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Europe Meets a Defiant Latin America

by LADB Staff

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Resource-rich Latin American countries that have been taking greater control of those resources presented a challenge to European leaders at a May 11 summit in Vienna, Austria. The meeting resulted in little likelihood of a large-scale deal between the European Union (EU) and regional trade blocs, with several South American countries involved in political or economic conflicts with each other, but European leaders did hear firsthand from leaders like Bolivia's new president who have seized control of resources that had been providing large profits for several European corporations. The IV Summit of Heads of State and Government of the EU, Latin America and the Caribbean ended with an agreement by Central American countries to start trade talks with Brussels (the EU's capital), but the commitment from the rest of Latin America was much more tepid.

In the summit's final statement, the EU and six Central American states Costa Rica, Guatemala, Honduras, Nicaragua, Panama, and El Salvador agreed to open negotiations on setting up a free-trade zone. All states at the summit also agreed to "further promote and strengthen [their] bi-regional strategic partnership." Morales: "We need partners, not masters" European concerns regarding energy policy overshadowed the summit of 58 states.

Bolivia's nationalization of its gas sector and a planned new Venezuelan tax on oil firms dominated the agenda (see NotiSur, 2006-05-12). Bolivia's President Evo Morales told Brazilian TV that some foreign oil companies were no better than "smugglers." He added, "We said we need partners, not masters." Morales also explained his position in a speech to the European Parliament the following week. With their gas and oil initiatives, Morales and Venezuelan President Hugo Chavez have led Latin America away from seeking trade pacts with the rest of the world and toward internal economic alliances. Morales also said that Bolivia would consider joining the Organization of the Petroleum Exporting Countries (OPEC) after completing the nationalization of the gas sector, a move that Ecuador is also considering (see other article in this edition of NotiSur).

"Europe should understand that there's a change in Latin America. The people who have been taken advantage of are rising up, but through democracy, not with violence," Chavez told The Financial Times ahead of his visit to London. "I am going to defend Evo [Morales] because now they are attacking him from all sides. [By nationalizing gas], he has kept a promise he made when he was a candidate."

Other parts of the region, including nominally leftist governments like Brazil's, are still interested in trading with a large market like Europe's and they want to encourage investors. According to official European statistics, trade between the EU and Latin America rose 13% between 2004 and 2005 to a new record of nearly US\$150 billion. Latin America would appear to be the winner in these trade flows, with an annual trade surplus of nearly US\$10 billion, even though the EU continues to resist international pressure to open up its markets not only to farm products but also to industrial

goods from developing countries. However, from 2004 to 2005, European exports to Latin America increased 13.7%, while imports of products from Latin America only grew 12.4%.

Jose Manuel Barroso, president of the European Commission, spoke against of the dangers of "populism." Barroso called for Latin America to make its position clear. "If we want to fully develop the potential of our partnership we also need to know what is your strategic vision," he said at the opening of the summit.

President Vicente Fox of Mexico warned that the continent's progress was at risk. The summit's host, Austrian Chancellor Wolfgang Schuessel, stressed the need for open markets. "Open-market societies are better in their performance than closed, restricted structures," he told reporters. UK Prime Minister Tony Blair called on energy suppliers to act responsibly. "I don't want to go into the details of what is happening in either Venezuela or Bolivia but I mean all of us have a responsibility to the world community to try to manage this sensibly," he said. Chavez and Morales argue that their first obligation is to their domestic community, and that the world community comes next.

Defiant but divided

The major economic blocs of Latin America were in no condition to propose or negotiate deals with Europe, since they have been undergoing serious internal divisions. The Comunidad Andina de Naciones (CAN) is in danger of breaking apart with Venezuela's Chavez threatening to leave the bloc after Colombia and Peru signed free-trade agreements (FTAs) with the US even though Bolivia's agricultural market in Colombia was likely to be ravaged by the deal (see NotiSur, 2006-05-05). Chavez and Bolivia's Morales argue that the decision to enter an FTA with the US to the detriment of other member countries was a violation of CAN norms. Chavez has also sought to exit the Group of Three (G-3) nations Colombia, Mexico, and Venezuela (see SourceMex, 2006-05-17).

The Southern Cone Common Market (MERCOSUR) is also divided, with Uruguay contemplating its exit from the bloc because of Argentina's decision to take its objections to Uruguayan cellulose plants being built on a shared river to the International Court of Justice (ICJ) in The Hague (see NotiSur, 2005-09-16 and 2006-02-10). Paraguay and Uruguay are also objecting to the behavior of the two economically much-larger full members of MERCOSUR, Argentina and Brazil. The two represent more than 96% of the combined GDP of MERCOSUR, meaning their interests frequently diverge from their smaller neighbors. The possibility of a MERCOSUR-EU trade agreement has been null since talks broke down on the issue of subsidies European governments give their farmers. South American leaders said they could not count on fair competition with the subsidized agricultural industry of Europe, among other issues.

Relations between Brazil and Bolivia have also soured since Morales' nationalization of his country's gas. Brazil's state-owned Petrobras has lost out badly in the deal and is demanding compensation. Brazilian Foreign Minister Celso Amorim said he had little confidence in any commitments made by Bolivia at the negotiating table. "The Brazilian government will firmly defend the interests of Brazilians, without shying away from dialogue, but we do not expect that any agreements reached through that dialogue will actually be respected, or that they will not be undone by a statement the following day," he said.

Despite all that, Colombia's President Alvaro Uribe set a July 20 deadline to arrange the basis to start talks on negotiating an association agreement between the CAN and the EU, which would ultimately include an FTA. Last year, CAN exported US\$10.2 billion worth of goods to the EU and imported US\$9.0 billion in products from that bloc. At the same time, CAN's exports to the US amounted to US\$45 billion, while imports stood at US\$20 billion, according to CAN statistics.

Venezuela, which exports nearly US\$50 billion in oil annually, is the bloc's biggest exporter, while sales from the rest of the CAN members consist mainly of other commodities like farm products and minerals, as well as manufactured goods. Venezuela's exit from CAN, which Chavez calls "fatally wounded" by the US-Peru and US-Colombia FTAs, would significantly reduce its bargaining power. CAN would like an eventual agreement with the EU to encompass not only trade but also social issues like the treatment of migrants. Hundreds of thousands of people from the Andean bloc mainly Ecuadorans and Colombians have emigrated to western Europe, especially Spain.

Chavez charms London's left

While Downing Street had little love for the policies of Chavez and Morales, left-wing London Mayor Ken Livingstone welcomed the Venezuelan president. Chavez arrived in London May 14 with a promise to offer cut-rate heating oil for needy families in Europe, modeled on a similar campaign in the US, which has been seen partly as a bid to embarrass President George W. Bush. While Downing Street pointedly emphasized that Chavez's visit to Britain was private, with no official contacts planned, Livingstone defended his decision to host a luncheon in honor of the Venezuelan leader.

Speaking on BBC Radio 4's Today program, Livingstone said that Chavez had been responsible for significant social reforms and called him "the best news out of Latin America in many years." Dismissing human rights groups' concerns about Venezuela's treatment of political opponents, Livingstone said, "He's won 10 elections for his party in the last decade and he's pushed through a whole program of social reform. Venezuela was like a lot of those old Latin American countries a small elite of super-rich families who basically stole the national resources. He's now driven a new economic order through, you've got for the first time healthcare for poor people, illiteracy has been eradicated."

Referring to his supply of heating oil to poor US families last winter, Chavez told a meeting of political supporters, "I'd like to do the same here in Europe." He was addressing an "alternative summit" held alongside the summit in the Austrian capital. "I want to humbly offer support to the poorest people who do not have resources for central heating in winter and make sure that support arrives," he said. Chavez appealed to the audience to unite and promote social change. For example, he said, more business should be steered toward smaller companies to benefit laborers in poorer regions, and doing so would cut out intermediaries. "We have to unite all possible movements, otherwise the world is not going to change," he said.

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