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With barely three months in office, Paraguay's President Fernando Lugo, a former Catholic bishop, has begun to feel the pressures of the demands not only from those who voted for him and now expect him to keep his campaign promises but also from his friends outside the country and from potential investors.

The latter are a priority for a country that is trying to develop, lacks capital, and has historically been the least favored in Latin America with the influx of funds destined for productive projects. Campesinos, a central element in the political structure that brought Lugo to power, want to see immediate signs of the beginning of the promised agrarian reform.

Internationally, Brazil's President Luiz Inacio Lula da Silva, who gave Lugo strong support during the campaign, is now dragging his feet in the vital negotiations on the energy generated by the binational Itaipu dam the world's largest hydroelectric dam. Lula is asking for special guarantees for Brazilian producers who have set up genetically modified (GM) soy plantations in Paraguayan territory. He has also ordered some unexpected and ostentatious military maneuvers in border areas, a move that Lugo called "a provocation."

The foreign investors, who are not promising to carry out large-scale projects, are nevertheless demanding preferential treatment in return along with what in neoliberal terms is called "legal security," which gives them certain legal guarantees. Since it began functioning in 1982, with its 14,000 megawatts of installed generation capacity, Itaipu is the only undertaking in the history of the country that has received a substantial influx of capital.

A report released by the UN Conference on Trade and Development (UNCTAD) at the end of September said that of the total investment of US$126 billion received by Latin America and the Caribbean in 2007, Paraguay obtained only 0.11% (US$139.4 million) to finance small projects, of minimal economic impact, in agriculture, industry, and services. In the same period, Brazil received US$35 billion, followed by Mexico (US$25 billion), and Chile (US$14 billion). The mere announcement that business delegations from Brazil and Spain had arrived in the country willing to negotiate with authorities on funding some projects was front-page news in all the newspapers in Asuncion.
"Construction Awakens Interest of Spanish Groups," said a headline in Ultima Hora. "Brazilian Business People Want to Invest in Refrigeration Industry," said the front page of the daily ABC Color. The first visitors arrived planning to participate in public works projects and in building private housing subdivisions. "We believe that with the new government, many possibilities are opened, and in Paraguay everything needs to be done," said the delegate of Madrid's Camara de la Ingenieria Civil Miguel Bufala.

The second wave to arrive said they were willing to spend US$200 million to open a refrigeration plant, a charcoal business, and a packing house for oranges, said Brazilian Jorge Manuel Victoria Caetano. "Nothing significant," said ABC, because in return they asked for new legislation that gives investors special guarantees, energy at preferential prices, and even state guarantees to obtain foreign financing. At the end of October, they had not received an official reply to their proposals.

**Which country benefits from Itaipu?**

For Paraguay, renegotiating the Itaipu treaty continues to be vital. It was signed in 1973, when work on the dam was begun, by former dictator Gen. Alfredo Stroessner (1954-1989). Under the terms of the treaty, Paraguay is obliged to sell Brazil all the energy that it does not use and at a preferential price. President Lugo says that the country receives barely US$103 million a year from the sale of energy, while the Brazilian state-owned Electrobras resells it to Sao Paulo industries for more than US$2 billion. "We demand fairness," said Lugo.

During the presidential campaign, Lugo promised voters that the money coming to Paraguay for energy from Itaipu, "sold to Brazil at market prices, not the price the dictatorship agreed to," would be directed toward social spending. It would be used, especially, to finance the beginning of an agrarian reform that, in the predominantly rural country, would benefit 300,000 landless campesinos. Lula claimed that the 1973 treaty was still in effect, and Lugo set Aug. 15 as the deadline for finishing negotiations.

**Brazilian presence in Paraguay**

Brazil is present in all aspects of Paraguayan life. Not only is it Paraguay's principal trading partner and its partner in Itaipu but also a good deal of its territory is in the hands of the "Brasiguayos," a local term used to describe Brazilian citizens living in Paraguay's border areas. Most are small, medium-sized, and large landowners who have made Paraguay the world's fourth-largest producer of GM soy. They threatened to export "not even one grain" of soy if President Lugo passed a bill to establish an export tax as is done in Argentina, Brazil, and the majority of the countries in the World Trade Organization (WTO).

And they demanded that the government give them special police protection given the possibility that the landless campesinos would make good on their threat to occupy lands belonging to the Brazilian producers. The government gave in, first on one demand, then the other. With the excuse of the global crisis, it abandoned the bill that established a tax on soy exports.

At the request of Lula, President Lugo reinforced police protection of the Brazilian growers. Ironically, occupying lands of Brasiguayos was Lugo's idea when he was bishop of the San Pedro Diocese and backed the landless-campesinos organization. Some properties were occupied, and
the police reacted rigorously. "We are here to protect private property, and we will do that," said Federico Acuna, head of the Policia Nacional (PN), in a statement to news agency EFE.

On Oct. 5, campesino Bienvenido Mereles was shot in the head and died. For the first time in a long time, the world's major newspapers sent reporters to Paraguay. Rio de Janeiro's O Globo reprinted an article from France's Le Monde, which said, "In rural areas of Paraguay, the situation is explosive and occupations of plantations owned by Brazilians frequently result in violent police interventions." The French newspaper had some revealing statistics.

On the Paraguay-Brazil border, there are 300,000 Brasiguayos, 80% of whom are engaged in raising GM soy. In the last 10 years, 77 campesinos were assassinated and hundreds have been jailed on charges of terrorism for having denounced the Brasiguayos for spraying their crops with illegal toxic chemicals. In Paraguay, which is predominantly agricultural, 1% of the population controls 77% of the arable land. One of that 1% is Brazilian Tranquilo Favero, known as the king of soy, who owns more than 1 million hectares of land.

In the space of 10 days, The New York Times ran two articles by its Brazil correspondent Alexei Barrionuevo. In the first, he wrote that, in San Pedro, "peasant organizers and local politicians say Brazilian farmers have hired armed militias to protect their farmland." The article also said that two days before Bienvenido Mereles was killed, Asociacion de Cultivadores de Soja president Claudia Rosser had warned that the situation could turn deadly, saying, "I believe the president of the republic and his Cabinet will wake up one day and see fatalities....They will see lives ended."

The Times article also quoted Gov. Jose Ledesma of San Pedro who said of the Brazilian farmers' militias, "They are killing people....People get killed sometimes simply because the militias think they are stealing cows."

**Military maneuvers add to tension**

In this dramatic situation, the Brazilian Army carried out large-scale military maneuvers called Frontera Sur 2. It deployed 10,000 soldiers equipped with the most modern weapons in its arsenal, and, besides militarizing the area, took over Puente de Amistad, the bridge that connects the two countries over the Rio Parana. This drew a strong condemnation from the mayor of Ciudad del Este Sandra McLeon, who said that the government "should not let Brazil humiliate us this way."

In his second article, Barrionuevo wrote, "Tensions between Brazil and Paraguay, already high because of land invasions of Brazilian-controlled farms inside Paraguay, intensified this week after Brazil's army began exercises in the border region. Paraguay's president, Fernando Lugo, responded sternly, warning Brazil in a news conference in Asuncion, Paraguay's capital, that 'not even one millimeter of the territorial sovereignty of the country can be bothered.' If that happens, he added, 'the Paraguayan reaction will be swift.'"