

Integration or free trade?

Little will to overcome the hurdles

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The year 2007 may go down in history as the end of our hopes for a kind of regional integration fundamentally different from the one hawked by markets and transnational capital.

In recent years, a number of events point to a deepening of the neoliberal model in the Southern Cone region by progressive leftist governments that claim to be contrary to the Washington Consensus.

The deepening of the neoliberal model can be seen in several trends: the conversion of the Mercosur countries into a “soy republic”, with output exceeding 100 million tonnes of soybeans; the growing alliance between the governments of Uruguay and Brazil with the United States to advance the trade liberalisation agenda; and the decision taken by Brazil’s President Luiz Inácio Lula da Silva to push ethanol and sugar-cane monocultures, which will deepen the sub-imperial character of his country. Furthermore, the intensification of the neoliberal model does nothing more than stoke the political and social strength of the right, as we saw in the electoral victory of businessman Mauricio Macri to the position of Head of Government of Argentina’s capital city.



With the ethanol project, the delocalisation of the Brazilian economy – and with it, that of the entire region – steps up a rung. When Lula came to power on 1 January 2003, foreign companies’ share of industry had just climbed, from 31% in 1985, to 40%, according to a study released by the former president of the National Bank for Economic and Social Development (BNDES), Carlos Lessa. Of the top 500 agribusiness companies, which control almost all the agricultural GDP of Brazil, 6 are state-owned, 388 are Brazilian and 106 are foreign. But of the top 50, only 22 are national, while 28 are foreign. Adecoagro alone, a company that belongs to George Soros, plans to invest US\$800 million in ethanol

plants. Cargill bought 63% of Cevasa, the largest ethanol factory in the country. According to the Central Bank, by mid-2007 more than US\$6.5 billion in foreign capital had already been invested in Brazil this year to ride the ethanol boom.

It was also revealed in mid-2007 that the largest banks in Brazil are making their highest earnings ever. The corollary of this friendly openness to finance capital is the growing militarisation of the favelas of Rio de Janeiro. Under the guise of the Pan American Games held in Rio in July, thousands of families were violently expelled from their homes for the sole crime of living in the vicinity of local sports facilities. Street vendors and those living in the streets were also chased away. This undeniable “social cleansing” went hand in hand with an investment of US\$2.6 billion in the Games. The criminalisation of poverty is the flip side of the alliance with finance capital.

What is happening in Brazil is a repeat of what has been happening for 17 years now in Chile, through a governing alliance between the Christian Democrats and the Socialists. It is also very similar to the policies of the Uruguayan government, whose Minister of the Interior vowed to hit radical activists hard, while President Tabaré Vázquez works to build his closer alliance with Washington. In Argentina, human rights organisations claim that the “easy trigger” (the killing of poor youth by the police) continues to grow despite Nestor Kirchner’s talk against the military dictatorship’s genocide.

Regional contradictions

In early July, Lula made strategic agreements with the European Union. The first EU-Brazil Summit, in Lisbon, adopted the issue of climate change to push agrofuels. At the business meeting parallel to the summit, Petrobrás and Portuguese Galp signed a partnership agreement to produce 600,000 tons of vegetable oil in Brazil to be converted into biodiesel and sold in Europe. These kinds of deals pull Mercosur further off the path to sovereignty and food security.

Brazil’s President has laid his bets on an integration hinged on the Initiative for the Integration of Regional Infrastructure of South America (IIRSA), consisting of 300 mega-projects for the physical interconnection of the continent. Funded by the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF) and Brazil’s BNDES, IIRSA has enough resources (over US\$30 billion) to build the dams, pipelines, roads and ports that will make trade from the Atlantic to the Pacific possible, placing South America’s natural resources at the disposal of the global market.



Regional integration initiatives, like IIRSA, can mean more social and environmental upheaval. (Image: FOBOMADE)

Perhaps this is why the differences between Chávez and Lula shifted from diplomacy to public statements. The Venezuelan President said that he is not interested in the “old” Mercosur. The divergence between the two countries is getting wider each day. Brazil is out to do business, and positions itself as a regional and global power, but it does not make the slightest gesture towards regional integration and, above all, is not willing to make any sacrifice to bring it about. Meanwhile, Venezuela continues to take initiatives and push business ventures directly towards strengthening regional alliances.

The Bank of the South is another issue on which there is no agreement. It was going to be launched in July, during the America Cup football tournament in Caracas, but it had to be indefinitely postponed owing to grumbings from Brasilia. No one talks of the Pipeline of the South any more, but the Lula government remains interested in a gas pipeline between Venezuela and Brazil’s northeast region to promote the industrial expansion of this backward area. These two initiatives, needed by all countries of the region, show the two countries at loggerheads. Major projects like these are not going to move forward if Brazil, which will remain the key country in the region, does not stop putting its narrow national interests above everything else.

The way the Lula government is addressing relations with Brazil’s smaller neighbours is a clear example of this. Fernando Lugo, the progressive candidate for the presidency of Paraguay, recalled in an interview in *Folha*

de S. Paulo that his country is subsidising the industry of Brazil’s São Paulo state. Ninety-eight per cent of the energy produced by Itaipú is sold in Brazil at derisory prices, taking care of more than 20% of its energy needs. Paraguay makes barely US\$250 million from the energy it sells, which at the market price should come to US\$3.5 billion.

Lugo promises to review the contract and increase the price to half the market rate. But Brazil’s foreign minister Celso Amorim refuses to revisit an agreement that was signed when both countries were ruled by military dictatorships. Paraguay must import oil at higher unit prices than it receives for the electricity it sells to Brazil. On the other hand, Itaipú generated a spurious debt, as did the Yacyretá dam that Paraguay built with Argentina. But while Kirchner’s Argentina is willing to review the accounts, Brazil continues to refuse. If this is happening under a Lula administration, one can imagine what will happen after 2010, when the right may well to return to power in Brasilia.

With Ecuador things are no better. A report commissioned by minister Alberto Acosta found that Petrobrás committed a crime through the sale of shares to Japan’s Teikoku and the illegal appropriation of an oil well belonging to the state-run Petroecuador. An offence similar to this led to the cancellation of Ecuador’s contract with the American company OXY. The Ecuadorian government, under pressure from social movements, is considering cancelling its contract with Petrobrás. But the Lula government is pressuring Ecuador on behalf of



Indigenous peoples protest in Ecuador: "Death to the FTA, OXY and the State"

Petrobrás, even though it is not a state enterprise but a mixed corporation.

Bolivia had to go to the Amazonian Parliament to settle a dispute with Brazil over the construction, under IIRSA, of two dams on the Madeira river border. The Evo Morales government requested a meeting with Brazil to deal with the conflict, but Celso Amorim, who considers dams "strategic", did not even have the courtesy to respond to his counterpart, David Choquehuanca. The truth is that the project will flood more than 500 square kilometres of the Bolivian Amazon, and the Lula government has stated that it is not willing to backtrack. Brazil was upset in June by Morales' decree forcing Petrobrás to sell two of its oil refineries in Bolivia. Brazil now does not have the slightest intention to cooperate to enable the country to develop its natural resources and break out of its neocolonial prostration. Lula remains a prisoner of transnational corporations, the finance industry and his ambition to raise Brazil in the ranks of power.

Venezuela and Brazil

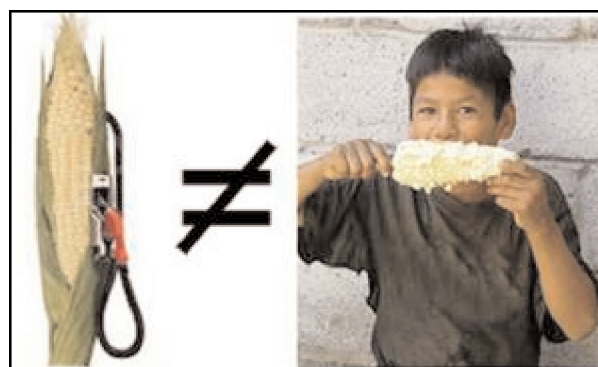
In early August, Presidents Lula and Chávez made two tours which demonstrated the insurmountable contradictions that exist in the region. Lula visited five countries: Mexico, Honduras, Nicaragua, Panama and Jamaica, with the aim of promoting agrofuels. On the same dates, Chávez visited Argentina, Uruguay, Ecuador and Bolivia to sign agreements to boost integration.

Lula's trip could be called the "Second Ethanol Tour". The first was made by George W. Bush in early March, during which he reached long-term deals with Lula to promote agrofuels. This time it was the President of Brazil travelling to promote his country's businessmen, who want to install sugar-cane ethanol factories in Central American countries. In Mexico, the first stop on his trip, Lula pushed an agreement between the state-run Pemex and transnational Petrobrás for exploration and exploitation of oil in the waters of the Gulf of Mexico. The agreement is interesting for Petrobrás, since the company is a world leader in deep-sea extraction of crude oil, a technology that the Mexican firm doesn't have.

The Mexican left reacted strongly. Andrés Manuel López

Obrador, a victim of election fraud in the 2006 elections, which benefited the current president Felipe Calderón, warned that Petrobrás might be used as a "spearhead" for the privatisation of Pemex, a goal that has been long cherished by the multinationals. "I respect him a lot, but the movement that I represent – a real and true opposition – does not accept that Mexico's oil wealth be surrendered to foreigners, under any conditions", said López Obrador about Lula's moves in *La Jornada* of 6 August. According to the leader of the centre left, the plan is for Petrobrás to find oil in the Caribbean and in return get a share of the hydrocarbons, which involves no risk because the location of the reserves will be known. But behind Petrobrás, he argues, other multinationals will appear.

On agrofuels, Lula said that he has the support of Mexico "in the campaign to establish a global market for cleaner and cheaper renewable energy. We have an opportunity to democratise access to new sources of energy, multiplying job creation and diversifying the energy supply." Clearly, the president of Brazil was not paying attention in recent months to the arguments made by Fidel Castro, among many others, against these fuels. In Nicaragua, Lula offered support to Daniel Ortega for his country to become a pioneer of agrofuels in the region. "It's completely inadmissible and a crime to produce ethanol derived from maize", replied the Nicaraguan.



In Jamaica, Lula opened an ethanol dehydration plant owned by Jamaican and Brazilian investors, and in Honduras and Panama he signed agreements for the development of fuels from sugar cane. The newspaper *Folha de S. Paulo*, on 5 August, gave the reasons for Brazil's interest in expanding ethanol in the region. "The idea is to use Central America as a platform for ethanol exports to the United States. These countries have a free trade agreement with the Americans and no limits on the export of ethanol." Brazil provides the technology and the capital, the Central Americans provide semi-slave labour in the cane fields, and the emerging power secures entry to a protected market which it has enormous difficulty accessing. The mindset of Lula is clear: "Together we can build a world economic power", he told the right-wing Felipe Calderón in Mexico.

Chávez's tour was very different. In Argentina, he signed an agreement with Nestor Kirchner to buy US\$500 million in Argentine bonds, and pledged to buy a similar amount in a few months. This agreement is vital because, since its 2001 default, Argentina has no access to international credit. Moreover, he signed an agreement for the construction of a Venezuelan liquefied gas

plant in Bahía Blanca, since Argentina suffers a serious energy crisis. In Uruguay, Chávez signed an Energy Security Treaty with Tabaré Vázquez, through which the state and Ancap PDVSA will work to double the production capacity of the refinery in Uruguay, and a joint venture to extract crude from the Orinoco Gasa, considered the world's largest reserve, was created. This will provide Uruguay with long-term energy security.

This time Vázquez and Kirchner agreed. "What other government in the world has made another offer of such magnitude and grandness?" said the Uruguayan. "We should and must be grateful to the Venezuelans, because whenever we needed them they were there", said a minister very close to Kirchner.

In Ecuador, Chávez signed an investment deal of US\$5 billion with Rafael Correa for the construction of a refinery in the province of Manabí, to process 300,000 barrels of crude oil daily. In Bolivia, Chávez, Kirchner and Evo Morales, gathered in Tarija, launched the construction of a regasification plant in the Andean country, as well as an energy integration pact.

Venezuela's difficulties in entering Mercosur made

themselves felt during the tour. So far, the parliaments of Argentina and Uruguay have ratified the accession of Chávez's country to the bloc. Paraguay and Brazil are delaying. It is known that Brazil's Congress does not want to approve Venezuela's entry, as it has a centre-right majority, though the government could push its allies. In Buenos Aires, Chávez said in a restricted meeting, covered on 8 August by *Página 12*, that the friction between Venezuela and Brazil is due not to "a leadership dispute" but to "a confrontation of energy models".

The basic problem is the enormous capacity of free trade to shape relations between countries in the region. In so doing, it introduces asymmetries and contradictions that produce a dual outcome: it creates vertical relationships between countries and international financial institutions, corporations and countries of the North, while at the same time it blocks or complicates any horizontal integration among them along trade and political lines. In this scenario, small countries have far greater difficulty than large ones in opening spaces within such cannibalised international relations. It is no coincidence that, given the failure of the FTAA, Washington decided to negotiate FTAs with small and medium-sized countries.