cannot accompany them and this does not signify a betrayal. I am acting according to my convictions. I ask the president to send a new legislative package that contemplates different proposals. May history judge me, and I ask forgiveness if I am mistaken."

The BBC correspondent in Argentina said it was the first sign of any weakness or backward step shown by the government, which is often criticized for its intransigence. Argentina's farmers were delighted by the outcome and were seen loudly celebrating Cobos' concession in news video footage. Argentina is a major producer of soy, grains, and beef, which fetch high prices on international markets. The agricultural sector has played a central role in Argentina's economic recovery since the meltdown of 2001-2002 (see NotiSur, 2002-05-17).

The dispute between the government and farmers began in March, when the government raised taxes on soy exports from 35% to 45% and imposed new taxes on other farm exports. The government argued that it needed to raise taxes on agricultural exports to help build a new Argentina. The tax reform on farm exports was intended to fund the construction of schools, roads,
and hospitals. It said farmers could afford to pay more, as they were benefiting from high prices. The authorities also accused farmers and their supporters of undermining democracy by refusing to respect the wishes of the elected government. However, farmers' leaders said that any profits needed to be reinvested so that Argentina, one of the world's leading agricultural producers, could help to feed a hungry planet.

Increased demand from nations like India and China have helped push up commodity prices, along with a burgeoning ethanol economy, which has made some grain crops rise in price as they become competitive as fuel products. Eduardo Buzzi, president of the Federacion Agraria Argentina (FAA), and Luciano Miguens, president of the Sociedad Rural Argentina (SRA), welcomed the government's decision to rescind the new tax regime, which linked levies on grains and oilseeds exports to global prices.

"This is very positive," Miguens said in an interview with C5N television channel. "After so much lost time, now we can begin to work." Sen. Gerardo Morales said on July 10 in the lead-up to the Senate vote, "We've spent 120 days in a conflict that has cost the country US$400 million. We're stopping the motor of growth for our economy."

**Cabinet chief steps down**

Argentina's state news agency reported on July 23 that the president's top aide had resigned following the Senate's rejection of the export-tax hike. Cabinet Chief Alberto Fernandez's resignation came the same day as that of Agriculture Secretary Javier de Urquiza, who was replaced by Carlos Cheppi.

The resignations were the first major shake-up for President Fernandez's administration after the July 17 Senate defeat. Alberto Fernandez had been in the Cabinet since the president's husband and predecessor, Nestor Kirchner (2003-2007), appointed him five years ago. Sergio Massa was sworn in on July 24 to replace him. The MerVal benchmark stock index fell after the Cabinet chief quit, closing down 0.81% at 1,940.74.

"The exit of Alberto Fernandez opens a new panorama, and that led to a sharp reduction in trade volume due to investor caution," said Mariano Tavelli from brokerage firm Tavelli and Co. "The MerVal fell again due to the correction in energy stocks. From now on, the market will be looking for signs of what direction the government's moving in."

**Trade surplus falls**

Argentina's trade surplus narrowed in June to the smallest since March 2001, when the economy was suffering a three-year recession and the country headed into its worst-ever financial crisis. The surplus shrunk to US$308 million from a revised US$940 million in the same month a year earlier, the Instituto Nacional de Estadisticas y Censos (INDEC) said in a statement on July 25.

The South American country, the world's third-largest soybean exporter and the second-largest exporter of corn, offset a reduction by volume of 9% in grain shipments with a 43% increase in prices, the report said. Imports rose, led by increased purchases of machinery and higher prices for fuel oil and natural gas. Grain and oil seed exports were hurt by the four-month farmers' protest.
Exports in June rose 21% to US$5.5 billion, while imports rose 44% to US$5.1 billion, the institute said.

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