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WHA/FO CMCMULLEN, WHA/BSC MDRUCKER, BFRIEDMAN, MDASCHBACH

E.O. 12958: DECL: 2034/12/31
TAGS: PGOV [Internal Governmental Affairs], PREL [External Political Relations],
ECON [Economic Conditions], PA [Paraguay]
SUBJECT: WHA A/S VALENZUELA TELLS PARAGUAYANS TO WORK TOGETHER TO
STRENGTHEN DEMOCRATIC INSTITUTIONS

CLASSIFIED BY: Perry Holloway, DCM; REASON: 1.4(B), (D)

SUMMARY

¶1. (C) WHA Assistant Secretary Arturo Valenzuela visited Paraguay December 17-18. Congressional leaders from major political parties expressed frustration with their failed attempts to initiate dialogue with President Lugo on building a national agenda. They commented on swirling rumors of presidential impeachment, but consensus was that interrupting the democratic process was not in Paraguay's best interest. Several cited Lugo's lack of political experience as an enormous challenge. A/S Valenzuela encouraged congressional leaders to identify areas of consensus to advance Paraguay's national interests. In a separate meeting, private-sector representatives told A/S Valenzuela that Paraguay was wasting an historic opportunity for change. They were disappointed that Lugo had not implemented stronger economic policies, but agreed that he should finish his term. In a one-on-one meeting with the Assistant Secretary, President Lugo said Paraguay's relationship with the U.S. was important and "special." In the following meeting with the foreign minister and Ambassador Ayalde, Lugo said he has continued Paraguay's tradition of strong relations with the United States and expressed admiration for President Obama. FM Lacognata explained how important the Andean Trade Preferences Development Act (ATPDEA) was to Paraguay and the GOP's priority of creating jobs and attracting investment. While many are frustrated with the lack of progress under Lugo's

government, a muted optimism regarding Lugo's potential should safeguard him against impeachment in the immediate future. But Lugo needs to take action and deliver results if he wants to finish his term, or the volume on impeachment rumors will rise again.
END SUMMARY.

LUNCH WITH CONGRESSIONAL LEADERS

¶2. (C) Congressional leaders told A/S Valenzuela that they had made several unsuccessful attempts to initiate dialogue with President Lugo to build consensus on a national agenda. Senate President Miguel Carrizosa reported that Congress was working to improve governability and the credibility of the political class, as well as to define a national agenda, but that progress was difficult in the absence of presidential leadership and political dialogue. Participants said President Lugo's own advisors blocked many reform initiatives, and that his leftist advisors and allies are the root of many of his problems. One noted that the Liberal Party, the anchor of Lugo's governing coalition, is in reality his strongest opposition (as evidenced by the daily conflict between Lugo and his Liberal Party Vice President Federico Franco).

¶3. (C) Congressional leaders commented on swirling rumors of presidential impeachment, but consensus was that interrupting the democratic process was not in Paraguay's best interest. One underscored that the discussion centered on impeachment by constitutional means, not a coup. The Beloved Fatherland party did not think that impeachment was the right path at this moment. UNACE (Lino Oviedo's party) did not want to obstruct the democratic process, but noted that the people voted for change. Colorado Party representatives said they did not have a formal position on impeachment, but would discuss the issue within the party (one Colorado faction believed if the status quo continued, they would move to impeach Lugo). All purported to want Lugo to finish his term, but insisted that he lead a national dialogue. In general, there was optimism that Lugo could still turn the situation around.

¶4. (C) Several participants cited Lugo's lack of political experience as an enormous challenge. Senator and former Foreign

Minister Miguel Abdon Saguier said he was not sure if Lugo understands that he needs Congress to govern. Several noted that

Lugo frequently blamed Congress for his government's lack of progress, but said they had passed all of the reform bills the executive branch presented to Congress. Two participants mentioned that Lugo refused to sign a democratic pact drafted by Congress, instead participating in an event where social movements called for Congress' dissolution. Senator Alberto Grillon of Lugo's coalition recognized the government's errors to date, citing inefficiency as the primary cause of GOP missteps. He said the GOP had to work to capitalize on its resources (soy, beef, energy) and reduce poverty. In that context, he hoped that the U.S. Congress would pass ATPA trade legislation to benefit Paraguay.

¶5. (C) A/S Valenzuela told the Paraguayans that they had a daunting task to build democratic institutions that are bigger than individuals. He encouraged them to work together on 4-5 topics of national interest. A/S Valenzuela said that strengthening democratic institutions is the only way to immunize the country against the myopic political motivations of populist leaders. He underscored the Obama government's interest in a stable, prosperous Latin America and the importance of identifying themes of mutual interest. A/S Valenzuela understood that a constitutional impeachment process is not equal to a coup, but warned that Paraguay should not use impeachment as a mechanism to resolve short-term political problems without carefully thinking through the consequences. Senate President Carrizosa welcomed Valenzuela's message about dialogue and collaboration, but implied that he should deliver the same message to President Lugo.

ROUNDTABLE WITH PRIVATE SECTOR & CIVIL SOCIETY

¶6. (C) Private sector representatives told A/S Valenzuela that Paraguay was on the brink of wasting an historic opportunity for change. They wished for a stronger economic policy from the Lugo administration, but were grateful that Lugo's economic policy had at least been moderate to date. Two participants said Lugo's early discourse as president had not encouraged investment, and that he had pitted the poor against the rich, leaving the business sector uneasy and with low levels of confidence in government. One noted that Lugo's participation at a recent USG-sponsored business forum had sent the right signals. (NOTE: Lugo also had dinner with the private sector to follow-up on the forum. END NOTE). They expressed interest in a pragmatic, modern state, and cited several concrete initiatives - implementation of the personal income tax and investment in infrastructure - which could help achieve

economic goals. Participants said Paraguay's poverty rate (around 38 percent) was unsustainable, and noted that ATPA benefits would be beneficial to Paraguayan producers. They acknowledged the country's weak democratic institutions, and that neither the president nor his cabinet were prepared for the challenges that face them. Still, they said, if Lugo does not finish his term, it would be a giant step backward for the country. The country's problems were not impossible, but required leadership and civil society participation and contributions.

¶7. (C) One academic noted that Paraguayans elected a president with virtually no representation in Congress, indicating that the voters wanted a weak executive. He said Lugo doesn't understand his power or his place in history. Lugo must, he said, define his ideology and his foreign-policy goals, and negotiate or leave office. He thought Congress preferred to throw Lugo out rather than work with him. Another academic noted that the 61-year-old system had imploded, but that there was not a new system to replace it. She said Paraguay was not ready to hear the new voices that were expressing themselves from the poor and the left. She noted that in spite of high expectations and increasing criticism of Lugo, his approval rating is higher than his predecessor's at the same point in his term. The Archbishop of Asuncion noted that Lugo had not

been a great leader in the Catholic Church, and had "not even the minimum capacity to govern." He, like several others, believed the country was disoriented, confused and conflicted following Lugo's election.

VISIT TO USAID HEALTH SECTOR PROJECT

¶8. (U) A/S Valenzuela met with the Minister of Health Esperanza Martinez and Vice Minister of Health Edgar Gimenez at the Health Ministry's Central Warehouse for medicines and supplies. Martinez recounted corruption and accountability challenges in the public health sector, where overvaluation, theft, inventory control, and breaches of contract standards are significant problems. She discussed how USAID, in part through Millennium Challenge Corporation funding under the Threshold Phase II Program, is supporting her ministry's efforts to strengthen logistics supply system, improve internal controls, and increase transparency in the procurement of medicines and supplies. A/S Valenzuela congratulated the minister for her efforts and emphasized that the work is important not only because it increases the quality and availability of medicines, but because it increases the strength of

government institutions. He noted that by seeking to improve its procurement practices and mechanisms through more transparent and responsive systems, the health ministry will improve rule of law within the Paraguayan State.

¶9. (U) A/S Valenzuela also visited a health clinic of the Paraguayan Center for Population Studies (CEPEP), which has received USAID support since 1999. CEPEP has expanded its provision of services and established a social pharmacy to provide low cost medicines to its clients. The A/S met with Dr. Cynthia Prieto, CEPEP's Director, who was also the health minister from 1989- 1993, the first woman minister in the Paraguayan government. CEPEP presented A/S Valenzuela with a copy of the 2008 Demographic and Health Survey, which provides important data on access to and use of reproductive health services, as well as other public health data. The Survey was prepared by CEPEP with USAID funding and CDC technical assistance.

MEETING WITH PRESIDENT LUGO

¶10. (C) In a 15-minute, one-on-one meeting at the presidential residence, Lugo told A/S Valenzuela that Paraguay's relationship with the United States was important and "special." Lugo wanted A/S Valenzuela to know this personally, since there are many rumors to the contrary. He confided that before taking the job of president he knew there would be challenges, but he never knew it would be so difficult. A/S Valenzuela responded that he recognized Lugo's challenges. He told Lugo that everyone wanted his government to succeed for the good of Paraguay and the two agreed that for success to happen, Paraguay needs to develop strong democratic institutions, greater social justice, and employment generation. A/S Valenzuela recommended that Lugo "reach out more to others" and "build alliances." He told Lugo that some would reject such offers, but that he needed to be perceived as seeking solutions and not promoting failure as some characterize his presidency. The president agreed.

¶11. (C) Lugo then invited Foreign Minister Hector Lacognata, Vice Foreign Minister Caceres, and Director of Bilateral Relations Roberto Benitez to join the meeting. In addition to A/S Valenzuela, the U.S. side included Ambassador Ayalde, Executive Assistant to the Assistant Secretary Juan Gonzalez, and DCM

(notetaker).

¶12. (C) Lugo opened by saying that he has continued Paraguay's tradition of strong relations with the United States. He expressed admiration for President Obama and said he enjoyed seeing him at the last Summit of the Americas in Trinidad and Tobago. He said that he and Obama share a number of challenges: They both campaigned on change and they both are attempting to reform health care. He hoped that he would have the chance to meet with President Obama privately before the end of his term. FM Lacognata chimed in saying that they had already requested such a meeting. A/S Valenzuela thanked Lugo for receiving him and stressed that he was in Paraguay to listen and learn.

¶13. (C) Lugo told A/S Valenzuela that he had been travelling in rural Paraguay and that he had just attended the inauguration of the construction of a highway that the Government had been promising to build for 20 years. Lugo said that they normally get about 200 people at an event like this, but that 5,000 people were in attendance. Lugo then talked about the solicitation process for road construction, and the work that was being done to make the bidding process more open and transparent. A/S Valenzuela used this opportunity to talk about competition and investment. He stressed that a successful democracy needs a working justice system, good investment infrastructure, investment in people, and clean institutions that respect the rule of law. He acknowledged that even the United States struggled with these issues in the midst of the recent economic crisis.

¶14. (C) The foreign minister gave a brief overview of Paraguay's macroeconomic situation, describing it as positive in spite of some challenges. He explained that Paraguay has an abundance of electricity, but the infrastructure to deliver the electricity is lacking. Lacognata mentioned a potential Canadian investment in the steel sector and how the company was willing to build the infrastructure it needed to connect to Paraguay's electrical production facilities. Lugo then stressed the importance of the 20,000 plus jobs that this investment would create and how it would be the largest investment ever in Paraguay after the binational dams. A/S Valenzuela interjected that Paraguay had tremendous potential, but would have to work hard. Lugo then talked about investment potential in the overlooked Paraguayan Chaco. (Embassy Comment: The Chaco is the western 60% of Paraguay and much of the area is hot, sparsely populated, flat, and undeveloped. There is little infrastructure of government presence and attracting investment will be difficult unless mineral resources were found, which has not happened to date. End Comment).

¶15. (C) A/S Valenzuela shifted the discussion to his earlier visit to a health ministry warehouse and an NGO-sponsored clinic, complimenting Lugo on the systems that were being installed to increase efficiency and limit corruption, particularly in the area of procurement. He stressed how important it was for Paraguay to develop its institutions. Ambassador Ayalde explained that this was something we were working on under the Millennium Challenge Corporation (MCC) Threshold II program. She noted that we are trying to increase efficiencies and combat corruption with different institutions such as the health ministry, the police, customs, the public ministry and the IPR office. A/S Valenzuela stressed that we need to see how we could do more.

¶16. (C) At the president's behest, Lacognata explained how important the Andean Trade Preferences Development Act (ATPDEA) was to Paraguay. He said that the trade preferences would help create jobs, which is one of the GOP's top priorities. He thought that the textile industry would be the biggest benefactor if ATPDEA were to pass, noting that the textile industry employees women and single mothers who are a very vulnerable group in Paraguay. A/S Valenzuela told the group that he had met with Representative Engel and that while he recognized that trade preferences would be good for Paraguay, he did not know the bill's current status. He described the deficit situation with the United States and the high unemployment and how there was a perception in our Congress that

this would be difficult to pass without the direct support of the Obama Administration. Lacognata said that they would lobby for ATPDEA and Ambassador Ayalde stressed that the GOP should ensure coordination of its efforts with Paraguay's private sector and Congress.

¶17. (C) Lacognata told the A/S that the GOP wanted the United States to be the primary investor in Paraguay. (Note: The United States is the largest source of foreign investment in Paraguay with over \$600 million). Lugo interjected that countries like China had promised to invest in Paraguay, but rarely delivered. Ambassador Ayalde stressed that the Embassy helps U.S. companies seek out investment opportunities in Paraguay, but that the GOP needed to continue working on ensuring that there is a level playing field for all with transparent, consistent rules of the game. She noted that situations like that of Crescent Oil did not help. Lugo looked puzzled and Lacognata explained that the case involved litigation between an American oil company and the Paraguayan government. A/S Valenzuela added that institutions that respected the rule of law were the key to successful investment, citing the experience of Chile. Lugo said that his government was talking with Chile and that they would see what parts of the Chilean experience could help them. He said the GOP was particularly interested in Chile's experiences with concessions. Ambassador Ayalde mentioned that the USG was working with Trade Development

Assistance (TDA) to help Paraguay in the area of preparing large solicitations (i.e. airport concession) that would guarantee transparency and provide equal protections to all.

¶18. (C) Lugo thanked A/S Valenzuela for the visit and encouraged him to come back. He told the A/S that when he returned they would do a trip to the Chaco so he could see another part of Paraguay. A/S Valenzuela thanked Lugo for his hospitality and assured the president that he could count on U.S. support for democracy and developing institutions.

POSITIVE PRESS COVERAGE

¶19. (U) Paraguayan media extensively reported on A/S Valenzuela's meeting with President Lugo, private lunch with congressional leaders, and visit to CEPEP. The print press alone published 21 stories with the common theme being the Assistant Secretary's recommendation that all political, economic and social actors engage in a national dialogue. After their closed press meeting with the Assistant Secretary, Senators Orlando Fiorotto (Colorado Party) and Alberto Grillon (Progressive Democratic Party), and Deputy Carlos Liseras (Colorado Party) conveyed their impressions of possible presidential impeachment, comparisons of Paraguay to Honduras, and deterioration of political dialogue. The Assistant Secretary's message of U.S. support for Paraguay's democratic institutions reached key media outlets, and was overwhelmingly positive.

COMMENT

¶20. (C) The message delivered by both congressional and private sectors actors to A/S Valenzuela was that they want Lugo to reach out to them in the national interest. While frustrated with the lack of progress under Lugo's government, most remained somewhat optimistic. This muted optimism, it seems, should safeguard Lugo against impeachment for the immediate future. A/S Valenzuela's visit came at a moment when tensions seemed to be dissipating, and his encouragement for Paraguayans to focus on common ground and

democratic institutions was timely. But as we have said before, Lugo needs to take action and deliver results. If he does so, he could survive politically and tame his many political opponents (including some factions of the Liberal Party). If he does not, the volume on impeachment rumors will rise again. END COMMENT.

This message was cleared by A/S Valenzuela.

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